

**COMMISSION OF THE EUROPEAN COMMUNITIES**

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**REPORT FROM THE COMMISSION**

**ON THE COORDINATION OF ACTIVITIES IN FAVOUR OF SMEs**

**FALLING OUTSIDE THE SCOPE OF COUNCIL DECISION**

**(89/490/EEC)**

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## **INTRODUCTION**

By its Decision 89/490/EEC of 28 July 1989<sup>(1)</sup>, the Council confirmed that measures were needed at Community level to improve the business environment for small and medium-sized enterprises (SMEs) and to promote their development. The principal measures identified were :

- removal of undue administrative, financial and legal constraints which check the development and creation of enterprises, and in particular SMEs;
- information and assistance to enterprises on Community policies, regulation and activities and those of each Member State which concern them;
- encouragement of cooperation and partnership between enterprises from different regions of the Community.

A report from the Commission to the European Parliament, the Council and the Economic and Social Committee on the application of these measures was made in accordance with Article 6 of the above-mentioned Decision in February 1991. However, in accordance with Article 5 of this Decision a separate report was required to be made to the Committee established under Article 4 of the Decision on those programmes of the Commission established outside the scope of this Decision insofar as they have a significant interest for SMEs and craft industries.

This is the first such report in accordance with Article 5 of the Decision and covers the period between July 1989 and the end of 1990.

Coordination of actions in the context of the diversity of Community programmes is a very difficult task and requires the continued attention and goodwill of all those involved - the

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(1) OJ N° L 239 of 16.08.1989, p. 33

various Commission services, the Member States, other representative bodies and SMEs themselves. It is for this reason that, since this is the first report under Article 5, a detailed description has been given of the management procedures applied to the principal programmes involved (mainly the structural funds, the New Community Instrument and the European Investment Bank).

## A. THE COMMUNITY'S STRUCTURAL ACTIONS

### 1. INTRODUCTION

The reform of the structural funds was designed to make them instruments of economic development. Structural policies should enable all the Community's regions to share increasingly in the major economic benefits to be derived from the frontier-free market. To that end, they should play, alongside national and regional policies and in harmony with them, an important role in promoting the convergence of economies.

Experience demonstrates the importance of regional and local initiatives, since no centralised or systematic organisation of development action can take full account of the diversity of local situations. It further shows that the virtuous circle of development is facilitated by the implementation of medium-term programmes providing a coherent framework.

The crucial principles which govern the Community's structural action are partnership, multi-annual programming, greater economic realism in what the Community does and improved coordination with national policies, leaving maximum scope for decentralised measures.

This decentralisation means that it is basically the Member States which make the fundamental choice as to how the large majority of the fund resources are spent. As described below, it is evident that this choice has substantially favoured

expenditure on infrastructure (air and road networks, telecommunications, etc.).

In the conference held in Dublin in June 1990 where the implementation of Regional Policies was discussed with representatives of business, the consensus of those businessmen taking part was that the emphasis on improving regional infrastructures was approved. However, divergent views were evident from those representing large and small businesses. Small and medium-sized businesses were also keen to have access to efficient transport system and good telecommunications networks but also stressed the need for support to business in the areas of training and in overcoming regional handicaps by means of grants and subsidies.

Another important conclusion of the conference was the need for business to be involved in the dialogue leading to decisions being taken on the priorities of the funds. This is an important point which the Commission must take into consideration and will undoubtedly be one of the key determinants of whether the funds can respond effectively to the needs of business.

## 2. THE STRUCTURAL INSTRUMENTS

These are the financial mechanisms administered by the Commission which can help to fund measures or projects carried out within the Community and meeting common objectives : economic development of the regions, promotion of employment, rural development and contributing to other Community policies such as environmental protection, energy conservation and new sources of energy, provision of linking infrastructures, adaptation of activity sectors (agriculture, fisheries, steel, etc.).

The three structural funds are :

- 1) the European Regional Development Fund (ERDF), which was set up in 1975 to help reduce regional imbalances in the Community;
- 2) the European Social Fund (ESF), which has the task of promoting job opportunities;
- 3) the European Agricultural Guidance and Guarantee Fund (EAGGF), Guidance Section which aims to speed up the adaptation of agricultural structures and to contribute to the development of rural areas.

### 3. PRINCIPLES OF ACTION

Community structural action focuses both on those regions and areas experiencing the greatest difficulties (Objectives 1, 2 and 5(b) and on priority fields (Objectives 3,4 and 5(a)). Their impact depends very much on their indissociable nature, since they complement each other and form a whole. The broad outlines of the five priority objectives are given below together with the main structural instruments applied towards achieving each of the objectives :

#### Objective 1 :

Promoting the development and adjustment of the regions whose development is lagging behind (i.e. where per capita GDP is less than, or close to, 75% of the Community average). The main instruments applied are : ERDF, ESF, EAGGF Guidance Section. In fact, 80% of ERDF resources can be devoted to these regions;

#### Objective 2 :

Converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously

affected by industrial decline (criteria : average unemployment rate above the Community average, industrial employment rate above the Community average, decline in industrial employment). The main instruments applied are ERDF and ESF;

Objective 3 :

Combating long-term unemployment (above the age of 25, unemployed for more than 12 months). The ESF is the main instrument;

Objective 4 :

Facilitating the occupational integration of young people (job-seekers below the age of 25). The ESF is the main instrument;

Objective 5(a) :

Adapting production, processing and marketing structures in agriculture and forestry. The EAGGF, Guidance Section, is the fund used;

Objective 5(b) :

Promoting the development of rural areas. The criteria applied are : agricultural employment accounting for a high proportion of total employment; low level of socio-economic development in terms of per capita GDP. EAGGF Guidance Section, ERDF and ESF are all applied.

Concentration on these priority objectives requires a continuing effort to coordinate not only the financial instruments but also the back-up policies they serve. Partnership is the key principle underlying the reform of the Funds. The framework Regulation defines it as "close consultation between the Commission, the Member States

concerned and the competent authorities designated by the latter at national, regional, local or other level, with each party acting as a partner in pursuit of a common goal". According to the same Regulation, partnership also covers "the preparation, financing, monitoring and assessment of operations".

Partnership reflects the principle of subsidiarity. In accordance with that principle, the Commission believes that its structural action should seek to complement measures in the field. There is a permanent dialogue between the Commission and the Member State concerned to increase efficiency through the sharing of tasks and a pooling of human resources involved in the Community's structural action. But Community structural action depends for its implementation, not only on the national and regional authorities but also on the various economic and social partners (chambers of commerce, industry and agriculture, trade unions, employers, etc.). Practical applications of partnership are : 1) preparation of the plans for which maximum consultation is required; 2) negotiation of the Community support frameworks; 3) implementation of the operational programmes at a highly decentralised level and the award of global grants; and 4) monitoring and assessment of measures taken. The nature of this partnership depends on the institutional structures and traditions of each Member State and therefore, necessarily takes many forms.

The main trends emerging at the implementation stage are :

In 1989 and 1990 approval was given to 109 operational programmes, 11 major projects and three global grants in implementation of the priorities laid down in the Community Support Frameworks (CSFs). The aggregate Community contribution to these measures is ECU 2.297 million. This corresponds solely to new measures decided after 1 January 1989.



In the Objective 2 regions the Commission sought to concentrate the limited funds available on measures to create employment in place of jobs lost as a result of industrial decline. The funds were channelled primarily into measures to provide training in new skills for workers made redundant and measures directly associated with job-creating productive activities.

Almost 26% of Community assistance in 1989-91 was spent on training measures. Most of the appropriations were allocated to monofund programmes covering priorities defined in the CSFs.

Support for measures directly associated with productive activities represents 21% of all the assistance. Support took the form of investment subsidies in the industrial and service sectors and measures to promote business services. These types of measure account for a large part of all the Objective 2 programmes, especially in countries such as Germany and Denmark, where they use more than 40% of the appropriations. In Belgium the corresponding percentage is 50%.

Support for infrastructure essential to the growth of new economic activities also occupies an important place in the programmes. In most cases the operations entail financing of fully serviced new sites for industry or the rehabilitation of old sites. According to the figures in the programmes, Community assistance should represent ECU 460 million, or 20% of all new measures and 27% of ERDF appropriations.

Operations of this type, already financed by the Community before the reform, represented less than 20% of available appropriations. The present figures show the distinct trend towards this type of investment.

Measures contained in OPs concerned with environmental protection can also be included in this category, as they are concerned with rehabilitation of Industrial wastland, although

not always for the purposes of industrial re-use. Environmental protection measures, which come in for 9% of Community aid, include aid for the recycling of industrial waste and measures to control pollution.

Subsidies granted for transport infrastructure continue to enjoy a fairly important place in the OPs for Objective 2, accounting for almost 14% of all the appropriations (ECU 316 million). But this aid is mainly concentrated in Spain and the United Kingdom, where measures of this type use up 30% and 21% of Community aid respectively. In overall terms, the share of aid channelled into transport infrastructure has dropped considerably in relation to the pre-reform situation.

Support for tourist-related measures takes ECU 170 million of Community assistance, or 8% of the available total. This priority features prominently in the Netherlands and United Kingdom (15% of the appropriations). In global terms, the situation is not very different from the situation before the reform.

The remainder of the appropriations (4%) is allocated mainly to investments in training infrastructure in France and Spain. Under the French programmes 8% of all the appropriations is used for this purpose.

The general conclusion to be drawn from the figures is that, for Objective 2, Community assistance is being focused on a smaller range of types of investment compared with the situation prior to the reform.

#### 4. FINANCIAL RESOURCES

The reform of the structural funds substantially increased the financial resources available for structural action by the Community. During the period 1989 to 1993, a total of ECU 60.3 billion (1989 prices) is available in commitment appropriations for the structural funds. Out of this total, an amount of ECU 5.5 billion has been ear-marked for Community

initiatives.

A functional breakdown for priority objectives 1 and 2 and by Member State is given at Annexes 1 and 2. In addition, the pursuit of the objective of economic and social cohesion mobilises Community budgetary resources other than those provided by the structural funds alone and has a leverage effect on the Community loans granted by the European Investment Bank (EIB) and the European Coal and Steel Community (ECSC).

As far as Objective 1 is concerned the available appropriations from the three Funds, namely ECU 36.200 million for all the CSFs, have been allocated as follows :

- ECU 10.657 million, or 29 % of the funds allocated to Objective 1, was earmarked for improved communications. The ERDF will finance the bulk of these measures for an amount provisionally set at ECU 10.381 million. This priority area includes measures aimed at upgrading basic infrastructures :
  - access and internal communications (roads, motorways, railways, waterways and port improvements, airports, urban transport);
  - telecommunications;
  - power and water supplies;
  - training facilities;
  - health and community care services.
  
- 15% of the total multiannual amount was earmarked for industry, the crafts sector and tourism. The ERDF will contribute ECU 3.755 million and the ESF ECU 1.712 million. The aim of this priority area is to make firms more competitive through measures to support productive investments in industry, the crafts sector, services and tourist infrastructures. In addition, measures relating to business services are planned, in particular as

regards business advice and technology transfers. Measures to promote research, development and innovation are also planned, as well as technical and vocational training;

- ECU 6.364 million, 18% of available appropriations, has been earmarked for the development of agricultural and fishery resources. The bulk (ECU 4.978 million) of this funding will be provided by the EAGGF, with the ERDF contributing ECU 1.204 million and the ESF ECU 182 million.

Many of the Objective 1 regions are confronted with problems as regards the development of isolated rural areas that need improved access and whose productive structures are deficient and lack diversity. This priority is concerned primarily with measures to put agricultural resources to better use, encourage rural development and with horizontal measures under Objective 5(a) (improving the efficiency of production, processing and marketing structures in agriculture and forestry). These are supplemented by measures to promote rural tourism, to stimulate economic diversification and by measures relating to the vocational training of farmers;

- ECU 2.194 million, or 6% of total funding available, has been earmarked for infrastructure supporting economic activities. Most of this amount will be provided by the ERDF (ECU 1.976 million) with a contribution of ECU 124 million by the ESF. This priority area includes the following main measures :

- setting-up of business zones for industrial and craft companies,
- telecommunications services and information technologies,
- environmental protection measures;

- ECU 7.748 million, or 21% of the total amount available, has been earmarked for human resource development. This priority will be financed by the ESF (ECU 7.159 million). The ERDF will cover the costs of the necessary improvements in training facilities. Included in this priority are measures relating to technical and secondary education, apprenticeship, measures to bring training facilities up to scratch and measures relating to one or more sectors of economic activity not included under the other development priorities. Measures under Objectives 3 and 4 are also covered by this priority.

1990 was a very busy year in terms of submission, negotiation and approval of the forms of assistance. In spite of some difficulties, the combined efforts of the Member States and the Commission made it possible to achieve a satisfactory level of commitment of the appropriations provided for in the CSFs.

At 31 December 1990 assistance approved for measures provided for in the CSFs of Objective 1 countries, taking into account ongoing measures approved before 1 January 1989, was as follows :

COMMUNITY ASSISTANCE APPROVED TO 31.12.1990

MemberState	ERDF	ESF	EAGGF	(ECU million, 1989 prices)	
				AMOUNT APPROV	AMOUNT IN CSF
Greece	5220.0	1449.0	1227.0	5946.0	6667
Spain	4756.0	2337.0	1186.7	8279.7	9779
France	589.0	324.0	159.4	872.4	888
Ireland	1642.0	1357.0	654.0	3653.0	3672
Italy	4091.0	1463.0	665.1	6219.1	7443
Portugal	3711.0	2017.0	1147.2	6875.2	6958
UK	547.0	312.4	130.0	789.4	793
TOTAL	18156.0	9259.4	5219.4	32634.8	36200

## 5. COORDINATION WITH OTHER COMMUNITY INSTRUMENTS

Coordination is required to achieve a better combination of Community loans and grants so as to secure maximum value for money. In the interests of efficiency, the various Community instruments must be combined in such a way as to provide the method of funding best suited to the type of measure in question. In practice, this means attempting to achieve a mix of loans and grants which is both judicious and economical in terms of budgetary resources. The grant/loan mix is determined in conjunction with the EIB when the Community support frameworks are being established. It also involves the other Community lending instruments, including the ECSC. The rates of assistance from the funds to be applied to individual measures within the operational programmes may be varied under the partnership arrangements. For example, EIB financing supplied through a financial institution (global loan) for small or medium-sized businesses may provide the promoter with the additional funding he needs.

In the regions covered by Objective 1, grants from the fund for investments in firms may not exceed 50% of the total cost, or less in those Member States subject to stricter aid arrangements under the Community rules on competition. Projects producing substantial revenue, such as those relating to telecommunications, energy and inter-urban transport are subject to a ceiling on the level of Community grant. This ceiling varies according to the situations of the areas eligible for assistance under Objectives 1, 2 and 5(b). The aggregate level of grants and loans must also be compatible with the rules governing simultaneous application of different types of assistance. In the case of projects in which the EIB and the other Community financial instruments are involved, the ceilings on Community assistance are generally fixed as a proportion of the total cost as follows : 1) 50% for loans, whether these are loans granted by a single Community financial instrument or the sum of the loans provided by a

number of those instruments, 2) 70% in the case of the combination of Community loans and grants for the financing of a single projects; this ceiling may be exceeded in duly justified cases, although the level of 90% must not be exceeded.

## 6. PROGRAMME APPROACH

A programme approach is now applied which has been designed to give to Community action the necessary depth and width, while at the same time allowing greater flexibility. Community operations that are spread over a number of years, with joint action by the funds, the EIB and the other financial instruments, are better able to respond to changing economic and social realities. Programming has been designed to facilitate 1) some degree of decentralised management of Community assistance, encouraged by partnership arrangements, 2) predictability of Community assistance with the aim of stimulating investment, 3) improved assessment of Community assistance and 4) better administration of applications for assistance. Programming also makes it possible to take a coherent overall medium-term view of the operations to be mounted in pursuit of each priority objective and establish a framework for the coordination of these operations.

The main contribution that regional policy can make to reducing the regional disparities in the Community lies in stimulating productive investments that can generate employment opportunities and infrastructure investments directly related to the development of economic activities. Regional disparities in productivity, employment and earnings can be reduced only if production and the number of jobs created in the Member States concerned and in the less-favoured areas increase at a rate well above the Community average.

Taking as a basis the regional Policy guidelines, the Commission saw to it that the share of appropriations allocated to productive investments was increased during the negotiations. Taking account of this general principle and the pattern of demand for ERDF funding in respect of basic infrastructures, a particular effort was made to reach a balance more favourable to productive investment.

Although, at the end of the negotiations, basic infrastructures remained the main priority for the Objective 1 areas, support for productive sectors is likely to take up a large part of the assistance provided for in the CSFs. Basic infrastructures account for more than half of total ERDF funding (ECU 10.381 million out of a total of ECU 20.960 million) in the CSFs and for 29% of the amounts allocated from the three Funds to Objective 1, while aid for productive investment is set to consume some 18% of ERDF funding and 17% of ESF funding. This category of expenditure includes direct investments in undertakings, the provision of services to companies, R&D and technical training. In addition, investments in infrastructures and activities directly related to production account for 9% of ERDF aid. Overall, for the seven Member States concerned, the total allocated to these two categories of assistance represents 27% of ERDF funding and 21% of total funding from the three Funds for Objective 1.

The situation varies quite considerably from Member State. In Ireland and Italy, the proportion of funds allocated to these two categories is well above the Community average. In Portugal, on the other hand, considerable efforts were made to restrict the share of ERDF funding earmarked for basic infrastructure projects, for which requirements are still substantial. In Spain the proportion of funding devoted to bringing basic infrastructures up to scratch remains very considerable (67% of total ERDF funding, or ECU 4.173 million). However, the proportion of funding devoted to productive investments and directly related activities is not below 10% in any Member State.



## 7. COORDINATION AND OPERATIONAL ARRANGEMENTS

The reform of the structural funds set in place a procedure in four stages: 1) requirements are spelt out in multiannual plans (covering three to five years depending on the objective) by Member States or by the competent national, regional or other authorities designated by them; 2) priorities are determined in the Community support frameworks (CSFs) by the Commission, working in close association with Member States or other authorities designated by them; 3) the operational stage proper is again based on partnership between the Commission and the Member State concerned; it involves implementation of the CSFs through the use of the appropriate forms of assistance; 4) the CSFs and the assistance granted are monitored and assessed jointly by the Commission and the Member States and operations are adjusted if necessary.

Stage 1 - preparation of development plans by the national authorities, in partnership with the regional and local authorities concerned. There are two types of plan - regional plans which concern objectives 1, 2 and 5(b), covering three to five years and updated each year. For objective 1, the plans may cover the entire territory, going beyond the regional framework proper. National plans concern objectives 3 and 4 and must include a breakdown of expenditure benefiting areas governed by objectives 1, 2 and 5(b) and the other areas.

The structure of both types of plan is: part 1 - an economic and social analysis of the region, area, sector concerned; part 2 - a development strategy, method and means of implementation, national and regional financing and Community operations already under way; part 3 - development priorities to be financed; part 4 - an estimate of total funding requested, broken down by structural instruments (funds, EIB, other instruments, etc.).

The plans are discussed with the Commission and, when agreed, give rise to the Community support frameworks.

Stage 2 - priorities are determined in the Community support frameworks. The CSFs are the Commission's response to the needs spelt out in the plans. They map out the broad lines of the measures to be taken jointly by the Member States and the Community and provide the reference framework for the applications for assistance submitted to the Commission.

Stage 3 - implementation takes place in two main ways depending on the objective criteria.

For the ERDF the means of implementation are:

1) through operational programmes which are a series of consistent multiannual measures covering between 2 and 5 years. Operational programmes may receive assistance from one or more structural funds and may be implemented in the form of an integrated approach. The financial commitments under the funds are made each year with the payment of advances and balances;

2) individual applications for large scale projects (ERDF only - minimum thresholds for productive investment: ECU 10 million; infrastructure: ECU 15 million);

3) global grants - for the ERDF the Commission may entrust to regional intermediaries designated by the competent Member State authorities, alongside the administration of a budget heading, the task of encouraging local business initiatives that fit into a coherent strategy on which a consensus has been reached. They are designed to implement partnership strategies for local development in order to stimulate the creation of income and jobs, the exploitation of local resources, the supply of and demand for services to firms and the adaptation of this supply to demand from SMEs. Payments

may be made directly to the intermediaries. In this way, allocations are managed with greater autonomy and are more adapted to the rhythm of operations. Eligible measures relate to: (a) various services to firms in the industrial, crafts, agricultural and tourism sectors; (b) access by SMEs to the capital market - assistance may take the form of a capital holding in firms, business financing funds, guarantee funds for SMEs or it may consist of subsidised interest rates on loans granted to SMEs, (c) direct investment aid - is intended to support SMEs which cannot easily resort to financial engineering instruments; (d) aid to infrastructures - infrastructures of business services or training centres, BICs, business incubators, etc.

In addition to the financial contribution from the structural funds, there is also a contribution from a public authority and/or the private sector. Co-financing by the Member State is therefore not obligatory. There is no ceiling for the amount of the grants. For regions under objective 1, the maximum Community contribution is 75% of the total cost. For other regions it has a maximum of 50% of the total cost, and at least 25% of the public expenditure;

Up to date, global grants have been hardly used by the Member States in their plans. This is surprising since this form of action is flexible and could be used as an effective instrument in overcoming those structural problems encountered most often by SMEs. To end 1990, only Portugal had used the global grant facility for local development (ECU 18 million) and since then only Spain and Italy have included these grants in their plans (ECU 59 million and ECU 53 million respectively). However, it is envisaged that global grants may be employed within the LEADER programme for rural development.

4) Part financing of national aid schemes provided they comply with the rules of competition.

For all objectives of ESF implementation is through: 1) operational programmes; 2) global grant and 3) innovative measures. ESF eligibility criteria (see below) are applied to each of these type of actions.

Stage 4 - the CSFs and the assistance operations are monitored and assessed. Monitoring and assessment are based on two principles: 1) partnership - the Commission, together with the Member States, ensures effective monitoring by means of reports which are drawn-up and monitoring committees which are established to enable necessary adjustments to be made; 2) transparency in the administration of the funds.

#### 8. COMMUNITY INITIATIVES

In addition to actions falling under the Community Support Frameworks, the Commission is empowered to launch "Community initiatives" designed : 1) to help resolve serious problems directly associated with the implementation of other Community policies, 2) to promote the application of Community policies at regional level and 3) to help resolve problems common to certain categories of region.

Whereas CSFs are based on national development plans, Community initiatives are transnational programmes but with an equally strong accent on the involvement of regional and local authorities in their preparation and implementation. Community initiatives are therefore a further application of the concepts of partnership and subsidiarity, two key principles underlying the reform of the funds.

A principal aim of Community regional policy is to ensure that enterprises in lagging regions, as well as those in industrial decline, can seize the opportunities arising from the completion of the Single Market. For the most part, Community initiatives are directed towards creating a favourable environment for enterprise development adapted to the needs of

the Single Market and the greater intensity of competition. For example, the *STRIDE* initiative, which is aimed at strengthening the research capacity of Objective 1 (and certain Objective 2) regions and increasing the participation of both enterprises and centres of research in research programmes financed by the Community, seeks to increase the contribution of Community policies in science and research to the development of capacity in this field in the weaker regions.

ECU 5.5 billion has been set aside in the period 1989 to 1993 for Community initiatives. These can be summarised as follows :

**STAR** - to improve the access of regions lagging behind to advanced telecommunications services. The Community contribution for the period 1987-91 is ECU 780 million;

**VALOREN** - to contribute to regional development by a better use of endogenous energy potential. The Community contribution for 1987-91 is ECU 400 million;

**RESIDER** - to contribute to the conversion of regions affected by the restructuring of the steel industry. The Community contribution for 1988-92 is ECU 300 million;

**RENAVAL** - to assist the conversion of regions affected by the restructuring of the shipbuilding industry. The Community contribution for 1988-92 is ECU 200 million.

**RECHAR** - to accelerate the economic adaptation in the coalmining areas most affected by the decline of the coal industry. The Community contribution for 1990-93 is ECU 300 million;

**ENVIREG** - addresses the environmental problems of the Mediterranean basin and other Objective 1 regions. Its aim is to demonstrate better methods of dealing with waste water in

coastal areas, especially where this imperils the future of tourism as well as the reduction of marine pollution and the proper treatment of industrial and other toxic wastes. The Community contribution for 1990-93 is ECU 500 million.

INTERREG - to promote cooperation between the areas adjoining existing frontiers to ease the integration of their economies. It is also intended to help both internal and external border areas overcome special development problems arising from their relative isolation within national economies and within the Community as a whole. Particular attention is given to creating alternative employment opportunities in areas where significant jobs losses may arise due to changes in customs and other border-related activities following the completion of the internal market. Where border areas are seriously deficient in infrastructures, transport and other communications systems are to be developed. Community assistance is concentrated mainly on Objective 1 regions, where the problems are the greatest. Greece, which is geographically isolated from the rest of the Community and which has many island communities, is a major beneficiary of this initiative. Portugal and Spain which have the longest internal land border in the European Community between two Member States, are also major beneficiaries. The Community contribution for 1990-93 is ECU 800 million;

REGIS - is an initiative towards regions in the ultraperiphery whose aim is to accelerate the diversification of economies of those regions which are remote in geographical terms from the rest of the Community - The French overseas territories, the Canary islands, Madeira and the Azores. The Community contribution for 1990-93 is ECU 200 million;

REGEN - addresses the problem of a lack of integration into Community-wide transmission networks for gas and electricity. The aim is to accelerate the installation of gas transmission networks in Greece, Portugal, Ireland, Corsica and Sardinia, and their interconnection with Community-wide networks. The

Community contribution for 1990-93 is ECU 300 million;

PRISMA - is designed to help enterprises in Objective 1 regions meet particular challenges arising from the completion of the internal market : meeting Community-wide quality standards, and gaining access to public procurement outside local areas as markets are opened up. A large part of Prisma's effort is in the field of quality standards and certifications in regions where testing and certification centres are inadequate. The Community contribution for 1990-93 is ECU 100 million;

LEADER - promotes rural development and is intended to foster a "botton-up" mobilisation of local potential, in order to promote the diversification of rural economies and the maintenance of an adequate social and economic fabric. This initiative is for rural areas eligible under Objectives 1 and 5(b). The Community contribution for 1990-93 is ECU 400 million.

Other examples of actions targeted at SMEs include EUROFORM (budget of MECU 300) which assists in the promotion of the development of new qualifications, abilities and employment opportunities concerning the personnel of SMEs in the context of a strategic partnership set in place between the SME and a large enterprise or enterprises or in the context of transnational or interregional cooperation between SMEs. Similarly, the NOW programme (budget of MECU 120) whose aim is the promotion of equal opportunities for women in the fields of employment and professional training, supports women in the creation of their own businesses or cooperatives in the context of the opportunities afforded by the completion of the Internal Market.

Furthermore, NOW assists measures concerning consultation, training and access to employment and also supports childcare structures, supporting structures for the creation of transnational partnerships and technical assistance for the

realisation of the actions.

**A.I THE EUROPEAN REGIONAL DEVELOPMENT FUND**

1. The actions under the ERDF are concerned with the Objectives 1,2 and 5(b) noted at paragraph 1.3 above. The regions and zones eligible for these objectives were determined on the basis of Community statistical criteria and thresholds and according to procedures laid down in the regulation of the structural funds. The ERDF may not intervene outside these areas. Member States can and do, of course, comprise regions eligible under different Objectives. In this respect, three groups can be distinguished. Firstly, the weakest Member States (Greece, Portugal and Ireland) are entirely eligible under Objective 1. Particular problems of rural development or of conversion of industry in these countries are consequently addressed in Community Support Frameworks (CSFs) under Objective 1. Secondly, in four Member States (Spain, France, Italy and the UK) actions are undertaken involving, according to the region concerned, one or other of all three regional Objectives. Thirdly, the five other Member States contain regions and other areas eligible under Objectives 2 and 5(b).

Overall, Objectives 1, 2 and 5(b) cover respectively 21.5%, 16.5% and 5% of the population of the Community, making a total of 43% compared to 44% before the reform. In spite of this apparently limited concentration in terms of overall population coverage, concentration has been achieved from two important points of view. The population coverage in the most lagging Member States increased substantially by inclusion in their entirety under Objective 1. Additionally, the Member States having large backward regions (Spain and Italy) also are more comprehensively covered than in the past. On the other hand, the proportion of eligible zones in the most



prosperous Member States of the Community was reduced appreciably (Belgium, Denmark, Germany, France, Luxembourg and the Netherlands).

2. Guide-lines and Priorities in Community Support Frameworks

In the framework of supporting actions, mainly taking the form of operational programmes, the ERDF has financed investments of very different nature ranging from large communication infrastructures to investments in enterprises themselves. Between these extremes, assisted investments include, for example, those in basic infrastructures such as water and energy supply, or in supporting structures to enterprise development (provision of industrial sites linked to services, protection measures for the environment, etc.). In order to maximize their impact, resources have been concentrated on a limited number of priorities within each Community support framework. Bearing in mind the specific needs of each region, a balance has been sought between the investments devoted to infrastructures and those in the productive sector. In a number of regions lagging behind, there exist serious deficiencies in basic economic infrastructures necessary for economic development, to which ERDF has devoted approximately 60% of its expenditure in the Objective 1 regions as a whole. Two thirds of these are to improve access such as transport networks and telecommunications systems. The proportion is even more than 60% in Greece, and in the lagging Spanish and French regions owing to their very peripheral situation and insularity or simply to their insufficient endowments in this respect.

On the other hand, the accent has been placed on cofinancing investments to improve the productive sector in Portugal and more especially in Italy where this expenditure has reached 40%. The remainder of the

expenditure of the ERDF (10%) has been devoted to local development actions comprising a range of measures to stimulate regional economic development in relation to services to business (financial and non-financial), encouragement of entrepreneurship and the development of human resources in general and the development of local tourism.

The proportion of ERDF expenditure devoted to basic infrastructures is decidedly lower in Objective 2 areas, amounting to only 16% of the expenditure of the Regional fund and has involved only three Member States (Spain, UK and Belgium). More than three quarters of ERDF expenditure has supported investments aimed directly at the improvement of the productive sector in the declining industrial areas, more than half of which concerns direct investments in enterprises or services. In the majority of the Member States concerned, the proportion of investments in the productive sector or activities closely linked to this sector amounts to approximately 90% (Belgium, France and Italy) or even 100% (Denmark, Germany and Luxembourg) of the total commitments of the ERDF.

In accordance with its regional policy guidelines, the Commission has given priority to Community support to develop and improve the competitiveness of productive firms.

This effort has been concentrated in the regions eligible under Objectives 1 and 2.

In the Objective 1 regions, ECU 5.143 million of Community funds are to be allocated to this priority, with an additional ECU 1.256 million under the CSFs for Objective 2, making a total of ECU 6.699 million not including Community initiatives and existing commitments.

Four main measures have been adopted for the Objective 1 regions :

- direct aid to businesses for productive investments in manufacturing, crafts, services and tourism. A large part of the appropriations (ECU 1.334 million) has been allocated to financing these measures;
- assistance for technical and vocational training;
- development of capacity for research and technological innovation;
- business services.

The situation in the Objective 2 areas is slightly different.

Firstly, improving the competitiveness of firms is the main priority, and has been allocated ECU 1.256 million, or 35.38% of appropriations.

Secondly, only a small amount of the aid will be used for direct investment support. In these regions, the most urgent task is to improve the conditions in which business are set up and develop. To this end, a range of measures have been adopted under the CSFs for 1989 to 1991 :

- measures to support modernization and restructuring, by training for staff or jobseekers in new production techniques and recruitment subsidies for entrepreneurs starting new businesses;
- varied measures to develop local potential, including :
  - a) the creation of incubator facilities and a range of

support services for entrepreneurs starting new businesses;

- b) support for investments in intangibles such as the recruitment of managerial staff, external advisory services;
- c) implementation of technical innovation measures (resource centres, industry/research collaboration, technological advisors);
- d) support for collective measures (shared services, sectoral studies, venture capital studies, etc.).

Although assistance for small businesses and industries is not a specific priority in the CSFs, a wide range of measures will benefit them.

At this stage it is impossible to quantify the Community effort in their favour; this will be feasible in the course of monitoring of the implementation of the operational programmes.

In qualitative terms, the Objective 1 CSFs provide for a variety of measures : financial services, better access to capital, promotion of technological innovation and research, skill training schemes.

For Objective 2, similar measures are envisaged, with emphasis on the creation and development of small firms as major contributors to the regeneration of the local economy.

The importance of tourism for the development of a region lies in its potential to create jobs and its contribution to economic diversification in the area. Tourism therefore plays an important role not only in the development of less-favoured regions, which often have

natural assets which make them very attractive for recreational tourism, but also in certain industrial regions with a rich and varied cultural heritage.

When the Community support frameworks were being drawn up for the Objective 1 and 2 regions, a section on tourism was included among the priorities for assistance.

The total provision for direct Community assistance from the structural Funds for tourism is ECU 1.613 million in the Community support frameworks for Objective 1 regions. This represents 5.5% of all the appropriations available for the period in question, 86% of which comes from the ERDF.

### 3. Financial Engineering in the context of Regional Policy

The reform of structural funds has given a new thrust to the Community's regional policy objectives of strengthening economic cohesion and preparing for the creation of the Single Market. As already described, the considerable financial resources thus applied will continue to be largely absorbed in funding infrastructure, which is an essential basis for all development. However, they also assist in the creation of small and medium-enterprises (SMEs), especially in depressed areas, as a means of generating wealth and employment.

One of the aims of Community support for SMEs is encouraging alternatives to traditional bank loan finance, exemplified by financial engineering products available for cofunding by the Regional Fund.

SMEs in some parts of the Community face particular problems, such as :

- the cost of credit which is sometimes higher in assisted regions. Although base interest rates charged by financial institutions are uniform and set nationally, a margin of additional interest is charged to reflect the risks of a particular lending which is higher for SMEs than larger concerns and often higher still for SMEs located in assisted regions;
- a complete absence of institutions in situ offering newer financial instruments such as leasing, factoring, seed and venture capital. Despite most assisted regions having extensive bank branch networks offering traditional forms of finance, in some disadvantaged areas there is difficulty in obtaining more flexible types of funding;
- geographical factors which often make access to major financial services difficult. Similarly, information on the sources and types of finance available to enterprises is generally less well disseminated in assisted regions;
- access to professional business advisory services and training which is sometimes more difficult to obtain than elsewhere.

Traditionally, the Community has sought to deal with the problems faced by SMEs by cofinancing national schemes of regional assistance, but in some cases these do not match the requirements of SMEs, particularly during their start-up phase.

Accordingly, new financial products, more appropriate for these requirements, are being developed in the context of Community regional policy. This type of intervention is additionally relevant if it leads to the establishing of

financial instruments which continue beyond the timescale of Community grants.

In less developed (Objective 1) regions this acts as a stimulus to innovation and invigoration in the economic and financial system, while in regions suffering from industrial decline (Objective 2) it has an impact beyond the period in which the regions benefit from Community grants. Furthermore, this involvement takes the form in most cases of a partnership between the public and private sectors.

#### Examples of EC intervention

The Commission recognises that SMEs have difficulty raising the capital resources necessary to support the development of business, and the potential role played by venture capitalists in creating and managing private investment funds to provide such resources.

The Commission has therefore established measures, within a wide range of frameworks and in a great variety of regions, which are designed to increase the availability of venture capital support for SMEs.

These include :

- A. Creation of Venture Capital Companies.
- B. Participation Funds.
- C. Participating Loans.
- D. Grants to Venture Capital Companies.
- E. Guarantee Funds in support of Equity Investments.
- F. A Scheme for the promotion of Early Stage Capital.

Most of these measures have been tested initially within the framework of the Integrated Mediterranean Programmes (IMPs) but are now also being implemented in the context of new regional policy e.g. in Liguria businesses in the

industrial and service sectors with good prospects for profitable growth were targeted for equity shareholdings.

Guarantee Funds are, for example, also created within the IMPs together with regional authorities to reduce the risks associated with private sector investments in SMEs. Regions which benefit from Community aid under these schemes are Italy : Liguria, Umbria, Tuscany, Puglia, Enritia-Romagna, Molise; in France : Languedoc-Roussillon, Drome, Midi-Pyrénées.

Within the PEDIP programme for Portugal a financial engineering scheme has been included with two objectives : 1) to support the recovery of SMEs which are economically viable, but which have an unbalanced capital structure; and 2) to support the development of SMEs with high technology potential.

Actions include the development of two risk capital companies concentrating their activities in, respectively, the north and south of Portugal. The companies manage funds which are invested in SMEs wherever possible jointly with private capital funds. The companies may invest up to 50% of the value of the undertaking.

Initiatives have also been taken for start-ups in the Seed Capital scheme. The Commission assists in the creation of new enterprises by a) the provision of advances to finance a portion of the operating costs of Seed Capital Organisations reimbursable without interest (financed directly by the budget for actions in favour of SMEs); b) a contribution to the investment funds for early stage financing and c) the creation and development of a European network of Seed Capital organisations.



#### 4. European Community Business Innovation Centres

A particularly important aspect of Regional Policy action to assist SME development are the European Community Business Innovation Centres (E.C. BIC) set up to address directly their problems and to ensure that indigenous resources (entrepreneurship and innovative business opportunities) have the necessary support. E.C. BICs are incorporated together with other centres of similar quality located in areas not benefiting from Structural Fund aid, in an international association entitled the European Business and Innovation Centre Network (EBN). This association includes in its membership financial institutions, international networks, technical institutes, professional consultants and international business groupings. Thus an essential synergy is maintained between these allied activities.

E.C. BICs promote business creation and expansion by providing a comprehensive programme of services (training, finance, marketing, technology transfer, etc.) to individual entrepreneurs and existing SMEs who are developing innovative technology-based projects. Community support for setting up BICs is available in areas covered by ERDF and the Integrated Mediterranean Programmes and the ECSC employment areas. The BIC's role is not to subsidise the operations of the enterprises in question, but to act as a catalyst in mobilising local entrepreneurial, technical and financial resources.

This approach has been used to particular effect in Spain, Italy and France.

#### **A.II THE EUROPEAN SOCIAL FUND**

The European Social Fund (ESF) is the oldest of the three structural funds, being created by the Treaty of Rome in 1957. The original aim was to facilitate professional mobility and

improve working conditions. During the 1980s, with the increasing realisation of the importance of SMEs to the economy and especially in the creation of employment, the ESF focused its actions more towards these types of enterprises.

The basis for the actions of the fund was reformed by Regulation N° 4255/88 of 19 December 1988<sup>(2)</sup>. The type of actions eligible under the ESF were professional training, development of self-employment opportunities and assistance in the creation of the recruitment of workers in stable employment. As far as the training and employment activities in the different CSFs are concerned and in the Community Initiatives, SMEs have been identified as one of the priorities for the Social Fund.

There are some conditions for these types of assistance to be eligible : they must meet one of the objectives of ESF assistance; they should either combat long-term unemployment (objective 3) or facilitate the occupational integration of young people or meet one of the regional objectives (N°1, 2 or 5(b)).

In accordance with the operational procedures of the structural funds, eligible actions of training or employment must be included in an operational programme of a Member State or be eligible for a global grant. In addition, the programme must be financially supported by a public administration of a Member State.

As far as specific measures for SMEs are concerned, persons employed by SMEs situated in objective areas 1, 2 and 5(b) are eligible for ESF aid. In addition, with respect to objectives 3 and 4, preferential treatment is accorded to requests for assistance from businesses linked directly to productive investments in SMEs (including cooperatives and associations) directed towards the modernisation and adaptation of productive equipment and towards marketing costs.

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(2) OJ N° L 374 of 31.12.1988, p. 21

In the context of the Community support frameworks (CSFs), certain Member States (Belgium, Germany and Italy), within objective 2 criteria, have incorporated actions focused particularly on assisting SMEs in terms of reconversion and industrial restructuring. In addition, also within objective 2, some ECU 280 million has been foreseen to assist in the development of new enterprises and in improving the business environment through adoption of training and employment measures in certain regions of UK, France and the Netherlands.

As far as objective 5(b) is concerned, an important role is foreseen for SMEs and significant assistance is available for recruitment and training measures aimed at management and salaried employees.

With respect to objective 3 and 4, training actions for young people and for the long-term unemployed are directed towards achieving those types of basic and specialist qualification which are highly sought after by many businesses (for example, in the fields of electronics, informatics, engineering, etc). These can be especially valuable to SMEs seeking to acquire appropriately qualified personnel. An example of the financing of these actions is in France where a significant part of the ESF financing under objectives 3 and 4 are included under the headings of "adaptation contracts" and "qualification contracts" which relate to people who are often employed by SMEs or become self-employed.

In objective 1 areas, there is no specific SME priority. However, a large number of actions envisaged under other headings do provide assistance to SMEs, for example under "Industry and Services" for Ireland, "Tourism" and "Competitiveness of Enterprises" in Greece, or in the PEDIP programme for Portugal. Approximately 70% of the budget foreseen under these headings are for SMEs.

### **A.III THE EUROPEAN AGRICULTURE GUIDANCE FUND**

Agricultural restructuring and the wider development of the rural economy are major priorities within the reform of the structural funds of June 1988. Under the reform the new basic Regulation (EEC) N° 4256/88 of 19 December 1988<sup>(3)</sup> governing the EAGGF Guidance Section lays down a list of measures to maintain the countryside, reorganize and strengthen agricultural structures and help to develop rural areas; these may be financed on the one hand throughout the Community under Objectif 5(a) and on the other through programmes for particular rural areas covered by Objective 1 and 5(b).

The EAGGF (Guidance Section) contributes either exclusively or in conjunction with the other two Structural Funds to programmes in Objective 1 regions and Objective 5(b) zones. In Objective 1 regions these programmes generally include help to farm investments, aids to farmers in less favoured areas, assistance to marketing and processing, environmental protection, forestry and rural tourism. In Objective 5(b) zones the programmes contribute to restructuring and diversification of agricultural production, forestry, environmental protection and enhancement and rural tourism.

As an indication of the funding involved in these measures, the Community's contribution for the period 1989-93 from the EAGGF Guidance Section for Objective 1 amounts to ECU 5.4 billion and for Objective 5(b) to ECU 1.1 billion.

Under Objective 5(a) operations, the EAGGF (Guidance Section) contributes to restructuring and modernisation efforts in the agricultural and agri-food sectors throughout the Community in line with the Objectives of the CAP. For 1989-93 the EC contribution is ECU 3.4 billion.

With particular reference to SMEs within Objective 5(a), the most significant contribution consists of aid for the processing and marketing of agricultural products. For

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(3) OJ N° L 374 of 31.12.1988, p. 25

example, in 1990, out of 929 projects financed under this heading, 435 were for SMEs. Some of the other horizontal schemes (aid for investment in agricultural holdings, aids to young farmers and aids to mountain and hill farmers in less favoured areas) also concern SMEs to a certain extent.

#### **A.IV THE EUROPEAN INVESTMENT BANK**

In terms of the volume of funding provided, the EIB is the Community's main structural instrument. It raises the bulk of its resources on the capital markets and grants loans, at markets rates, for :

- 1) productive investment and infrastructure investment contributing to the economic development of the less-privileged regions. The Bank's lending to areas whose development is lagging behind or whose industries are in decline amounts to more than 61% of its total Community funding. Approximately half of this funding goes to regions covered by Objective 1;
- 2) investment projects of common interest to a number of Member States or to the Community as a whole; also projects concerned with the modernization or conversion of firms or with the creation of new activities. In these areas the Bank contributes to the attainment of the Community's energy policy objectives and the financing of large-scale infrastructure projects of common interest and environmental measures.

The following figures give some idea of the scope of the Bank's activities within the Community in 1990 : in the form of individual loans ECU 9.4 billion and global loans ECU 2.9 billion corresponding to 8445 loans were granted. Of the total loans for the year of ECU 12.3 billion, ECU 12.2 billion were from the EIB's resources and ECU 71.5 million from the resources of the New Community

Instrument (NCI).

The EIB finances smaller projects through the use of global loans designed to encourage investment by small and medium-sized enterprises or to promote the development of small-scale infrastructures. The method employed is for the EIB to make a global loan to a financial institution which then sub-allocates loans to individual SMEs. The Bank's operations under the NCI, which has a sectoral focus, are virtually all in the form of global loans.

Relations with the banking system in the context of global loans has grown to the stage where nearly 100 different banks have been involved in 1990 in 11 different Member States.

Global loans have normally a multi-sectoral/multi-objective character. They concern small and medium-sized enterprises in the less-favoured regions and are directed mainly towards industry, services (especially tourism) and agriculture. Outside the less-favoured regions, investments are focused on small and medium-sized industrial enterprises with particular emphasis on the introduction or development of advanced technologies; investments contributing to the development of Community policies in the energy and environmental fields and, to a certain extent, initiatives in the transport sector which have a Community interest.

In 1990 global loans accorded from the resources of NCI IV for the financing of productive investment in small and medium-sized enterprises amounted to ECU 23.6 million.

Although the EIB is an autonomous institution, it assists in achieving economic and social cohesion as it plays an active role in the operational procedures introduced by

the reform of the structural funds. It is particularly involved in determining the loan/grant mix as part of the preparation of the Community support frameworks.

#### **A.V NEW COMMUNITY INSTRUMENT**

The Council Decision 83/200/EEC of 19 April 1983<sup>(4)</sup> which empowered the Commission to contract loans under the New Community Instrument (NCI) "with a view to correcting structural shortcomings in the production system and increasing the pace of economic growth" was amended by Council Decision 87/182/EEC of 9 March 1987<sup>(5)</sup> to concentrate its actions in favour of small and medium-sized enterprises (NCI IV).

By Article 1 of this decision, the Commission was empowered to borrow amounts enabling it to grant loans of up to the equivalent of ECU 750 million in principal. The proceeds of these borrowings were to be on-lent to finance investment projects that contribute to the industrial adjustment and competitiveness of the community, in particular by means of the application of new technologies and innovation. The projects chosen for financing should serve the Community's priority objectives relating to the financing of investment by small and medium-sized undertakings in industry and other productive sectors taking into account, inter alia, their regional impact and the need to combat unemployment. At 31 December 1990 the amounts granted in loans under NCI IV was ECU 658 million.

#### **A.VI THE EUROPEAN COAL AND STEEL COMMUNITY**

As part of the general coordinated action of the structural funds, the European Coal and Steel Community, in accordance with criteria published in OJ C 188 of 27 July 1990 (replacing criteria published in OJ C 173 of 1 July 1987) may grant

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(4) OJ N° L 112 of 28.04.1983, p. 26

(5) OJ N° L 71 of 14.03.1987, p. 34

conversion loans. These have the primary objective of creating new and economically healthy activities or to contribute to the transformation of existing companies with a view to improving the employment possibilities of those who have been made redundant by the restructuring and/or disappearance of the coal and steel industries.

The ECSC also makes resources available to business and in particular to SMEs to prepare for the completion of the Internal Market.

In 1989 and 1990 the amounts disbursed in the form of loans to SMEs for these purposes were MECU 416 and MECU 560 respectively.

The ECSC has also put in place measures for the retraining of workers in the coal and steel industries in accordance with article 56, paragraphs 1c and 2b of the Treaty of Paris.

This "traditional" type of assistance is provided to workers forced to leave their previous employment either due to a "cessation, reduction or change of activity" (52b) or due to the introduction of "new technology or equipment" (56.1c). In the context of new bilateral conventions agreed with the Member States, this assistance, currently limited to ECU 3.000 for worker, is given in five different situations (unemployment, early retirement, retraining, internal transfer and external transfer). The granting of this aid is also on condition that "the Member State concerned makes a special contribution at least equivalent to the ECSC aid".

In 1990 and 1991, the amounts granted under this heading were MECU 184 and MECU 189 respectively.

In addition to these traditional aids should be added those decided in the complementary steel programme (MECU 150 for 4 years (1988 to 1991) and those decided in the programme RECHAR for "social measures related to the restructuring of the coal industry" (MECU 40 for 1990 and MECU 50 for 1991).



It should be underlined that a considerable part of these aids are for workers employed in SMEs.

#### **A.VII FISHERIES**

As far as the structural policy of the Community is concerned vis a vis fisheries, the main emphasis is on the fleet size, aquaculture, processing and commercialisation. Regulation EEC N° 4028/86 of 18 December 1986<sup>(6)</sup> defines the financial interventions at Community level concerning enterprises as far as the restructuring and modernisation of the fleet is concerned and in the development of aquaculture. Regulation EEC N° 4042/89 of 19 December 1987<sup>(7)</sup> similarly defines the community financial intervention regarding the processing and commercialisation of fish and aquaculture products.

In this context, certain specific measures have been taken in favour of small and medium-sized enterprises. For certain actions, aids are increased if the beneficiary is a fisherman fulfilling certain conditions (priority is given to ships which are manned by the owner). Similarly, actions in favour of investments in productive capacity are given greater priority if the request is presented by small and medium-sized enterprises. To give an idea of the scope of the actions undertaken, in the field of the processing and commercialisation of fish products, for example, 170 projects were financed in 1990 for a value of MECU 52; with regard to the fishing fleet and aquaculture the figures for the same period were 1084 projects to a value of MECU 123.

In addition, as far as the common organisation of the fisheries market is concerned (Regulation EEC N° 3796/81), except in exceptional cases, the vast majority of such aid is paid to small and medium-sized businesses within the fisheries industry.

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(6) OJ N° L 376 of 31.12.1986, p. 7

(7) OJ N° L 388 of 30.12.1989, p. 1

## **B. RESEARCH AND DEVELOPMENT AND ENERGY PROGRAMMES**

### **B.I RESEARCH AND DEVELOPMENT**

Numerous actions are taken in the field of Research and Development (R +TD) and it would be impractical to mention all of them in detail in this report. An attempt has been made therefore to group the main programmes by their nature and to outline the principal measures taken with respect to SMEs.

#### **1. PARTICIPATION IN RESEARCH PROGRAMMES**

The Commission has a number of programmes relating to pre-competitive research and development in such fields as advanced communications, information, technology and industrial and materials technologies. Examples of these are ESPRIT, RACE, AIM, DELTA, DRIVE and BRITE-EURAM. These programmes are carried out by way of calls for expression of interest which are open to both large firms and SMEs as well as universities and research centres. By involvement in these projects, SMEs have the opportunity to collaborate closely with other enterprises of all sizes in the same field and benefit from access to all of the detailed results and background information relating to the projects.

The number of SMEs involved in the programmes ranges from 0% in the fundamental Research oriented programmes like Medical Research or Human Genome to 42.5% of the total number of participants in RACE (Telecommunications) or AIM (Telematic systems in medicine and health care). In Esprit II, SMEs participated in 73% of projects which is consistent with the requirement for small and medium sized firms to achieve a high level of participation in the programme. In the BRITE EURAM programme for Industrial and Materials technologies, SMEs represent 25% of the participants. Certain programmes such as ESPRIT II for example, have established "exploratory actions" which are designed to assist enterprises to identify those planned research projects which offer the best possibility for

their involvement. So far, 66 % of organisations participating in those "exploratory actions" are SMEs and they have participated in 98% of these actions.

Similarly, the feasibility awards in the BRITE/EURAM programme have as their aim to help SMEs demonstrate their abilities as potential partners in future collaborative proposals. The scheme provides financial support for the R + TD necessary to establish the feasibility of an innovative device, process or concept with the fields of industrial technologies and the development and application of advanced materials. The budget for Feasibility Awards has been 3.4 MECU to date. Similarly the CRAFT scheme is primarily aimed at SMEs with limited or no R + TD resources of their own. The scheme provides financial support to SMEs facing a common industrial or technological research need by enabling them to contract outside organisations (research centres, universities or other companies) to carry out R + TD on their behalf. The CRAFT scheme is currently in the pilot phase with 3 projects and a budget of 0.63 MECU. Both Feasibility Awards and Craft are included in the new Industrial and Materials Technologies Programme 1991-94 (BRITE/EURAM II) with indicative budgets of MECU 5 and MECU 57 respectively.

Furthermore, the BRIDGE programme on biotechnology assists SMEs in "identifying the need for and helping to promote greater activity in the biotechnology small-firm sector in the Community". The programme has supported and encouraged the development of national biotechnology associations to represent the interests of SMEs in biotechnology, has supported the development of databases (e.g. BIOREP) and directories to facilitate collaboration and assists "partnering" events and activities. Approximately 2 MECU is attributable to these SME-related actions. It is clear that SMEs can derive substantial advantages from their involvement in research projects over and above the essential interest in a particular piece of research. It permits them to extend their area of action to a European level ; they can become

involved at the pre-normative stage of product planning and, of course, by a sharing of the cost and risk, they can undertake research work which would normally be inaccessible for them.

## 2. DISSEMINATION OF INFORMATION AND EXPLOITATION OF RESULTS

A number of programmes have been designed to assist in the dissemination of information and exploitation of results which is of particular interest to SMEs.

The VALUE programme provides information on the results of Community sponsored research; helps with the dissemination of knowledge acquired in the R + TD phase; and offers assistance to firms and other organisations interested in the use of R + TD results. The budget is 38 MECUs for a four year period.

Examples of particular actions taken in this regard are, firstly under the FLAIR programme (primarily concerned with food quality, safety and nutrition), a specific action was set up aimed at improving the dissemination of food-related R + TD information to the many SMEs in the food sector. Secondly in the BRIDGE programme, projects are being implemented to provide industries with rapid access to research results.

Likewise, the SPRINT programme launched in April 1989 which focuses on SMEs, has the aims of strengthening European innovation and technology, support service infrastructure, facilitating the diffusion of new technologies and other resources to firms and improving the awareness and understanding of innovation and the exchange of experiences of national and Community innovation policies. The budget to the end of 1993 is 90 MECU.

Examples of the actions undertaken so far are the creation of "transnational networks of innovation support services" which include the establishment of 70 networks involving more than 300 technology agencies, liaison services, regional

development agencies and Chambers of Commerce spread throughout Europe; the setting up of the EUROTECH network which has brought together twelve national Research and Development Organisations and the putting in place of 35 networks of collective sectoral research centres. In addition the SPRINT programme was instrumental in launching the European Association for Contract Research Organisation which brings together more than fifty contract research organisations in Europe with a view to representing their interests and providing them with the services necessary for their development such as training, exchange of information, etc.

Another important aspect of the SPRINT programme is to facilitate the intra-Community diffusion of technological resources and competences to companies. The programme provides, on an experimental basis, support for specific industrial large-scale technology transfer projects which demonstrate the means of adapting and applying newly available technologies.

Transnational cooperation schemes between "Research and Technology Organisations" to disseminate technical and economic information concerning new technologies and innovation management techniques are estimated to reach more than 100.000 industrial SMEs annually.

Two schemes concerned with the financing of innovation have been launched. The first, "Technology Performance Financing" aims to facilitate the financing of the acquisition of new technology by making the payment dependent on the technology producing the benefits claimed for it. The second, "Transnational Investments Fora" brings together entrepreneurs of innovative growth companies with financiers looking for investment opportunities. Over the next two years 12 fora will be organised bringing together 500 innovative companies with more than 1000 financiers, mostly venture capitalists.

## B.II ENERGY

In the period under review, two GENERAL decisions of particular interest for SMEs were taken. One concerned the final round of financial support under the energy demonstration and hydrocarbon technology programmes (Commission Decisions COM(89) 1386 final of 1 August 1989 and COM(89) 1835 final of 3 November 1989). The other was Commission Decision COM(90) 2385/6/7 final of 26 November 1990 for the first round of financial support under the THERMIE programme for the promotion of European energy technologies.

Both of these decisions involve significant participation on the part of SMEs as the following figures show :

1989 : MECU 36 representing 31% of the total support offered to 110 projects representing 53% of the total number ;

1990 : financial support of MECU 21 (47% of total) offered to 50 projects (59% of total).

## C. THE COMMUNITY'S VOCATIONAL TRAINING POLICIES AND PROGRAMMES

The Community action in the field of vocational training and employment policies is based on article 128 of the Treaty of Rome. It has been implemented first by means of the ESF which devoted about 4 billion ECU in 1990 to vocational training operations and to subsidies towards recruitment into new jobs and the creation of self-activities and also by way of different Community training programmes which are designed to help raise the levels of qualifications throughout the Community so as to master the processes of economic, technological, social and cultural change (ERASMUS, COMETT, LINGUA, EUROTECNET, FORCE, PETRA).

A general approach in all the programmes consists in promoting :

- transnationality, which allows quality to be improved whilst respecting national systems;
- increase in the number of transnational exchanges and in mobility of training, trainees and trainers;
- creation of networks to facilitate exchanges, cooperation and development of joint projects.

An extensive consultation of governments, employers, workers, educational institutions and voluntary organisations takes place for assisting the Commission in the implementation of the programmes. Thus the social partners are participating in most of the programmes' consultative committees. In addition, an extensive inter-service consultation takes place during the selection process of the projects submitted in the framework of the different programmes so as to ensure that priorities of other Community policies are taken into account (e.g. R&D framework programme, industrial sectoral and horizontal policies, enterprise policy).

Some programmes aim directly to improve industrial competitiveness and support SMEs, by developing inter alia training in new technologies, whilst others are more concerned with mobility within the Single Market. The following programmes have a major focus of their work to address the needs and to enhance the participation of SMEs.

The EUROTECNET Programme dating from 1983 is exploring the impact of technical change on training and qualifications structures and is designed to assist Member States in adapting vocational training to technological change. Its network of demonstration training projects has formed a focal point in the Member States for research on enterprise training

especially in the context of apprenticeship (developing skills and attitudes of SME employees for managing technological change and for creating the conditions for the firm to become "a learning environment"). The second phase of EUROTECNET has been proposed in 1990 for a five year period. EUROTECNET II (budget 7.5 MECUS for the period 1990-1992) considerably expands the opportunities for vocational training systems throughout the Community to learn from innovation. The central concern is with qualifications which are undergoing massive changes, with a much higher technological content than was considered necessary even four or five years ago. In the framework of the programme training methodologies are in a constant state of review along with the tools required to enable SMEs to provide continuing education to their workforce.

The LINGUA Programme (200 MECUS for the period 1990 and 1994) aims at enhancing the free movement of persons by overcoming language barriers and by extending the linguistic competence of the young people and employees in Europe.

Action III of the Programme is centred on foreign languages used in work relations and in economic life and covers three distinct areas. The first is the development and dissemination of methods for investigating the language learning needs of SMEs, and making them more widely known. The EC has already carried out a survey of existing studies, which will be published very soon, and 8 of the new projects tackle this area.

The other major area is to help develop a system of certification whereby language qualifications (certificates or diplomas) are clearly related to each other through a European "framework" and are made meaningful to employers and employees through their emphasis on what the employee "can do" in a given foreign language. A survey of existing examinations in several Member States has already been carried out, and projects are being commissioned to make possible the



development and agreement of a "framework".

The third, and by far the most important area from the point of view of financial resources, concerns the development of teaching aids, i.e. :

- Pilot projects concerning the development of innovative teaching materials adapted to the specific needs of sectors of economic life are financed particularly in the least widely used and least taught LINGUA languages;
- Self-learning methods for foreign languages (including multimedia projects).

In 1991, projects have been accepted for sectors such as tourism/horeca, automobile repair, and road transport. Bearing in mind the difficulty for many people in economic life attending regular language classes, support has favoured more flexible systems, involving distance-learning, self-learning, the use of technology (cassettes, interactive video, computer assisted learning).

It should therefore be noted that LINGUA Action III puts a strong emphasis on the participation of social partners both in the projects and in various technical expert groups. There is close cooperation with professional organisations, with chambers of commerce, with local development and local government agencies. The overall objective is to match the strategy of the programme with the needs of business and the workforce.

The PETRA II Programme (European Community Action Programme for the Vocational Training of Young People and their Preparation for Adult and Working Life) was decided in July 1991 with a budget of 177 MECUs. The Programme is intended for young people below university level under the age of 28 who have completed full-time compulsory schooling and are either in initial/further vocational training or young workers or job

seekers. The Programme will build on the work of the second transition Programme and of PETRA I and on the Young Workers Exchange Programme. In this framework it will continue to promote the development and the exchange of information on best practices concerning enterprise education and vocational training (giving young people an introduction to self employment; teaching important general skills such as problem solving, initiative/risk taking; using more active and creative teaching and learning methods for the development also of business skills). It will use for that purpose its work/training placements abroad for young people as well as its European network of training partnerships.

The FORCE Programme (Continuing Vocational Training in Europe) with 24 MECUs aims essentially in improving the supply and quality of continuing training for employees, and especially those in SMEs.

Participation to the Programme should interest firms of all sizes regardless of their legal status or the economic sector in which they operate. It should also interest training bodies which, according to the Community definition, may include all types of public, semi-public or private establishment engaged in vocational training, further training, updating or retraining activities. Among training bodies are included autonomous economic organisations and, in particular, chambers of commerce and industry and professional associations. Other target groups are public authorities, unions and employers' organizations, specialists' institutions.

The Programme has the precise objectives of : convincing enterprises of all kinds that they need to invest in continuing training, and then encouraging them to provide it; ensuring that they can design and model their training on up-to-date information and data on the best continuing training available; encouraging more innovation in training management, methodology and equipment; underpinning the objectives of the Single Market by backing up transnational continuing training

projects, and by encouraging wide exchange of experience and individual mobility; helping training systems respond to labour market needs and changes by improving Community-wide forecasting of occupational and qualification needs.

FORCE supports the implementation of the following transnational measures : exchange programmes addressed to full-time instructors, staff in human resource departments, staff representatives in enterprises and training specialists working in regional training consortia; transnational and transfrontier continuing training pilot schemes giving priority to the needs of SMEs and taking into account the opportunities and impact of the internal market; sectoral surveys carried out by expert organizations into the human resource and continuing training plans of selected key sectors for the development of the Single Market; actions aimed at increasing the information used by decision-makers in the field of continuing training (comparable data between countries, concerning vocational training - data collection, comparable concepts, methodological frameworks - analysis of contractual policy on continuing vocational training, forecasting trends in qualifications and occupations, etc.).

During 1991 some 800 projects were submitted bringing together enterprises, training bodies and social partners from the 12 Member States. 155 projects have been approved for funding following a selection process in which the Commission's final decision was informed by the view of independent experts, the FORCE Committee, which includes 12 representatives of the social partners. Among these 155 projects 65 are either contracted or coordinated by enterprises themselves while 39 are by the social partners.

The COMETT Programme, dating from 1987, aims to strengthen university/industry cooperation and create networks of partnerships between them, through which both the initial and continuing training needs of SMEs can be met and monitored, for mastering advanced technologies. For COMETT II the initial

budget estimate is 200 MECUs for the period 1990 to 1994.

The small business having to face fiercer competition nowadays have increasingly to rely on networks and intermediate organizations having a transnational character. Thus, at the training front the Community has created within the COMETT Programme transnational university-industry networks and partnerships through which the initial and continuing training needs of firms entailing changes in the skills and qualifications, can be assessed both at the regional level and at the European sectoral level. These partnerships serve also as interface structures between industry, public organizations and training institutions for accelerating the pace with which R&D results can be diffused to SMEs through the provision of appropriate training.

The pooling of further education and training resources on a regional or a sectoral basis lies at the heart of this programme which counts today 158 industry university partnerships located both in the Community and in the EFTA countries.

More specifically, COMETT I (The Community Action Programme for Education and Training for Technology) was adopted by Council Decision 81/365/EEC of 24 July 1986<sup>(8)</sup>. The objectives of this programme were as follows :

- to give a European Dimension to cooperation between the university and the enterprise in the field of training relating to the innovation, development and application of new technologies;
- to favour the joint development of training programmes and exchanges of experience, as well as maximum use of resources regarding training at a Community level;

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(8) OJ N° L 222 of 08.08.1986, p. 17

- to improve the offer of training at a local, regional and national level with the competition of interested parties therefore contributing to the balanced economic development of the Community.
- to develop the level of training to meet technological and social changes, by identifying the resulting priorities in the existing set up of training and which require additional action both in the Member States and at a Community level, and by favouring the equality of opportunities between men and women.

COMETT I focused on five interrelated areas of action, each of which constitute a Strand within the programme as a whole :

- Strand A : the development of University-Enterprise Training Partnerships (UETPs) in the framework of a European network
- Strand B : schemes for the exchange of students and personnel between universities and enterprises
- Strand C : the development and testing of joint university-enterprise projects in the field of continuing training
- Strand D : multilateral initiatives for the development of multi-media training systems
- Strand E : complementary information and evaluation measures designed to support and monitor developments of relevance to the COMETT Programme.

Given the experience gained in COMETT I a follow up COMETT II programme was adopted with priorities of :

- Reaching the SMEs, particularly in a regional context, where the new arrangements for the structural funds, coupled with the complementary Euro-Info-Centres, offer great scope for complementary action.
- Focusing on key industrial sectors undergoing technological change. Here a broad approach is necessary which addresses the application of technology across all types of industry, in particular some of our older and more traditional industries around which economic re-generation will centre.

Open and distance learning forms already part of the ongoing activities of existing Community programmes (ERASMUS, LINGUA, COMETT, TEMPUS, EUROTECNET, FORCE). The Commission's recent Memorandum on "Open and Distance Learning in the European Community" furthers the debate on the potential of open distance learning as an instrument for enhancing accessibility to continuing training for SMEs, and proposes follow - up action.

Two other programmes of interest are :

- LEDA (Local employment development action programme)

This programme focuses on the development of indigenous SMEs reflecting the strong and growing emphasis on endogenous development, as a route to diversified growth and employment development. LEDA differentiates between three strands of policy : new enterprise creation, development of existing small business, promotion of community business. The programme identifies good practice on SME creation, generates know-how, facilitates know-how transfer and assists priority areas to apply this know-how through exchange of information and experience, policy development and research as well as specific actions.

- SPEC (support programme for employment creation)

The objective of SPEC launched in 1990 in response to a request of the European Parliament, is to provide financial and technical support to innovatory projects linked to changes in employment, such as those which may result from the completion of the internal market.

The programme concerns the preparation, implementation assessment and dissemination, within the context of Community networks of the results of innovative initiatives such as studies, information and advice, direct job creation, transnational actions, experimental training measures etc., all of great interest to SMEs.

The mutual recognition of diplomas and professional qualifications is a fundamental factor in achieving the free movement of persons and completing the Internal Market. Community work in this field is covered both under a Community Directive 89/48/EEC of 21 December 1988<sup>(9)</sup> establishing a general system of mutual recognition of professional qualifications as well as through the work on the recognition and the comparability of lower level vocational and technical qualifications.

Finally, in the framework of the "Skills needs" project requested by the European Parliament, present skill shortages as well as future skill requirements and their education and training implications for the Community are analysed, both on a regional and on a sectoral level. In 1991 26 regional studies on skills shortages and needs were supported. These showed also that management skills were found to be in shortage in smaller firms. This often resulted in regional skill shortages due to the inability of firms to communicate their needs in terms of skills and training. Four sectoral studies on "conventional sectors" were also launched (textiles electronics, retailing and tourism) and three on "pervasive

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(9) OJ N° L 19 of 24.01.1989, p. 16

technologies" namely new materials, biotechnology and environment.

#### D. DEVELOPMENT AND INTERNATIONAL COOPERATION

##### 1. DEVELOPMENT

An important aspect of the Lomé Convention (the development programme agreed between the Community and the so-called ACP - Africa, Caribbean and Pacific states), is the establishment and strengthening of industrial enterprises in the ACP countries, in particular by encouraging joint initiatives between them and industrialists in the Community.

As an instrument to further this policy aim, the Centre for the Development of Industry (CDI) was founded in 1977 which has as an important part of its activities the encouragement of Community firms to put forward investment proposals for promotion of economic activity in ACP countries. Such proposals can open up valuable new possibilities for both ACP and Community entrepreneurs by establishing new markets, improving methods of processing and opening up distribution possibilities.

The CDI provides firms (mostly SMEs) with a valuable link to ACP industrialists (actual and potential) and also furnishes them with relevant information about investment conditions in various ACP countries and the various projects for which they may be able to become suitable technical, marketing or investment partners.

##### 2. INTERNATIONAL COOPERATION

###### PHARE Programme

One of the priorities of the PHARE programme has been to promote the development of SMEs as an essential element in the recovery of the economies of the countries of



Central and Eastern Europe.

The following actions have been agreed with the countries concerned to :

- promote a policy and environment favourable to SMEs;
- assist SME associations to develop their activities and serve their members;
- establish advisory and assistance centres for SMEs (Business Centres);
- provide financial assistance to SMEs to promote their development (credit and guarantee mechanisms).

In this context, the following measures have been agreed : Poland (MECU 31); Hungary (MECU 25); Czechoslovakia (MECU 20); Bulgaria (MECU 2.5 - a line of credit is envisaged); Rumania (a study of needs is in progress) and Albania (technical assistance and loans).

#### EC Investment Partners (ECIP)

The ECIP was established at the end of 1988 for a trial period of 3 years to developing countries in Asia, Latin America and the Mediterranean. It aims to encourage, industrial cooperation, notably investment by means of joint ventures between the Community and developing countries. It offers financial incentives (mostly in the form of loans) which are frequently decisive in launching projects which would not otherwise have got off the ground. In this connection the programme is aimed principally at Community SME's wishing to invest outside the Community. Up to the 31 January 1991 72% of the enterprises benefiting from the programme were SME's.

The Council of Ministers has decided to renew the instrument by setting up its legal basis and increasing its financial means for a new trial period of a 3 years starting from 1992. (Adoption by the Council is expected in February 1992).

#### Cooperation with Asia, Latin America and Mediterranean Developing Countries

The new guidelines regarding economic cooperation, adopted by the Council in December of 1990, stress, among others, actions which are of mutual interest i.e. those which lead to the transfer of resources including capital, technology and know-how from European economic operators to local operators. In order to implement these guidelines, SMEs in the Community are often associated with these actions.

#### CONCLUSION

The importance of SMEs to the economic tissue of the Community was recognised by Council Decision 89/490/EEC of 28 July 1989<sup>(10)</sup> and the principal measures at Community level aimed at furthering their development were identified by this Decision.

As is evident from the scope of the measures described in this report, however, the Commission recognises the potential impact on SMEs of all its major action programmes and initiatives and attempts to ensure that SMEs are given their proper place in all of these actions which their importance deserves. This, of course, requires a considerable effort of coordination between all the services of the Commission which requires, and has received, a substantial investment in terms of resources.

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(10) OJ N° L 239 of 16.08.1989, p. 33

But, as already stated, for SMEs to share to the fullest possible extent in the major programmes managed by the Community, the responsibility of each actor in the process needs to be fully recognised and involved.

For its part, the Commission has already made strenuous efforts to ensure that SMEs are fairly represented in the major Community programmes. In this context a study is being carried out to examine in each Member State how SMEs can be better informed and have greater access to the Community structural funds.

However, with greater recognition of the possibilities offered by those responsible for making detailed proposals for inclusion in programmes and with a greater awareness on the part of SMEs, more can certainly be achieved.



## Functional structure of ERDF resources devoted to Objective 2 regions, 1989-91 - Percentages

	B	DK	D	E	F	I	L	NL	UK	Total
<b>I Basic infrastructures</b>	3	-	-	45	-	-	-	-	20	16
Improved communications	3	-	-	45	-	-	-	-	20	15
Energy and water equipment	-	-	-	-	-	-	-	-	-	1
Social infrastructure	-	-	-	-	-	-	-	-	-	-
<b>II Direct improvement of productive activities</b>	94	100	100	55	91	88	100	71	64	76
Increasing of productivity	84	73	57	35	49	64	100	44	25	43
Other support for infrastructures linked to economic activities	10	27	43	20	42	24	-	27	39	32
<b>III Others (including the development of local and human resources, technical assistance, etc.)</b>	3	-	-	-	9	12	-	29	16	8
<b>Total</b>	100	100	100	100	100	100	100	100	100	100