Opinion of the European Economic and Social Committee on the 'Proposal for a Decision of the European Parliament and of the Council amending Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs)' (2001-2005)

(COM(2003) 758 final - 2003/0292 (COD))

(2004/C 302/02)

On 23 December 2003, the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 9 June 2004. The rapporteur was Mr Dimitriadis.

At its 410th plenary session of 30 June and 1 July 2004 (meeting of 30 June), the European Economic and Social Committee adopted the following opinion by 140 votes to one with four abstentions.

1. Foreword

1.1 The EU has faced and still faces, both before and after the setting of the Lisbon objectives,: (1) serious problems with respect to the competitiveness and modernisation of European companies, in particular SMEs, (2) serious inefficiencies and excessive bureaucracy of public authorities when promoting entrepreneurship, (3) lack of coordination between bodies representing SMEs, public authorities and the Commission in promoting entrepreneurship, (4) lack of coordination between national policies to support SMEs, (5) absence of an essential long-term strategy for SMEs in the Member States, (6) serious problems with respect to financial support for companies (in particular SMEs) from the banking sector and the venture capital industry, (7) high lending costs owing to the small size of SMEs and increased risk and (8) lack of a permanent policy on SMEs.

1.2 The EU recognises that, while the Single Market has been completed in terms of legislation and rules, SMEs have not fully accepted the current system and its potential advantages and are not making full use of that potential.

1.3 The EU is putting up a tough fight against international competition, against the considerable economic and political influence of the US [1], which has achieved very high competitiveness and productivity, and against Japan, the countries of south-east Asia [2] and emerging economies such as China, India and Brazil.

1.4 The most serious social and economic problem facing the EU is unemployment, and it has made the creation of new jobs a primary objective, particularly in SMEs, which constitute the overwhelming majority of European companies.

1.5 The EU is making a huge effort to boost research and technology because it knows that making improvements in these sectors is the only way to guarantee development and progress, but the proposed strategy does not always produce the expected results owing to a lack of flexible mechanisms and to regulatory frameworks that encourage red tape, reduce effectiveness and create undesirable delays.

1.6 In response to the above, the Amsterdam Council (June 1997) and the special Summit on Employment (November 1997 in Luxembourg) laid the foundations for the Growth and Employment Initiative, while the Council of Ministers — with Decisions 98/347/EC [3]and 2000/819/EC [4] — laid the foundations for organised and ongoing support for European entrepreneurship, together with specific programmes to create more jobs.

2. Introduction

2.1 *Objectives*

The objective of the programme is to promote job creation and to establish and develop innovative small and medium-sized enterprises, as defined in Commission Recommendation 96/280/EC, by increasing the financial resources available and thereby stepping up investment in SMEs.

(1) Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: 'Action Plan: The European agenda for Entrepreneurship', COM(2004) 70 final, 11.2.2004.

(2) Commission staff working paper: ' European Competitiveness Report 2003', SEC(2003) 1299, 12.11.2003.

(3) Council Decision 98/347/EC on measures of financial assistance for innovative and job-creating small and medium-sized enterprises (SMEs) – the growth and employment initiative – OJ L 155 of 29.5.1998.

(4) Council Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005).

2.1.1 The reason for supporting SMEs is that it has been demonstrated that they create new jobs more easily because they adapt well to changing market conditions, make decisions easily and implement new requirements more quickly within the company. Moreover, it is often SMEs that have the most problems setting up (owing to red tape and lack of financial resources), promoting innovative projects (given their inability to access funding from banks and, in the new Member States, the lack of a banking system capable of providing similar funding) and stepping up international cooperation.

2.2 *Description — scope of the programme*

The programme consists of three schemes: (i) a venture capital scheme (ETF Start-up Facility [1]), operated by the European Investment Fund (EIF), (ii) a financial support scheme to promote the creation of transnational joint ventures between SMEs in the EU (Joint European Venture – JEV), operated by the Commission, and (iii) a guarantee scheme (SME Guarantee Facility), operated by the EIF.

2.2.1 The budget for the programme was €423.56 million, made up of €168 million for the ETF Start-up Facility, €57 million for JEV and €198.56 million for the SME Guarantee Facility. Owing to high take-up of the SME Guarantee Facility, €30.56 million was transferred to it from JEV. By 29 May 2002, or the end of the period covering the commitment of budgetary funds, the initial budgetary allocation for the ETF Start-up Facility and the SME Guarantee Facility was fully committed by the EIF. For JEV a total of €14.5 million was available for implementing various projects.

2.2.2 The venture capital scheme (ETF Start-up Facility) supports venture capital investment in SMEs, particularly during start-up and their early stages of development, and/or in innovative SMEs, by investing in specialised venture capital funds.

2.2.2.1 Under the Joint European Venture (JEV), the EU provides financial contributions for SMEs to set up new transnational joint ventures in the EU.

2.2.2.2 Under the SME Guarantee Facility, the EU provides funding to cover the cost of EIF guarantees and counter-guarantees to promote an increase in loans to new, innovative SMEs. This is achieved by increasing the capacity of guarantee schemes operating in the Member States and relates to both new and existing programmes. The Facility covers part of the losses incurred under the guarantees up to a predetermined amount, with particular emphasis on funding the intangible assets of SMEs.

3. **Impact of the programme**

3.1 According to the Commission's report, under the ETF Start-up Facility some 206 SMEs in the high-technology sector (biotechnology/life sciences and information technology) had benefited from the programme as at June 2002 [2]; they had also achieved very positive results in terms of job creation. The SME Guarantee Facility supported 112,000 smaller companies, which increased employment by over 30 %, while JEV supported very few proposals (only 137 proposals were accepted).

4. **Observations**

4.1 The Commission Report [3]on the three schemes is based on a very small sample of businesses, which means that the conclusions drawn carry a high probability of statistical as well as factual error.

4.2 Over the four-year period from 1998 (starting year) to 2002 (evaluation year), some 206 SMEs benefited from the ETF Start-up Facility. The EESC considers this number low when compared with the results of equivalent initiatives in the United States, where there has been a proliferation of SME start-ups and flourishing entrepreneurship based on similar measures backed by high-risk venture capital. Only 31 transnational joint ventures were set up and 252 new jobs created under JEV, a result which did not meet expectations. The results of the SME Guarantee Facility are considered good.

4.3 The forecasts made in the report for job creation in companies receiving support are based on earlier data (2001 to mid-2002) and cannot be considered adequate for these three schemes.

4.4 The EESC does not have definitive, concrete and full data on the creation of new jobs (1998-2003), which makes it extremely difficult to assess the situation, and to present positions and conclusions. The EESC nevertheless points again to its particular interest in efforts to create jobs, and calls on the Commission to make this a top priority after adapting the multiannual programme.

[1] ETF: European Technology Facility, set up by the European Investment Bank (EIB) in order to generate venture capital for SMEs in the high technology sector by providing investment funding through existing venture capital funds.

[2] Report from the Commission to the European Parliament and the Council – COM(2003) 758 final, of 8.12 2003.

[3] Report from the Commission to the European Parliament and the Council – COM(2003) 758 final, of 8.12.2003.

4.5 High-risk investment is an essential prerequisite for promoting innovative ideas that will be transformed into business ventures and result in successful investment projects. The phenomenal success of certain ventures like this makes up for the failures of other innovative ventures which are not taken up by the market.

4.6 The scheme completely ignores the traditional economy. By constantly referring to innovative activities, it excludes the possibility of access to funding for small and medium-sized traditional businesses. Innovation is a very important tool for modernising the economy and boosting competitiveness. But it must be stressed that: (a) European businesses risk losing market shares permanently to imports of traditional sector products from low-cost third countries, (b) if support is not provided to traditional small and medium-sized enterprises there is a risk that oligopolies will be created in the trade and distribution sectors, with knock-on effects for the whole production process, and a net loss of jobs.

4.7 Cutting red tape by setting up one-stop shops responsible for implementing procedures and getting rid of unnecessary documents by using modern technology are basic requirements for the involvement of SMEs in the programmes concerned.

5. **Conclusions**

5.1 The EESC endorses the amendments to Decision 2000/819/EC proposed by the Commission.

5.2 The Committee agrees with the Commission's view that the full impact of the three funding instruments can only be evaluated after a considerable time lag, but it believes that enough time has elapsed since they were introduced to draw conclusions with a view to making certain adjustments, and that in the current fiercely competitive globalised economy time is of the essence, since business trends and outlooks are constantly changing.

5.3 The EESC realises that during 2001 and 2002 the international business environment was unfavourable and that there was a reduced supply of venture capital in the EU and a reluctance on the part of large banks to lend to SMEs. In 2002 demand for guarantees in Europe rose substantially, as large banks started to request additional security in view of the high risk and high cost associated with loan management. In this situation, the EESC considers the instruments, especially the Guarantee Facility and the Start-up Facility, to still be very useful. It also suggests strengthening cooperation with specialised small banks which work mainly with SMEs and have flexible communication systems.

5.4 The EESC endorses the projects under the three schemes and recognises that there is a need for them. However, it considers the process by which SMEs access the instruments to be onerous, bureaucratic and inflexible, since companies often have considerable problems acquiring information and with internal procedures.

5.5 The EESC considers the SME Guarantee Facility to be particularly useful and calls for this funding to be substantially stepped up and for every effort to be made to directly include those countries that have not been covered up until now (Greece, Ireland and Luxembourg).

5.6 The EESC supports efforts to extend the Guarantee Facility with a view to accession of the new Member States, which contain thousands of SMEs that do not have access to bank loans and are thus unable to invest effectively and create new jobs.

5.7 The EESC thinks that the budget for the programme should be reviewed with a view to covering the needs of the new Member States. The budget currently available was intended for only 15 and not 25 Member States, and the new members will certainly have greater needs.

5.8 The EESC calls on the Commission to take the necessary steps to further enhance the ETF Start-up Facility, since it is an essential instrument for creating innovative SMEs and supporting high-risk business ventures, which are necessary for developing research and technology, as well as other SME investment schemes that do not come under the high-technology heading but are of substantial business interest and must have access to all types of funding means and instruments. The Committee therefore proposes that:

a) guarantees be provided for all legal forms of company, regardless of their type of activity,

b) funding be made available through ETF Start-up to all types of companies,

c) more support be given to innovative, high-risk initiatives,

d) in all cases there should be a progressive increase in start-up capital (ETF) based on jobs, or increase in employment and innovation,

e) the banking system should be involved in distributing information and supporting funding and guarantee programmes,

f) the possibility should be considered of the interest rate for beneficiary companies being negotiated on the basis of a central agreement between the guarantee facility and banks,

g) the possibility should be considered of supporting national initiatives through the guarantee facility.

5.9 The EESC considers private and public capital available in the EU for RTD to be inadequate to cover the greater needs of SMEs in the information, new technologies and biotechnology sectors. The Committee calls for substantially increased funding to be found in order to cover those needs.

5.10 Where necessary, the fast-track, flexible systems set up and operated very successfully in the US should be considered, evaluated and used. There should also be more scope for cooperation with specialised venture capital funds, wherever and whenever investment interest exists ([1]). The EESC calls on the Commission to take the initiative on this matter.

5.11 The EESC thinks that more effort should be made to inform SMEs about the existence and functioning of the Guarantee Facility and to find better ways of accessing and communicating with the EIF and the EIB. The survey carried out showed that a majority of SMEs are unaware that the EU has set up a formal support system for them. It is therefore necessary to directly involve business organisations (chambers of commerce, trade associations, organisations of small and medium-sized enterprises, etc.) so as to improve information provision and make communication with SMEs more direct and more effective, and to solve more quickly the practical problems that arise when the programme is implemented.

5.12 The EESC thinks that soon after the accession of the new Member States a special assessment should be carried out to establish take-up of the facilities, since although account is being taken of the problems currently being experienced in the accession countries, it is certain that: a) the actual situation will prove less favourable than reported, b) substantial levels of support will be needed that cannot now be estimated, and c) a period of adjustment will be required that will entail serious risks for SMEs.

5.13 The EESC agrees with the Commission's proposal to phase out the JEV early, bearing in mind its present criticised structure. However, the EESC would like to emphasise that it also continues to support transnational joint ventures because it believes there is a substantial lag in transnational projects and business ventures in the EU and that barriers to business must be removed in Europe.

5.14 It will also be necessary to consider the possibility of re-introducing the JEV programme or a programme based on a similar principle, if and when after enlargement possibilities arise for creating transnational ventures within the EU and the EEA. Thus there should be a policy to support transnational ventures between SMEs so that it is possible to achieve this important goal, without the excessive red tape that puts a strain on the JEV programme and was a reason for its failure.

5.15 The EESC believes that after the experience already gained with the Sixth Framework Programme for Research and Technological Development small-scale programmes should be reintroduced for SMEs, since such programmes are not currently part of the concept of the multiannual programme.

5.16 The EESC recognises that there are heavy administrative costs involved in implementing low-level funding programmes and that there is therefore a tendency to limit them substantially. However, it notes that cutting back on such programmes removes access for SMEs, which are unable to benefit from high-level funding programmes. For these reasons, the EESC agrees with the European Parliament and urges the Commission to be particularly careful with regard to reducing or abolishing these programmes, especially since they manifestly meet actual needs of SMEs. The Committee considers it necessary for the Commission to work together with business organisations to this end.

5.17 The EESC considers the European Charter for Small Enterprises adopted at the European Council in Feira (19 June 2002) to be a particularly important initiative and has drawn up many opinions on this matter. The Committee would reiterate the need to implement the provisions of the Charter in practice on the basis of clear legal rules.

5.18 The EESC endorses the funding objectives set out in Annex I (description of spheres of action) for the SME Guarantee Facility (Annex I, point 4(a)(i)), but it believes this could be further broadened after serious and sustained dialogue with the representative organisations of SMEs (e.g. quality systems, environmental studies, quality studies, technical and technological support, technology transfer).

5.19 The EESC believes that the Commission must take more decisive and effective action to strengthen innovative SMEs and cut the degree of red tape in programmes (e.g. getting rid of unnecessary documents, speeding up procedures, etc.) as this has negative consequences and causes unnecessary delays.

5.20 The EESC is pleased with the way the programmes have developed and hopes that they will continue to be supported and improved.

Brussels, 30 June 2004.

The President
of the European Economic and Social Committee
Roger BRIESCH

([1]) Communication from the Commission to the Council and the European Parliament on implementation of the risk capital action plan (RCAP), COM(2002) 563, 16.10.2002