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Helping – or not – European small and medium-sized enterprises (SMEs) venture abroad

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Abstract

Various EU initiatives to supporting the internationalisation of European SMEs fall short of the European Parliament's expectations. Although independent evaluations of the European Business Centres in India, China and Thailand suggested that bold decisions were necessary, the European Commission has only adopted some changes to the measures. Using budget appropriations from the previous budget framework, the Commission plans to support the current structures until the end of their contracts – which have been extended in some cases. The Commission also plans to geographically extend its business support in third countries – also financed by the ICI+ programme.

Under the EU's budgetary procedure, the European Parliament has only oversight over the implementation of inefficient structures. As Member States require tailor-made support to turn-around declining exports, small and medium-sized enterprises should first be supported through the Member States, and then perhaps by the EU.

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1 Returning to the question of EU support for businesses in third countries

In September 2013 this author published a paper for the European Parliament[1] that examined a number of structures created by the European Commission to support EU enterprises trying to expand their businesses in third countries. The conclusions of that analysis, which focused on the three EU business centres in Asia funded by "preparatory actions", were critical of the Commission's effort and expense. Based on an examination of independent reports, the paper − focussing on export businesses and/or foreign direct investment – suggested that the initiative was costly, that it overlapped and disregarded the parallel efforts of Member States, and that it had been largely ineffective.

One year on, further reports have been issued, and the Commission has advanced in its plans. Without abandoning its intention to support EU businesses in Asia – and now Latin America – funding has been allocated to a new series of projects funded under ICI+[2]. The lessons of the initial EU business centres have reformed the Commission's strategies. But not in all.

Preparations for business activity abroad begin within companies. When outside support is required, companies – both large and small – usually approach a domestic chamber of commerce or similar organisations.

Even before businesses, and SMEs begin to work abroad – where they may or may not seek help from EU centres – they follow a typical pattern:

- The owner(s) and/or manager(s) decide to ventures beyond national boundaries.

  This implies that a company has an internationally marketable product and/or product range, and that the owner(s) and/or the manager(s) of the SME have the required skills (language and market-specific knowledge).

- When assistance is required, the SME turns to organisations and support systems at home[3], e.g. local chambers of commerce, specific online portals, trade fairs (with or without government support) and export finance support measures. This phase of reaching out is particularly common during the initial exporting phase of less experienced businesses, and usually involves repeated requests for assistance, rather

[1] Policy Department, Directorate-General for External Relations, Policy Briefing: The EU's contribution to Member States' services promoting foreign trade and investment: Value added?, September 2013

[2] ICI+ Regulation (EU) No 1338/2011 amending Council Regulation (EC) No 1934/2006 establishing a financing instrument for cooperation with industrialised and other high-income countries and territories

[3] According to a study of Institut fuer Mittelstandsforschung Bonn, Internationalisierungsgrad von KMU of October 2013, , page 86, existing structures in Member States that serve as examples for best practices include 'go international' (Austria), Performance and Impact Monitoring surveys (UK), Export Promotion Activities such as Passport to Export, Gateway to Global Growth (UK) and High Value Opportunities Programme (UK); supranational institutions or respective assistance offered by the EU was not mentioned (see footnote 43, page 79).

than a single inquiry.

As a general rule, national support structures in foreign countries follow trade streams – that is, a Member State will only establish a support system abroad when trade flows justify investing there, provided that the Member State has sufficient resources to do so.

Assisting EU companies entering markets abroad is a responsibility of the Member States as well as the EU. On the one hand, market access is covered by the Treaty of Lisbon and thus a competence of the European Union. On the other, assisting companies' efforts to enter foreign markets – both with exports and foreign direct investment – has remained an EU Member States' competence.

2 The European Commission's approach in supporting the Asian internationalisation of EU SMEs

The EU assistance for business activity abroad managed by the European Commission has been plagued by design and implementation problems.

Given the basic pattern of SME behaviour, this author's previous paper suggested that the European Commission's top-down approach to assistance to internationalisation did not fulfil the needs of most EU SMEs. EU business support activities have not met the expectations of Member States or the business community. In particular, the EU Business Centres in India, China and Thailand – the first three launched, all intended to provide supplementary help to European SMEs in entering local markets – appeared ill-designed and unable to deliver.

The major points of discontent identified in the paper were the following:

- Because efforts to go abroad begin at home, EU service points in foreign markets do not provide assistance when and where it is most needed. The centres' superfluity is underscored by the relatively low numbers of contacts reported by the European Business Centres.

  These new European structures are therefore not demand-driven.

- In some cases, Member States perceive the EU centres as complex, confusing and serving the same purpose as the structures of Member States.

- Member States' structures consider the European Business Centres as competition, as the EU centres offer their services for free, while Member States structures impose fees.

- The transparency of the European Commission regarding its evaluation of the existing EU centres is poor. This prevents Member States and Parliament from influencing – and possibly correcting – the future course of activity.

- Independent evaluation reports – which the Parliament obtained in May 2013 – revealed major flaws with the set-up and the work of the centres in India, China and Thailand (ASEAN). The reports also provide insight into why most of the centres' activities are not perceived as value-added services for EU SMEs wishing to engage in these countries. (*For details, see Policy Briefing of September 2013, pages 14-16.*)

A more recent evaluation of the European Business Centres in Asia does not offer brighter prospects.

In March 2014 a mid-term evaluation report made available to the author on the European ASEAN Business Centre (EABC), Thailand[4]. The report's conclusions were largely in line with the 2013 evaluation:

- The advocacy role of the centre was the only element rated as highly relevant.
- The impact of the centre was generally rated as low, as only a small number of inquiries had been addressed to the centre. (This may reflect the lack of a strategy to improve the dissemination of information to the target group – a lack that remains in place today.)
- The outreach to other ASEAN countries remains dissatisfactory.
- Prospects for increasing the centre's effectiveness are very low, as it is not integrated into regional networks.
- The centre is unlikely to achieve financial sustainability/financial autonomy (which would result from membership fees and activities – the main sources of revenue.)

In reaction to negative reports about the EU Business Centres in third countries, the European Commission has been channelling its available funding to already existing local pan-European Chambers of Commerce, or local consortia of existing EU Member States bilateral chambers.

The Commission's has reacted to the evaluation report on the ASEAN centre with the following actions[5]:

- Extending the contract with the EABC in Thailand without additional funding for two more years – until the end of 2016. The Commission has noted a positive development: membership has increased to 200 European companies.
- Requiring the centre to present a revised business plan for providing information services and reaching out to SMEs.
- Revising the EABC's structure.

While the results of independent assessment of the ASEAN centre in Thailand have advocated overhauling the EU's strategy for supplementing Member States' support of foreign trade and investment, the Commission has chosen instead to engage in 'repair work'. The Commission's reaction to earlier assessments was similar.

New projects are underway. These business support projects in Asia are financed through the extension of the 'Industrialised Countries Instrument and other high income countries' (ICI+ programme) to developing countries. Shortly before 31 December 2013, when these sources of funding were slated to close, contracts establishing a different form of business support through reinforcing existing structures – as part of 'European Support Action' – were signed, all financed by the ICI+ programme's

[4] which the European Commission, DG Trade, made available in preparation of an informal staff meeting of the Parliament and Commission services on 24 July 2014

[5] Information obtained at a staff meeting between European Commission and Parliament on 11 September 2014

The European Business Centres in Asia will be buttressed by European Support Action In Asia.

budget allocations from previous years. The Commission argues that it applied the EU strategy "Small business, big world" (COM(2011) 702) and has learned from the flaws of the three business centres in India, China and Thailand in using existing EU structures in other Asian countries. The new structures have received grants (from the ICI+ programme) with the normal co-financing requirement of 20 %; they are located either on the premises of EU Chambers of Commerce or within a bilateral chamber of a Member State and its main aim is support and reinforce existing structures and joint efforts and actions from all EU actors in the selected countries.

Figure 1:
European Support Action in Asia

Philippines, EUR 4 million, 2012 budget

Located within the European Chamber of Commerce of the Philippines (ECCP)

Malaysia, EUR 3.0 million, 2012 budget

Part of the EU-Malaysia Chamber of Commerce & Industry (EUMCCI)

Vietnam, EUR 4.5 million, 2012 budget

Franco-Vietnamese Chamber of Commerce

Others partners in the consortium are the bilateral chamber of commerce of Italy in Vietnam, a northern Italian chamber of commerce and a Polish chamber of commerce.

Indonesia, EUR 5.0 million, 2012 budget

European Business Chamber of Commerce in Indonesia (EuroCham Indonesia)

Burma/Myanmar, EUR 3.0 million, 2013 budget

European Support Action gave the impetus to establish an EU Chamber of Commerce in Burma/Myanmar. Given the least-developed country (LDC) status of Burma/Myanmar, the co-financing requirement has been reduced to 10 %.

Cambodia, EUR 2.75 million, 2013 budget

European Chamber of Commerce Cambodia (EuroCham Cambodia)

Cambodia's LCD-status allowed the co-financing requirement to be reduced to 10 %.

Laos, EUR 2.3 million, 2013 budget

Within the European Chamber of Commerce and Industry in Lao People's Democratic Republic (ECCIL).

Despite the country's LCD-status, ECCIL's strong track record meant that it achieved 20 % co-financing.

After years of being relatively invisible, the EU business centres in Asia are to be furnished with a platform to tell the world they exist.

Coordination platform for the internationalisation of the EU business community in the Asia region, EUR 1.3 million, 2014 budget

DG DEVCO/EuropeAid launched a public tender on 18 June 2014 with a deadline of 1 October 2014 for receiving applications.

According to the tender publication, the future platform – which will have one pillar in the EU and another in Asia – should strengthen coordination and cooperation between EU-financed initiatives in Asia as well as other EU business service providers in the region and those based in the EU. To this end, the Asia platform should increase the coherence, effectiveness and awareness of EU and Member States' initiatives to support of SME internationalisation in Asia. This project is in line with the 2012 budget allocations (budget line 19 10 04) referring "to finance the activities of the Coordination Platform for the Internationalisation of EU Business" which were approved by the European Parliament.

China, extension of the existing EU Centre for Support to European SMEs (in place since 2010), EUR 6.0 million

According to information in the Draft General Budget of the European Commission for the Financial Year 2015, the SME centre in China has produced a number of guides, reports and case studies to be used by businesses as 'first entry information' and will continue with this kind of outreach activity in 2014. An activity report by the EU SME centre in China[6] notes the following activity from 1 November 2010 through 6 July 2014:

- Responses to 2 400 enquiries by EU SMEs from all 28 Member States between July 2011 and July 2014 (with most enquiries from Italy (more than 250), the United Kingdom, Spain and France (each around 200), followed by Portugal, Germany and the Netherlands (each between 100 and 150 enquiries);
- 314 training sessions with 15 657 participants from 25 Member States;
- a roadshow with numerous events in each of the 28 Member States;
- outreach via various online channels (newsletter, promotional mailings, website, social media, webinars, etc.)

The centre in China is also well connected to the SME Helpdesk operated by DG ENTR. At a technical meeting with the Commission services in charge of the management of the centres in Asia, the author was informed that the reported activity was rated sufficiently positive to justify continuing the centre with an additional grant of EUR 6 million. While the initial contract with the centre was a 'service contract' that did not require the centre to generate its own income, the contract attached to the grant for the second phase contains a 20 % co-financing obligation.

[6] EU SME Centre, Final Report for Phase 1: Strengths and Impact, 1 November 2010 - 6 July 2014 of which a paper copy labelled 'for internal use only' has been made available to the Policy Department.

(Continuation of the) European Business and Technology Centre (EBTC) in **India, Euro 1.2 million for 2015 (out of 2007 budget)**

According to the Commission's annotations in the 2015 budget, 'Increased access for European business to the Indian market' ranks fourth amongst the EBTC's objectives. The objectives that ranked as the first, second and third most important are 1) scientific and technical cooperation, 2) technology transfer and 3) increasing the EU's visibility in India, in particular regarding climate change mitigation efforts through technology transfer.

To increase awareness of the EBTC in Europe and India, the centre participated in the European Enterprise Network (EEN).

During an informal staff meeting on 11 September 2014, Commission representatives expressed concerns with developments concerning the centre in India. The first of its kind, the Indian centre has struggled with problems with its legal status; unable to generate own income, it is dependent on funds provided by Eurochambres, Brussels, the contractual partner of the Commission for the EBTC. Despite this, there are no plans to have the centre re-evaluated. Instead, the Commission intends to keep the centre operational under a revised business plan until its contract expires in 2017.

3 A new EU support scheme for Latin America

New support structures in Latin America should reflect the lessons the European Commission has learnt from Asia.

A new scheme has been proposed for Latin America: the European and Latin American Business Services and Innovation Network (ELAN). The programme was instituted by the Commission after reflecting on the lessons to be learnt from the three European Business Centres in Asia. With a budget allocation for ELAN component 1 of EUR 5.5 million, the programme draws on the ICI+ programme and the 2013 budget line. According to the Commission, a service contract for 'ELAN component 1 should provide a platform for market information on how-to-do business in specific Latin American countries and serve as a basis for advocating in favour of general EU business interests. The platform should connect to existing networks of European business support organisations and should contribute to improve the market share of European SMEs in Latin America'[7]. The Commission believes it has learnt lessons from previous programmes and has taken the European Parliament's criticism of the European Business Centres in Asia into account when designing ELAN. Unlike from the EU Business Centres, which are stand-alone projects, ELAN should reinforce existing structures, such as the bilateral chambers of commerce of Member States and the EU Chambers of Commerce and business associations based in the EU. A local trade expert will serve each focus area (Brazil, Central America, Chile, Columbia, Mexico, Peru and another – yet to be designated– Mercosur country).

[7] European Commission, Action Fiche for "ELAN - European and Latin American Business Services and Innovation Network"

The grant for ELAN component 2 (budget Euro 5.5 million) targets research and innovation and should be implemented by a consortium that represents a network in order to enhance scientific cooperation and contribute to developing strong links between research and business stakeholders in the EU and Latin America.

4 Budgetary implications

Less than half of the budgetary allocation has been spent.

According to the European Commission, the overall amount contracted for all business support activities totals EUR 92.016 million. As of the end of August 2014, the payments distributed amounted to EUR 39.872 million – 43 % of the contracted amount. There are no new appropriations foreseen in the 2015 budget. However, some allocations resulting from financing decisions taken at the end of 2013 will be contracted in 2014. For all support activities, the operational implementation period will last until end-2019. New expenditures for these business support structures will only be allocated when justified by independent evaluation.

5 Conclusions on EU funding of support to European business in selected emerging economies

Advocacy is the only service provided by the European business Centres in Asia that is rated positively.

One year after this author published a first paper on the three EU business centres in Asia, the centres are still failing to demonstrate that they offer value-added services for European small and medium-sized enterprises hoping to engage in Asian markets. 'Advocacy' is the only service rendered that has been rated positively. Given that there are EU Delegations in all these countries, there remains no justification for establishing stand-alone structures, as has been done in India, China and Thailand.

The Commission does appear to be learning from weaknesses in implementation and shortcomings in results achieved. New European business support projects have been be integrated in the existing structures of EU chambers of commerce or Member States' bilateral chambers of commerce in countries including Burma/Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines and Vietnam. Yet these new structures have yet to prove they can generate their required 20 % (or in some cases 10 %) co-financing, or that they will work more efficiently than the stand-alone centres. Most importantly, these European support structures must prove that are needed by European SMEs.

The same holds for the new ELAN networking structure, which is to be established in various Latin American countries in 2015. Once again, the organisers should recall that SMEs' preparation for going abroad begins at home.

It is yet to be seen whether the 'Asia Coordination Platform for the Internationalisation of EU business' (for which tendering started in June 2014) will help promote the existing business centres. Today, the three centres have been evaluated as under-performers by European business, in particular

SMEs. To a lesser extent, this may also be true for the EU SME centre in China: the Chinese centre's own activity report refers to 260 000 EU SMEs currently exporting to China – a number that suggests there is ample room for expansion.

6 Parliamentary control and oversight weakened by budgetary procedures

EU budgetary procedures mean than parliamentary control and oversight is side-lined at some stages.

The European Parliament has supported initiatives to facilitate the internationalisation of European SMEs. With regard to the EU Business Centres, however, the Parliament has also asked questions about whether EU public money has been well spent[8]. In a debate on 13 March 2014 on the effectiveness of the EU business Centres[9], various Members referred to the prevailing economic and financial crisis in Europe. As MEPs noted, Member States experiencing declining exports during recent years require effective export support measures, especially for their SMEs. All Members taking the floor suggested that the EU Business Centres in Asia had not offered appropriate support. Instead, MEPs argued, the centres were inefficient, costly and largely disconnected from Member States' support structures abroad. In times of economic crisis at home, MEPs contended, European public money should be spent on projects that effectively improve the competitiveness of European business, in particular SMEs, in global markets.

Within normal EU budgetary practice, the Parliament loses most of its control once it has approved the 'planned appropriations' of the European Commission. This implies that the EP will not intervene further during the implementation of EU Business Centres, European Support Action in Asia and the new ELAN network in Latin America, as no new appropriations are foreseen in the EU budget 2015-2019. Until the budget for the post-2019 period is discussed within the house, the Parliament can only exercise oversight over the implementation of earlier decisions.

The Parliament demands greater transparency in the European Commission's SME support.

To this end, in preparation for parliamentary discussions about the general EU budget for the financial year 2015, the Committee on International Trade (INTA) expressed once again its concerns on the effectiveness and the added value of the business centres in India, China and Thailand and stated the following[10]:

- Demand that the Commission make available independent evaluation reports on all European support structures in third countries automatically, without receiving specific request by the Parliament. This would enhance overall transparency.

[8] Parliamentary question for oral answer to the Commission of 8 January 2014,

[9] http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+CRE+20140313-+ITEM-006+DOC+XML+V0//EN&language=EN

[10] Opinion of the Committee on International Trade for the Committee on Budgets of 4 September 2014,

- Closely monitor the Commission's responses to independent evaluations.

Furthermore, the Parliament could scrutinise proposals for new support structures at EU level to ensure that they are driven by European SMEs' demands, cost effective and do not create parallel support structures to those of Member States. Later, the Parliament will have to keep a close eye on the European Commission's 'business support action' and closely evaluate budgetary allocations.

The Parliament – in dialogue with the European Commission – could also advance proposals that better meet the needs of European SMEs, such as:

An open dialogue should explore which measures would really assist SMEs venturing abroad.

- Encouraging the use of the EU's Structural and Regional Funds and the internationalisation window of the EU programme for the Competitiveness of Enterprises and SMEs (COSME[11], which runs from 2014 to 2020 with a planned budget of EUR 2.3 billion) to tailor its assistance to individual Member States. This could involve setting up or upgrading national support structures, facilitating SMEs' participation in international trade fairs, sending experts to potential markets to sound out market specifics and prepare the ground for planned business activities, compiling information for a specific market abroad, etc.

The dialogue with the European Commission on this should be initiated without delay, in particular to help Member States overcome the economic and financial crisis. Economic difficulties in the Member States, particularly in those adopting austerity measures, usually coincide with high unemployment, declining exports and a comparatively weak support structure for businesses' internationalisation. Effective counter-measures cannot wait for allocations in the EU's post-2019 budget. The EU cannot afford to continue implementing support structures that have proven to be generally ineffective and not demand-driven.

[11] http://ec.europa.eu/enterprise/initiatives/cosme/index_en.htm