



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

REGIONAL DEVELOPMENT

**IMPACT AND EFFECTIVENESS OF THE
STRUCTURAL FUNDS AND EU POLICIES
AIMED AT SMEs IN THE REGIONS**

STUDY

EXECUTIVE SUMMARY

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Abstract

This study provides a description of the general nature of SMEs and their development factors as well as the support that Cohesion Policy and other EU policies provide to SMEs. It then assesses practical aspects and effects of Cohesion Policy on enterprises and SMEs on the basis of a review of published materials and eight case studies drawn from SME-relevant ERDF OPs from 2007-2013; where possible, it also includes lessons learnt from 2000-2006. The conclusions and policy recommendations put forward clearly highlight the complex relationship between EU policies and SMEs as final beneficiaries of support in the EU multilevel governance system.

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
bn	Billion(s)
BSR	Baltic Sea Region (Programme)
CF	Cohesion Fund
CIP	Competitiveness and Innovation Framework Programme
CONV	Convergence
CP	Cohesion Policy
EACI	Executive Agency for Competitiveness and Innovation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECP	European Cooperation Programme
EERP	European Economic Recovery Plan
EIB	European Investment Bank
EIF	European Investment Fund
EIP	Entrepreneurship and Innovation Programme
ENPI	European Neighbourhood and Partnership Instrument
EPMF	European Progress Microfinance Facility
ERA	European Research Area
ERDF	European Regional Development Fund
ESBA	European Small Business Alliance
ESF	European Social Fund
ETC	European Territorial Cooperation
EU	European Union
EU 12	Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia
EU 15	Austria, Belgium, Finland, France, Denmark, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, United Kingdom
FP	Framework Programme
FP7	Seventh Framework Programme for Research and Technological Development

GDP	Gross Domestic Product
GNI	Gross National Income
HEI	Higher Education Institutions
IB	Intermediate Body
ICT	Information and Communication Technology
ICT PSP	Information Communication Technologies Policy Support Programme
IEE	Intelligent Energy - Europe
IP	Intellectual Property
IPR	Intellectual Property Rights
ISIC	International Standard of Industrial Classification of All Economic Activities
JASMINE	Joint Action to Support Microfinance Institutions in Europe
JASPERS	Joint Assistance to Support Projects in European Regions
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
KfW	Kreditanstalt für Wiederaufbau (Bank for Reconstruction)
LLL	Life Long Learning Programme
m	Million(s)
MA	Managing Authority
MC	Monitoring Committee
Mercosur	Common Southern Market
MFI	Micro-Finance Institution
MLG	Multi-Level Governance
MS	Member State(s)
NACE	Nomenclature Générale des Activités Economiques dans l'Union Européenne (General Classification of Economic Activities in the European Union)
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organisation
NOP/NP	National Operational Programme
NRW	North Rhine-Westphalia Programme
NSRF	National Strategic Reference Framework
NWE	North West England Programme

OECD	Organisation for Economic Cooperation and Development
OP	Operational Programme
R&D	Research and Development
R&D&I	Research and Development and Innovation
RCE	Regional Competitiveness and Employment
RDA	Regional Development Agency
ROP/RP	Regional Operational Programme
RTD	Research and Technological Development
RTDI	Research, Technological Development and Innovation
SBA	Small Business Act
SF	Structural Funds
SME(s)	Small and Medium-Sized Enterprise(s)
SNA	System of National Accounts
SWOT	Strengths, Weaknesses, Opportunities and Threats
TA	Technical Assistance
ToR	Terms of Reference
TT	Telecom Technology

EXECUTIVE SUMMARY

1. Background

Defining Small and Medium-sized Enterprises (SMEs) has been discussed for decades. In order to improve the targeting of SMEs, the European Commission has published several Commission Communications that include relatively precise definitions of an SME. The most valid definition is to be found in the 2005 SME Userguide¹ and most recently in the European Commission's 2009 discussion paper.² Referring to the 2003 Commission Recommendation,³ both documents define SMEs as businesses having fewer than 250 employees and an annual turnover of less or equal than €50 million or a total balance sheet of not more than €43 million.

A recent estimate is that there are around 20.7 million SMEs in Europe and they account for around 90 million jobs. Ninety-two percent of these businesses employ fewer than 10 people.⁴ SMEs are a major source of entrepreneurial skills and innovation and contribute to economic, social and territorial cohesion.

This study is about how best to utilise scarce resources to support and encourage SMEs across the EU in order to promote economic recovery and facilitate the emergence of the jobs and entrepreneurs of tomorrow.

The European Commission (EC) has placed SME issues high on the political agenda and proposed several different SME support instruments. The Small Business Act was introduced in 2008, including 'a set of 10 principles which should guide the conception and implementation of policies both at EU and national level'.⁵ Based on the 'Think Small First' paradigm, the European Commission and the Member States are requested to consider the value and needs of SMEs within their policy measures.

A number of instruments have been implemented by the EC to support SMEs in various fields. These include: support for research and innovation (e.g. Competitiveness and Innovation Framework Programme, Framework Programme for Research and Technological Development), upgrading skills (e.g. Erasmus for Young Entrepreneurs), SME-relevant policy responses (e.g. Intellectual/Industrial Property Rights, standardisation, public procurement, company law or better regulation), General Block Exemption Regulation on State Aids and Cohesion Policy.

However, the recent economic and financial crisis has dramatically impacted on the position and perspectives of many SMEs in the European Union. Factors such as loss of export markets, cutbacks in public and private expenditure, reduction of purchasing power and a general lack of market demand have hit SME development during the crisis. Many SMEs have slipped into a downward spiral. Market demand has now begun to recover marginally in some economies, but SMEs face difficulties in accessing the necessary finance to respond to this rising demand. The urgent need for access to finance will be a major challenge over the coming years, and supporting instruments will be required.⁶

¹ European Commission (2005), *The new SME definition, User guide and model declaration*, p. 14.

² European Commission (2009), *Commission Staff working paper on the implementation of Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises*, SEC(2009) 1350 final, p. 2.

³ European Commission (2003), *Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises*, 2003/361/EC.

⁴ European Commission (2009), *European SMEs under pressure, Annual report on EU small and medium-sized enterprises 2009*, p. 15.

⁵ European Commission (2008), *'Think Small First', A 'Small Business Act' for Europe*, COM(2008) 394 final.

⁶ European Commission (2010), *An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage*, COM(2010) 614.

The Cohesion Policy priorities and modalities for 2007-2013 were discussed and decided before the crisis began. This means that certain goals and targets, in particular those focused on RTD and innovation could not be pursued or at least could not be pursued to the extent or at the rate originally envisaged. The European Commission's European Economic Recovery Plan (EERP) introduced procedural simplifications that were widely welcomed, and most Member States have undertaken, or are engaged in, reviews of programmes and funding already committed. While it is probably still too early to assess the effects of the degree of flexibility developed in the different responses to this changed economic climate, and the impacts of reoriented support measures, they will provide valuable lessons for the future.

The EU2020 strategy published in 2010 sets out the overall framework for shaping and implementing EU policies and instruments. Out of the seven flagship measures proposed to achieve the headline targets, five cover SMEs.⁷ Preparations of the future budget and the design of Cohesion Policy post-2013 are underway. The presentation of the 5th Report on economic, social and territorial cohesion,⁸ the EU budget review⁹ and the June 2011 proposal on the next EU Multiannual Financial Framework and the proposals for the future Cohesion Policy of October 2011 are the first milestones in this process.

2. Scope of the study

Against this background, the purpose of this study is to provide a description of the European policies in favour of SMEs with a particular focus on Cohesion Policy. The main objectives of the study are:

- To provide a definition and analysis of the nature of SMEs (Chapter 1);
- To explore the factors influencing the development of SMEs (Chapter 2);
- To describe the SME-relevant EU policies (Chapter 3), including Cohesion Policy (Chapter 4);
- To assess the Cohesion Policy performance for SMEs on the basis of a literature review (Chapter 4) and an analysis of eight case studies based on selected ERDF OPs (Chapter 5);
- To elaborate relevant policy and operational recommendations (Chapter 6); and finally
- To develop a questionnaire for a potential future, more in-depth assessment on grounds of primary data (see Annex 6).

The scope is reflected throughout the main parts of the study, while the methodological proceedings of the drafting process are explained in the separate methodological outline in Annex 1.

3. Study content

Given that the term small and medium-sized enterprises (SMEs) covers a variety of different enterprises, Chapter 1 outlines the main parameters for differentiation— size, industry sector, technological and R&D level, age and geographical location of the business. It also looks at how SMEs can be described, and how they can be differentiated. The chapter also points out the significant impact that a firm's development phase (seed, start-up, young, mature) can have on its outlook and approach.

⁷ European Commission (2010), *EUROPE 2020, A strategy for smart, sustainable and inclusive growth*, COM(2010) 2020 final.

⁸ European Commission (2010), *Fifth Report on economic, social and territorial cohesion*.

⁹ European Commission (2010), *The EU budget review*, COM(2010) 700 final.

Based on a literature analysis, Chapter 2 explains the factors that contribute to the development of SMEs, covering both external (e.g. labour market supply) and internal (e.g. human resource management) dimensions. Moreover, these factors are plotted against the different SME lifecycle phases in order to illustrate just how important this element is. These factors are also referred to in subsequent sections of the study with a view to understanding the extent to which different policy instruments are linked to these factors thus increasing the likelihood of their SME relevance (in Chapter 4 for Cohesion Policy instruments and in Chapter 5 for the eight OPs used as case studies).

After having explored the differentiated nature of SMEs and their development factors, Chapter 3 addresses SME support policies at European level. Since the subsequent chapters are dedicated exclusively to Cohesion Policy, this chapter lists and describes policy instruments and measures taken at European level other than Cohesion Policy (e.g. in terms of budget, management entities). It does so by differentiating between regulatory environments (including policy initiatives), financial support, advice and support services (e.g. consulting), and networking and participation initiatives.

The first part of Chapter 4 completes the overview of EU SME support instruments by providing a brief introduction to the current Cohesion Policy instruments (funds, objectives, budget and financial engineering instruments). The second part then focuses on the analysis of the performance of Cohesion Policy instruments with regard to SMEs in accordance with the different dimensions of the performance concept, covering the assessment of SME-relevant measures, resources (allocated, committed, spent) and qualitative/quantitative effects within Cohesion Policy during the current and, to a lesser extent, the previous programming period.

Chapter 5 complements the analysis of Cohesion Policy performance with regard to SMEs on the basis of the review of eight operational programmes selected as case studies according to the methodology described in Annex 1 (i.e. in particular in terms of financial allocations based on the SME-relevant codes of expenditure of Regulation (EC) No 1083/2006, Annex IV); these comprise three Convergence OPs, four Regional Competitiveness and Employment OPs and one European Territorial Cooperation OP. Chapter 5 analyses the performance of the eight Cohesion Policy instruments in relation to the different dimensions of the performance concept; i.e. it includes for each OP (individually or collectively) the assessment of SME-relevant aims/objectives, priorities/measures and quantitative effects (monitoring evidence). In addition, it looks at the extent to which the eight OPs make use of JEREMIE/JESSICA, and it takes into account the SME-relevant development factors outlined in Chapter 2.

4. Main findings and recommendations

The current definition of SMEs at European level is centred on size (expressed in employment and financial terms) and does not sufficiently reflect the entire range of parameters that determine the nature of each SME – i.e. size, industry sector, age, location and level of innovation/R&D – nor does it take into account the different lifecycle phases of the SME (seed, start-up, young and mature enterprise).

On the other hand, some of the principles identified through the literature review indicate how important an awareness of these differences is in order to be able to react to the different needs in an appropriate and effective way. Firstly, many SMEs do not survive the leadership crisis that characterises their passage from a start-up to a young enterprise; secondly, not all enterprises actually plan to grow ('small and flexible'); and finally, European SMEs show very different levels of technical innovation, with only a very small fraction of them (less than 3 percent, 2005) being active at the cutting edge of technology.

Efficient policy instruments need to take these differentiations into account. Due to the partly centralised and partly decentralised planning and implementation of European support instruments, often complemented by national and regional ones, no general statement can be made about the performance of European support instruments within the scope of the present study. Greater assessment needs to be carried out, in particular on the extent to which the funding programmes take into account the different types of SMEs (including well-defined target groups).

A menu of the different factors that influence SME development has been prepared. It includes factors both external (socio-economic, market-economic, political-institutional) and internal (internal organisation, capital, human resources and external positioning) to an enterprise. With regard to their relative importance to SMEs, the most important one is access to capital, but the development of managerial skills is also crucial. Amongst entrepreneurs, the awareness of this latter factor seems to be quite limited. The same holds true when it comes to awareness amongst SMEs of the potential benefits of investing in innovation and of the cooperation between science and business.

Commencing with the instruments other than Cohesion Policy, four main families of support instruments have been identified:

- Regulatory support (where 'regulatory' extends beyond the simple legal meaning of the term and also covers policy initiatives, in particular the Small Business Act);
- Financial support (in particular the 7th Framework Programme for Research and Technological Development, FP7, and the Competitiveness and Innovation Framework Programme, CIP, possibly to be replaced by the 'Competitiveness and SMEs Programme' suggested by the June 2011 proposal on the next EU Multiannual Financial Framework);
- Advice and support services (e.g. European Small Business Portal);
- Network and participation initiatives (e.g. the European SME Week).

Financial support from these sources is offered through various instruments (non-repayable grants, repayable loans and guarantees) and covers a range of issues (e.g. research, innovation, and also education and mobility). Various initiatives are closely linked and may partly overlap (e.g. the European Small Business Portal is financed under the CIP).

With regard to Cohesion Policy, Regulation 1083/2006, Annex IV, provides specific expenditure categories relevant for enterprises that can be divided into direct SME support (codes 03, 04, 06, 09, 14, 15, 68), general enterprise support (codes 05, 07, 08) and support for business restructuring and adaptability of workers (codes 62, 63, 64). In terms of allocations, these amount respectively to 8 percent, 8.1 percent and 4.2 percent of the total EU SF allocations 2007-2013 for a combined total of nearly €70 billion.

Within individual countries, the EU-15 MS tend to allocate a higher share of their national SF allocation to enterprise support (i.e. covering all three categories) than the EU-12 MS. In addition, the importance given to the three categories differs among MS (e.g. Denmark, Finland, Sweden, the UK and Slovenia allocate a comparatively high share of SF to direct SME support, whereas in Denmark and the Netherlands the same holds true for firm restructuring).

Support for SMEs in the current Cohesion Policy framework covers different policy fields (e.g. R&D, innovation, IT) and comprises both direct (e.g. non-repayable grants, repayable loans) and indirect support (e.g. services/advice, networking and clustering, tangible public goods/infrastructure). Although all three categories of codes of expenditure provide for non-repayable grants, repayable loans and equity-based instruments are available only

within direct SME support and general enterprise support. Support for business restructuring and adaptability has a comparatively strong focus on services, advice and assistance.

There has been a reorientation of direct support from non-repayable grants to loans and equity-based schemes in recent years. Special support instruments have recently been set up – JEREMIE, JASMINE, JESSICA and JASPERS – out of which the first two are of direct relevance to SMEs. This takes into account that access to capital is a key SME development factor that also impacts on other development factors such as employability and training of employees, public contracting or the availability of relevant infrastructure.

One way to assess the performance of Cohesion Policy instruments with regard to SMEs is to analyse the resources allocated and types of measures implemented. Other dimensions concern the SME relevance of Cohesion Policy in terms of its objectives/aims, resources committed and spent and outputs, outcomes/results and impacts (qualitative and quantitative) achieved. Finding clear evidence on these dimensions, particularly in comparable terms, has proven very difficult. A full assessment of the performance of Cohesion Policy instruments with regard to these different dimensions was therefore very difficult.

The literature consulted did not allow for comparative findings on the status of SME-relevant commitments/expenditure with regard to the codes. Findings based on a first evaluation¹⁰ at the end of 2009 suggested that the highest commitments in relation to the total allocation of the ERDF and Cohesion Fund in EU-27 have been in territorial development (35 percent) and enterprise support (33 percent). However, the commitments are not defined along the codes of expenditures (Regulation 1083/2006, Annex IV).

This study in hand identifies several concerns among relevant stakeholders:

- The administrative burden of the application, reporting and auditing requirements;
- The necessity to pre-finance projects;
- The lack of harmonised rules across funds and programmes;
- The lack of available rules at the beginning of (and/or changes during) the programming period;
- The lack of proportionality in administrative requirements (compared to the amount of funding obtained); and
- The short timescale for submitting project applications and lengthy waiting periods for result notification. Moreover, public authorities in charge seem to possess inadequate awareness of the capacities and needs of different-sized enterprises.

These concerns are echoed in the MS 2009 National Strategic Reports. The reports highlighted the risk of firms favouring domestic schemes due to the complexity and rigidity of Cohesion Policy procedures. The consultation on the Fifth Cohesion Report confirmed the usefulness of the financial engineering instruments, with many contributors suggesting an extension of their scope and a simplification of their rules. The relevance and importance of grants was also confirmed. There is a need to strengthen the synergy¹¹ between Cohesion Policy and other EU policies. A certain degree of strategic synergy can be found between Cohesion Policy and regional policies in the MS induced by, amongst other factors, the thorough Lisbon earmarking requirement (i.e. the codes of expenditure).

¹⁰ Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*. Synthesis of national reports 2010, Executive Summary, p. 25.

¹¹ See also Pro Inno Europe (2008), *Synergies between EU instruments supporting innovation*, Inno Learning Platform, p. 29.

Finally, the quantitative evidence provided by monitoring data is so fragmented that no general conclusion can be presented. It emerged very clearly from the case study results that there is a clear need for further and more systematic analysis of the effect of Cohesion Policy instruments (collectively or individually) on SMEs, particularly regarding the dimensions of outcome/results and impact. It is recommended that this type of analysis takes into account the findings on the different types of SMEs and the importance of their development factors.

The results from the eight OP case studies tend to confirm certain findings concerning the SME relevance of Cohesion Policy:

- SME support is provided in the form of different types of instruments (grants, loans, support services) and covers different policy areas (e.g. RTDI, IT, environment);
- The use of financial engineering instruments (three out of eight OPs planned to use/already use either JEREMIE and/or JESSICA - a fourth abandoned JEREMIE due to technical difficulties in implementation); and
- Difficulty is experienced in evaluating output/outcome/results in comparative terms due to a lack of relevant monitoring indicators and reliable quality data.

The complementary analysis of the link between the OPs and the SME development factors indicates that the 'external positioning' factor is the one most frequently targeted by the OPs, followed by a group of factors consisting of capital, internal organisation and socio-economic factors. These results should be handled with care because of methodological considerations, particularly the possible variations in the meaning and content of such terms when used by people from different backgrounds and cultures.

On the basis of the findings, ten key recommendations have been established:

1	Complement the EU SME definition with an overall strategic SME-oriented support framework. This should define the main target groups of SMEs to be supported and indicate earmarked funding and services for the specified target groups, taking into account their needs related to the lifecycle of their businesses.
2	Strengthen the awareness of public authorities in charge of OP management regarding the differences among SMEs and their different needs as they progress through their lifecycles. Entrepreneurs in micro and small enterprises have limited time resources, which are frequently their major business asset. This must be taken into account when establishing support measures.
3	Strengthen the awareness of SMEs on the importance of management skills and encourage their participation in innovation and science-business cooperation.
4	Adapt the technical aspects of the CP delivery system to make them as attractive as domestic schemes. This implies considering the entire range of requests issued by relevant stakeholders, including more proportionality in the administrative requirements (based on the project's size), the increased use of advanced payments or of staged reimbursements plans, the harmonisation of rules and application forms across funds, programmes and government levels, and the interpretation of eligible expenditure, especially with regard to overheads and indirect costs, the provision of binding timetables for programme authorities to establish and communicate whether a project has been successful or not, the abandonment of paper documentation in favour of electronic submission and archiving of documents, and the reduction of the number of audits that a single project may face.

5	Facilitate the use of TA resources to train firms in drafting applications and intermediaries for delivering training initiatives and support services and include the expenses incurred by firms to comply with audit requirements in the costs eligible under the OPs' Technical Assistance.
6	Further increase the synergy between policies, in particular between Cohesion Policy and other EU policies.
7	Take advantage of the positive feedback on financial engineering instruments to foster their greater use; simplify them where possible, without completely abandoning grant-based support which is sometimes more appropriate in riskier projects to encourage potential applicants (e.g. start-ups, R&D).
8	Carry out more (and more systematic) assessments of the performance of Cohesion Policy instruments with regard to SMEs by clearly distinguishing among the relevant dimensions, i.e. strategic alignment, priorities/measures adopted, resources allocated/committed/spent, outputs, outcomes/results, and impacts. In line with the general move towards more result-orientation, the latter two categories will require more systematic work. As shown by the evidence available, evaluating performance based on monitoring data in terms of outputs or outcomes, let alone impact, is difficult due to problems linked to the availability and/or quality of relevant indicators and/or data. Thus, the question is not merely one of carrying out more assessments but of strengthening their data basis by introducing the necessary modifications to the current system of reporting and monitoring, particularly if the performance assessment is comparative (e.g. between OPs or countries). This should be accompanied by the adoption of more qualitative advanced techniques if the impact is to be fully evaluated.
9	Streamline the coherence between relevant SME codes of expenditure and priorities/measures within the OPs in order to facilitate a more direct comparison between input (i.e. allocations in terms of codes of expenditure) and output/outcome/results/impact indicators linked to the priorities/measures. One factor to be especially taken into account is the avoidance of overlapping (i.e. when a priority/measure is attributable to more than one code of expenditure).
10	Evaluate the effects of the simplifications implemented in response to the financial and economic crisis on national level and throughout operational programmes to provide lessons for future Cohesion Policy design.