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REPORT

on the Commission communication "Risk capital: Implementation of the action plan - Proposals for moving forward"
(COM(1999) 493 – C5-0320/1999 – 1999/2208(COS))

Committee on Economic and Monetary Affairs

Rapporteur: Peter William Skinner

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PROCEDURAL PAGE

By letter of 22 October 1999, the Commission forwarded to the Council and the European Parliament its communication "Risk capital: Implementation of the action plan - Proposals for moving forward" (COM(1999) 493 – 1999/2208(COS)).

At the sitting of 17 December 1999 the President of Parliament announced that she had referred the communication to the Committee on Economic and Monetary Affairs as the committee responsible and the Committee on Employment and Social Affairs for its opinion(C5-0320/1999).

The Committee on Economic and Monetary Affairs appointed Peter William Skinner rapporteur at its meeting of 21 February 2000.

The committee considered the Commission communication and the draft report at its meetings of 4 April, 10 July, 28 August, 11 September and 13 September 2000.

At the last meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Christa Randzio-Plath, chairman; Juan Ojeda Sanz (for José Manuel García-Margallo y Marfil vice-chairman pursuant to Rule 153(2)), Peter William Skinner, rapporteur; Alejandro Agag Longo, Luis Berenguer Fuster, Pervenche Berès, Hans Blokland, Hans Udo Bullmann, Alexander de Roo (for Gorka Knörr Borràs), Benedetto Della Vedova, Harald Ettl (for Bernhard Rapkay), Jonathan Evans, Göran Färm (for Richard A. Balfe), Carles-Alfred Gasòliba i Böhm, Robert Goebbels, Christopher Huhne, Pierre Jonckheer, Othmar Karas, Giorgos Katiforis, Astrid Lulling, Thomas Mann (for Christoph Werner Konrad), Ioannis Marinos, Peter Michael Mombaur (for José Javier Pomés Ruiz), Simon Francis Murphy, Karla M.H. Peijs (for Piia-Noora Kauppi), Fernando Pérez Royo, John Purvis (Alain Madelin), Alexander Radwan, Amalia Sartori, Olle Schmidt, Charles Tannock, Marianne L.P. Thyssen, Helena Torres Marques, Bruno Trentin, Theresa Villiers, Karl von Wogau

The opinion of the Committee on Employment and Social Affairs is attached.

The report was tabled on 14 September 2000 .

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the Commission communication "Risk capital: Implementation of the action plan - Proposals for moving forward" (COM(1999) 493 – C5-0320/1999 – 1999/2208(COS))

The European Parliament,

- having regard to the Commission communication (COM(1999) 493 – C5-0320/1999¹),
- having regard to the Conclusions of the Extraordinary European Council in Lisbon on 23 and 24 March 2000,
- having regard to its resolution of 4 May 1999 on Financial services: Building a framework for action²,
- having regard to the initiative by the European Investment Bank, Innovation 2000: Towards a Europe based on innovation and knowledge,
- having regard to its resolution of 18 May 2000 on the Commissions' recommendation for the Broad Guidelines of the Economic Policies of the Member States and the Community (drawn up pursuant to Article 99(2) of the Treaty establishing the European Community)³,
- having regard to the Communication from the Commission, *eEurope: An Information Society for all - Progress Report - For the Special European Council on Employment, Economic reforms and Social Cohesion - Towards a Europe based on Innovation and Knowledge - Lisbon, 23 and 24 March 2000* (COM(2000) 130)⁴,
- having regard to its resolution of 9 March 1999 on Risk Capital: A Key to Job Creation in the European Union - April 1998⁵,
- having regard to its resolution of 13 April 2000 on the Commissions' communication 'Towards a single market for supplementary pensions'⁶,
- having regard to Rule 47(1) of its Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Employment and Social Affairs (A5-0235/2000),

¹ OJ C not yet published.

² OJ C 279, 1.10.1999, p. 24.

³ OJ C not yet published.

⁴ OJ C not yet published.

⁵ OJ C 175, 21.6.1999, p. 16.

⁶ A5-0053/2000

- A. whereas the Commission Communication provides a timely reminder that while risk capital is developing in Europe, the amount and allocation of risk capital remains sub-optimal compared to the United States and the overall gap is widening, and a number of barriers remain,
- B. whereas the development of risk capital is essential for job creation, as small and medium sized enterprises (SMEs) account for 66% of total employment in the Community, and a recent study has shown that between 80 and 90% of funds raised from venture capital go towards hiring people,
- C. whereas the lack of an integrated, pan-European capital market and regulatory barriers such as investment restrictions and tax differences hindering the development of European supplementary pension funds, as well as the need for a single prospectus for pan-European capital raising combined with a single set of international accounting standards, have hitherto been key factors holding back the development of risk capital,
- D. whereas it is to be hoped that that the current wave of consolidation of European markets and exchanges will contribute to a reduction in the fragmentation of European capital markets, thereby freeing up capital for investment in job-creating, high growth small and medium enterprises,
- E. whereas the Commission must accelerate the completion of an integrated pan-European capital market as provided for in the Financial Services Action Plan through measures such as cross-border prospectuses and a single set of international accounting standards,
- F. whereas the introduction of the euro has already led to the diversification of investment portfolios as investors increasingly look beyond their national borders for a return, and this process can only be enhanced by the emergence of pan-European pension funds subject to prudent-man style regulation and flexible investment strategy,
- G. whereas other barriers to the development of risk capital and innovative SMEs remain in the form of the lack of an entrepreneurial culture, insufficient qualified human resources and a paucity of high-tech SMEs,
- H. whereas public authorities, both at the EU and national levels, have a key role to play in addressing these barriers, as well as in providing direct financial support to encourage venture capital in areas where the private sector would otherwise be reluctant to intervene,
- I. whereas evidence from the US suggests that informal venture capitalists such as business angels and incubators invest up to five times more than formal venture capitalists, and this trend is intensifying,
- J. whereas at the same time one of the more important sources of risk capital for small businesses is their own profits, so that favourable, less complicated rules on taxation of small businesses and their owners are of great importance in promoting the propensity to invest,

- K. whereas multinational companies, especially in the information technology, biotechnology and healthcare sectors also have a responsibility to play a central role in supporting the development of the innovative start-ups which will grow into the success stories of the future; whereas the Member States should provide incentives for them to do so in order to avoid a 'brain-drain' of European talent to the United States in the search of capital,
- L. whereas despite the wide range of funding instruments available to support risk capital, SMEs and entrepreneurs seeking funding for their new ventures continue to face difficulties in obtaining easy access to information about funding opportunities, public support schemes such as tax incentives and training opportunities, and the importance of securing patent protection for their designs and inventions,
- M. whereas the European system of patents is too complex and expensive, so that about two-thirds of innovative European SMEs do not deposit patents, making reform of the European patent system all the more urgent to enable SMEs to achieve the benefits of pan-European, low-cost and easily accessible patents,
- N. whereas the forthcoming Commission proposal for a Community Patent will play a key role in making it easier and cheaper for companies to file a patent,
- O. whereas SMEs continue to be burdened by the excessive costs and administrative procedures involved in setting up a company, with the consequent difficulties in setting up a new business which bankruptcy entails,
- P. whereas training measures and education are needed to assist the development of an enterprise culture and encourage a willingness to increase the level of risk-taking in business; whereas education should be adapted to the particular needs of small and medium-sized businesses; whereas it is just as important to provide practical assistance in the form of guidance for business management as to provide finance; whereas the importance of guidance for entrepreneurs should therefore be stressed,
- Q. whereas the recent adoption of the Directive on Late Payments in Commercial Transactions will help to remove one of the main causes of business failures amongst SMEs , by tackling the problem of late payments,
- R. whereas the Commission Communication rightly emphasises the importance of identifying best practice in supporting risk capital at Member State level, and the role that benchmarking can play in spreading best practice,
1. Welcomes the fact that the Action Plan proposes concrete measures to remove the remaining barriers to a genuinely pan-European market for risk capital in the European Union, by 2003 as outlined at the Lisbon summit, which will greatly contribute to job creation and increased competitiveness and productivity, thereby contributing to supporting growth;
 2. Recognises that while progress has been made, with rapid growth in European venture

capital over the past five years, European investment in venture capital remains considerably behind that in the US, particularly in the high-growth sectors of information technology, biotechnology, social services and healthcare, and there are wide regional and sectoral variations;

3. Notes that, at the Extraordinary Summit held in Lisbon on 23-24 March, specific reference was made to the need to improve conditions for setting up undertakings in the field of high technologies by using risk capital and to redirect funds to other risk capital initiatives proposed by the EIB;
4. Observes that the single market for supplementary occupational pensions has a significant role to play in the development of EU risk-capital markets; considers that the reform should respect the diversity of pension schemes while at the same time markets should be liberalised further in order to promote healthy and effective competition among the various second-pillar instruments; considers that pension schemes should be given greater freedom to invest effectively and increase their yields through diversification;
5. Urges the European Commission and the Council to bring forward and apply as soon as possible a proposal for a Directive on Supplementary Pension Funds, as well as a proposal on the taxation of pension funds, with a view to securing their adoption at the earliest possible opportunity;
6. Agrees with the Commission that properly targeted, public direct financial support can act as a catalyst in stimulating the provision of risk capital for innovative companies, especially in fields where private investment is lacking and on condition that competition is not distorted;
7. Calls on the European Commission to begin an ongoing dialogue with all interested parties, including the European Parliament, the Council, the social partners, the European Investment Bank (EIB) and the European Investment Fund (EIF), with regard to the funding instruments currently available to support risk capital;
8. Asks the EIB to focus in particular on innovative instruments tailored to the needs of the knowledge economy, and to clarify how its Innovation 2000 proposals will be carried through; further calls on the European Investment Bank to clarify the respective roles and responsibilities of the EIB and the EIF, and to focus on providing incentives to venture capital funds to invest in higher risk ventures, by taking on board an appropriate share of the risk of default; urges the EIB to bring forward proposals in this regard by the end of this year;
9. Urges the EIB, the EIF and the European Commission to broaden their support for risk capital investment to a broader range of institutions with a more innovative range of instruments (such as micro-credits), including informal venture capitalists such as business angels and incubators, as well as credit unions, trade unions and co-operative banks, with a view to supporting SMEs from a wide range of sectors as well as high-tech companies;
10. Calls on the Commission and the Member States to address the shortage of seed and early

stage capital, as lack of start-up equity is a major barrier to start-up and developing companies throughout the Union;

11. Emphasises the need for a 'community-up' approach to risk capital projects which includes those in less favoured regions, and which dovetails with the work of regional development agencies and the support offered by the EU regional funds to ensure that 'risk capital clusters' are developed throughout the regions of Europe;
12. Understands that it is difficult to estimate the number of job created, both directly and indirectly, by risk capital investment, but nevertheless urges the Commission to carry out an economic study of the likely employment effects with a view to monitoring these on an ongoing basis;
13. Emphasises the importance of reducing the costs and administrative procedures involved in setting up a company, and in this context welcomes the decision of the Lisbon Summit to call for a benchmarking exercise in this area;
14. Encourages the Member States to introduce taxation systems which promote innovation at early stages of development, devise taxation systems which benefit private individuals wishing to invest capital in businesses and promote innovative employee ownership by means of more favourable and simplified taxation rules concerning, for example, share options;
15. Advocates an improvement in the schemes for employee ownership linked to codetermination mechanisms such as stock options;
16. Stresses the need to provide SMEs with high quality, easily accessible information about access to risk capital, and therefore urges the Commission to replicate the success of the EU online public procurement initiative, SIMAP (Système d'information pour les marchés publics), by financially supporting the creation of a 'one stop shop' risk capital web site to provide a single access point to information about projects seeking risk capital and sources of EU and Member State funding for SMEs;
17. Reiterates the value of a life-long learning approach to education and training, notably in information technology and entrepreneurial skills, and urges the European Commission to help SMEs commercialise research funded through the Vth Framework Programme and to strengthen the European Union's support to initiatives such as business angels networks, technology parks and university incubators;
18. Supports strongly initiatives such as mentoring, which have a key role to play in involving socially excluded communities in start up and risk capital projects, and recommends the spread of good practices such as the Prince's Trust in the UK;
19. Urges the European Commission and the Member States, within their respective areas of competence and in consultation with the European Parliament, to consider measures to reduce the stigma of bankruptcy, possibly including a moratorium on debt recovery where the liquidator determines that no fraudulent or illegal practices were involved and the business in question can continue trading; calls on the Commission to facilitate the

sharing of best practice in this area, with a view to the elaboration of a recommendation;

20. Urges the rapid adoption of the forthcoming Commission proposal for a Directive on the Community Patent, and calls on the European Commission to support the creation of an EU-wide online patents database linked to the proposed risk capital website, and to launch an information campaign to provide SMEs with information about the importance of securing patent protection for their designs and how to obtain a patent;
20. Asks the Commission and the Council to promote innovative software protection models like the General Public Licence in Europe in order to support the development of open source software and to foster the provision of risk capital for entrepreneurs engaging in this field;
21. States its concern about recent developments in patenting which either hinder the free circulation of scientific information (patenting of data bases, mathematical formula, software codes etc.) or patent natural resources like genes and plants without any innovative character;
22. Calls on the Commission to develop risk capital initiatives in the accession countries;
23. Calls on the European Commission to put forward by the end of 2000 a follow-up Communication on the Implementation of the Risk Capital Action Plan, setting out the benchmarks agreed with Member States to implement the Action Plan and proposals to ensure an integrated, joined up approach to risk capital, bringing together all Community instruments in a coherent manner; further calls on the Commission to report back regularly to the European Parliament and Council on progress made in reaching these benchmarks and rationalising the EU framework for risk capital;
24. Instructs its President to forward this resolution to the Council and Commission.

EXPLANATORY STATEMENT

Introduction

The conclusions of the Special European Council in Lisbon (23-24 March 2000) stated that "...efficient risk capital markets play a major role in innovative high-growth SMEs and the creation of new and sustainable jobs". The heads of state and government therefore agreed a number of measures to promote the development of risk capital in the European Union, with a deadline for implementing the Risk Capital Action Plan of 2003.

This report examines the Commission's Action Plan, but also takes into account the discussions at Lisbon as well as the Commission's *eEurope* initiative, the Financial Services Action Plan, and the contributions made by others, such as the European Investment Bank's initiative, *Innovation 2000: Towards a Europe based on innovation and knowledge*.

The issue

The European Commission proposed in 1998 a Communication on Risk Capital: A Key to Job Creation in the European Union (SEC(98)0552), which was the subject of a resolution by Parliament which welcomed the Action Plan and proposed certain additional measures (see report A4-0090/99 of 24 February 1999 tabled by Mr Katiforis and resolution of 3 March 1999).

In 1999, the Member States were requested to report back on the measures they had taken. On the basis of the answers given by Member States and its own observations, the Commission drew up a report on the Implementation of the Action Plan (SEC(99)1725). Based on the progress report, the Commission defines some priority measures for 2000 (COM(99)493).

There are six main areas that the Risk Capital communication from April 1998 defined as main barriers to the development of risk capital: (1) market fragmentation, (2) institutional and regulatory barriers, (3) taxation, (4) a paucity of high tech SMEs, (5) lack of qualified human resources and (6) pernicious cultural barriers.

The Commission proposes certain actions that should be taken in the next 12 months both at Community level and at Member State level. For example, at *Community level* the following regulatory actions are proposed:

- (1) Prudential rules should be adopted in order to allow institutional investors to invest in venture capital¹.
- (2) Prospectus directives to facilitate companies raising cross-border capital should be upgraded.

¹ The communication and a forthcoming directive on 'Supplementary pensions in the Single market' are a first step towards appropriate prudential rules for pension funds.

(3) The reform of the European Patent System¹ should be completed.

At *Member State level*, the following actions should be taken:

- (1) Individuals can be encouraged to set up a company or develop existing firms by the means of taxation.
- (2) Legislation on insolvency and bankruptcy should be reformed in order to remove the stigma of failure from those whose businesses fail through no fault of their own.
- (3) Innovative employee ownership schemes should be promoted. More favourable and less complicated taxation of stock options could be developed.

Assessment of the Commission's Communication

The Commission Communication is a welcome acknowledgement that concrete measures need to be taken to create a genuinely pan-European and highly liquid risk capital market in the EU. Although progress has been made in recent years, the amount of risk capital in Europe is still significantly lower than in the US, and is less focused on the high growth and job creating sectors of information technology, biotechnology and healthcare. Co-ordinated action is therefore needed at both the EU and Member State levels, and the setting of a deadline of 2003 for implementation of the Action Plan by the Lisbon Summit was a welcome development.

In order to achieve a regulatory environment conducive to risk capital a number of regulatory measures need to be introduced. The rapid adoption of the proposal for a Directive on Supplementary Pension Funds, as well as proposals to update EU accounting rules and facilitate cross-border prospectuses, will make it easier to raise capital for innovative SMEs. The Commission should also ensure that Member States implement on time the Directive on Late Payment in Commercial Transactions. Early adoption of the Directive on the Community Patent will also be essential to make it easier and cheaper for SMEs to obtain patent protection for their inventions and designs.

Facilitating the environment in which SMEs operate is also a priority, and further measures need to be taken to lighten the administrative burden on SMEs. Parliament should be fully associated with the benchmarking work to be undertaken in this area by Commission and Council. The Commission and Member States should also consider measures to reduce the stigma of bankruptcy, with a view to the possible elaboration of a recommendation. SMEs also need better access to information about the risk capital available, and a web site should be created to this effect. This should be linked to a pan-European online patents database to enable SMEs to check what patents exist and gather information on how to deposit a patent.

There is a wide range of Community instruments supporting risk capital investment, involving the European Commission, the Member States but also the European Investment Bank and the European Investment Fund. It is time for a thorough review of these instruments. The

¹ The Commission published a green paper on "Promoting innovation through patents" in June 1997, followed by a communication in February 1999.

Commission should initiate a dialogue with all the interested parties (including the European Parliament) with a view to ensuring the most coherent and integrated approach possible. The Commission should report back on progress made by the end of 2000.

The rapporteur welcomes the commitment in the Action Plan to agreeing benchmarks with a view to spreading best practice across the EU. However, the timescale of 5 years for agreeing these benchmarks seems unnecessarily long. It is important that the benchmarks for success in risk capital are agreed with Member States and Parliament by the end of 2000, so that progress towards these can be measured on an ongoing basis.

Finally, your rapporteur emphasises the need for a 'community-up' approach to risk capital. The public authorities have a role to play in ensuring that risk capital investment is promoted in all regions of the EU, including the less favoured regions, and that funding reaches all sections of our communities. Public direct financial support can act as a catalyst in stimulating the provision of risk capital, and public support for training in IT and entrepreneurial skills is key. It is also important that a wide range of actors become involved in risk capital, including informal venture capital networks but also other interested parties close to their local communities, such as credit unions and co-operative associations. Initiatives such as mentoring will also help to involve people from all walks of life in risk capital.

The overall aim of the actions outlined should be to achieve a 'joined-up' approach to risk capital in the EU, in which all interested parties and EU instruments work together in a mutually reinforcing way in order to raise the level of risk capital investment in the EU. In this way, the job-creating benefits of risk capital can be extended to all parts of the European Union.

23 May 2000

OPINION OF THE COMMITTEE ON EMPLOYMENT AND SOCIAL AFFAIRS

for the Committee on Economic and Monetary Affairs

on the communication on risk capital and the job creation: implementation of the action plan (COM(1999) 493 – C5-0320/1999 – 1999/2208(COS))

Draftsperson: Piia-Noora Kauppi

PROCEDURE

The Committee on Employment and Social Affairs appointed Piia-Noora Kauppi draftsperson at its meeting of 1 February 2000.

It considered the draft opinion at its meetings of 28 March, 22 and 23 May 2000.

At the last meeting it adopted the amendments below by 34 votes to 0, with 7 abstentions.

The following were present for the vote: Michel Rocard, chairman; Winfried Menrad, vice-chairman; Marie-Thérèse Hermange, vice-chairman; José Ribeiro e Castro, vice-chairman; Piia-Noora Kauppi draftsperson; Sylviane H. Ainardi, Jan Andersson, Andre Brie (for Arlette Laguiller), Philip Rodway Bushill-Matthews, Alejandro Cercas Alonso, Elisa Maria Damião, Harald Ettl, Jillian Evans, Carlo Fatuzzo, Ilda Figueiredo, Fiorella Ghilardotti, Marie-Hélène Gillig, Anne-Karin Glase, Richard Howitt (for Ioannis Koukiadis), Ian Stewart Hudghton, Stephen Hughes, Anne Elisabet Jensen (for Massimo Cacciari), Karin Jöns, Jean Lambert, Elizabeth Lynne, Thomas Mann, Mario Mantovani, Claude Moraes, Mauro Nobilia, Manuel Pérez Álvarez, Bartho Pronk, Fernando Reis, Luciana Sbarbati, Herman Schmid, Gabriele Stauner (for María Antonia Avilés Perea), Ursula Stenzel (for Luigi Cocilovo), David Sumberg, Ilkka Suominen, Helle Thorning-Schmidt, Ieke van den Burg and Barbara Weiler.

SHORT JUSTIFICATION

INTRODUCTION

1. Basic issue

The Commission proposed in spring 1998 an Action Plan to improve the conditions for the development of risk capital in the European Union (see document SEC (1998) 552). This Action Plan included key measures to be taken to remove the main barriers hindering the development of risk capital in the Union. Some of the proposed measures required Member states to act (like taxation and legislation on bankruptcy), others the Commission to modify

existing Community legislation (like the mutual recognition of prospectuses for IPO's or the European patent system). This is the first initiative at Community level in order to improve the environment for the creation of risk capital funds. Parliament welcomed in general the Action Plan and proposed additional measures (see report A4-0090/99 of 24 February tabled by Mr. Katiforis and resolution of 3 March 1999).

In 1999, Member States were requested to report back on the measures they had taken. On the basis of the answers and its own observations, the Commission has drawn up a report on the Implementation of the Action Plan (see SEC (1999) 1725). Based on the progress report, the Commission defines some priority measures for the year 2000 (see COM (1999) 493 – points 2.2 and 2.3.).

2. The main political indents

In the communication on Risk Capital : A Key to Job Creation in the European Union the main political message was that risk capital is essential for job creation, raising productivity and supporting growth in Europe, and crucial for the financing of fast growing companies, especially the high tech knowledge based industries. Empirical evidence since 1998 continues to support this thesis.

Efficient risk capital markets are also a precondition for the development of entrepreneurship in Europe. That way the improvement of risk capital market will also strengthen entrepreneurship, one of the four pillars of the Employment Guidelines adopted by the European Council in February 1999. The importance of access to capital as a key factor in encouraging entrepreneurs and small and medium sized businesses to achieve their full potential was also emphasised both in Cardiff European Council (June 1998) and Vienna European Council (December 1998).

The present communication shows that whilst some progress has been made and the market has developed, Europe still suffers some major weaknesses, particularly when viewed against its major competitors. It is therefore important to speed up the removal of the barriers to improve the Union's growth and employment prospects in the medium term.

3. Measures proposed by the Commission

There are six main areas that the Risk Capital communication from April 1998 defined as main barriers to the development of risk capital: (1) market fragmentation, (2) institutional and regulatory barriers, (3) taxation, (4) a paucity of high tech SMEs, (5) lack of qualified human resources and (6) pernicious cultural barriers.

The Commission proposes certain actions that should be taken in the next 12 months both at Community level and at Member State level. For example, at *Community level* the following regulatory actions are proposed:

- (4) Prudential rules should be adopted in order to allow institutional investors to invest in venture capital.¹

¹ The communication and a forthcoming directive on 'Supplementary pensions in the Single market' are a first

(5) Prospectus directives to facilitate companies raising cross-border capital should be upgraded.

(6) The reform of the European Patent System¹ should be completed.

At *Member State level*, the following actions to be taken are for example:

(4) Individuals can be encouraged to set up a company or develop existing firms by the means of taxation.

(5) Legislation on insolvency and bankruptcy should be reformed in order to remove the stigma of failure from those whose businesses fail through no fault of their own.

(6) Innovative employee ownership schemes should be promoted. More favourable and less complicated taxation of stock options could be developed.

4. Position of the Employment Committee

The committee gives its general support for the actions for the year 2000 proposed in the Action Plan. Job creation is mainly provided by SMEs in the European Union. The growth of SMEs can be fostered by facilitating the access to start-up capital, intermediate and development capital as the company expands and a liquid, secondary European stock market. The committee also suggests that the progress will be reviewed according to a benchmarking process in the future.

The Committee also wants to make a reference to findings of the recent report on supplementary pensions, particularly on the prudential rules. Institutional investors such as insurance companies, investment funds and pension funds play an increasingly predominant role in providing risk capital. The pension schemes have been gaining in importance in the last decade due to the ageing of the population producing a rising need for retirement products. The shift in favour of more performance-oriented instruments has also increased the need to reform the system on the basis of prudent man concept which allows the investors to create the appropriate investment portfolio based on the needs of the beneficiaries.

The Committee also insists on additional training facilities to be provided by the Member States (like the business angels scheme). Training of future entrepreneurs could be offered in various forms, via the Internet, for example. The Committee requires special measures, as a complement to the actions on mentorship for entrepreneurs, to ensure access to entrepreneurship for women and young unemployed people. It also supports the Regional Innovation Strategies developed in order to create a strategic framework for the integration of innovation into regional employment and production structures.

step towards appropriate prudential rules for pension funds.

¹ The Commission published a green paper on "Promoting innovation through patents" in June 1997, followed by a communication in February 1999.

CONCLUSIONS

The Committee on Employment and Social Affairs calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following points in its draft resolution:

1. Agrees that risk capital can be a useful tool for job creation by raising productivity and supporting a dynamic and sustainable development of the economy in the Community and emphasises the crucial meaning of risk capital for the financing of high tech intensive, knowledge based, eco-efficient industries and services; supports a framework of criteria for risk capital funding by the EIB, public institutions and public banks in line with the objectives of the structural funds (employment intensity, sustainability, equal opportunities for women);
2. Highlights three of the presidency conclusions at the Lisbon Summit which called for the stepping up of the process of structural reform for competitiveness, co-ordinated action to simplify the regulatory environment, and concrete measures to alleviate the tax pressure on labour, and confirms the commitment of the Employment and Social Affairs Committee to actively support these conclusions as key measures to promote the development of SMEs;
3. Notes that, at the Extraordinary Summit held in Lisbon on 23-24 March, specific reference was made to the need to improve conditions for setting up undertakings in the field of high technologies by using risk capital and to redirect funds to other risk capital initiatives proposed by the EIB;
4. Notes that based on the recent study¹ between 80% and 90% of funds raised from venture capital markets might go towards hiring people and that such a high “job multiplier” is very important for the creation of a true service economy since in the service sector the labour costs dominate the cost structure; notes also that in another study² it was proved that the venture backed companies increased their staff levels over three times faster than companies without venture capital;
5. Notes that small and medium sized companies are one of the most important employers in the European Union making up for 66% of total employment in the Community and urges therefore that strong measures should be taken in order to encourage entrepreneurship and to help SMEs to achieve their full potential. There are enormous challenges that Europe has not taken full advantage of. This is where the employment policy should focus on and where one of the greatest potential for job creation lies. Calls on the Commission and the Member States to further strengthen the employment generating capacities of SMEs in a perspective of sustainable development and guaranteed social rights;
6. Notes that not only structural factors cause problems to risk capital; national administrative and legal systems as well as cultural factors among capital suppliers and

¹ See SEC(1999) 1725, p.13 in the English version. The study “The job destruction and creation models” was made by W. Brock. It highlights the linkage between the IPO market and the labour market.

² See SEC(1999) 1725, p.13 in the English version. The study was made in the UK by Bannock Consulting.

managers of SMEs which have a similar effect;

7. Notes that training measures and education are needed in order to help to develop a socially and environmentally responsible enterprise culture and a willingness to increase the level of qualifications and long term strategic thinking in business. The education should be geared according to the specific needs of the SMEs as well as to raising the overall level of qualifications in line with the personal ambitions and talents of the employees. It is just as important to provide practical help on how to run a business as it is to provide finance. Therefore the meaning of mentorship for entrepreneurs should be emphasised;
8. Emphasises that the regulative environment should be reformed in terms of reducing the unnecessary complexity and the uncertainty it brings along. The regulative actions should be part of a coherent package of measures which should be integrated into the Financial Services Action Plan;
9. Notes that although the European risk capital markets are beginning to develop, venture capital in Europe remains significantly smaller than in the US. In the EU, €20 billion was raised for private equity investment in year 1998 when at the same time the comparable figure in the US was \$ 80 billion;
10. Emphasises that the most effective strategy for fighting the unemployment is to increase the competitiveness of the European economy. Enhanced competitiveness, when accompanied by a dynamic knowledge-based economy capable of sustainable growth and greater social cohesion is able to turn growth into more and better jobs;
11. Notes that fiscal and other supportive mechanisms should be introduced at Community and Member State level in order to mobilise private and institutional savings into SMEs investment in order to increase the equity capital base for investments in SMEs;
12. Agrees that for employment purposes the venture capital should orientate increasingly towards young and innovative companies since in these companies the average employment growth rate over the last three years was of 47%;
13. Notes that insurance companies and pension funds play an important role for the development of the capital market in EU. The reform has to respect the diversity of pension schemes for the second pillar and deposit protection and at the same time further liberalise the markets in order to enhance healthy and vigorous competition between different second pillar instruments. Pension schemes must be given greater freedom to invest in an efficient way and increase their return through diversification. Not only an adjustment to existing Community legislation but also additional rules will therefore be needed if there is to be equal treatment and the differences are to be taken into account;
14. Supports the creation of the single market for the supplementary pensions also because of the proposals made for the removal of obstacles to labour mobility and for the co-ordination of Member States' tax systems;
15. Regrets, however, that the institutional investors in Europe do not seem to be so willing

(or legally able) to provide equity investment in start-up companies which could enhance the growth and the job creation in these starting businesses;

16. Advocates an improvement in the schemes for employee ownership linked to codetermination mechanisms such as stock options;
17. Notes that public and private markets are highly intertwined and that the public markets are also a key for private market performance as they represent exit opportunities and a basis for valuations; supports therefore the development of pan-European stock markets that will help to boost the European venture capital;
18. Welcomes the chance to have a merger between the stock exchanges of Paris, Amsterdam, Brussels, London and Frankfurt and hopes that this will provide investment and risk capital more efficiently for branches of business;
19. Supports the actions for increasing the investment in Research & Development in Europe and sees the reform of the European patent system as a positive intention to increase innovation in Europe; notes however that the European patent reform has to respect the special needs of the SMEs in particular in relation to simpler and less expensive legal proceedings. The patent information should also be more comprehensible and practical to SMEs;
20. Asks the Commission and the Council to promote innovative software protection models like the General Public Licence in Europe in order to support the development of open source software and to foster the provision of risk capital for entrepreneurs engaging in this field;
21. States its concern about recent developments in patenting which either hinder the free circulation of scientific information (patenting of data bases, mathematical formula, software codes etc.) or patent natural resources like genes and plants without any innovative character;
22. Supports the benchmarking process and emphasises the importance of reviewing the progress regularly.