COMMISSION DECISION
OF 1998

Establishing a Horizontal Programme on Joint Ventures and other Joint Agreements (JOP),

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EEC) No 3906/89 of 18 December 1989 on economic aid to certain countries of Central and Eastern Europe, as last amended by Regulation (EC) No 753/96 of 22 April 1996 and in particular Article 9 thereof,

Whereas Regulation No 3906/89 lays down the rules and conditions for the granting of economic aid to certain countries of Central and Eastern Europe,

Whereas the measures provided for by this Decision are in accordance with the opinion of the Committee on Aid for Economic Restructuring in certain countries of Central and Eastern Europe,

HEREBY DECIDES AS FOLLOWS:

Article 1

The programme described in the Annex to the present decision is hereby adopted.

Article 2

The maximum amount of Community assistance shall be 20 MECU to be financed through Budget line B7-500.

Done in Brussels,

For the Commission
FINANCING PROPOSAL

PROGRAMME TO PROMOTE SME JOINT VENTURES AND OTHER JOINT AGREEMENTS (JOP)

1. IDENTIFICATION

Countries: Countries covered by the Phare programme.
Programme title: JOP Programme: to facilitate the creation and development of joint ventures and other forms of SME co-operation in the CEECs.
Year: 1998
Cost: 20 MECU
Implementing Authority: European Commission, DGIA
Expiry Date: 31st December 2000 (contracting)
31st December 2001 (disbursement)
Sector: PR
Group: L
Budget Line: B7 - 500
Task Manager: Bardo Gavazzoli Schettini
Philippe Tarillon - DG II SOF

2. SUMMARY

The development of the private sector, and particularly SMEs, is essential to enable the CEECs to complete the transition to a market economy and to pave the way to accession for those due to join the EU. To facilitate this process the Commission launched the JOP programme, which has received the following budget allocations:

1990: 20 MECU
1993: 27.5 MECU
1995: 70 MECU
1997: 7 MECU

The 1997 allocation constituted a bridge programme including some changes but pending further review in early 1998. To date, individual projects for an aggregate amount of 68 MECU under the 1995 appropriation and 6.5 MECU under the 1997 appropriation have been approved, so that available funds are practically exhausted.

The JOP Programme has proved generally successful, but after seven years it needs a substantial overhaul to match changed conditions in the CEECs and the prospects opened up by enlargement. The adjustment must also reflect the new Phare guidelines, experience gained in managing the

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programme, market expectations and the results of the external evaluation of JOP carried out between June and September 1997.

The 1997 financing proposal provided for a limited number of changes designed to improve efficiency and also for the scrapping of Facility 3. The present proposal introduces further improvements to the programme, notably in terms of broadening the scope of eligible projects to include non-financial forms of inter-company co-operation, while tightening and refining the eligibility criteria so as to maximise value for money.

3. BACKGROUND

The current programme

i) The role of the financial intermediaries (FIs)

The programme is based on a network of FIs, mainly from EU Member States. There are currently 83 of these and their task is to promote the programme and appraise and forward projects eligible for Community support. They act as the channel for financing and procedural interface between the SMEs and the Commission, thus putting their economic expertise at the Community disposal.

The Commission has been developing its partnership with the members of the network, who have a knowledge of their SME clients and their economic and financial environment that the Commission could never emulate.

The Commission role is to verify the eligibility for financing of projects appraised by the FIs as well as the respect of the value for money and additionality criteria and to ensure, in collaboration with the network, that projects are properly monitored.

ii) Economic rationale of the programme

The programme has been targeting small and medium size Community firms wishing to set up or develop joint ventures in the CEECs.

The overall structure of the JOP programme is as follows:

- Facility 1 covers general measures to foster development of joint ventures and promote the programme.

The main category of measures is the co-financing of general interest events on joint ventures, including seminars. These are targeted mainly at members of the FI network but also address various non-profit organisations such as chambers of commerce, industry federations, professional bodies and investment promotion agencies. Seminars must include a JOP promotion.

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2 A new assessment report has not been produced since the last one dated 28 October 1997 and is considered still valid.
Facility 1 also provides EuroJOP Data, an information service accessible to Community SMEs via FIs in the network. It provides background on a given country plus a list of useful contacts and addresses. Geographic coverage now extends to almost all CEECs.

- Facility 2 is for financing feasibility or pre-feasibility studies to help Community firms make sound investment decisions.

- Facility 3, which allowed for access to finance for joint venture in the form of equity or quasi-equity or a guarantee, was discontinued as of January 1998 on the basis of the JOP ‘97 decision.

- Facility 4 provides grants to co-finance know-how transfer, especially training.

4. POLICY ASSESMENT

4.1 The programme’s objectives remain generally valid but need to be fine tuned in the context of preparation for accession

One of the key objectives of the Community’s Phare programme has been to promote private-sector investment, and in particular to foster the development of the small-industry base through joint ventures. In the context of accession the support for a performing SME sector becomes particularly important in order to help candidate countries to meet the Copenhagen competitiveness criteria.

The Phare guidelines place the emphasis on encouraging investment, particularly for SMEs, thus confirming the relevance of a programme like JOP. However, looking ahead to enlargement and the comprehensive review of all Phare programmes, JOP needs to be overhauled to better help SMEs in the CEECs to prepare more effectively for accession through improved co-operation with their counterparts within the Union in view of improving competitiveness.

4.2 JOP has been generally successful

The success of JOP has attracted increasing interest from FIs and SMEs alike: the Commission has approved 1458 projects; 1101 of these where under the Facility 2, 158 under the Facility 1, 162 under the Facility 4 and 37 under the old Facility 3 (co-financing).

i) Overall assessment

The success of JOP can be measured in a number of ways:

- Positive impact on productive investment, assuming the creation of joint ventures continues at its current rate. This would put the maximum leverage for Facility 2 financing at a ratio 1 to 10;
• Compliance with the 1991 decision to give priority to SMEs: 82% of the Community's partners under JOP projects have fewer than 250 employees and 69% of them fewer 100 employees;

• The improvement of the quality of application channelled through the FIs reflected in the fact that the rate of acceptance has constantly increased without any relaxation of standards or requirements.

However, given the success of the programme and given limited resources, it is proposed to limit future projects to SMEs. Also, in the light of the accession, SMEs based in CEECs should be eligible to present projects.

ii) Facility 1

This came into effect in 1994 and has since grown briskly. At 31.12.1997, 158 projects had been approved worth a total of 2.9 MECU.

The EuroJOP Data service has grown exponentially. It was launched in September 1995 and now covers almost all Phare countries. At the end of 1997 it had circulated 1668 files.

Although JOP is now well known, Facility 1 is still justified given the need to inform potential users about the new dimensions of the programme. Preference shall be given to those projects that involve both EU-based and CEEC-based SMEs and that address countries and markets where JOP is less well represented.

iii) Facility 2

This accounts for the vast majority of projects approved under JOP (1101 out of 1458) to an aggregate value of 88.4 MECU. To date 592 feasibility studies have been received, and 176 of the 317 files closed at 31.12.1997 (i.e. 55%) have resulted in the setting-up of joint ventures.

Projects culminating in the creation of a joint venture have generated investment totalling 136 MECU. Comparing these figures with the JOP expenditure on the projects, we see that for every ECU disbursed from Facility 2 a project attracts 10 of investment.

The 1997 assessment report suggested the need to broaden Facility 2 to cover other forms of inter SME co-operation beyond pure financial co-operation in the form of JVs. This recommendation is now taken into account.

iv) Facility 3

Following the decision taken under JOP 97 and upon consultation with the FIs this Facility was discontinued as of 1 January 1998. It is proposed here to replace it by a new success-related Facility 3, which is a spin-off from the present Facility 2. In this way the traditional four-window format is repected, while maintaining the principle that JOP will not have an investment window. The latter should be covered under the future multi-country SME Investment Facility
v) Facility 4

Approval has been granted for 162 applications totalling 11.5 MECU. Given the high volume of demand, Facility 4 was limited to ECU 200,000 per applicant and to joint ventures (to the exclusion of direct investments) in the past financing proposal. It is now felt that this Facility is still too generous and that eligibility criteria need to be further restricted.

5. OBJECTIVES OF THE FINANCING PROPOSAL

The purpose of this financing proposal is to improve the JOP Programme in a number of areas, mainly:

• to restrict it to pure SMEs;
• to tighten eligibility and selection criteria;
• to broaden Facility 2 to new forms of co-operation.

6. DESCRIPTION OF THE PROGRAMME

The following technical amendments are proposed:

a) SME eligibility

JOP will be limited to projects in which the Community partner is an SME within the meaning of the Commission Recommendation of 3 April 1996 (OJ L 107 of 30 April 1996).

b) Network of financial intermediaries

In the context of pre-accession the network of FIs needs to be opened-up to CEEC-based FIs. It is proposed that these be selected on the basis of requests sponsored by existing FIs. To keep the network to a manageable size the situation of inactive FIs will be reviewed.

c) Eligibility

Applications will be carefully scrutinised to check that:
• They meet additionality and value for money criteria;
• Projects are compatible with the Phare-backed process of privatisation of CEEC economies.

SMEs based in CEECs shall in the future be able to present projects.

Detailed instructions will be sent to the FIs translating these items into revised operational guidelines.

d) Facility 1: Promotion of co-operation

3 For projects presented before the date of the Commission decision on this programme, a short transition period may be established.
The rules remain the same but priority will be given for the events in countries newly eligible for JOP or where JOP is less utilised and to projects involving the direct participation of SMEs from both CEECs and the EU.

Projects under this element will mainly facilitate direct contacts between companies, while ensuring that CEEC enterprises and their counterparts are able to identify and discuss problems and opportunities. Such activities will be undertaken in relation to specific actions and will not be just fora for discussion.

In addition, Facility 1 may provide support during the course of the programme for one major or two medium size high quality partnership events under the “Phare Partenariat” label, at an appropriate location in CEECs in favour of both CEEC and EU companies. The Commission will select the most appropriate organiser among pre-defined intermediaries.

Support will be given to actions that offer a clear potential for co-operation in the fields of:

- ✓ Investment;
- ✓ Production;
- ✓ Trade and marketing.

The format of the actions and events to be supported might include:

- ✓ Workshops;
- ✓ Exhibitions;
- ✓ Events within trade fairs.

Proposals will continue to come from any eligible FI or from non-profit organisations representative of the SME sector.

Phare will support up to 70% of the costs of the “Phare Partenariat” event up to a total of 1 MECU. Other projects proposals will be submitted through the FIs to the Technical Assistance Bureau with financing for to a maximum of 50% up to 100,000 ECU.

Partnership actions and events which are eligible for assistance under the Third Multi Annual Programme for SME in the European Union cannot be supported under this element, except for the non-associated Phare countries.

e) Facility 2: pre-feasibility and feasibility studies

This Facility will support the preparation of pre-feasibility and feasibility studies for:
The creation of joint ventures companies (JVC);

The creation of joint venture agreements of a less permanent nature that relate to business co-operation in fields such as sub contracting (JVA);

The creation of joint production and marketing agreements (JPMA);

Assistance of 50% of the pre feasibility costs of up to 10,000 ECU will be provided and up to 50% of the costs of feasibility studies with a maximum of 75,000 ECU for JVCs and 50,000 ECU for JVAs or JPMAs. The lower figure for JVAs and JPMA reflects the less permanent nature of such arrangements in comparison with JVCs.

f) Facility 3: success grants

This new facility will provide further support to enterprises participating in the above facility who decide to proceed with the co-operation activity (JVC, JVA or JPMA) following the completion of the feasibility study and subject to the discretion of the Steering Committee and availability of funds. This may make available up to a maximum of 150,000 ECU or 10% of the value of the investment or a third of the cash investment (whichever is the less), inclusive of the support through the above facility for pre-feasibility/feasibility studies upon proof of the signing of the agreement and of sufficient disbursement of the investment. In relation to JVAs and JPMAs, support for the second 50% of the feasibility costs up to 100,000 ECU may be provided, inclusive of the support through the above facility for pre feasibility/feasibility studies, upon proof of the signing and successful implementation of the agreement.

g) Facility 4: Transfer of know how and training

Beneficiaries of this component will be those CEEC enterprises who are engaged in JVC already supported under JOP. It will permit the training of employees within enterprises in CEECs as well as the transfer of know how and expertise required from the EU enterprise to the CEEC enterprise. The assistance available will be up to a maximum of 50% of costs with Phare support not to exceed 100,000 ECU. Travel, subsistence and accommodation costs shall be capped to 50% of the total eligible costs.

Only Joint venture projects will be eligible in which the local partner has a substantial stake. Staff involved in training or transfer of know-how must be taken on before the application is presented and shareholders are normally excluded. Consultancy firms will not be eligible and actions which are part of the regular operation between parent and subsidiary will equally be excluded.

Concerning the impacts of the programme, an initial screening has been carried out to assess the programme’s effect on the environment. As a result, a full environmental impact assessment is not required. The JOP programme has an important effect on SMEs and has been designed placing particular attention to their specific needs.

Equal opportunity for men and women to participate in all projects will be ensured. Indicators will be elaborated to assess the extent of women’s participation in projects.
7. ACTIVITIES OF OTHER DONORS AND CO-ORDINATION

The Financial Institutions network will include EBRD supported investment funds and financial institutions in CEECs. Co-ordination and wherever possible co-financing of activities with other donors shall be encouraged.

8. COST AND FINANCING PLAN

Phare will provide 20 MECU from the 1998 budget to finance the activities described above, of which up to 10% (i.e. 2 MECU) can be used for programme management.

9. IMPLEMENTATION

The programme will be implemented by the European Commission on behalf of the national authorities. The implementation provisions may be reviewed from time to time; any such review will be subject to written agreement between the Commission and the national authorities. Decisions on any individual projects under the programme will be taken by the Commission under the guidance of the Steering Committee. The management of the programme will be undertaken with the help of a Technical Assistance Bureau (TAB) to be contracted through a tendering process according to Phare rules and procedures. The TAB shall be responsible for disseminating information on the programme collection and analysis of individual project proposals, preparation of individual contracts, execution of individual payments, quality control and reporting to the Commission on progress under each programme component.

The TAB will manage a grant fund which will be used to make payments to programme beneficiaries through FIs. The Commission will pay funds to a blocked account in the name of the programme manager, according to the estimated cash flow.

The management agent will provide the Commission on a periodic basis with a detailed list of scheduled payments to FIs on behalf of financial beneficiaries.

10. AUDIT AND MONITORING

The Commission services shall a) monitor the implementation of the Programme on the basis of regular reports and b) sign contracts with independent consultants to follow the progress of the

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4 Given the need to avoid any interruption in the existing JOP programme and to insure its smooth replacement by the revised programme, the existing JOP technical assistance unit may ensure the interim management of the programme till the new TAB is operational (not later than 31.12.98) under the existing management arrangements (payments directly done by the Commission), but also including the new activities as described in this financing proposal.
Programme and its components and carry out an ex-post evaluation after completion of the programme. To facilitate monitoring a detailed set of performance criteria will be defined in keeping with programme objectives. The intermediaries and final beneficiaries shall undertake to have their relevant accounts available for auditing by the Court of Auditors, the European Commission or its designated agents when required.

11. SPECIAL CONDITIONS

None.

12. RISKS AND ASSUMPTIONS

The programme assumes a sustained effort by CEECs to press ahead with making further progress in relation to the transformation and reform process. The main risk is that activities which might be financed will have limited impact on enterprise development. Given the experience of the previous JOP programme and the changes which this programme has introduced to reflect the new priorities, the risks would seem reduced.
## Logframe matrix

<table>
<thead>
<tr>
<th>Wider Objectives</th>
<th>Indicators of achievement</th>
<th>Sources of information</th>
<th>Risks and assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening the competitiveness of the SME sector in CEECs in preparation for the accession through co-operation actions to facilitate accession</td>
<td>Increased competitiveness of SME sector in CEECs</td>
<td>National statistics, OECD, Eurostat, EBRD and World Bank.</td>
<td>CEECs continue commitment to development of SME friendly environment</td>
</tr>
<tr>
<td><strong>Intermediate objectives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of partnership between enterprises in CEECs and EU</td>
<td>Volume and quality of joint ventures and other co-operation agreements</td>
<td>As above, plus internal Commission sources and evaluation reports</td>
<td>EU and CEEC SMEs interested in co-operation. EU assistance offered can act as incentive for such actions.</td>
</tr>
<tr>
<td><strong>Immediate objectives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion of JVCs, JVs and JPMA</td>
<td>Number of SMEs that have explored co-operation</td>
<td>As above</td>
<td>SMEs are interested in developing co-operation based on sound analysis and EU support provides an effective incentive</td>
</tr>
<tr>
<td>Provide a solid basis for co-operation decisions</td>
<td>Number of co-operation contracts signed and implemented</td>
<td>As above</td>
<td></td>
</tr>
<tr>
<td>Facilitate the transfer of know how</td>
<td>Training activities developed</td>
<td>As above</td>
<td></td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs informed about co-operation opportunities</td>
<td>Number of SMEs reached</td>
<td>Programme statistical resources</td>
<td>Risk of consultant or intermediary driven actions</td>
</tr>
<tr>
<td>Pre-feasibility and feasibility studies completed.</td>
<td>Number and quality of studies completed</td>
<td>As above</td>
<td>As above</td>
</tr>
<tr>
<td>Success grant awarded</td>
<td>As above + implemented</td>
<td>As above</td>
<td>As above</td>
</tr>
<tr>
<td>People trained</td>
<td>Number of people trained per level and type</td>
<td>As above</td>
<td>As above</td>
</tr>
<tr>
<td><strong>Inputs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business co-operation events, workshops, training, brochures, EuroJop Data dossiers.</td>
<td>Number and volume of activities</td>
<td>Programme statistical resources</td>
<td>Risk of consultant or intermediary driven actions</td>
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<tr>
<td>Technical assistance for pre-feasibility and feasibility studies.</td>
<td>Number of reports/studies</td>
<td>As above</td>
<td>As above</td>
</tr>
<tr>
<td>Transfer of know-how and training</td>
<td>Number of programmes and people involved</td>
<td>As above</td>
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</tbody>
</table>

**Anticipated quarterly contracting schedule**
<table>
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<tr>
<th>Year 1998</th>
<th>1/4</th>
<th>2/4</th>
<th>3/4</th>
<th>4/4</th>
<th>Total</th>
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<tbody>
<tr>
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<td>0</td>
<td>0</td>
<td>4</td>
<td>16</td>
<td>20 MECU</td>
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