

Synthesis Report

European Commission

**Thematic Evaluation
of Structural Fund
Impacts on SMEs**

July 1999



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The study 'Thematic Evaluation of Structural fund Impacts on SMEs' was carried out by Ernst & Young for the European Commission (DGXVI) in 1998-99. The aims of the evaluation were to:

- provide a thorough and systematic analysis of the contribution and impact of Structural Funds support to SMEs;
- on the basis of the analysis, to draw up recommendations for future investment by the Structural Funds in support for SMEs in the assisted regions based on the experience of past and current interventions.

The research covers Structural Fund interventions in favour of SMEs during the period 1989-99 with a focus on the current programming period. The methodology combined a 'top-down' dimension (analysis of programme documents) with 'bottom-up' research (evaluation of almost ERDF and ESF 100 projects and a telephone survey based on a sample of over 1,000 SMEs).

Ernst & Young was responsible for co-ordinating the research which covered all EU Member States.

Overall Conclusions

Overall, it is clear from the research that Structural Fund interventions have had a significant impact on the SME sector and, in so doing, have made an important contribution to wider regional policy aims:

- *during the 1989-99 period, some 1.5 million SMEs received Structural Fund assistance (about 8% of all SMEs in EU Member States)*
- *around 2 million net jobs were created or saved as a result of Structural Fund assistance to SMEs (about a quarter of all net Structural Fund jobs for the 1994-99 period)*
- *in the absence of Structural Fund assistance, 70% of SMEs said they would not have gone ahead with their projects or that they would have been delayed/modified*

As to whether the interventions have achieved their objectives, no definitive conclusions are possible because the objectives were not precisely defined at the outset of the period under review.

Looking ahead, the research suggests that rather than increasing the level of Structural Fund committed to SME promotion in the post-2000 programmes - which at 18% of total outlays is already considerable - the emphasis should be on making even more effective use of the resources already earmarked for SMEs. More precise targeting on SMEs that can contribute most to job and wealth creation, combined with further adjustment in the allocation of resources to different types of SME measures and more

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emphasis on achieving an improved sustainability of interventions (e.g. through greater use of revolving finance), are the key to achieving this aim.

Structural Fund Expenditure on SMEs

1. A very substantial proportion - around 18% - of Structural Fund expenditure is earmarked for SMEs in current programmes. Based on an analysis of the SPDs, we estimate that some ECU 21.3 billion of Structural Fund resources has been directly invested in SME promotion measures during the 1994-99 programming period. A further ECU 16.3 billion of Structural Fund expenditure (14% of the total) is likely to have indirectly benefited SMEs by helping to improve the overall business environment.

2. There is a considerable variation between Member States and regions in the proportion of Structural Fund expenditure being devoted to SME promotion. According to our analysis, Structural Fund expenditure that is clearly earmarked for SMEs ranges from an estimated 14.5% of total outlays in Objective 1 regions to 35.0% (Objective 2), 31.5% (Objective 5b) and 25.4% (Objective 6).

3. Structural Fund resources are being used to support a wide range of measures in favour of SMEs. According to the analysis, financial assistance/engineering schemes (grants, loans, venture capital, interest rate subsidies, etc) account for the highest proportion of Structural Fund expenditure on SMEs - approaching a third (34.6%) of the total - followed by ESF-funded training measures for small firms (16.9%), business support services (12.6%), support for innovation and technology development (11.7%), and expenditure on SME physical infrastructure (10.0%).

4. There are good examples in a number of regions of highly successful and innovative measures being implemented to assist SMEs. This includes examples of 'one-stop-shop' delivery mechanisms being developed; the leveraging of private sector support for SME support measures; actions that support 'horizontal' and 'vertical' networking; and particularly effective ways of combining ERDF and ESF interventions. The report also highlights lessons relating to what can be done to make other types of SME intervention work better.

Targeting of SME Measures

5. Over a third (39.3%) of the EU's 18 million SMEs are located in regions that are eligible for Structural Fund assistance. Given the number of eligible firms, there is clearly a danger of the Structural Fund resources devoted to SME promotion being spread too thinly to have any real impact.

6. In many of regions, Structural Fund interventions have been focused on particular types of SMEs within the size band 1-249 employees. Limiting assistance to SMEs in particular size bands appears to be the most common way of targeting Structural Fund interventions. Examples of this approach are to be found in a number of Member States including Denmark, Ireland, Italy and Netherlands.

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7. *There is also evidence of Structural Fund interventions being targeted on SMEs in particular sectors.* In most assisted regions, SMEs in some sectors (e.g. retailers and some other services) are excluded from Structural Fund programmes. However, from a more positive perspective, there are also good examples of interventions having a precisely-defined sectoral orientation aimed at developing particular types of SME clusters. Examples include SMEs engaged in food processing (e.g. Ireland), renewable energy (Finland), transport and distribution (Netherlands), multi-media (Germany) and clothing and textile (UK).

8. *In some regions, Structural Fund interventions in favour of SMEs are also being targeted in a way that is designed to help particular social groups.* Thus, in Sweden, for example, there are several Structural Fund-backed schemes that give priority to helping women develop their business interests. Likewise, both here, and in Germany and Spain, there are good examples of Structural Fund resources being used for programmes - particularly in the financial engineering field - that are specifically designed to help young entrepreneurs. In general, the feedback on the effectiveness of schemes such as these is favourable although in some cases it is too early to reach definite conclusions.

9. *However, overall, the research suggests that more could be done to improve the targeting of Structural Fund interventions in favour of SMEs.* The research suggests that greater emphasis needs to be placed on closely aligning SME measures with regional development strategies. In particular, interventions need to be focused on developing the competitiveness and growth prospects of SMEs in 'key' clusters/sectors whose prospects are likely to determine the outlook for regions as a whole. At present, with the exception of examples such as those cited above, there is relatively little evidence of SME measures targeted in this way.

Delivery Mechanisms

10. *Business support organisations with a role in delivering Structural Fund assistance to SMEs place relatively little emphasis on proactively marketing schemes.* According to feedback from the survey work that formed part of the research, most SMEs (74.7% of the sample of 1,072 firms) make their own enquiries about the availability of external assistance rather than being approached first by an intermediary organisation.

11. *According to the survey feedback, a significant proportion (41.3%) of SMEs have difficulty in finding out what assistance is available to them.* Smaller SMEs face the most problems in this respect. One reason for this difficulty is that delivery mechanisms are still highly fragmented although steps are being taken in some countries to develop 'one stop shops' (see Point 13).

12. *Nevertheless, most SMEs (66.7%) are satisfied with the way in which Structural Fund assistance is delivered to them although there are quite marked variations*

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between Member States. According to the survey, satisfaction with intermediary organisations is higher in countries such as Finland, Ireland and the UK than in other Member States. On the negative side, amongst the criticisms voiced by SMEs, lack of information on available assistance, together with a perception that application procedures are bureaucratic, complicated and time-consuming, tend to be the most frequently-mentioned.

13. There is a growing awareness of the need to rationalise the structures used to deliver assistance to SMEs with the ‘one-stop-shop’ model being adopted in a number of countries. A significant proportion of SMEs (75.1%) surveyed by us had made use of more than one type of assistance but complained that they were not ‘packaged’ together. The report identifies three types of ‘one-stop-shop’ model - centralised and highly integrated models; decentralised ‘one-stop-shop’ models that operate from a number of outlets; and a third type where business support providers operate autonomously but there are good client referral mechanisms.

14. There is some evidence of Structural Fund interventions having a ‘crowding out’ effect. An important issue examined in the study is the extent to which Structural Fund interventions are targeted in a way that genuinely addresses market failures, i.e. deficiencies in the existing provision of SME support measures, as opposed to ‘crowding out’ alternative (private sector) business support providers. Approaching a quarter (22.4%) of the SMEs covered by the survey work stated that they had not used alternatives to Structural Fund schemes because they were too expensive.

15. There are good examples from the research of steps being taken to develop public-private sector partnerships as a way of strengthening delivery mechanisms for Structural Fund assistance to SMEs. ‘One-stop-shop’ models in several Member States (e.g. Netherlands and UK) emphasise the involvement of private sector organisations - typically professional firms and local employers - in helping to define business support priorities and to deliver assistance. This could help to minimise possible crowding out effects as well as improving the targeting and delivery of assistance to SMEs.

16. The research suggests that there is considerable scope to adjust Structural Fund SME measure pricing policies. At present, most SMEs (75% according to the survey work) are not required to pay for the assistance they receive. However, feedback from smaller firms that have made use of schemes indicates that a significant proportion - over a third (36.6%) would be willing to make some financial contribution.

Structural Fund Impacts on SMEs

17. The top-down research suggests that approaching 800,000 SMEs will have been assisted by Structural Fund interventions during the current 1994-96 programming period. The ‘top-down’ estimates have been arrived at by analysing a variety of information sources including the targets set out in SPDs and monitoring data help by

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national authorities and/or contained in interim evaluations. However, the top-down estimates are likely to be on the conservative side - bottom-up research suggests that some 1.5 million SMEs received Structural Fund assistance during the 1994-99 period.

18. 'Bottom-up' aspects of the research suggest that the gross additional employment effects outputs directly attributable to Structural Fund interventions in favour of SMEs during the 1994-96 period are likely to be 2.3 million. This estimate has been arrived at by scaling up the jobs created or saved by the sample of assisted SMEs used for the survey work. Taking into account additionality, and possible displacement and indirect effects, results in a 'bottom-up' estimate of around two million net jobs. The report examines the sensitivity of net job estimates by testing various scenarios relating to Structural Fund targeting, SME survival rates, and the parameters for additionality, displacement and indirect effects. If a 'top-down' method is used to estimate employment effects attributable to measures to assist SMEs, a lower figure of 1.5 million (gross) jobs is arrived at. The report concludes, however, that this is likely to be an underestimate.

19. It is estimated that the net SME employment effects are equivalent to up to a quarter of all additional jobs that can be attributed to Structural Fund interventions in favour of SMEs during the 1994-99 period. The estimate ranges from 11.8 (using the 'top-down jobs estimate) to 23.5% (bottom-up data). The net cost per job is estimated at an average ECU 17,500 but there are wide variations between Member States and types of regions.

20. Feedback from SMEs suggests that in addition to effects on employment, Structural Fund interventions have helped to promote SME competitiveness and growth in a variety of ways. These include promoting the absorption of new technologies, networking with other SMEs to share knowledge, internationalisation, strengthening supply chain linkages with larger firms, improving skills and heightening an awareness of environmental issues. An increasing emphasis has been placed on benefits such as these under the current Structural Fund programmes.

21. Overall, the research suggests that Structural Fund intervention in favour of SMEs have demonstrated added value in a number of ways. In the first place, Structural Funds measures provide additional resources for investment in SME support programmes; secondly, they also make an important contribution to addressing 'market failures' and other deficiencies in the provision of support services to SMEs, and have helped to raise the profile of SME policy as a regional development instrument; thirdly, the need to comply with Structural Fund programme management requirements has led to improved administrative practices

22. In terms of the 'key evaluation issues', the performance of Structural Fund SME measures is mixed. The study suggests that most interventions score highly in terms of their relevance to wider regional development objectives. There is mixed performance

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against the criteria of efficiency, effectiveness, utility and sustainability. The absence of good quality information on projects makes a detailed assessment difficult. Nevertheless, the case studies, coupled with the other feedback from the evaluation, point to a number of priorities for future Structural Fund interventions in favour of SMEs.

Recommendations and Policy Implications

Recommendations and policy implications are summarised below.

Good Practice and Future Measure Level Priorities

23. *The report highlights a large number of ways in which Structural Fund schemes for SMEs can be made to work more effectively and a priority should be to ensure that this experience is shared between regions.* We recommend that the Commission should encourage the development of ‘best practice’ networks, for example in the field of financial engineering, so that those directly involved with the implementation of Structural Fund schemes can share experience and good ideas.

24. *With regard to specific measures, priorities in the SME financing field should include making greater use of private sector intermediaries.* We recommend that the Commission should seek to work more closely with financial institutions in designing and implementing Structural Fund SME financing measures, encouraging programme managers to do so in their regions but also possibly through direct contact at a European level with leading financial organisations and their associations. In the short-term, a priority should also be given to helping SMEs adapt to the Euro.

25. *Continuing priority should be given under the new Structural Fund programmes to adjusting the balance between grant schemes and refundable types of SME finance such as loans and venture capital, thereby improving the sustainability and cost-effectiveness of schemes.* We recommend that priority should therefore be given to further developing financial engineering schemes and tackling key constraints, especially by ensuring that professional expertise is available, appropriate management structures are introduced and (in the case of venture capital) exit mechanisms for investors are developed such as access to secondary stock markets.

26. *As far as SME business advisory services are concerned, key priorities should be to bring about an improved ‘packaging’ and integration of measures with more emphasis on an initial diagnosis of SME needs and revenue generation from services.* We recommend that the Commission should stipulate that Structural Fund programmes for SMEs involving assistance above a certain threshold should include a structured diagnostic and action-planning element. More emphasis should also be placed on ‘packaging’ different types of business support services together, including SME financing schemes, training and advisory support. Pricing practices for Structural

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Fund-backed business support services should be reviewed with the aim of raising revenue for reinvestment in schemes.

27. In addition to actions relating to publicly-funded SME support services, the Commission and its partners should consider what can be done, especially in Objective 1 and 6 regions, to strengthen the private sector business services sector. Business services are one of the fastest growing sectors in many local economies and one that tends to have a particularly high concentration of knowledge-intensive SMEs. Moreover, quite apart from the importance of the sector in its own right to regional development, business services have a critical input to make to the competitiveness and growth prospects of other sectors, and especially to SMEs in them.

28. Current priorities in the field of SME innovation and technology are broadly appropriate but more should be done to integrate these measures into other SME support schemes. SME innovation and technology measures are being evaluated in a separate study which is likely to recommend specific improvements. This study has, however, highlighted the merits of broadly-defined ‘knowledge’ initiatives where actions with regard to SME innovation and technology transfer are integrated into more holistic sets of measures to help small firms develop their competitiveness and growth prospects.

29. Training measures should be customised more closely to SME needs with a diagnostic and action planning stage built into all business support programmes. A number of ‘best practices’ have been highlighted by the research in this field including the importance of ensuring that training measures are customised closely to SME needs. We recommend that new Structural Fund programmes should place more emphasis on SME diagnostic services and the preparation of training action plans, ensuring that these are built into all schemes as a ‘foundation’ component (see also Point 26). More generally, there is a need to achieve a closer integration of ERDF and ESF measures in favour of SMEs.

30. Taking the various types of SME measures together, consideration should be given to adjusting the balance between Structural Fund expenditure priorities in new programmes. We recommend that the Commission should consider shifting Structural Fund expenditure in new programmes from SME grant aid schemes - which currently account for a high proportion of total outlays - to the other types of intervention, especially business support services, risk capital schemes, the promotion of innovation, networking, and SME training measures. The level of expenditure on SME physical infrastructure could also be reduced in some regions. More generally, the shift that has taken place in favour of ‘softer’ and more indirect types of Structural Fund intervention aimed at improving the overall business environment for SMEs should be maintained.

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Cross-Cutting and Programme Level Priorities

31. In the future, more emphasis should be placed in Structural Fund programmes on the development of SME clusters and on initiatives to promote ‘horizontal’ and ‘vertical’ networks. The research has highlighted a number of initiatives to promote SME clusters, concluding that these are a particularly effective way of developing the small firms sector. From a strategic point of view, the concept of sectorally-orientated clusters and networks provides a more focused and coherent framework for planning interventions. We therefore recommend that the Commission and its partners should place much more emphasis on actions in this field in future programmes.

32. More emphasis should be placed by Structural Fund SME measures on ensuring that there are equal opportunities. The research has highlighted a number of initiatives to promote the role of women as entrepreneurs and SME owner-managers and these should be encouraged across all EU Member States. The same applies to other schemes targeted on young people. We recommend that the Commission should renew its efforts to ensure that future SME programmes include more initiatives to promote equal opportunities, drawing on best practice from the regions where measures are already in place. Guidance needs to be provided since there is considerable uncertainty as to how the principle of equal opportunities should be applied in practice to measures such as SME schemes.

33. There is a need to define the targets of Structural Fund interventions in favour of SMEs much more clearly - both at a strategic and operational level. The current SPDs have improved the quantification of targets but neither the documents nor subsequent actions demonstrate strategic thinking with regard to the aims of SME measures or a close alignment between these measures and overall regional development objectives. In the report, we have suggested a framework based on the concept of ‘key sectors’.

34. At an operational level, there is a need to improve project selection methods so that the additionality of Structural Fund aid to SMEs is maximised and deadweight is minimised. The feedback from the SME survey work has pointed to significant levels of deadweight. Apart from improving the overall targeting of Structural Fund aid, more should be done to emphasise the importance of testing for additionality in project selection procedures and criteria. Also, the priority placed by regional authorities on maximising the absorption of Structural Fund aid can be at odds with the need to focus resources only on projects and SMEs that can genuinely benefit from assistance.

35. Similarly, consideration should be given to developing a broader range of standard output indicators for Structural Fund SME measures and improving the systems used by regional authorities for monitoring progress against them. The ‘top-down’ aspect of this evaluation has relied on two main output indicators - the number of SMEs assisted and gross jobs created or maintained - which reflects the type of monitoring data currently available from regional authorities. Whilst it is clearly important that these basic outputs should be measured (and preferably more accurately,

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especially in the case of jobs maintained), there is a need for improved data on the type of Structural Fund aid provided to SMEs and a more detailed analysis of the type of beneficiaries (e.g. size and sector breakdown). This would enable impacts to be measured much more accurately. Consideration should also be given to how Structural Fund interventions on SME competitiveness can be measured.

36. *With regard to delivery mechanisms for Structural Fund assistance to SMEs, the Commission should examine ways in which it can accelerate the development of a ‘one stop shop’ approach.* However, a prescriptive approach should be avoided - as the research highlights, there are a number of equally effective models, depending on circumstances in different regions. However, basic principles aimed at facilitating SME access to schemes should be defined by the Commission.

EU Level Policy Priorities

37. *At an EU level, there is a need to improve the overall coherence of different Commission programmes that have a bearing on SME development.* Although the Commission has issued various policy statements, action programmes and co-ordination frameworks covering the broad range of SME interventions, the fact that different Directorate-Generals are involved in administering programmes tends to mitigate against a coherent approach in practice and also to complicate steps to bring about a closer integration of schemes ‘on the ground’. The development of ‘one stop shops’ is again highly relevant in this respect.

38. *The priority in the future should not be to allocate more resources to Structural Fund SME measure, but rather ensuring that existing resources are used to better effect.* We recommend that the Commission places greater emphasis on the principles of leverage and financial sustainability, and encourages more ‘challenge’ type SME support schemes involving competitive bidding for grant aid, in the new programmes. With many regions facing a reduction in future levels of Structural Fund assistance after the 1999 reforms, this approach is especially appropriate.

39. *Looking ahead, the Commission should ensure that the new Structural Fund Regulations contain a renewed commitment to promoting SMEs.* The evaluation feedback suggests that SME measures remain highly relevant to broader EU policy objectives, especially with regard to competitiveness, employment, regional development and cohesion. This should be acknowledged in the new Structural Fund regulations.

Part 1

Background

INTRODUCTION

1

This document sets out the synthesis report on the study ‘Thematic Evaluation of Structural Fund Impacts on SMEs’. The research was carried out by Ernst & Young on behalf of the European Commission.

The aims of the evaluation were, in summary, to:

- provide a thorough and systematic analysis of the contribution and impact of Structural Funds support to SMEs;
- on the basis of the analysis, to draw up recommendations for future investment by the Structural Funds in support for SMEs in the assisted regions based on the experience of past and current interventions.

The research examines Structural Fund interventions in favour of SMEs during the period 1989-99 with a focus on the current programming period. All EU Member States are covered. In addition to satisfying accountability requirements, the purpose of the evaluation is to inform decisions concerning future policy towards SMEs.

The report is structured as follows:

- **Section 2** - places the research into context by examining the role of SMEs, the European policy background, and previous research;
- **Section 3** - sets out the conceptual-theoretical framework, evaluation aims and methodology;
- **Section 4** - presents the results of the ‘top-down’ dimension of the evaluation, focusing on the objectives of Structural Fund interventions in favour of SMEs, the expenditure involved, how programmes have been managed, together with an analysis of monitoring data on the number of SMEs assisted and employment outputs;
- **Section 5** - presents the results of the ‘bottom-up’ dimension, i.e. fieldwork at a regional level to examine how Structural Fund measures have actually been implemented, together with the results of the survey of SME beneficiaries;
- **Section 6** - examines the good practice lessons to be learnt from the research, and provides an overall impact assessment;
- **Section 7** - sets out the study's overall conclusions, together with recommendations and policy implications.

The evaluation was carried out by Ernst & Young in 1998-99 using a team of sub-contractors from the fifteen Member States. Details of the evaluation team are contained in Appendix A. It should be noted that separate country reports (bound separately) have been prepared for each Member State. This report synthesises the key findings from the national research.

BACKGROUND AND POLICY CONTEXT

2

In this section of the report, we consider the background to the research, the policy context, and the evaluation methodology.

2.1 Background - Role of SMEs

According to the Commission's definition¹, an SME is an undertaking that:

- employs fewer than 250 people;
- has an annual turnover not exceeding ECU 40 million;
- is less than 25% owned by a larger business.

In the mid-1990s, the EU was estimated to have just over 18 million SMEs employing fewer than 250 people. Table 1 provides a breakdown of this data by Member State.

Table 1: EU Small and Medium Sized Enterprises (1995)

Member State	No. SMEs ('000s)	SME Employees (millions)	SMEs as % of all EU Jobs	SME Turnover (MECU)	SMEs as % of all EU Turnover	No SMEs per 1000 population
B	594	2.67	56.2	307,654	65.7	58.6
DK	235	1.08	72.5	147,125	62.4	45.1
D	3,334	17.33	59.9	2,077,220	52.4	40.8
EL	747	1.5	85.6	675,306	78.8	71.6
E	2,349	8.68	81.1	639,290	60.2	57.9
F	2,116	10.11	63.4	1,248,380	56.3	36.5
IRL	160	0.50	79.3	68,222	35.6	42.0
I	3,251	11.17	78.7	1,059,905	68.1	56.8
L	18	0.13	71.0	42,481	78.5	42.1
NL	550	3.16	60.9	423,047	64.5	31.6
A	237	1.67	68.0	260,752	64.9	29.4
P	656	2.27	77.5	124,678	68.6	66.2
FIN	180	0.61	56.6	99,148	45.0	35.4
S	243	1.29	65.2	209,285	54.4	27.6
UK	3,355	12.06	57.7	2,378,762	45.8	57.3
EU15	18,025	73.43	66.2	9,358,522	54.7	48.5

Source: Eurostat - Enterprises in Europe - Fifth Report (1998)

To put the above statistics into context, it is estimated that some 99.8% of undertakings in the European economy are SMEs employing less than 250 people, representing over two-thirds (66.2%) of all employment or around 73 million jobs. SMEs are also

¹ European Commission Recommendation (96/280/EC) 'concerning the definition of small and medium-sized enterprises (3 April 1996).

BACKGROUND AND POLICY CONTEXT

2

(Continued)

significant in terms of the EU's output, accounting for over half (54.7%) of turnover.² SMEs therefore make a vital contribution to the job and wealth creation process. As can be seen from Table 1, this is true in all EU Member State although their share of employment is especially pronounced in countries covered by Objective 1 of the Structural Funds.

An analysis of the number of SMEs relative to population sizes reveals a more complex pattern. EU Member States covered by Objective 1 generally have a higher concentration of SMEs which, taken together with the employment data shown in Table 1, indicates that the average firm size is smaller in these regions than elsewhere. If anything, there is a North-South differentiation with regard to average SME unit size although, as Table 2 suggests, sectoral factors are also an important explanatory factor.

Table 2 provides an analysis of the EU's small firms by sector and size band.

Table 2: Breakdown of SMEs by Sector and Size Bands (1995)

Country	Distribution by Sector			Distribution by Size (No Employees)			
	<i>Agriculture</i>	<i>Industry</i>	<i>Services</i>	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-250</i>
B	2.3	26.4	71.3	70.1	25.6	3.6	0.5
DK	4.8	26.9	68.3	64.6	28.2	6.0	1.0
D	3.2	36.0	60.8	36.3	51.3	10.5	1.6
EL	20.8	24.6	54.6	53.5	44.1	2.1	0.3
E	8.8	29.4	61.9	57.7	37.2	4.4	0.6
F	4.6	25.8	69.6	51.6	41.3	5.8	1.0
IRL	13.7	28.7	57.7	33.9	50.8	12.5	2.3
I	8.4	28.6	63.0	47.2	47.2	5.0	0.5
L	2.7	28.2	69.2	38.2	47.5	11.6	2.4
NL	4.8	24.8	70.5	43.8	46.0	8.0	1.7
A	5.3	31.3	63.4	33.2	54.3	9.7	2.2
P	14.2	32.5	53.3	45.7	48.2	5.1	0.8
FIN	8.1	27.7	64.2	53.9	39.8	5.0	0.9
S	3.7	25.1	71.2	42.8	47.3	8.2	1.4
UK	2.1	23.4	74.6	65.9	28.4	4.7	0.7
SME Average	7.2	28.0	64.8	51.6	41.3	5.0	0.2

Source: Eurostat - *Enterprises in Europe - Fifth Report (1998)*

Note: Columns for 'Distribution by Size' exclude large firms and therefore do not add up to 100%

Table 2 indicated that the lowest densities of SME units are to be found in regions where agriculture or the extraction and processing of natural resources are especially

² These data do not take into account the possible participation of large businesses in the capital of SMEs. The definition of an SME subsequently adopted by the Commission in 1996 introduced a criterion relating to external shareholdings.

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(Continued)

important to local economies - Greece, Spain and Portugal illustrate this most clearly - but also in former heavily industrialised areas that have declined. Conversely, high SME densities are generally to be found either in large urban areas or in regions with well-established industrial centres.

The SME population is not, of course, stable and there are varying start-up and 'mortality' rates depending on macro-economic circumstances and other business and locationally-specific factors. However, compared with the early 1990s, recent years have seen an increase in the EU of the net number of SMEs. Since the mid-1990s, according to one analysis, there have been around 1.8 million new start-ups each year in the EU compared with about 1.5 million closures, a net annual increase equivalent to approximately 12% of the total stock of enterprises.³ Financial and Business Services, Information and Communications Technology (ICT) based activities, and Transport and Distribution are amongst the sectors where SME start-up and growth rates have been highest although here again there are marked regional variations.

There is a considerable amount of existing research on the job and wealth creation role of SMEs (for a detailed review of this research, reference should be made to the Phase 1 country and EU-level synthesis reports that were prepared as part of this study). According to the Commission's own analysis, SMEs employing less than 100 people were responsible for almost all EU employment creation between 1988-95 at a rate of around 250,000 net jobs per annum.⁴ Other research has challenged what are seen as exaggerated claims, suggesting that it is, in fact, a relatively small number of very fast-growing SMEs that account for most of the net job gains whilst the 'large and turbulent' tail of micro firms has a high mortality with a tendency to generate relatively unstable and low quality jobs.⁵

Quite apart from their significance in terms of EU employment and output, SMEs are also often more innovative than larger firms with the capacity to adapt more quickly to changing technology and market conditions. For these and other reasons, the promotion of SMEs is a key aim of the European Union's Structural Fund interventions.

2.2 European Policy Context

³ Eurostat 'Enterprises in Europe - Fifth Report (1998).

⁴ European Commission 'Small and Medium Sized Enterprises: A Dynamic Source of Employment, Growth and Competitiveness in the European Union', Report presented by the Commission to the Madrid Council (1995), CSE (95) 2087

⁵ Alan Hughes 'Small Firms and Employment', Economic Report (Vol. 10, No. 9), Centre for Business Research at Cambridge University (December 1996).

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(Continued)

The legislative basis for Structural Fund interventions in favour of SMEs is set out in Article 130 of the EC Treaty, as amended by the Treaty on European Union, which stipulates that the Commission and Member States should adopt policies ‘aimed at ... encouraging an environment favourable to initiative and to the development of undertakings throughout the Community, particularly small and medium-sized undertakings’.

Structural Fund policies towards SMEs can be traced back to the early 1980s. In the 1984 Structural Fund Regulations, for example, the role of the ERDF was defined, amongst other things, as being to promote the ‘exploitation of indigenous potential’ by stimulating ‘internally-generated’ regional development, mainly through investment in physical infrastructure but also by ‘assisting primarily small and medium-sized undertakings in industry, craft industries and tourism’. The revised 1988 Structural Fund Regulations placed even more emphasis on the promotion of SMEs and removed an earlier 10% limit on the proportion of regional development spending that could be devoted to business support measures. Since then, the European Commission has devoted an increasing level of resources to SME support programmes, as the analysis in this report shows.

The promotion of SMEs features prominently in other EU policy fields. Thus, the Commission’s 1993 Competitiveness White Paper identified the promotion of SMEs as one of the three main factors enabling the benefits of the Single European Market to be fully exploited (the other two being the regulatory environment and trans-European networks). Priorities set out in the White Paper included reducing regulatory constraints on SMEs, improving financing methods, support for co-operation between small firms, developing SME management skills, and focusing on the promotion of SMEs with high growth potential. To take these and other related actions forward, the Commission argued that there would need to be flexibility with regard to geographical priorities and the active co-operation of SME intermediaries.⁶

The Commission's current Integrated Programme for SMEs provides a framework for co-ordination of all activities in favour of SMEs. It includes: the specific Community measures for SMEs as carried out under the Third Multiannual programme for SMEs in the European Union⁷ (1997-2000), the contribution of other Community policies (such as the Structural Funds) to SME development, and the Concerted Actions which aim to promote the exchange of best practice amongst Member States and with the Commission on SME policies. The Programme sets out a number of priorities:

- simplifying and improving the administrative and regulatory environment for SMEs;

⁶ European Commission (1993) White Paper on ‘Growth, Competitiveness, Employment: The Challenges and Ways Forward into the 21st Century’, pages 71-74.

⁷ Council Decision 97/15/EC of 9 December 1996, OJ L 6 of 10 January 1997, page 1.

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(Continued)

- improving the financial and fiscal environment;
- helping SMEs to Europeanise and internationalise their strategies, in particular through better information and co-operation services;
- enhancing SME competitiveness through direct intervention to improve access to research, innovation support, information technologies and training;

Structural Fund resources are mainly devoted to the last two of these priorities. The European Regional Development Fund (ERDF) is used, for example, to promote new start-ups, strengthen publicly-funded SME support services, help SMEs innovate and become involved in RTD, develop sites and premises that are suitable for SMEs and to develop new financial instruments for smaller firms. The European Social Fund (ESF), for its part, supports a range of initiatives in the human resources field that can benefit SMEs including training for would-be entrepreneurs and the employees and managers of existing small firms. The two main SME support programmes supported by the ESF are the Objective 4 Programme, which received ECU 2.3 billion of EU funding during the period and the ADAPT programme which received ECU 1.6 billion of support. In both cases ESF resources have been used mainly for SME promotion. Likewise, in Objective 5b regions, the EAGGF Guarantee Section, and the LEADER Community Initiative, are used to promote the diversification and modernisation of rural SMEs. Last but not least, the SME Community Initiative, which received ECU 1.0 billion funding for the current programming period, is designed to help SMEs take advantage of the Single European Market. Apart from the Structural Funds, many of the EU's other financial resources - for example, those committed to the R&D Framework Programmes - are also deployed to promote EU policy aims in relation to SMEs.

In addition to Structural Fund Regulations, the Integrated Programme and other policy statements referred to above, there have been a number of important Council Resolutions and other statements in the 1990s that have helped to shape the EU's policy towards SMEs. These include a 1989 Resolution calling for steps to improve the business environment for SMEs, especially by reducing the burden of 'red-tape' on smaller firms in the run-up to completion of the Single European Market⁸; Resolutions in 1993 (and three years later) on the need to improve the co-ordination of SME policy⁹; a Commission report, presented at the 1995 Madrid Council meeting, on SME

⁸ Council Resolution 89/490/EEC 'on the improvement of the business environment and promotion of the development of enterprises, and in particular small and medium-sized enterprises, in the Community' (28 July 1989)

⁹ Council Resolution 93/379/EEC 'on a multi-annual programme of Community measures to intensify the priority areas and to ensure the continuity and consolidation of policy for enterprise, in particular small and medium-sized enterprises, in the Community (14 June 1993); and Council Resolution 96/C130/01 'on the co-ordination of Community activities in favour of small and medium-sized enterprises and the craft sector' (22 April 1996).

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(Continued)

policy priorities¹⁰; two further Resolutions in 1996 and 1997 focusing on simplifying the business environment for start-ups¹¹; and, more recently still, a Council Communication in early 1998 advocated the fostering entrepreneurship and an enterprise culture which included new measures, endorsed by the Employment Summit in Luxembourg, to improve access to financial assistance such as venture capital and mutual guarantee schemes.¹²

Looking ahead, it is envisaged that promotion of SMEs should be one of the main tasks of the Structural Funds following the 1999 reforms. The draft ERDF Regulation, published in March 1998, placed considerable emphasis on promoting SME competitiveness as a means of developing the endogenous potential of regions. More particularly, it calls for the Structural Funds to be used to strengthen business support services and to improve SME access to finance.¹³

2.3 Review of Previous Research

This study is designed to fill a gap by providing an evaluation focusing specifically on Structural Fund measures in favour of SMEs.

The literature review at the outset of the study identified relatively little research at a national and regional level examining the impact of the Structural Funds on SMEs. Exceptions that were highlighted included a thematic evaluation of business support measures in Scotland's Objective 2 regions. This research, carried out in 1993-94, involved a review of the 281 projects that received Structural Fund assistance and a telephone survey focusing on a sample of 200 SME beneficiaries.¹⁴ Further work has recently been undertaken in Scotland, with particular emphasis being placed on developing 'top-down' econometric methods for assessing Structural Fund impacts on SMEs in the assisted areas.¹⁵ Otherwise, most of the evaluation work carried out in Member States has been undertaken as part of broader reviews of Structural Fund

¹⁰ European Commission Report (Concerted Actions No. 2) on 'support measures for enterprises - creation and assistance to young entrepreneurs' (December 1995).

¹¹ See, for example, Council Resolution 97/344/EC 'on improving and simplifying the business environment for business start-ups' (22 April 1997).

¹² See COM (98) 26 Of 21 January 1998 'The Growth and Employment Initiative' (OJ L 155, 29.5.1998, page 43 and Communication on Fostering Entrepreneurship in Europe (COM (98) 222 of 7 April 1998).

¹³ European Commission, Draft Council Regulation on the European Regional Development Fund (16 March 1998).

¹⁴ Turok, Ivan 'Structural Fund Support for Business Development: Lessons from Evaluation', Paper for MEANS Conference, Berlin, December 1996.

¹⁵ See Scottish Enterprise paper presented to the MEANS Seville conference on evaluating structural policies (March 1998).

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(Continued)

programmes with no specific focus on SMEs. Some of the recent mid-term evaluations of the 1994-99 Structural Fund programmes do, however, contain more information specifically relating to SMEs.

Given the scale of Structural Fund expenditure on SMEs, the relative lack of research is surprising. In 1993, a first attempt was made by the European Commission to quantify the amount of Structural Fund resources being devoted to SME measures.¹⁶ An analysis of the CSF of the 12 Member States revealed the following budget allocations for the category of 'enterprise support' for the 1989-93 period:

Table 3: Estimated CSF budget allocations for SMEs (1989-93)

Assisted Regions	Total CSF Budget (ECU billion)	Enterprise Support (ECU billion)	%
Objective 1	38.4	5.74	15
Objective 2	7.2	2.5 - 3.6	35-50
Objective 5b	2.8	1.4-1.76	50-60
Total	48.4	9.64-10.2	20-21

Source: Ernst & Young 'An Evaluation of the Utilisation of the Structural Funds by SMEs', Report for European Commission/DG XVI (February 1993).

The research carried out in the 12 Member States suggested that some ECU 10 billion was allocated in the 1989-93 CSFs to the broad category of 'enterprise support'. Of this, between ECU 2.5 and 3.0 billion was estimated to have been earmarked specifically for SMEs. Since 1993, further attempts have been made to calculate the level of Structural Fund expenditure on SME promotion. For example, in 1995 the Commission produced an estimate that some 10% of the ERDF, 14% of ESF and 58% of EAGGF resources were being devoted to SME promotion in the 1994-99 Structural Fund programmes.¹⁷ In the case of the ERDF this meant that, in 1996, the allocation in favour of SMEs would have represented around ECU 12 billion.¹⁸ Another estimate - for Objective 2 regions - suggested that some 21% of Structural Fund resources had been committed to SME development in the 1997-99 SPDs (this excluded SME training).¹⁹ More recent calculations by the Commission, contained in the Commission's fourth 'Report on the Co-ordination of Activities to Assist Small and

¹⁶ Ernst & Young, 'Evaluation of the Utilisation of the Structural Funds by SMEs', Report for European Commission/DG XVI (February 1993).

¹⁷ European Commission (1995) Report on the Co-ordination of Activities to Assist Small and Medium Sized Enterprises and the Craft Sector, COM (98) 362 of 8 September 1995, page 7.

¹⁸ European Commission (1996) Seventh Annual Report on the Structural Funds, page 227.

¹⁹ European Policies Research Centre (1996) Extended Synthesis of Agreed Single Programming Documents in Objective 2 Areas', page 7.

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(Continued)

Medium Sized Enterprises and the Craft Sector', produced a lower estimate of 10% for Objective 1 and 16% for Objective 2 regions.²⁰

The complications in seeking to estimate physical outputs attributable to Structural Fund interventions in favour of SMEs are even greater than those relating to financial inputs. There is very little previous research on this question. Thus, the 1993 Ernst & Young report did not provide estimates of the physical outputs. Some estimates - for Objective 2 regions - can, however, be obtained from the ex-post evaluation study for this period. In this study, it was possible to obtain monitoring data on SME outputs from some 38 of the 60 Objective 2 regions. This suggested that 101,000 SMEs had benefited from Structural fund assistance during the 1989-93 period. By using expenditure per SME as a multiplier, an estimate for all 60 Objective 2 regions was made of around 472,000 SMEs assisted.²¹ No corresponding estimates were produced in the ex-post evaluation for Objective 1 regions for the 1989-93 period.

During the current programming period, more emphasis has been placed on analysing Structural Fund expenditure on SMEs and the outputs achieved. Thus, the interim evaluations of the 1994-99 Objective 1 programmes, and the 1994-96 and 1997-99 Objective 2 interventions, contain quite a lot of useful information although, as Section 3 of this report makes clear, this is not true in the case of most Objective 5b regions where a paucity of output data still exists. The task of evaluating Structural Fund SME interventions and outcomes has been made considerably easier as a result of the clearer definition of measures in the current programme documentation although, that said, complications remain. Nevertheless, the difficulties that still exist in attempting to calculate the amount of Structural Fund resources being devoted to SME promotion and the outputs achieved with any degree of precision led the Commission in 1997 to asking national authorities to draw up an inventory of actions available to SMEs from the different Structural Fund programmes.

This brief review of previous research highlights the gaps in information that still exist about Structural Fund expenditure and impacts on SMEs. The basic aim of the current study has been to help fill these and other deficiencies.

²⁰ European Commission Report on the Co-ordination of Activities to Assist Small and Medium Sized Enterprises and the Craft Sector, page 12 (COM (97) 610 dated 25.11.98)

²¹ Ernst & Young 'Ex-Post Evaluation of Objective 2 Programmes, 1989-93', Synthesis Report for European Commission/DGXVI (1997).

EVALUATION METHODOLOGY

3

This section sets out the evaluation methodology for the study.

3.1 Conceptual-Theoretical Framework

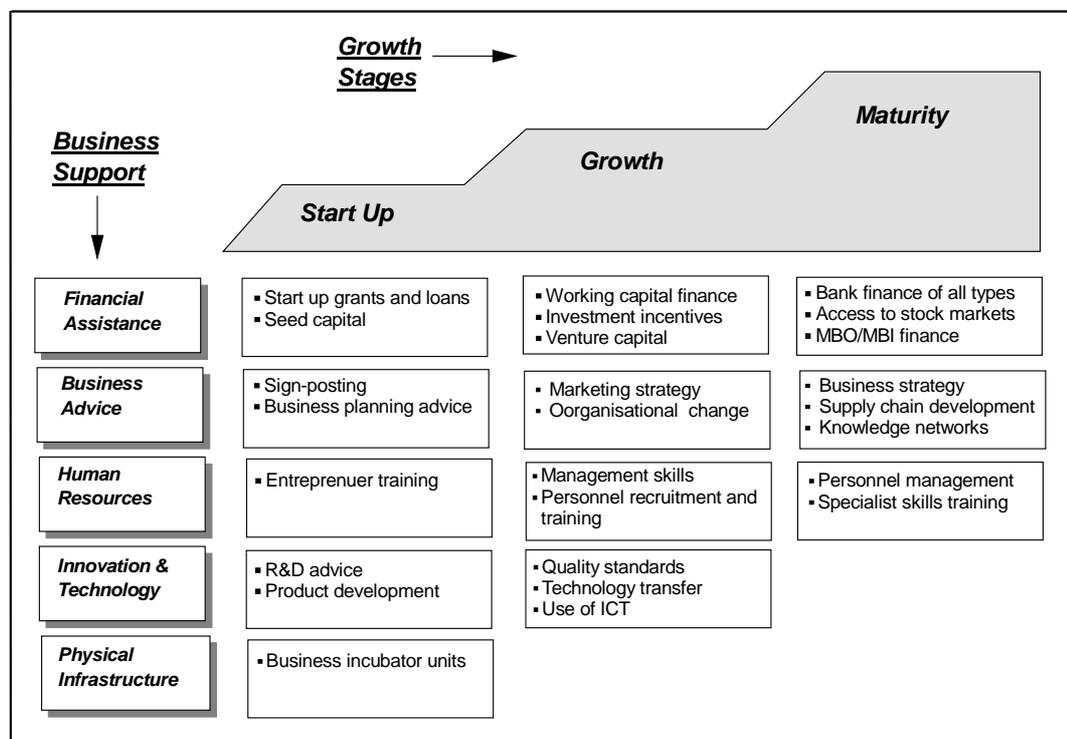
To provide a conceptual-theoretical framework for the evaluation, we develop a number of propositions in this sub-section concerning SME support needs, Structural Fund and other public interventions, and regional development.

Support Needs at Different Stages of SME Development

The availability and quality of business support services is generally seen as a critical factor influencing SME growth prospects. However, it is also recognised that because of their size and limited resources, SMEs are often at a disadvantage (compared to larger firms) in obtaining the types of advisory support, finance and other business services that are required to ensure survival and to maximise growth prospects.

Figure 1 sets out a basic typology of SME support needs, making an important distinction between small firms' needs at different stages of development.

Figure 1: SME Support Needs at Different Stages of Development



EVALUATION METHODOLOGY *(Continued)*

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In the diagram, a distinction is made between three stages in the development of SMEs - the start-up phase, growth phase, and maturity.

Start Up Phase - during the very earliest ('start-up') stages of their development, SMEs usually need a full range of support services, ranging from start-up finance - typically made available in the form of small grants and soft loans - to the provision of suitable and affordable premises. Public agencies usually focus on providing free or subsidised advice on business plans, help with training in basic business skills and ensuring that entrepreneurs know where to go to obtain other services ('sign-posting').

Growth Phase - the transition from being a micro-business to a small firm employing more than 5-10 people - depicted as the 'growth' phase in Figure 1 - is a critical stage in SME development and one where many businesses fail (on average, 50% of SMEs cease trading within five years of start-up²²). During this growth phase support needs typically focus on areas such as helping SMEs raise larger amounts of finance for investment and working capital to fund expansion, developing their markets, improving management skills and helping them to cope with organisational change. Many start-ups do not have the capacity to grow beyond the stage of providing self-employment for the founder; likewise, some SME owner-manager may not wish to expand their enterprise beyond being a micro-business.

Maturity Phase - the third stage in the model shown in the Figure 1 is where a small firm achieves a sustainable growth rate and successfully makes the transition to being a medium-sized enterprise. At this stage, support needs become more complex and, for example, may involve advice on a stock market floatation, exporting, help with the development of supply chains and integration into knowledge networks. In the human resources field there are likely to be increasingly specialist skills development requirements.

SME support needs vary not only at different stages of development but also, of course, according to the type of firm. High growth technology-based firms will have very different support needs across the full range of business support services to the mass of SMEs

Market Failure and Public Intervention

Having reviewed the nature of SME support needs at different stages in their development, we turn below to the relationship between the demand for and supply of business support services, focusing specifically on the role of public intervention.

²² See European Commission 'Small and Medium Sized Enterprises: A Dynamic Source of Employment, Growth and Competitiveness in the European Union', Report presented by the Commission to the Madrid Council (1995), page 2.

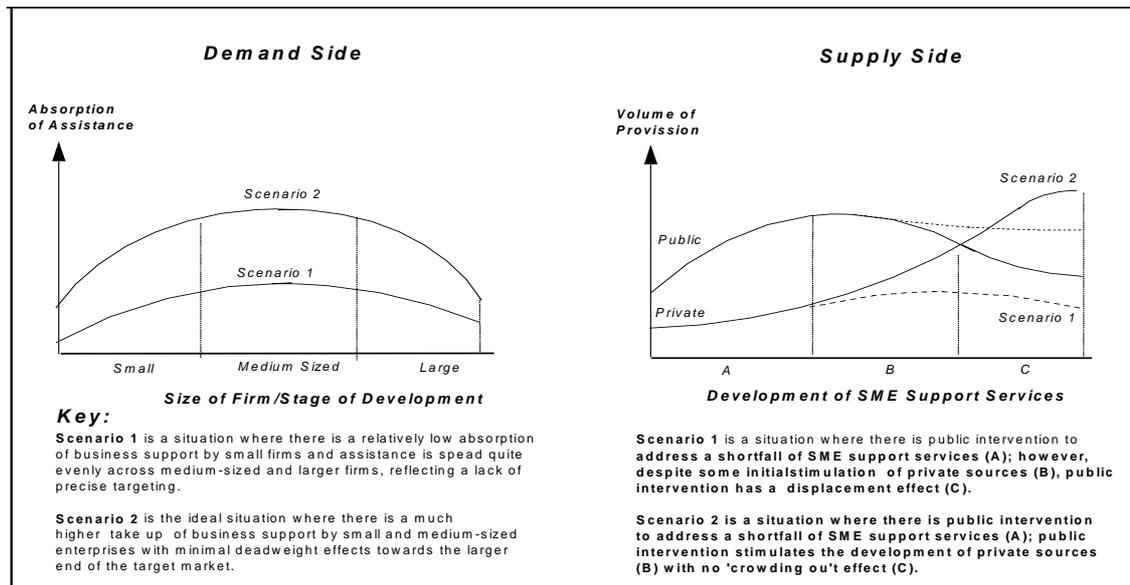
EVALUATION METHODOLOGY *(Continued)*

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Existing research points to strong evidence of a ‘market failure’ in the provision of business support services to SMEs. In many developing regions, there may be relatively few business service providers; similarly, even in more industrialised regions, where provision is usually more highly developed, the market focus of business service providers is typically on larger and what are perceived as being less risky clients. Compounding this is often an ‘information failure’ - even where appropriate (public or private) schemes exist, SMEs may not be aware of them; similarly, where an awareness exists that external assistance can help and is available, other factors often come into play such as the pricing of support services which are often regarded as unaffordable by SMEs. Also, smaller firms often find it difficult to assess their own needs and are often reluctant to make use of external advice and assistance of any type.

Demand Side - the left-hand diagram in Figure 2 below describes two scenarios in the demand and supply of SME support services. Scenario 1 is a situation where there is relatively low demand from SMEs for assistance and services are provided across a broad range of firms (depicted by the relatively flat curve in the diagram). The aim of public intervention in this situation is twofold: to focus support services on the target market of small and medium-sized enterprises and, secondly, to raise the overall level of demand (shown as Scenario 2 in the ‘demand-side’ diagram).

Figure 2: SME Support - Demand and Supply Side Scenarios



Supply Side - the second diagram on the right-hand side of Figure 2 considers several scenarios relating specifically to the role of public authorities in the provision of SME support services.

EVALUATION METHODOLOGY *(Continued)*

3

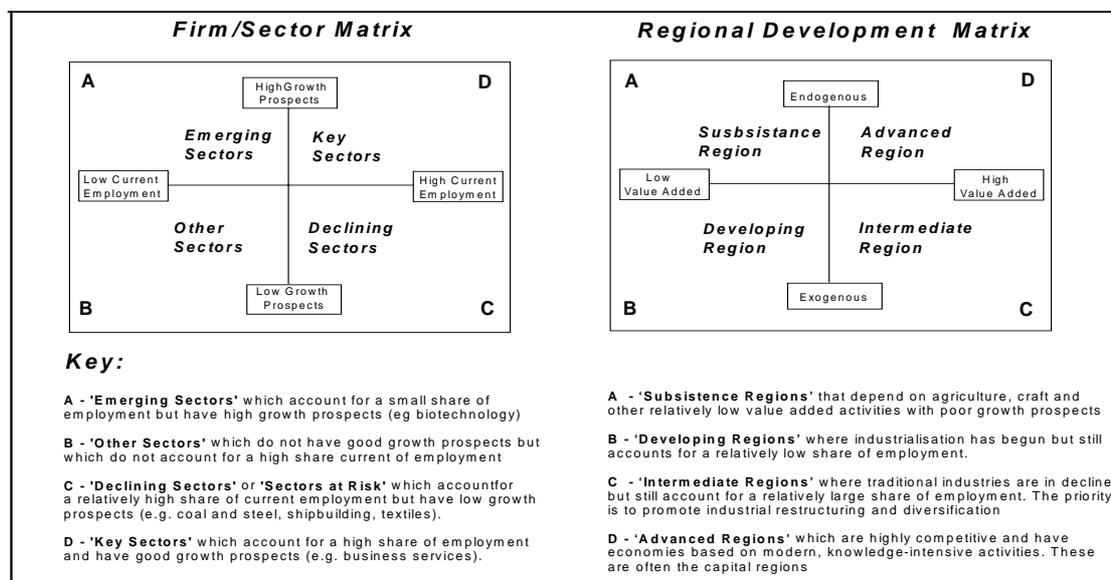
Scenario 1 (represented by the continuous lines in Figure 2) is a situation where public intervention is required because private sector SME support services are relatively under-developed in a region. Under this scenario, public intervention takes place in such a way as to stimulate the growth of the private sector as suppliers of business support services to SMEs (Stage A in the diagram); eventually, the provision of private business services sector achieves critical mass (Stage B) and public agencies reduce their intervention, perhaps limiting themselves to an information function (Stage C). This represents the ideal scenario. The alternative - Scenario 2 (represented by the dotted line in the diagram) - is where public intervention takes place, but rather than stimulating the growth of commercial business support services for SMEs, this intervention has a 'crowding out' effect. Clearly, this is a situation to be avoided.

There are of course other types of 'market failure' that EU policy is designed to tackle. These include excessive costs arising from regulations, difficulty in accessing financial market, and barriers to exploiting the Single European Market. In these and other respects, SMEs are again especially disadvantaged compared to larger firms.²³

Public Intervention and Regional Development

The last set of diagrams - Figure 3 below - considers how public interventions in favour of SMEs relate to broader industrial and regional development strategies.

Figure 3: Positioning of SME Measures in Regional Development Strategies



²³ See European Commission 'Small and Medium Sized Enterprises: A Dynamic Source of Employment, Growth and Competitiveness in the European Union', Report presented by the Commission to the Madrid Council (1995), pages 3-8.

EVALUATION METHODOLOGY *(Continued)*

3

Firms and Sectors. The proposition in the left-hand diagram of Figure 3 - the 'Firm/Sector Matrix' - is that in any local or national economy, firms and sectors can be positioned in one of four different categories - 'emerging sectors', 'key sectors', 'declining sectors' and 'other sectors' - depending on their current importance and future growth prospects (as measured by the share of total employment or GDP). Public policy objectives, and the emphasis on SME promotion, will vary from one quadrant in the diagram to another.

Thus, to take an example, where a region's economy contains a number of 'emerging sectors' (business activities account for a relatively small share of current employment but are fast growing), the priority of public intervention will be to accelerate the start-up and expansion of innovative SMEs with an emphasis on measures relating to technology transfer, the development of science parks, and improving the supply of non-traditional types of finance such as seed and venture capital. By way of another example, in the case of a region with a high concentration of 'declining sectors', the focus of public interventions will typically be on restructuring large undertakings but promotion of start-ups and existing SMEs across a broad range of sectors will also have an important role to play in providing alternative employment opportunities for redundant workers and helping to bring about a diversification of the local industrial base as a whole.

Regional Development Scenarios. Finally, the right-hand diagram in Figure 3 provides a framework for linking the firm/sector dimension of SME measures to broader regional development scenarios. In the diagram, regions are positioned on the matrix relative to their capacity to generate value added (horizontal axis) 'from within', i.e. by exploiting the indigenous potential for development rather than depending on external support measures and other factors (captured on the vertical axis).

Thus, in what are termed 'developing regions' (typically Objective 1), regional development strategies will tend to focus on actions falling in Quadrants A and B of the 'Firm/Sector Matrix'. In the case of 'intermediate regions (typically Objective 2) public interventions will be concentrated on tackling the problems faced by declining sectors through the sorts of measures, including SME-related actions, outlined earlier (Quadrant C of the 'Firm/Sector Matrix'). Clearly, the aim of public policy - including measures in favour of SMEs - should be to bring about a situation, corresponding to an anti-clockwise transition in the diagram, where regions are eventually positioned in the top right-hand 'advanced regions' quadrant - typically 'non-assisted areas, to use Structural Fund terminology. These regions will tend to be characterised by a predominance of 'emerging' and 'key' sectors (Quadrants A and D of the 'Firm/Sector Matrix').

EVALUATION METHODOLOGY *(Continued)*

3

3.2 Evaluation Aims and Methodology

Below, we provide a resume of the Commission's terms of reference for the study and provide an overview of the evaluation methodology.

Figure 4: Overall Aims of the Evaluation

'To provide a thorough and systematic analysis of the contribution and impact of Structural Funds' support to SMEs in the EU Member States and regions. On the basis of the analysis, the study will draw up recommendations for future investment by the Structural Funds expenditure in support of SMEs in the assisted regions, based on the experience of past and current interventions'.

Source: European Commission terms of reference.

The more specific aims of the evaluation are summarised below:

Figure 5: Specific Aims of the Evaluation

1. To examine the *strategies* for Structural Fund interventions in favour of SMEs in order to see how well founded they are, in relation to the strengths and weaknesses of the region aided, other public SME policies, and current ideas on public sector support for SMEs.
2. To develop a detailed description of Structural Fund actions in support of SMEs preparing a detailed *typology* as well as details of funding and the relative importance of different measures.
3. To examine the *implementation* of SME actions in order to assess their effectiveness and efficiency.
4. To assess the *impact* of different measures and measure-types in meeting stated objectives, and, if different, increasing employment and growth.
5. To analyse the *results* of Structural Fund support in order to determine the reasons for successes and failures.
6. To make *recommendations* on how to improve future Structural Fund interventions.

Source: European Commission terms of reference.

The evaluation methodology adopted to address these and other related issues combines a 'top-down' and 'bottom-up' dimension.

Methodological Approach

The methodology for the evaluation combines 'top-down' and 'bottom-up' dimensions.

Top Down Dimension. This aspect of the research was essentially desk-based and involved a detailed review of the Single Programming Documents (SPDs) to identify the objectives of Structural Fund interventions in favour of SMEs and the links with broader aims, the type of measures being implemented, the level of expenditure

EVALUATION METHODOLOGY *(Continued)*

3

involved, and the national and regional structures used to manage programmes. The ‘top-down’ research also reviewed monitoring data on the outputs attributable to Structural Fund interventions in favour of SMEs.

To provide a framework for this analysis, the starting-point was to develop a typology of Structural Fund SME measures. This was done by reviewing a sample of SPDs. In addition to the desk-based element of the ‘top-down’ research, the evaluators carried out interviews with the national authorities responsible for administering Structural Fund measures for SMEs. A critical issue considered in this aspect of the research is how Structural Fund measures are targeted.

Bottom Up Dimension. The ‘bottom-up’ dimension was more empirically-orientated and involved fieldwork in a sample of 26 regions. In the selected areas, regional authorities and partner organisations were interviewed to examine the approach adopted to implementing Structural Fund measures and how assistance has actually been delivered to smaller firms. Here, one of the critical issues examined is the extent to which ‘one-stop-shop’ mechanisms have been developed. The next step was to review a sample of Structural Fund-backed SME projects in each region, the purpose being to identify the lessons that can be learnt from experience regarding the types of interventions that work well (and less well), and why. The third component of the ‘bottom-up’ research consisted of a telephone survey of SMEs located in the selected regions, two-thirds being beneficiaries of Structural Fund assistance and the remainder non-users. This survey elicited a response from 1,072 SMEs.

The ‘bottom-up’ dimension of the evaluation provided important feedback on the effectiveness of Structural Fund interventions, adding a demand-side perspective to balance the essentially supply-side viewpoint of regional authorities and their partners. It also enabled the ‘top-down’ monitoring data on outputs to be checked by scaling up the results attributed by the sample of assisted SMEs to Structural Fund aid. Likewise, SME survey feedback provided an important input to judgements concerning the extent of additionality, displacement and indirect effects, thereby making it possible to convert gross outputs into net outputs.

Key Evaluation Issues

There are a number of key evaluation issues that provided a broad framework for the analysis.

First, the central aim of the study was to evaluate the overall impact and value added of Structural Fund interventions. This issue was considered at two levels - first, at the level of individual interventions where the primary concern in assessing value added was to determine whether or not Structural Fund assistance is being targeted in the most effective way possible and achieving outcomes that would not occur in the absence of intervention; and, secondly, at a programme level where the question has more to do with how Structural Fund measures add value to the efforts of Member States to

EVALUATION METHODOLOGY *(Continued)*

3

promote SMEs. An answer to these questions and insights into SME programme impacts, provides important guidance on future policy, including adjustments that may need to be made in the context of the 1999 Structural Fund reforms.

Second, an important aim of the evaluation was to shed light on what sort of Structural Fund interventions in favour of SMEs work well/not so well, thereby providing guidance to programme managers on future priorities as well as pointing to broader policy implications for the Commission and Member States. A key issue in this respect was the question of transferability. In the analysis, we suggest that this depends on two main factors - the extent to which 'good practice' is specific to a particular location, as opposed to having a wider relevance; but also on whether replication is feasible from the point of view of cultural, financial and organisational factors.

Figure 6 provides a summary of the various key evaluation issues. Taken together, the performance of Structural Fund schemes against these criteria provided the basis of an assessment of overall value added. Each of these factors is, in theory, measurable using a combination of quantitative and qualitative indicators. In practice, there are many well-known complications that make the measurement of certain evaluation factors more difficult than others.

Figure 6: Key Evaluation Issues

- **Relevance** - to what extent are Structural Fund *objectives* pertinent in relation to the evolving *SME needs* and priorities at both national and EU levels?
- **Efficiency** - how economically have the various SME measure *inputs* been converted into outputs and *results*?
- **Effectiveness** - how far have Structural Fund *impacts* contributed to achieving specific and general objectives in relation to SMEs?
- **Utility** - how do Structural Fund *impacts* compare with the *needs* of the target SME population(s)?
- **Sustainability** - to what extent can the positive changes be expected to have *lasting benefits* after the Structural Fund interventions in favour of SMEs have been terminated?
- **Transferability** - to what extent can experience be *generalised* and transferred from one region to another?

Part 2

Research Findings

STRUCTURAL FUND SME PROGRAMMES

4

Overview

This section contains the ‘top-down’ dimensions of the evaluation. The analysis is structured as follows:

- *Section 4.1* - Programme aims and targets;
- *Section 4.2* - Structural Fund expenditure on SMEs;
- *Section 4.3* - Analysis of types of Structural Fund SME measures;
- *Section 4.4* - National structures and delivery mechanisms for SME measures;
- *Section 4.5* - Analysis of SME beneficiaries and outputs;
- *Section 4.6* - Conclusions - top-down analysis.

The research involved a detailed review of Structural Fund programme documents for the 1994-99 period as well as interviews with national officials in each of the EU Member States and other supporting desk-based research.

4.1 Programme Aims and Targets

Structural Fund interventions in favour of SMEs are designed to achieve a number of objectives. It is helpful in this respect to distinguish between:

- specific aims - which relate to the development of the SME sector itself;
- final objectives of Structural Fund intervention - namely the contribution that assisted SMEs make to broader EU regional and social policy aims.

Specific Aims. Taking the first of these, Structural Fund interventions are designed to help create new business start-ups as well as maximising the growth prospects of existing SMEs. This generally involves a combination of demand-side actions (aid directly to SMEs) and supply-side measures (relating to SME support structures).

Although the broad aims of Structural Fund intervention in favour of SMEs are similar across the EU, there are differences in the specific objectives from one region to another. Thus, in the case of Objective 1 regions, there is often a considerable emphasis on developing and strengthening SME support structures; in Objective 2 regions, SME measures often have a particular focus on promoting entrepreneurship and creating alternative job opportunities where large-scale traditional industries have declined (here, unlike in many Objective 1 regions, there is often only a weak tradition of entrepreneurship); in Objective 5b regions, the priority is to help rural SMEs to diversify and modernise; whilst in Objective 6 areas, the emphasis is amongst other things on overcoming problems caused by peripherality.

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Final Objectives. As the previous section has made clear, Structural Fund interventions in favour of SMEs are designed to help achieve broader EU social and economic objectives. These relate to overcoming the problems faced by assisted regions - lagging economic development (Objective 1), problems caused by the decline of traditional industries and high unemployment (Objective 2), the need to diversify and modernise rural economies (Objective 5b) and the difficulties faced by peripheral regions (Objective 6). Promotion of SMEs is a way of achieving regeneration 'from within' and bringing about more balanced and sustainable regional development. In Objective 2 regions, for example, promotion of entrepreneurship helps to create alternative occupations for communities hard-hit by the decline and restructuring of traditional industries whilst support for existing SMEs in growth sectors contributes to bringing about the diversification of local economies. There, and in other types of assisted areas, development of the SME sector can also strengthen supply chains, thereby making regions more attractive to investors from outside the region.

Since the mid-1990s, there has been a much more explicit and precise definition of Structural Fund objectives with regard to SMEs than was previously the case. This partly reflects the increased emphasis on SME promotion but is also reflects improved practices with regard to defining the objectives of Structural Fund programmes as a whole. There has also been a more standardised approach to defining measures, many programmes setting out a broadly similar range of actions to promote SMEs - promotion of entrepreneurship, innovation and technology development, sites and premises, productive investment, etc.

Typology of Structural Fund SME Measures

Based on reviewing Structural Fund SPDs for the period 1994-99, a typology of SME measures was developed as a framework for the evaluation. This typology is set out below in Figure 7.

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Figure 7: Typology of SME Measures

- **Financial Assistance** - mainly grant aid to SMEs to promote expansion and to help strengthen productive capacity.
- **Financial Engineering** - newer types of SME financing (seed and venture capital, mutual guarantees, factoring and leasing etc).
- **Business Advisory Services** - various types of advisory support to SMEs (eg. advice on business plans, financial management, exporting and internationalisation) together with support for the development of SME business advisory services
- **Innovation and Technology** - measures to promote innovation in SMEs and the absorption of new technology and know-how together with the development of KT infrastructure and technology transfer mechanisms
- **Physical Infrastructure** - investment in small-scale infrastructure for SMEs (eg. Business and Innovation Centres, managed workspace)
- **SME Training Measures** - support for entrepreneurship skills development, training for SME management and employees, initiatives to help SMEs adapt to new technology, etc
- **Other Measures** - including development of SME networking, measures to promote SMEs in particular sectors, initiatives designed to assist women entrepreneurs, and schemes aimed at young people going into business.

Source: Ernst & Young Phase 1 Synthesis Report.

Classification of the different types of Structural Fund interventions in favour of SMEs cannot be clear-cut. Thus, Structural Fund interventions - for example, in the field of innovation and technology - usually include financial incentives to help SMEs obtain access to the necessary assistance. Likewise, it is debatable whether Structural Fund investment in the development of science parks and technology centres should be classified under the heading 'Innovation and Technology' or 'Physical Infrastructure'.

The distinction between demand and supply-side Structural Fund interventions is another factor complicating a straightforward categorisation of SME measures. For example, actions under the heading of 'Financial Assistance' include the provision of grant aid directly to SMEs (demand-side) as well as measures to help develop new financial instruments (supply-side). Similarly, it is sometimes argued that a distinction should be made between the types of assistance required by start-ups and SMEs at the various stages of their growth and that this provides the most appropriate basis upon which to classify measures. As explained in the previous section, we have taken these and other considerations into account in developing the above typology.

Ultimately, there are many ways in which a typology of measures could be developed. The above typology seeks to strike a balance between an over-simplified distinction, for example between tangible and intangible Structural Fund interventions in favour of SMEs, and an exhaustive detailing of the many types of measures that would make it difficult if not impossible to group actions together for the purpose of analysis.

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Eligible SMEs and Targeting of Structural Fund Interventions

In examining how Structural Fund interventions in favour of SMEs are targeted, a distinction needs to be made between:

- the total population of SMEs in Member States;
- the number of eligible SMEs located in assisted regions;
- the proportion of eligible SMEs in assisted regions that are actually targeted.

Table 4 provides a breakdown of the number of SMEs in the regions of the different Member States that are eligible for Structural Fund assistance, comparing this with the total population. It should be noted that the data relating to eligible SMEs excludes sole traders.

Table 4: Analysis of SMEs Eligible for Structural Fund Assistance

Member State	Total Population	Number of SME in Assisted Region				Eligible SMEs	%
		1	2	5b	6		
Belgium	594	18,000	41,300	5,900	0	65,200	10.9
Denmark	235	0	24,100	28,400	0	52,500	22.3
Germany	3,334	510,000	810,000	200,000	0	1,520,000	45.5
Greece	747	508,700	0	0	0	508,700	68.0
Spain	2,349	411,300	335,200	100,000	0	846,500	36.0
France	2,116	25,000	500,000	100,000	0	625,000	29.5
Ireland	160	81,000	0	0	0	81,000	50.6
Italy	3,251	930,500	405,800	338,900	0	1,675,200	51.5
Luxembourg	18	0	2,000	1,000	0	3,000	16.7
Netherlands	550	3,100	35,900	1,500	0	40,500	7.3
Austria	237	7,000	16,000	57,000	0	80,000	33.7
Portugal	656	189,000	0	0	0	189,000	28.8
Finland	180	0	30,000	48,000	8,000	86,000	47.7
Sweden	243	0	27,100	19,100	16,500	62,700	25.8
UK	3,355	500,000	1,000,000	50,000	0	1,550,000	46.1
Total	18,025	3,262,600	3,227,400	949,800	24,500	7,385,300	40.9

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

Note: Estimates for SMEs employing between 1-250 people except for Netherlands (1-200), France (1-500) and Germany (1-500).

In Table 4, the last column calculates the percentage of the total population of SMEs employing between 1 and 249 people in each EU Member State that are theoretically eligible for Structural Fund assistance, i.e. located in an assisted region.

According to the analysis, well over a third (40.9%) of the EU's 18 million SMEs are located in regions that are eligible for Structural Fund assistance. Given the number of eligible firms, there is clearly a danger of the Structural Fund resources devoted to

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SME promotion being spread too thinly to have any real impact. In practice, therefore, regional authorities have generally targeted their programmes so that a much lower proportion of eligible SMEs are considered to be potential beneficiaries of assistance. Exactly how these targets are defined is a key issue examined in the evaluation. It is clear from the analysis that the extent of targeting, and methods used, varies considerably from one Member State and region to another. In some cases, measures tend to be focused on SMEs within the 1-250 employee size band (e.g. Denmark, Finland, Ireland and Netherlands). In other cases, SME measures have a sectoral orientation. Thus, whereas almost all SMEs - the retail sector being an example of an exception - are considered eligible for assistance in some countries (e.g. Greece, Spain), elsewhere more selective criteria have been adopted (e.g. Belgium, Finland, Germany, Italy and the UK).

The way in which Structural Fund measures programmes have been targeted is considered in further detail in Section 4.4.

Appraisal of SME Support Needs

The capacity to accurately target Structural Fund interventions on SME needs depends on the quality of appraisal work at a regional level and the definition of selection criteria and priorities, and then on how these criteria are applied in practice to individual SME applications. Below, we provide a brief review of appraisal practices.

In some countries, notably **Austria, Belgium, Germany and Sweden**, the research did not suggest significant findings.

Denmark. Experience here, as in a number of other Member States, suggests that with an increasing tendency to decentralise responsibility for Structural Fund management, regional authorities have taken advantage of the reprogramming process to ensure that programmes are tailored more closely to local SME needs. The availability of interim evaluations of the 1994-96 programmes before the new programmes started, and the thematic approach adopted, was also considered helpful in defining SME measure priorities

In **France**, the evaluators highlighted the essentially 'top-down' method of determining SME policy objectives, with very little demand-side input, as characterising the basic approach. Another complication is that a relatively large number of government departments and agencies have been involved in drawing up Structural Fund programmes for SMEs, further complicating appraisal work.

Greece. The research in Greece points to relatively weak ex-ante appraisal practices. Thus, for example, targets for the SME Initiative were not defined until after the programme had been approved. As explained later in this report, the failure to prepare detailed plans led to problems later with this and other Structural Fund measures with

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a mismatching of demand from SMEs for assistance and the supply of resources.

Ireland. The 1992 Culliton Report, and the work of the Moriarty Task Force, involved a fundamental review of Ireland's industrial development policies, including measures to promote SMEs. The report concluded that Irish SMEs lagged well behind their counterparts elsewhere and were excessively dependent on the domestic market. According to the evaluators, there has been a more or less continuous process of policy reviews over the past decade. This combined with research by individual agencies has meant that policy-makers are generally well-informed about SME needs.

Portugal. Research has been undertaken to help segment the SME sector more precisely, leading to a distinction between 'Modern SMEs' (exporters and/or using new technology), 'National SMEs' (domestic market orientated) and 'Exporter SMEs' (export orientated but labour-intensive and dependent on traditional technologies). In preparing Structural Fund programmes, there has been quite extensive consultation with SME representatives - which is seen as having fed through to the design of measures - but relatively little detailed research. At the project appraisal level, far more emphasis is now placed on requiring SMEs to provide a detailed justification for financial assistance from the Structural Funds than was previously the case.

Finland. Until recently, there has been relatively little research directly relating to SME policy and smaller firms' needs. There have been evaluations of particular organisations such as Tekes and Kera. In 1995, the Ministry of Trade & Industry commissioned a more comprehensive review of SME policy and this has resulted in a new law²⁴ requiring evaluations to be carried out on a more regular and systematic basis. More recently still, there has been a review of the role of financial schemes for SMEs operated by public agencies. This included a survey of SMEs to test their awareness of EU funding sources (the findings suggested that level of awareness were quite high).

United Kingdom. At a project level, earlier studies in the UK point to deficiencies with regard to appraisal methods in the Objective 2 regions of the UK. Thus, according to research carried out, only 19% of business development projects in the East and West Scotland were subject to a detailed appraisal showing 'clear evidence of demand to justify the service'.²⁵ Against this, there is more recent evidence that the establishment of Business Links in the UK has generally improved the quality of research at a local level into SME needs and this should, in turn, help (in assisted regions) with the targeting of Structural Fund programmes.

²⁴ The 'Act on the General Conditions of Support for Enterprises' is due to come into effect on 1 January 1999.

²⁵ Turok, Ivan 'Structural Fund Support for Business Development: Lessons from Evaluation', Paper for MEANS Conference (1996), page 6.

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4.2 Structural Fund Expenditure on SMEs

An important aspect of the 'top-down' dimension of the evaluation has involved estimating the resources that have been devoted by the Structural Funds to SME measures. It should be noted that the analysis contained in this sub-section is limited to the programming period 1994-99 although some comparisons, based on earlier research, are made with the 1989-93 programmes at the end of the section.

There are relatively few complications in identifying Structural Fund expenditure targeted directly at SMEs. Compared with earlier periods, there has been a much more explicit allocation of Structural Fund resources to SME measures since 1994. However, it should be noted that in addition to expenditure earmarked specifically for SMEs, other categories of Structural Fund expenditure indirectly benefits them. The category of 'indirect' Structural Fund expenditure includes, for example, some investment in physical infrastructure (e.g. development of business sites and premises), measures to improve workforce skills, and schemes to develop ICT infrastructure where SMEs are often the major but not the only beneficiaries, as well as other interventions aimed at improving the business environment generally.

Below, we provide an analysis of Structural Fund expenditure on SMEs, broken down by type of region and Member State. The data on total Structural Fund expenditure for the 1994-99 period is contained in Appendix C. It should be noted that the analysis is limited to 'direct' expenditure on SMEs.

Objective 1 Regions

Table 5 provides an analysis of the resources devoted to SMEs under Objective 1 of the Structural Funds

Table 5: Objective 1 Structural Fund Expenditure on SME Measures (1994-99)

Member State	Expenditure on SMEs (MECU)	Percentage of Total SF Expenditure
B	102.9	14.1
DK	0.0	0.0
D	2,417.1	17.7
EL	1,823.0	13.0
E	4,729.9	18.0
F	112.3	5.1
IRL	615.7	11.0
I	2,830.3	19.0
L	0.0	0.0
NL	22.9	15.3
A	37.3	23.0
P	635.1	4.5
FIN	0.0	0.0
S	0.0	0.0
UK	269.8	11.4

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Total	13,596.3	14.5
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Source: Analysis of Phase 2 Reports (General Assessments)

Note: The above estimates for Structural Fund expenditure on SMEs do not include actions which can benefit SMEs but where the assistance in question aims wider than the SME sector (i.e. 'indirect expenditure' in the terminology of the national reports). For example, in Portugal, if 'indirect expenditure' is included, total Structural Fund aid to that country's SMEs could be as high as MECU 2,709 for the 1994-99 period. This figure includes ESF-funded training programmes managed by PEDIP (industry programme), the Tourism and Culture and Commerce and Services Programmes.

It should be noted that a detailed breakdown of expenditure by type of SME measures - financial assistance, financial engineering, etc - is included in the next section.

According to the analysis, SME measures amount to ECU 13.5 billion of total Structural Fund expenditure in Objective 1 regions (14.5%) under the 1994-99 programmes. SMEs are likely to have benefited significantly from a further ECU 11.8 billion (12.6%) Structural Fund outlays in Objective 1 regions although this was not targeted directly on them. There are quite wide variations between countries in the proportion of direct expenditure devoted to SME promotion with generally higher levels in Objective 1 regions than others.

Objective 2 Regions

Table 6 below provides an analysis of the resources devoted to SMEs under Objective 2 of the Structural Funds.

Table 6: Objective 2 Structural Fund Expenditure on SME Measures (1994-99)

Member State	Expenditure on SMEs (MECU)	Percentage of Total SF Expenditure
B	45.1	13.2
DK	66.6	56.0
D	135.2	8.6
EL	0.0	0.0
E	351.3	14.5
F	1,462.9	38.8
IRL	0.0	0.0
I	630.7	43.1
L	5.4	36.0
NL	247.9	38.1
A	25.1	25.4
P	0.0	0.0
FIN	16.1	9.0
S	136.0	86.6
UK	2,249.0	49.1
Total	5,371.3	35.0

Source: Analysis of Phase 2 Reports (General Assessments)

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According to the analysis, ECU 5.3 billion of Structural Fund aid was earmarked specifically for SME promotion in Objective 2 regions during the 1994-99 period, representing 35.0% of overall Structural Fund expenditure in these areas. A far greater proportion of expenditure therefore went to SMEs in Objective 2 regions than in Objective 1 areas. SMEs are likely to have benefited significantly from a further ECU 3.9 billion of Structural Fund outlays in Objective 2 regions although this was not targeted directly on them.

Objective 5b Regions

Table 7 below provides an analysis of the resources devoted to SMEs under Objective 5b of the Structural Funds.

Table 7: Objective 5b Structural Fund Expenditure on SME Measures (1994-99)

Member State	Expenditure on SMEs (MECU)	Percentage of Total SF Expenditure
B	6.9	6.9
DK	22.7	42.0
D	1,229.0	100.0
EL	0.0	0.0
E	3.4	0.0
F	428.5	19.1
IRL	0.0	0.0
I	183.7	20.4
L	1.0	16.7
NL	18.3	12.2
A	37.2	9.2
P	0.0	0.0
FIN	20.7	10.9
S	75.0	55.6
UK	133.8	16.4
Total	2,160.2	31.5

Source: Analysis of Phase 2 Reports (General Assessments)

In Objective 5b regions, it is estimated that ECU 2.1 billion was spent on SME measures (31.5% of total 5b expenditure). The proportion of SME spending in Objective 5b regions was close to that for the Objective 2 areas although the variation between EU Member States was far greater. SMEs are likely to have benefited significantly from a further ECU 0.9 billion of Structural Fund outlays in Objective 5b regions although this was not targeted directly on them.

Objective 6 Regions

Table 8 below provides an analysis of the resources devoted to SMEs under Objective 6 of the Structural Funds.

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The analysis suggests that ECU 226.5 million of Structural Fund aid was allocated to SMEs in Objective 6 regions during the 1994-99 period (25.4% of total Structural Fund expenditure). SMEs are likely to have benefited significantly from a further ECU 17.2 billion (2.2%) of Structural Fund outlays in Objective 6 regions although this was not targeted directly on them.

Table 8: Objective 6 Structural Fund Expenditure on SME Measures (1994-99)

Member State	Expenditure on SMEs (MECU)	Percentage of Total SF Expenditure
FIN	55.5	20.0
S	171.0	30.8
Total	226.5	25.4

Source: Analysis of Phase 2 Reports (General Assessments)

EU Level Expenditure on SMEs

Table 9 below combines the data from Objectives 1, 2, 5b and 6 regions to provide a global estimate of Structural Fund resources devoted to SME measures during the 1994-99 period.

According to the analysis, ECU 21.3 billion or 18.2% of Structural Fund resources (excluding Objectives 3, 4 and Community Initiatives) were directly allocated to SME measures during the 1994-99 period. (The corresponding percentage is 14.6% if Objectives 3, 4 and the Community Initiatives are included).

Table 9: Global Estimate of Structural Fund Expenditure on SMEs (1994-99)

Member State	Expenditure on SMEs (MECU)	Percentage of Total SF Expenditure
B	154.9	13.5
DK	89.3	51.6
D	3,781.3	44.5
EL	1,823.0	13.0
E	5,084.6	17.3
F	2,003.0	24.4
IRL	615.5	11.0
I	3,644.7	21.2
L	6.4	30.5
NL	289.1	30.4
A	99.6	15.0
P	635.1	4.5
FIN	92.3	10.0
S	382.1	72.3
UK	2,652.6	34.2
Total	21,353.5	18.2

Source: Analysis of Phase 2 Reports (General Assessments)

Note: The above estimates for Structural Fund expenditure on SMEs do not include actions which can

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benefit SMEs but where the assistance in question aims wider than the SME sector. (i.e. 'indirect expenditure' in the terminology of the national reports). For example, in Portugal, if 'indirect expenditure' is included, total Structural Fund aid to that country's SMEs could be as high as MECU 2,709 for the 1994-99 period. This figure includes ESF-funded training programmes managed by PEDIP (industry programme), the Tourism and Culture and Commerce and Services Programmes.

The above analysis indicates that there is a considerable difference between Member States and regions in the proportion of Structural Fund expenditure being devoted to SMEs. According to the analysis, Structural Fund expenditure that is clearly earmarked for SMEs ranges from an estimated 14.5% of total outlays in Objective 1 regions to 35.0% (Objective 2), 31.5% (Objective 5b) and 25.4% (Objective 6). Precise estimates are difficult because of the way in which Structural Fund expenditure is classified in different regions and Member States. More specifically, in Objective 1 regions, with a very high proportion of businesses are SMEs employing less than 250 people, there tends to be a less explicit allocation of expenditure to firms in particular size bands. However, this only partially explains the relatively low proportion of Structural Fund expenditure on SMEs in Objective 1 regions and other factors such as the emphasis on improving physical infrastructure in less-developed regions are also relevant.

Comparison With Earlier Periods

Compared with the earlier 1989-93 period (when an estimated ECU 10 billion was allocated to SMEs - see Table 3 in Section 2.3) there has been a substantial increase in the resources committed to SME promotion.

It should be noted that comparisons with the 1989-93 Structural Fund programmes are difficult to make because of the less clear categorisation of Structural Fund expenditure in the earlier period and the accession of new Member States (also, the analysis for the earlier period contained gaps in information for some countries). If the new Member States are excluded from the calculation, then it can be estimated that total Structural Fund expenditure on SMEs has more than doubled from around ECU 10 billion in the earlier period to ECU 21 billion during the post-1994 period.

Apart from the substantial increase in most (but not all) regions in the level of Structural Fund resources committed to SMEs, there are a number of other differences between the two programming periods worth highlighting:

- in most countries, there was also an adjustment in the allocation of Structural Fund resources between different types of SME measures;
- the post-1994 period has seen, in particular, a switch in favour of 'softer' types of Structural fund intervention to assist SMEs, for example, promotion of networking and 'internationalisation';
- there has also been a general improvement in SME programme management practices with improved quantification of performance indicators and better

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targeting;

- in some countries, there has also been a greater emphasis on improving the integration of measures.

Against this, in a number of Member States there has been relatively little change in Structural Fund programmes in favour of SMEs (apart from adjustments to the level of funding). **France** is an example of a country where this applies. An example of a region where the level of Structural Fund assistance to SMEs has actually been reduced in the current programmes compared with the earlier periods is to be found in the **Netherlands**. Here, in the Objective 2 region of Groningen-Drenthe, SME training measures accounted for over half (55%) of Structural Fund expenditure in 1994-96 but only 18% in the current period. The reason for this change (explained in more detail below) was that the measures implemented during the earlier period were extremely successful in leveraging private sector support and thereby becoming self-sustaining.

The tendency during the 1990s for Structural Fund interventions to focus increasingly on 'softer' types of SME support, and less on direct assistance and other measures such as physical infrastructure, is demonstrated particularly well in **Germany**. Thus, the priority for the Objective 1 regions (former East Germany) during the first few years after reunification was reconstruction and modernisation of capital stock, but from the mid-1990s onwards the Structural Funds began to be used to help develop the SME sector. In both the Objective 1 and 2 regions, there has been a clear shift recently in favour of 'softer' measures to help SMEs improve their management skills, quality standards, marketing, etc with much more emphasis on innovation and technology transfer. A similar tendency towards 'softer' measures is evident in **Spain**. Here, the post-1994 programmes have placed a far greater emphasis on financial engineering measures, 'internationalisation' and the promotion of innovation and technology. This applies to both Objective 1 and 2 regions. For example, both **Ireland** and the UK have also made a substantial move towards softer types of measures.

The current programming period has also seen an improvement in SME programme management practices, especially with regard to targeting. An example of this is **Portugal**, where, apart from adjustments to the level of Structural Fund assistance for SMEs, the evaluators highlight the greater emphasis on targeting measures more effectively under the current PEDIP programmes. In particular, there appears to have been a definite shift, as in a number of other Member States, to supporting existing SMEs with growth potential, and with more emphasis on what are described as 'immaterial' interventions (business advisory services, internationalisation, quality standards, etc). Project appraisal methods have also been made much more rigorous.

In a number of Member States, reprogramming has led to an increased emphasis on improving the integration of different types of Structural Fund measures for SMEs. A good example of where this applies is **Denmark** where the current Objective 2

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programmes have seen an increase in multi-fund financed projects (estimated to account for around half all expenditure on SMEs in the current period). This trend, apparent in both Objective 2 and 5b regions, is attributed by the evaluators to a heightened awareness of the need to maximise synergies and improved planning capabilities. Typically, ERDF grants to SMEs are now more often combined with ESF-supported training. A further difference - in North Jutland which is regarded as a pacesetter - is the shift from an emphasis on helping SMEs adapt to 'internationalisation' to a broader view of competitiveness embracing 'globalisation'; also, the priority of technological innovation appears to have been downgraded in favour of assisting SMEs with their marketing and organisation development.

4.3 Analysis of Types of Structural Fund SME Measures

Table 10 provides an estimate of the breakdown of Structural Fund expenditure for the 1994-99 period between the different types of SME measures.

Table 10: Structural Fund Expenditure by Type of SME Measures (1994-99)

Type of Measure	Expenditure (MECU)	%
Financial Aid	6,820.2	31.9
Financial Engineering	570.3	2.7
Business Support Services	2,684.4	12.6
Innovation and Technology	2,499.4	11.7
SME Physical Infrastructure	2,126.2	10.0
SME Training Measures	3,607.3	16.9
Sectoral Measures	1,195.8	5.6
Other Measures	1,849.9	8.7
Total	21,353.5	100.0

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

As can be seen from Table 10, Structural Fund resources are being used to support a wide range of measures in favour of SMEs. According to the analysis, financial assistance schemes (grants, loans, interest rate subsidies, etc) account for the highest proportion of Structural Fund expenditure on SMEs - approaching a third (31.9%) of the total - followed by ESF-funded training measures for small firms (16.9%), business advisory services (12.6%), support for innovation and technology development (11.7%), SME physical infrastructure (10.0%), sectoral (5.6%) and other interventions (8.7%) such as initiatives to encourage networking.

Although difficult to quantify, there appears to have been a shift during the 1990s away from direct intervention to assist SME development (e.g. financial aid, physical infrastructure) with increasing emphasis in recent years on more knowledge-orientated measures (e.g. support for innovation and technology transfer) and interventions to improve internal strategic business competences for SMEs (e.g.

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development of business advisory services).

There are quite pronounced variations in the patterns of Structural Fund expenditure on different types SME measures, both between Member States and between regions in them. A more detailed thematic analysis is provided below.

4.3.1 Financial Assistance

Table 11 provides a breakdown of the allocation of Structural Fund resources to the category 'Financial Assistance' by Member State (excluding 'Financial Engineering').

Table 11: Structural Fund Expenditure on Financial Assistance to SMEs (1994-99)

Member State	MECU (% of all Expenditure on SMEs)		Member State	MECU (% of all Expenditure on SMEs)	
	MECU	%		MECU	%
B	34.5	22.2	L	1.2	18.7
DK	15.4	17.2	NL	11.9	4.1
D	983.1	25.9	A	32.7	32.8
EL	1,383.7	75.9	P	326.4	51.4
E	1,174.5	23.1	FIN	33.5	36.3
F	538.8	26.8	S	73.7	19.3
IRL	62.2	10.1	UK	267.9	10.1
I	1,880.7	51.6	Total	6,820.2	31.9

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

The category 'Financial Assistance' accounts for the highest proportion of expenditure on SMEs. This category includes:

- grant aid for productive investment;
- interest rate subsidies and guarantees;
- loans made at concessionary rates of interest.

Grant aid made through intermediaries to small firms accounts for by far the largest single item of Structural Fund SME expenditure (almost 32% of the total) although in some regions the precise allocation is difficult to measure because firms are not targeted according to size.

The proportion of Structural Fund expenditure devoted to 'Financial Assistance' is generally highest in Objective 1 regions. In some cases it is not easy to establish precisely how much is devoted specifically to SMEs. Thus, in **Spain**, where financial assistance accounted for some 23% of Structural Fund expenditure on SMEs, the amount earmarked specifically for SMEs is not clear because the OPs do not have clear targets relating to firm size. Only Global Grants are being targeted specifically on SMEs. (These include global grants for technology development, the Chambers of Commerce, Institute of Official Credit, and Institute for Energy Diversification).

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Likewise, in **Greece**, where financial assistance accounts for 75% of Structural Fund expenditure on SMEs, investment grants made available under the 'Operational Programme for Industry' are not targeted on enterprises of any particular size although small firms are thought to constitute the main beneficiaries. In addition to investment grants to help SMEs develop their productive capacity (e.g. buildings, purchase of machinery and equipment), financial assistance is provided from the Structural Funds to improve business planning, marketing and other aspects of operations. The same is broadly true in **Portugal** where financial assistance measures for SMEs account for some 51% of expenditure.

In the Objective 1 regions of **Italy**, the category 'aid to investment' also accounts for a very high proportion (70%) of total Structural Fund expenditure on SME measures. This has been used to support the implementation of Law 488/92 under which firms receive grants towards capital investment for selected projects (the previous more or less automatic eligibility having been phased out). Although all firms can receive assistance, at least 50% of the funds are reserved for SMEs. According to the evaluators, the implementation of financial assistance measures has greatly improved as a result of transferring responsibility for project selection from the Ministry of Industry to commercial banks (a development examined in greater detail in Section 5.2). In contrast to the Objective 1 regions, financial assistance measures account for a much lower - although still very significant - proportion (45%) of Structural Fund expenditure in Italy's Objective 2 regions. Lazio and Valle d'Aosta are an exception in this respect with 'aid to investment' and other financial assistance measures accounting for a relatively modest proportion of outlays (22% and 0% respectively).

Elsewhere, where a much more targeted approach has been adopted, it is easier to estimate the extent to which SMEs have benefited from Structural Fund 'Financial Assistance'. Thus, in the Objective 1 region of **Germany**, where grant aid accounts for some two-thirds of Structural Fund interventions in favour of SMEs, the cut-off point for assistance has been fixed at 50 employees. In **Denmark**, grants from the Structural Funds have also tended to be targeted on SMEs with less than 50 employees, a strategy backed up by evaluation findings pointing to the varying effects of interventions on firms of different sizes. There has also been a marked tendency to concentrate grant aid to SMEs in Objective 5b areas of the country; in contrast, the proportion of Structural Fund expenditure allocated to grant aid for SMEs in Objective 2 regions was reduced from a previous level of 24% to 17% under the 1997-99 programme. In **Ireland**, where financial assistance measures account for 10.1% of Structural Fund expenditure on SMEs, a different approach to targeting has been adopted. Rather than targeting SMEs by size band, the Irish approach is more sectorally focused, the emphasis being on providing aid to SMEs in the manufacturing sector and those operating in international trading services.

In the **Netherlands**, there is a striking contrast between the Objective 1 region of Flevoland, where approaching a third of the Structural Fund budget has been used to provide an investment premium which is triggered if SMEs create at least 10 new jobs

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and/or expand their workforce by at least 20% (it is hoped to create around 4,000 new jobs in the region this way), and the Objective 2 and 5b regions where financial assistance measures account for a very low proportion of Structural Fund expenditure.

Financial assistance measures accounts for a relatively small proportion of Structural Fund expenditure in the Objective 2 regions of **Finland** (here, only 7% of the current programme outlays have been earmarked for this purpose). However, in the Objective 6 region, financial assistance accounts for a much higher proportion (over a third) of Structural Fund expenditure on SMEs. This is being used for a variety of purposes including financial support for new start-ups, development and diversification of existing SMEs with growth potential, the development of business support services, networking and technology transfer. To the extent that particular sectors are being targeted (e.g. promotion of bio-energy use and other renewable resources), the take-up of financial assistance has so far been disappointing.

In **Sweden**, the priority in the Objective 2 region of Fyrstad (a region with a heavy dependence on larger companies) has been to accelerate the rate of new start-ups as a way of helping to bring about diversification and EU grant aid and financial engineering measures focus very much on this target market. The so-called 'green' sector and business services are also key targets.

4.3.2 Financial Engineering

Table 12 provides a breakdown of the allocation of Structural Fund resources to the category 'Financial Engineering' by Member State.

Table 12: Structural Fund Expenditure on SME Financial Engineering (1994-99)

Member State	MECU (% of all Expenditure on SMEs)		Member State	MECU (% of all Expenditure on SMEs)	
	MECU	%		MECU	%
B	3.3	2.1	L	0.0	0.0
DK	0.0	0.0	NL	0.0	0.0
D	18.9	0.5	A	0.0	0.0
EL	27.3	1.5	P	45.7	7.2
E	61.0	1.2	FIN	0.0	0.0
F	48.1	2.4	S	11.0	2.8
IRL	81.2	13.2	UK	66.3	2.4
I	207.7	5.7	Total	570.3	2.7

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

Financial engineering measures account for some 2.7% of total Structural Fund expenditure on SMEs under the current programmes. Interventions in this field are designed to help develop new methods of SME financing such as:

- seed and venture capital schemes;

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- mutual guarantees;
- special loan schemes.

Financing methods such as these enable SMEs to overcome the constraints they often encounter in seeking to obtain more traditional types of funding - secured loans and overdrafts - from commercial banks.

Financial engineering measures are a relatively new feature of the SPDs in most Member States. Thus, in **Belgium** and **France**, financial engineering actions appeared for the first time in the 1994 SPDs. In France, there had previously been some local initiatives, but since 1994 a greater number of regions have implemented EU-supported financial engineering actions with some 11.8% of Objective 1 funds and 2.4% of Objective 2 funds being devoted to schemes. In **Ireland**, too, considerable emphasis has been placed under the most recent programmes on developing new financial engineering instruments, compared with earlier periods.

However, as Table 14 above indicates, there is a considerable variation between countries with regard to the emphasis placed on financial engineering measures. In **Denmark**, for example, Structural Fund resources continue to be used only to provide SMEs with grants and no EU-backed financial engineering schemes have been introduced. However, at the NOVI science park in North Jutland EU grant aid has been combined with a national venture capital scheme to provide SMEs with an integrated financial engineering package (the NOVI scheme is being promoted by the Danish authorities as a model for other science parks and is reviewed in more detail in Section 5.2). In the case of **Finland**, too, there has been virtually no emphasis on financial engineering to date although various measures (seed and venture capital, soft loans, etc) were due to be introduced in the Objective 2, 5b and 6 programme in late 1998.

In Objective 1 regions of **Spain**, considerable resources (6.3% of total SME expenditure) was made available from the Structural Funds to develop new financial engineering instruments (certain regions, e.g. Andalucia, Basque Country, Calaluna and Valencia have emphasised this type of measure more than others). Additional resources for venture capital schemes have also come from the SME Initiative which, with the support of a number of financial institutions, has led to a special loan facility and mutual guarantee scheme being introduced for SMEs. Global Grants (e.g. SODICAL in Castilla y Leon), too, have been used for this purpose. There has, however, been less success with venture capital schemes (which have been promoted in regions such as the Andalucia, Basque Country and Valencia). According to the evaluators, this is because there is no secondary stock market providing investors with an exit mechanism.

Financial engineering measures also constitute a relatively high proportion (7.2%) of Structural Fund expenditure on SMEs in **Portugal** - a higher level than in most other

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Member States. Here, a wide range of initiatives has been promoted - especially the formation of venture capital funds and mutual guarantee schemes, but also soft loans and initiatives to help develop the factoring and leasing industries. Financial engineering measures are set out in PEDIP II and also in the RETEX and SME Initiatives. In the case of the SME Initiative, there is a particular focus on the construction and retail sectors (this complementing PEDIP II which is restricted to manufacturing firms).

In **Italy**, financial engineering measures are especially important in the Objective 1 regions of Abruzzo, Molise and Calabria. However, both here and in the Objective 2 regions (especially Emilia Romagna, Lazio, Toscana, Liguria, and Venezia), these types of initiatives are still very much at a developmental stage and tend to focus on more traditional types of interventions in favour of SMEs (e.g. guarantees) rather than newer support mechanisms (e.g. venture capital). According to the evaluators, these instruments are not particularly innovative in a European context, but are relatively new to Italian industrial policy.

4.3.3 Business Advisory Services

Table 13 provides a breakdown of the allocation of Structural Fund resources to the category 'Business Advisory Services' by Member State.

Table 13: Structural Fund Expenditure on SME Business Advisory Services (1994-99)

Member State	MECU (% of all Expenditure on SMEs)		Member State	MECU (% of all Expenditure on SMEs)	
	MECU	%		MECU	%
B	8.5	5.5	L	0.0	0.0
DK	6.7	7.5	NL	54.4	18.8
D	128.6	3.4	A	10.0	10.0
EL	65.6	3.6	P	10.8	1.7
E	1,423.7	28.0	FIN	19.5	21.1
F	14.0	0.7	S	110.8	29.0
IRL	67.1	10.9	UK	498.7	18.8
I	266.1	7.3	Total	2,684.4	12.6

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

Structural Fund support for the category 'Business Advisory Services' accounts for 12.6% of expenditure in the 1994-99 period. This category includes:

- the provision of business counselling and other advisory services to start-ups and smaller firms;
- more specialised types of advice such as help with regard to marketing and 'internationalisation';
- measures to promote networking, sectoral clustering, supply chain linkages and

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other forms of collaboration between firms.

Reflecting a wider shift towards 'softer' forms of intervention, and an emphasis on initiatives to promote 'internationalisation' and various forms of networking, expenditure on this category has increased in most Member States compared with earlier programming periods.

The increased allocation of Structural Fund resources to business support services is evident in a number of Member States. A particularly good example is **Denmark** where more than half of the Structural Fund expenditure earmarked for business support is being spent on subsidising consultancy services to very small SMEs employing less than six people (eligible consultancy services include feasibility studies for new products, market analyses, organisation development, and the promotion of links with other SMEs). The Structural Funds are also being used to help strengthen the network of Business Advisory Centres.

Analysis of the SPDs suggests that the proportion of Structural Fund expenditure on SMEs allocated to business advisory services varies significantly not only between Member States but also between regions in them. An example of this is in **Italy** where the average level of Structural Fund expenditure on the development of business support services accounts for just over 7% of SME programme outlays, but there is a marked variation between regions. Considerable emphasis has, for example, been placed on the development of business support services in the Objective 1 region of Puglia but this is far less evident in the Objective 2 regions.

A good example of the shift towards 'softer' SME support is demonstrated in **Spain**. Here, Structural Fund measures to promote business support services account for an estimated 28% of total expenditure on SMEs and considerable emphasis has been placed on 'internationalisation' in the current programmes compared with the past. An initiative operated through the Chambers of Commerce to provide SMEs with no previous experience of exporting has proved especially successful and is now being extended. A wide range of other types of business support services have also been supported, including business planning advice, marketing support, help with technology, etc. In **Ireland**, where 'internationalisation' is also a key priority, specific targets have been set - helping SMEs to increase their exports by an average 9% p.a. and to raise their market share in EU markets by up to 25%. Likewise, in **Portugal**, 'internationalisation' is an important priority of the PEDIP (Sub-Programme 4) programme with a particular focus on SMEs in traditional sectors such as clothing and textiles which are orientated towards export markets. In this, as well as the RETEX and SME Initiatives, a range of support to SMEs is available including information on overseas market opportunities, advice on product and image design, consultancy support and help with the development of networks.

In the new Member States, considerable emphasis has also been placed on promoting SME 'internationalisation'. In **Sweden**, for example, business support measures

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receive the largest part of the budgeted expenditure in all Structural Fund programmes. As in a number of other countries, priority is given to smaller SMEs (in Objective 2 and 5b regions, employing less than 50 people; in Objective 6 regions, some projects focus on very small SMEs with less than five employees). In addition to business support services such as assistance with new product development, quality control, marketing and exporting, a notable feature of the Swedish programmes is the emphasis placed on encouraging networking (see below). With regard to SME ‘internationalisation’, the evaluators point to a difference between Objective 2 and 5b regions, where considerable emphasis is placed on helping SMEs to develop export markets, and the Objective 6 region in the North of the country where the focus is much more on local markets (except in the case of the tourism sector).

The Objective 2 and 6 programmes in **Finland** also includes measures, for example language training, to promote SME ‘internationalisation’. In the Objective 1 region of **Germany**, too, the SME Initiative has been used extensively to help SMEs develop new markets. Here, the type of Structural Fund-backed actions include subsidised trade missions to other countries, training and other help with regard to trade fairs, and direct financial assistance to promote SME access to new markets outside the region.

A notable feature of a number of the Structural Fund business support measures is the emphasis placed on promoting SME networking. A distinction can be made here between: ‘vertical’ networking between SMEs and large firms to develop supply chains and ‘horizontal’ networking between SMEs themselves to exploit economies of scale. As far as the first of these dimensions is concerned, there is a further distinction to be made between developing networks between SMEs and existing large companies in a region, on the one hand, and the development of SME clusters with a view to making a region more attractive to inward investors. The emergence of networking initiatives as a distinct feature of Structural Fund programmes further illustrates the shift in recent years in favour of ‘softer’ types of intervention.

Four countries provide particularly good examples of the actions taken to promote networking. Thus, in **Ireland**, considerable emphasis has been placed on developing ‘vertical’ networks. Here, Structural Fund measures include the National Linkage Programme (NLP) which seeks to develop an internationally competitive SME suppliers (focusing on eight key sectors), thereby enhancing the country’s attractiveness to foreign direct investors. There are also several examples of Objective 2 projects in the **Netherlands** - such as the Twente Twinning Centre (reviewed in Section 5.2) - that demonstrate the second type of ‘vertical’ networking involving the promotion of synergies between SMEs and existing large companies.

Other countries where there is a similar emphasis on SME networking include **Finland** (this constituted the third largest measure in terms of approved projects in 1997). Both here and in **Sweden**, the evaluators distinguish between several forms of ‘horizontal’ networking between SMEs. Thus, in the sparsely populated Objective 5b

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and 6 regions in the north of Sweden, the emphasis tends to be on promoting co-operation between firms to help develop better products and to open up new markets (especially international markets). An example of this is where SMEs in the tourism sector collaborate to package together services and engage in joint marketing. In contrast, in the Objective 2 regions in the South of the country, 'horizontal' networking is aimed at manufacturing SMEs and focuses on technological innovation and transfer (here Structural Fund measures build on a NUTEK initiative under which technological audits are carried out in SMEs with a view to identifying the scope for the development of collaborative R&D projects). Horizontal networking measures in Finland's Objective 2 regions have a similar focus on technology transfer between R&D centres and SMEs and it has been estimated that one-third of Finnish SMEs are now involved in joint venture projects.

4.3.4 Innovation and Technology

Table 14 provides a breakdown of the allocation of Structural Fund resources to the category 'Innovation and Technology' by Member State.

Table 14: Structural Fund Expenditure on SME Innovation & Technology (1994-99)

Member State	MECU (% of all Expenditure on SMEs)		Member State	MECU (% of all Expenditure on SMEs)	
	MECU	%		MECU	%
B	21.8	14.0	L	3.4	53.1
DK	13.8	15.4	NL	33.8	11.7
D	400.8	10.6	A	9.4	9.4
EL	20.2	1.1	P	9.5	1.5
E	955.9	18.8	FIN	12.9	14.0
F	178.3	8.9	S	41.3	10.8
IRL	132.4	21.5	UK	450.9	17.0
I	215.0	5.9	Total	2,499.4	11.7

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

Expenditure on innovation and technology measures accounted for an estimated 11.7% of overall Structural Fund expenditure on SMEs during the 1994-99 period. A very wide range of actions were supported including:

- advice on product development;
- telematics systems and applications for SMEs;
- development of SME technology transfer infrastructure;
- the promotion of 'knowledge networks' and specific schemes to help SMEs improve production processes.

Compared with earlier programming periods, promotion of innovation and technology

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is now a much more important feature of most Objective 1 and 2 programmes.

This is, for example, the case in **Spain** and especially in regions such as Andalucia, Galicia, Castilla La Mancha and Valencia. Here, and in other Objective 1 regions, efforts to improve the innovative capacity of SMEs have been supported by the introduction of RITTS and RIS strategies (pioneered by Castilla y Leon but now extending to most of the regions). In both Objective 1 and 2 regions of the country, the level of Structural Fund expenditure on R&D has increased significantly over the years.

In the Objective 1 region of **Germany** - as in many other Member States - there are significant inter-regional differences in the emphasis placed on promoting SME innovation as well as in the types of projects supported. Saxony has devoted the highest proportion of Structural Fund resources to this priority (by 1996, ECU 108 million has been committed to some 169 projects in this field). Key projects have included the development of a technology centre and the 'Innovation Assistant' scheme which provides financial assistance to help young R&D workers find employment. Elsewhere in the region, examples of projects include the establishment of a technology-orientated Business & Innovation Centre (BIC) in Brandenburg and, in Thuringia, the introduction of a package of SME technology-related advisory services including help with product development, marketing and quality standards. Berlin's Objective 1 programme has a distinct focus on the media sector, a key project being the 'Mediaweb Berlin-Brandenburg', an Internet-related initiative. In the Objective 2 regions, an interesting initiative in Saarland has been the establishment of a technology transfer agency for the craft sector.

The way in which priorities have changed over time is demonstrated particularly clearly in **Italy**. In the 1994-96 Objective 2 programming period, the emphasis was on investing in technological infrastructure (technology parks, laboratories, etc) whereas during the current period, Structural Fund measures in the R&D field have tended to focus on providing financial assistance to SMEs and other firms for the development of technologically innovative products and processes. Piedmont, Liguria, Toscana and Lazio - where expenditure on innovation and technology under the current Objective 2 programmes is highest (over 10%) - best illustrate this trend. Similar patterns are evident in **Ireland** where almost 50% of the Innovation and Technology funding is now given directly to SMEs for R&D projects. Science, Technology and Innovation (STI) measures now account for some 21% of Structural Fund expenditure on SMEs.

In **Luxembourg**, the Objective 2 programme focuses to a large extent on developing R&D capacity and links with local SMEs. This is being done mainly by giving assistance to the Centre Universitaire Institute Superieure de Technologie. The Objective 2 and 5b programmes have a similar emphasis on R&D measures with approaching half the Structural Fund expenditure being devoted to R&D-related initiatives. There is a somewhat similar project in the **Netherlands** Objective 1

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region. Here, the development of a 'Multi-Service Centre' will provide SMEs with an integrated package of advice on innovation and technology together with vocational training. In the Objective 2 regions, a wide range of innovation and technology measures have also been promoted. Taken together, they account for some 9% of total Structural Fund expenditure during the current period.

In some Member States, the development of ICT networks is seen as having an especially important role to play in helping to overcome the disadvantages suffered by SMEs in peripheral regions. Thus, in **Finland**, R&D measures constitute the second largest budget line in the Objective 6 programme. A similar situation exists in **Sweden**. Here, there is a difference between the type of measures being implemented in the North and South of the country to assist SMEs. In the North, the development of ICT networks is seen as an important way of helping to address difficulties associated with peripherality and bridging long distances between small firms and their markets. But in the South, where in the Blekinge area, for example, 13% of the Objective 2 expenditure has been devoted to measures in this category, the emphasis is on helping to improve production processes and creating new markets. A similar pattern exists with the Objective 5b programmes although a smaller proportion of expenditure is devoted to innovation and technology measures.

4.3.5 SME Physical Infrastructure

Table 15 provides a breakdown of the allocation of Structural Fund resources to the category 'Physical Infrastructure' by Member State.

Table 15: Structural Fund Expenditure on SME Physical Infrastructure (1994-99)

Member State	MECU (% of all Expenditure on SMEs)		Member State	MECU (% of all Expenditure on SMEs)	
	MECU	%		MECU	%
B	41.0	26.5	L	0.0	0.0
DK	16.3	18.2	NL	69.7	24.1
D	177.7	4.7	A	10.1	10.1
EL	107.6	5.9	P	77.5	12.2
E	396.6	7.8	FIN	0.1	0.1
F	342.5	17.1	S	66.9	17.5
IRL	96.6	15.7	UK	530.4	19.9
I	193.2	5.3	Total	2,126.2	10.0

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

The analysis suggests that 10% of expenditure has been devoted to SME physical infrastructure. The main type of Structural Fund interventions in the category is support for the development of SME sites and premises, ranging from traditional managed workspace to science parks and ICT-related infrastructure. As with other SME measures, there is a considerable variation between Member States - and regions in them - with regard to the proportion of Structural Fund expenditure being devoted

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to SME physical infrastructure.

Notwithstanding the tendency towards 'softer' and more indirect interventions, a significant level of Structural Fund resources continue to be devoted in the current programmes to SME physical infrastructure in countries such as **Belgium, Denmark** (see below) and the **Netherlands**. A good example of this is in **France** where measures of this type account for a relatively high proportion (17%, taking Objectives 1, 2 and 5b together) of Structural Fund expenditure on SMEs, the second largest budget item after financial assistance. According to the evaluators, much of this investment in business sites and premises has been speculative in the sense that it is not justified by immediate market demand. Considerable emphasis has been placed in **Luxembourg** as well on developing SME physical infrastructure, in particular the rehabilitation of old industrial sites in the Objective 2 region with a view to providing SMEs with premises and the creation of a 'European Development Pole'. In the Objective 5b area, SME support measures include the development of rural managed workshops and a teleworking centre.

In **Germany**, a pronounced feature of the North Rhine Westfalia Objective 2 programme has been the emphasis on developing business incubators (often linked to the universities and with a technology focus) - some 15 projects of this type have been supported. There have been a further 46 projects aimed at the restoration of industrial sites, often with a view to providing premises for SMEs. A similar emphasis is to be found in the Bremen and Saarland programmes. For example, in Saarland, ERDF funding has been used to develop a science park and a network of 10 business incubators. The development of Business & Innovation Centres (BICs) has also been an important feature of Structural Fund programmes in **Ireland**. But in Ireland, physical infrastructure investment (accounting for 15.7% of Structural Fund expenditure on SMEs) refers mainly to support for private sector investment in sites and premises, and capital equipment, and is tied directly to increased output and job creation targets. Support is restricted to firms undertaking significant expansion programmes intended to compete on international markets.

In **Italy**, the level of Structural Fund expenditure on the development of SME sites and premises also varies considerably between regions. Thus, whereas in Lazio, this accounts for some 33% of expenditure under the current Objective 2 SPD, the corresponding figure for regions such as Umbria and Valle d'Aosta is much lower (5% and 0.2% respectively). According to the evaluators, there has also been a shift in priorities over time with more emphasis on converting old industrial premises for use by SMEs, and less on the development of entirely new facilities or 'greenfield' sites. They attribute this to the impact of new technology which has reducing the demand by SMEs for premises.

In **Denmark**, priority has been given to what is described as 'strategic' (rather than physical) infrastructure - the development of ICT networks, extension of business

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support networks - as well as specific projects such as the development of the NOVI science park which has received Objective 2 funding. A similar emphasis is to be found in a number of other Member States. In this respect, there is a difference in **Sweden** between the Objective 2, 5b and 6 programmes in the North of the country, where the emphasis is on using the Structural Funds to develop the knowledge infrastructure (technology transfer centres, ICT networks, etc), and the South where the priority has been to renovate industrial sites and premises for use by SMEs.

4.3.6 SME Training Measures

Table 16 provides a breakdown of the allocation of Structural Fund resources to the category 'SME Training' by Member State.

Table 16: Structural Fund Expenditure on SME Training (1994-99)

Member State	MECU (% of all Expenditure on SMEs)		Member State	MECU (% of all Expenditure on SMEs)	
	MECU	%		MECU	%
B	15.0	9.7	L	0.0	0.0
DK	16.4	18.4	NL	92.2	31.9
D	941.5	24.9	A	16.9	16.9
EL	198.7	10.9	P	101.0	15.9
E	905.1	17.8	FIN	8.8	9.5
F	70.1	3.5	S	68.8	18.0
IRL	64.0	10.4	UK	573.0	21.6
I	535.8	14.7	Total	3,607.3	16.9

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

The analysis suggests that training measures constitute the second largest category of Structural Fund expenditure on SMEs, accounting for 16.9% of total outlays in the current programmes. The type of measures being supported include:

- training for entrepreneurs and start-ups;
- carrying out SME training needs assessments;
- developing management skills in existing small firms;
- measures to promote the transfer of know-how between SMEs.

Training measures for SMEs - focusing on entrepreneurship development and developing SME skills - were a major item in most of the current Structural Fund programmes. **France** is an exception in this respect since, compared with other Member States, only a small proportion of Structural Fund expenditure has been devoted to entrepreneurship development and training for existing SMEs (just 3.5%

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taking Objectives 1, 2 and 5b together). According to the evaluators, this is attributable to the fact that SME development does not rank among the objectives of employment, labour and training departments that are responsible for training.

This contrasts with countries such as **Germany** and the **Netherlands** where Structural Fund allocations to SME training are very substantial under the current programmes. In the Objective 2 region of Groningen-Drenthe in the Netherlands, for example, training measures accounted for almost 50% of total Structural Fund expenditure during the 1994-96 period - a much higher proportion than generally found elsewhere. A significant amount of this funding was used develop sector-specific education and training strategies (in, for example, the Food Processing, Metal, and Transport and Distribution sectors). However, less emphasis has been placed on SME training in the current programme, one reason according to the evaluators, being that the sector initiatives have been successful in mobilising private sector's support to take the training plans forward. In **Italy**, SME training measures also account for a high proportion of expenditure in Objective 2 regions where, until recently, there was only very limited support available from national sources (e.g. it was only in 1997 that a national policy to encourage certain measures such as in-house training in firms and continuous learning were introduced).

As in a number of other countries, the focus on SME training measures in **Denmark** tends to be on activities such as helping to improve business planning, product development and other management skills. Likewise, ESF assistance has also been used by intermediaries to carry out training needs analyses at various levels (individual SMEs, sectors and whole regions). However, the current Structural Fund programmes have also seen ESF resources being used increasingly to help SMEs absorb new technology.

Another good example of this is **Spain**. Within the Objective 1 multi-regional framework, considerable emphasis has been placed on developing R&D qualifications. Global grant schemes - especially in Andalusia, Castilla y Leon and Valencia - have also been used to help develop SME business skills in the R&D field. In Spain's Objective 2 regions, the emphasis has been more on entrepreneurship training and also helping existing SMEs to improve their management skills and capacity to absorb new technology. A broadly similar range of SME training measures exist in **Portugal** where PEDIP II (Sub-Programme 1, 3 and 5) include assistance for smaller firms to improve quality standards and the absorption of new technologies. Other measures aim to develop entrepreneurship skills and to help existing employees improve their competencies. The Portuguese SME Initiative also makes provision for SME training (especially with regard to technology and to diminish the risks associated with new investment projects).

In **Finland**, Objective 2 measures to 'develop human resources supporting business activity' constitute the second largest budget item. These measures focus on helping

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to develop the skills of employees but can also be used to transfer know-how between SMEs, particularly within the context of R&D programmes. Initiatives in this field include the subsidisation of placements for recent science graduates in local enterprises. Training measures are seen as particularly important in helping to develop new types of (technology-based) SMEs in the Objective 6 region. Similar Structural Fund-supported graduate placement schemes operate in other Member States, including **Ireland** where young people with qualifications in finance, marketing and technology are targeted by the schemes.

Differences between regions in Member States with regard to SME training priorities are illustrated particularly clearly in **Sweden**. Here, there is an interesting contrast between the Objective 2 programmes in the South of the country, where the emphasis is on developing SME management skills, and in North where the promotion of entrepreneurship (especially involving women) is an important target for training measures. In the Objective 1 region of **Germany**, there is a similar emphasis with ESF resources being mainly used to help support entrepreneurship development schemes.

Objective 4 and ADAPT

Objective 4 programmes - which received ECU 2.3 billion funding under the current programmes – have been used to support many measures targeted at SMEs. These measures include:

- improving SME access to training and the development of training systems in firms aimed at workers and management;
- more specifically, helping firms to adapt to industrial change by supporting skills development relating to new production and organisation methods, and new technology;
- human resources measures designed to promote business competitiveness and restructuring, especially where workers are threatened with unemployment.

The current Objective 4 programmes have recently been subject to a mid-term evaluation. The results of this research, which covered 11 EU Member States, are summarised in a European Commission publication.²⁶

It is clear from the assessment that SMEs are major beneficiaries of Objective 4 interventions. Thus, according to the mid-term evaluations, the proportion of SMEs

²⁶ European Commission (DG V) 'Conclusions of the ESF Mid Term Evaluations' (1998). EU Member States covered by the Objective 4 mid-term evaluations were Germany, Austria, Belgium, Denmark, Spain (FORECEM), Finland, France, Italy, Luxembourg, Netherlands, and Sweden. A total of 20 separate reports were prepared as part of the evaluation exercise.

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benefiting from Objective 4 measures ranges from around 50% in Spain (where a target of 80% had been set in the SPD²⁷) to 95% in Germany²⁸. As the Commission's analysis points out, it would be in many respects more revealing to estimate the share of workers employed by SMEs as a proportion of the total number benefiting from Objective 4 interventions (however, this approach was only adopted by evaluators in one country - Austria). Also, the analysis suggests that measures targeted on larger firms can have significant 'multiplier' or down-stream effects that benefit SMEs, for example through supply chain linkages.

A summary of the results of the mid-term evaluation of the ADAPT Community Initiative (which received ECU 1.6 billion funding during the current programming period) is included in the same Commission report. Because of delays in launching the programme, it was not possible for the mid-term reviews to provide a detailed analysis of outputs or the extent to which the aim of concentrating on different targets groups such as SMEs has been achieved. However, available evidence indicates that SMEs have benefited considerably.

Other Expenditure on SMEs

The above analysis does not include Structural Fund expenditure falling into two further categories – sector-specific actions and 'other' measures (together accounting for an estimated 14.3% of total Structural Fund expenditure on SMEs during the 1994-99 period). Actions that are sector-specific – for example, focusing on the development of SMEs in the tourism sector – embrace most of the types of measures described above. The category 'other' consists largely of expenditure that could not be easily identified as falling into one of the categories but is nevertheless earmarked for SMEs in the SPDs.

4.4 Targeting of Structural Fund SME Measures

A key issue in this research is how Structural Fund interventions in favour of SMEs are targeted. A summary analysis is provided in Table 17.

Table 17: Targeting of Structural Fund Measures - SME Size and Sector

Member State	Targeting Methods			
	<i>SME Size</i>	<i>SME Sector</i>	<i>Age</i>	<i>Gender</i>

²⁷ See 'Evaluation Intermediare du FORCEM dans l'Objectif 4 pour les Regions hors Objectif 1 du Fonds Social Europeen pour l'Espagne', page 49. An interesting finding from the research in Spain was that only 20% of SMEs had previously been involved in the type of measures supported by Objective 4 compared with 70% amongst larger companies.

²⁸ According to the mid-term evaluation for Germany, approaching 5,000 SMEs employing an estimated 30,000 workers have benefited from Objective 4 measures (Page 5, 'Evaluierung der Ziel 4 Foerdermassnahmen in Deutschland, ISG, 1997).

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Belgium		■		
Denmark	■			
Germany		■		■
Greece				
Spain			■	■
France				
Ireland	■	■		
Italy		■		■
Luxembourg				
Netherlands	■	■		
Austria		■		
Portugal		■		
Finland	■	■	■	■
Sweden	■	■	■	■
United Kingdom	■	■		

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

Key ■ = Pronounced feature of programmes = Not a pronounced feature

As can be seen from Table 17, Structural Fund targeting practices vary considerably:

- there is a pronounced sectoral orientation to many of Structural Fund interventions in favour of SMEs (e.g. focusing on certain types of manufacturing or technology-intensive SMEs) in ten Member States;
- targeting according to SME size (with Structural Fund interventions typically focusing particularly on firms with less than 50 employees) is less common, especially in countries primarily covered by Objective 1 programmes;
- relatively few countries (Finland, Ireland, Netherlands, Sweden and UK) have adopted a highly focused approach, targeting measures by both SME size and sector;
- even fewer countries (e.g. Finland, Spain and Sweden) have measures specifically designed to help young people who wish to establish or develop a business;
- these countries - and some others (e.g. Germany) - also have measures that target women entrepreneurs.

Below, we review targeting practices in more detail. It should be emphasised that the analysis cannot be clear-cut - in particular Member States, there are not only variations with regard to targeting practices between different regions but also between different types of Structural Fund SME measures.

An example of where targeting practices are quite highly developed is **Denmark**. Here, of the 52,500 SMEs located in the country's assisted regions, 21,900 are being

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targeted (7.1% of the total number) by the current Structural Fund programmes. As in many countries, a significant proportion of Structural Fund programme expenditure has been used to support the development of SMEs in the tourism sector. However, otherwise the SPDs do not have a pronounced sectoral focus and the emphasis tends to be on targeting SMEs in particular size bands, and/or with clear potential with regard to innovation, growth and exports.

In **Ireland**, there is a pronounced emphasis on targeting growth-orientated manufacturing and internationally traded service sectors. The current Structural Fund programmes include an Industry Development sub-programme dedicated to the food processing sector, and software, film and crafts are also specifically assisted. There are also measures focusing on SMEs in particular size bands, especially those employing less than 50 people. Specific measures, such as the National Linkage Programme, also have a sectoral focus. Structural Fund programmes in **Belgium**, in contrast, do not appear to have pronounced focus with regard to SME size but the Objective 2 SPDs, for example, do target particular industries. These include transport and logistics, new media, and telecommunications.

The sectoral focusing of Structural Fund interventions in favour of SMEs is also quite pronounced in **Germany**, albeit with mixed results. Thus, in North Rhine Westfalia, Objective 2 funding has been used to help develop some 30 'Sector Initiatives' (automotive, biotechnology, information technology, media, and others). A common feature of these initiatives is the promotion of supply chain linkages between large firms and SMEs, and other actions to help consolidate sectoral clusters. Objective 2 assistance has been used to help cover the initial phase in the development of the various 'Sector Initiatives'. By and large, these initiatives have been successful. Elsewhere, experience has been more mixed. For example, in Berlin, attempts were made to introduce a special Objective 2 measure to promote SMEs in the media sector. However, these attempts were not successful and there was a relatively low take-up of funds (ECU 2.3 million used to finance 13 projects). There has been far less of a sector focus in the Objective 1 region of the former East Germany although in Mecklenburg priority has been given to SMEs in the craft sector, trade, services and tourism (202 of the 287 projects implemented so far concentrate on developing SMEs in the tourism sector).

In the **Netherlands**, too, there has been a pronounced focus on small firms in particular sectors in the assisted areas. Thus, in Twente (and to some extent Arnheim-Nijmegen) measures have been focused very much on SMEs in the transport and distribution sector. The type of assistance being provided to smaller firms includes help in making use of telematics, value-added logistics, environmental and quality standards, and fleet management. Together with the local School for Higher Vocational Training, steps are being taken to establish a centre of excellence in these and related fields to help develop SMEs. Another example of sectoral targeting in the Netherlands is in the Objective 2 region of Groningen-Drenthe. Here, as noted earlier,

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ESF resources have been used develop sector-specific education and training strategies in the food processing, metal, and transport and distribution sectors.

In the Objective 2 region of **Finland** there is also a definite sectoral focus to many Structural Fund measures, the aim being to develop SMEs in two key sectors - renewable energy (i.e. forestry), and telecommunications (seen as vital to overcoming difficulties caused by peripherality). Other sectors that are being targeted are electronics, metal goods, tourism, and wood processing. According to the research, traditional industrial sectors have tended to receive the bulk of financial assistance, the aim being to help modernise production methods. In contrast, new growth sectors (e.g. information technology, precision engineering) have only received a small share of assistance. In terms of social groups, an interesting feature of the financial engineering measures that are in the process of being introduced by KERA is the special focus on female entrepreneurs.

Another example of where Structural Fund measures for SMEs have been targeted on particular social groups is **Sweden**. As noted earlier, the emphasis in the Objective 2 region of Fyrstad has been on using EU grant aid and financial engineering measures to help accelerate the rate of new start-ups. Here, priority has been given to women and young entrepreneurs. (In the Objective 5b and 6 regions, these and other measures are also being targeted on SMEs in particular sectors such as food processing.) In **Italy**, too, there is some targeting of financial assistance measures in Objective 2 regions on specific social groups such as women, young people and the unemployed. Elsewhere, there are relatively few examples from the research of the targeting of particular social groups although a recently-launched financial engineering scheme in the Andalucia region of Spain is designed to help young people, as is the SIJE scheme in Portugal.

Elsewhere, Structural Fund measures do not have a very pronounced focus in terms of SME size, sector or social groups. Thus, in **Greece**, the vast majority of Structural Fund measures apply to SMEs in across the full range of sectors making up the economy. Only SMEs engaged in commerce have in the past been excluded (although measures have recently been introduced to promote clusters in this sector, too). A similar situation exists in **Spain** where relatively few Objective 1 Structural Fund measures have targets defined in terms of the number of employees in firms or sectoral characteristics. Typically, the Objective 1 measures simply have the aim of improving the 'productive environment' although most of the beneficiaries are SMEs. Greater priority is given to SMEs in Spain's Objective 2 SPDs although here, too, the focus is not always very precise. The only type of Structural Fund intervention with a clear focus in this respect in the SME Initiative and some of the Global Grants. In **Belgium**, too, the evaluators suggest that no specific SME targets have been adopted.

In **Portugal**, eligibility for assistance from PEDIP II is restricted to manufacturing SMEs, with some measures focusing specifically on technology-based firms (in

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particular, PRATIC and PORODIBETA) and (in the case of the OPs) on the culture, retail, services and tourism industries. Research has been undertaken to help segment the SME sector more precisely, leading to a distinction between 'Modern SMEs' (exporters and/or using new technology), 'National SMEs' (domestic market orientated) and 'Exporter SMEs' (export orientated but labour-intensive and dependent on traditional technologies). As a result of these and other criteria having been adopted, less than a third (28.8%) of Portugal's SMEs have been targeted under the current programmes although a higher proportion is eligible for assistance. It is estimated that around 5% of SMEs will actually benefit from Structural Fund aid.

4.5 National Structures and Delivery Mechanisms for SME Measures

In this section, we examine the structures and delivery mechanisms used in EU Member States to administer Structural Fund assistance to SMEs. To place Structural Fund interventions in favour of SMEs into context, Table 18 compares EU expenditure with estimates of national spending on small firms.

Table 18: National Expenditure on SME Promotion

Member State	Year	National Expenditure pa	National 1994-99	EU 1994-99	Percentage EU/National
Belgium	1997	74	370	154.9	41.8
Denmark	1997	52	260	89.3	34.3
Germany	1996	3,125	15,625	3,781.3	24.2
Greece	1997	0	0	1,823.0	100.0
Spain	1997	564	2,820	5,084.6	180.3
France	1996	3,500	17,500	2,003.0	11.4
Ireland	1996	150	750	615.5	82.0
Italy	1996	5,500	27,500	3,644.7	13.2
Luxembourg	1995	n/d	n/d	6.4	n/d
Netherlands	1998	925	4,625	289.1	6.2
Austria	1997	770	3,850	99.6	2.6
Portugal	n/d	n/d	n/a	635.1	n/a
Finland	1996	100	500	92.3	18.4
Sweden	1995	200	1,000	382.0	38.2
United Kingdom	1995	450	2,250	2,652.6	117.8
Total/Average	-	15,410	77,050	21,353.5	27.7

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments).

Note: Column 6 'Total/Average' is overall average for countries where data exists and not based on totals in last row.

The data shown above should be interpreted with considerable caution. In many Member States, the evaluators had considerable difficulty in obtaining details of the level of national spending on SMEs. In many cases, no official statistics exist and an estimate has to be made by using the budgets for government departments with a leading role in SME policy. Notwithstanding this caution, the data does at least provide a broad measure of the importance of Structural Fund aid to SMEs along side

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national funding.

4.5.1 National Structures and Delivery Mechanisms

Below, we review the national context in which Structural Fund interventions in favour of SMEs have been implemented, focusing on how programmes are managed and how assistance is actually delivered to SMEs.

The analysis suggests that:

- there has been a tendency to decentralise responsibility for managing Structural Fund programmes for SMEs to regional agencies and other organisations;
- in around half the Member States, a 'one-stop-shop' approach is being developed to delivering Structural Fund-backed assistance to SMEs at a regional level;
- there is a considerable variation in the extent of private sector involvement in the delivery of Structural Fund assistance to SMEs;

Table 19 provides a summary analysis of the type of national structures and delivery mechanisms for Structural Fund programmes in favour of SMEs. The symbol ■ has been used to indicate an 'ideal' situation where there is centralised co-ordination of responsibility for SME policy at a national level, the development of integrated delivery systems and one-stop shops at a regional/local level, and a relatively high degree of private sector involvement in measures. A note of caution must be added since it is clearly difficult to generalise about the situation in Member States with regard to these factors since there are often considerable inter-regional practices.

Table 19: National Structures and Delivery Mechanisms

Member State	SME Policy Coordination	One Stop Shop Delivery Systems	Private Sector Partnerships
Belgium		■	
Denmark	■	■	■
Germany			
Greece	■		■
Spain	■	■	
France	■		
Ireland	■	■	
Italy			
Luxembourg	■		
Netherlands	■	■	■
Austria			
Portugal	■		
Finland	■	■	
Sweden	■		■
United Kingdom	■	■	■

Source: Ernst & Young analysis of Phase 2 Reports (General Assessments)

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Key:

SME Policy Coordination	■	Centralised	Decentralised
Regional Delivery Mechanisms		One stop shop	Multiple agencies
Private Sector Partnership		Major role	Minor role

Below, we review the situation in Member States in more detail:

Austria. Responsibility for Structural Fund SME programmes is shared by a number of Government departments, with the Chancellery having an overall co-ordinating role. At a regional level, there are many organisations involved in delivering assistance (including Structural Fund aid) to SMEs with little evidence of rationalisation. The introduction of so-called ‘Regional Conferences’ has, however, led to improved co-ordination of policy.

Belgium. Reflecting the country’s federal structure, responsibility for Structural Fund SME programmes is decentralised in Belgium and lies with the regional authorities - the Ministry of the Walloon Region (and more particularly the Direction Generales for Economic Affairs, Employment and Industry which oversees SME policy) and in the two Flemish regions Limburg and Turnhout, the Ministry of the Flemish Community.

At a regional level, there have been steps to improve the co-ordination of Structural Fund programmes for SMEs. The ‘*Intercommunales*’ and ‘*Centres for Enterprise and Innovation*’ now act as intermediaries for many measures and provide a ‘one-stop-shop’ system for SMEs.

Denmark. Government responsibility for Structural Fund SME policies lies with the Ministry of Business and Industry and its operating agency, the *Danish Agency for Trade & Industry*. Other ministries with a role in SME promotion are Labour, Agriculture, and Fishing. Structural Fund programmes (including SME measures) are co-ordinated by a permanent inter-ministerial group representing the Ministries of Industry (ERDF), Labour (ESF) and Agriculture (EAGGF, FIDFG).

Over the past decade, there has been a proliferation in Denmark of business support agencies and schemes - the research has identified more than 60 organisations with a role at a local and regional level in the promotion of SMEs (not including the 275 municipalities which also have functions in this field). In the past, local ‘Business Councils’ - which bring together business interests - have tended to regard neighbouring municipalities as competitors. However, in recent years, several networks between municipalities have been established, thus providing a model of co-ordinating services at a sub-regional level. The Danish Agency for Trade & Industry has reinforced these effort by introducing the concept of *Industrial Centres*. These provide a forum bringing together the most significant regional business development organisations. So far, Industrial Centres have been set up in nine regions with a further 26 proposals at various stages of development.

The development of integrated ‘one-stop-shop’ delivery mechanisms in Denmark for

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Structural Fund and other measures to promote SMEs would appear to be most advanced in the technology field. Denmark has fifteen *Certified Research and Technology Organisations (CRTOS)* that operate nationally with a remit to help SMEs and other firms with the development of new products and services. The CRTOS receive Government support but as this averages only 12% of their operating costs, considerable emphasis is placed on income generation from commercial clients. In 1995, the Advanced Technology Group was established to act as an umbrella organisation for the CRTOS. This also co-ordinates the delivery of some EU R&D-programmes. At a regional level, the *Technological Information Centres (TICs)* provide less specialised advisory services to SMEs. There are a total of 15 TICs forming a comprehensive national network. The TICs are relatively small units with an average of 4-6 staff. They can be seen as being in a position between SMEs and the more specialised CRTOS. Their services to SMEs are normally free.

Spain. At a national level, the Ministry of Economy and Finance and the *Direccion General de PYME* are responsible for co-ordinating SME policy, including Structural Fund aspects.

In recent years, the Spanish authorities have taken steps to improve the co-ordination of policy towards SMEs, to begin with in the context of the 'SME Industrial Development Initiative' and more recently under the 'Initiative for Entrepreneurial Development'. The aim is to develop a nation-wide SME support structure. At present, however, there is relatively little overall co-ordination with responsibility for SME policies (including Structural Fund measures) lying with the various regional authorities. Development agencies play an important role in delivering assistance to SMEs. There has been some reluctance to use non-governmental bodies, although both the commercial banks and Chambers of Commerce have an important role to play in helping to administer Structural Fund schemes. At a regional level, the recently launched '*Centres for Innovation and Economic Promotion*' are, however, beginning to improve the co-ordination of Structural Fund interventions in favour of SMEs and, in many respects, resemble the 'one-stop-shop' model found in other countries.

Finland. The Ministry of Trade & Industry (MTI) has overall responsibility for Structural Fund SME programmes in Finland and is directly involved in delivering a number of support services through its network of local and regional business services offices. (The Ministry of Interior co-ordinates programmes in the Objective 2, 5b and 6 regions). Within the MTI, the Business Development Department has several divisions - the Business Financing Division, the key unit responsible for most national schemes and all financial systems of relevance to regional policy, and the Business Service Division, which is responsible for business training and development measures. Attached to the Ministry of Trade & Industry are the *Technology Development Centres (Tekes)* which provide advisory services and financing for technology projects. *Kera Ltd* (National Development Fund) provides also loan

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assistance to SMEs, as does the *Finnish Guarantee Board*.

Rationalisation of SME support structures has taken place in Finland incrementally over a quite long period. The first step, taken at the beginning of the 1990s, saw the integration, at a regional level, of MTI district offices, Kera, Tekes and the FFTA. This was followed, in September 1997, by integration with the Ministry of Labour and the Ministry of Agriculture under one administration to form 15 *Employment and Economic Development Centres* (T&E Centres). The Enterprise Department in each Centre advises, finances and furthers the development of SMEs, promotes technological development and helps clients expand internationally. A third step aims to eliminate overlapping services in public agencies that provide SME finance (export credits, guarantees, risk finance, corporate finance). This will be achieved by merging Kera and the Finnish Guarantee Board (begun in mid-1998).

Responsibility for the delivery of SME measures has been largely delegated to regional authorities and, more specifically, working groups that have been set up in each area to help co-ordinate interventions. These and other partners are brought together in the *Regional Councils*.

France. Structural Fund SME policy in France falls under the Ministry of Industry and is implemented within the framework of the State-Region Planning Agreement (SRPA), which defines most of the five years regional policy of the State and the Regions. The State commitments for the SRPA are negotiated with the Regional Council by the Region Prefecture representing the Government and the regional representation of the technical Ministries (Industry, Agriculture, Tourism, Public Works etc.). Then, in each region, DRIRE negotiates with the Regional Council the more suitable use for such a 5-year budget.

In each region, the technical services of State departments and the corresponding services of the Region together undertake the SRPA implementation, with the co-operation of chambers of commerce, financial institutions, technology transfer agencies, etc. The *Prefet de Region* has overall responsibility for implementing the regional structural programmes (Objectives 1, 2 and 5b). The management instrument is the SGAR (*Secrétariat Général à l'Action Régionale*) which, in turn, operates through a number of Direction Régionale such as the *Direction Régionale de l'Industrie, de la Recherche et de l'Environnement (DRIRE)* which is responsible for all SME support schemes except for export, environment and (partly) innovation. The *Direction Régionale de l'Emploi, du Travail et de la Formation Professionnelle (DRETFP)* administers training schemes. In addition, the Prefet de Region may contract specific aspects of programmes out to other organisations such as the *Banque de Développement des PME (BDPME)*, and the *Chambre Régionale des Métiers, Chambre Régionale du Commerce et de l'Industrie*.

Germany. In Germany the federal government and the Laender share responsibility for Structural Fund SME measures. At the federal level the Ministry for Economics,

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together with the Ministry for Education, Science, Research & Technology take the lead. A similar division of responsibilities exists in each of the German regions.

At a regional level, there are a large number of organisations involved in delivering Structural Fund measures to SMEs. Germany's development banks, and private sector financial institutions, play an important role. Two federal development banks, the Deutsche Ausgleichsbank (DtA) and the Kreditanstalt für Wiederaufbau (KfW) are responsible for financial programmes as well as the loan schemes from the European Investment Bank. Some Laender complement the federal loan schemes with their own loans and (increasingly) venture capital schemes.

Other organisations involved in delivering Structural Fund measures in Germany to SMEs include the ministries, semi-public institutions, federal and public institutes, project agencies, and the chambers of commerce. Some of these agencies are also EU-supported Innovation Relay Centres or Euro-Info-Centres. One of the most famous advisory institutions in Germany is the 'Rationalisierungskuratorium der deutschen Wirtschaft e.V. (RKW)' (German Productivity Centre). This organisation, founded in 1921, is a self-help organisation of German enterprises. Roughly 6,000 German firms are members of the RKW and representatives of the enterprise sector, the government as well as the trade unions are supervising the RKW. The RKW is organised in regional groups with branches in each German Land. The Laender groups of the RKW offer Structural Fund-supported SMEs advisory services and help to develop skills and training. The technology centre VDI/VDE-IT TZ (a subsidiary of the Association of German Engineers (VDI) and the Association of German Electrical Engineers (VDE)) is also a co-ordinating mechanism for Structural Fund assistance to SMEs.

Finally, at the regional and local level, economic development agencies are important organisations for the delivery of Structural Fund assistance to SMEs and in some regions (e.g. Saarland) these agencies work as 'one-stop-shops'. However, in general the 'one-stop-shop' concept is not particularly well-developed in Germany.

Greece. National (and Structural Fund) SME policy responsibilities lie chiefly with the Ministry of Development and EOMMEX which has a remit focusing on SMEs and the handicraft sector. Other government departments with a role in relation to SMEs include the Ministries of Agriculture, whose interest concerns rural SMEs and agro-tourism, Labour and the Ministry of National Economy which co-ordinates Structural Funds programmes.

In 1997, these departments formed the *Government Co-ordination Committee for SMEs*. The committee is chaired by the Minister for Development, with the Minister of National Economy acting as his deputy. It has met four times in the first year of operation. So far its agenda have tended to concentrate on the co-ordination of Structural Fund SME measures rather than on high level policy; in fact the need to co-ordinate SME measures was most probably the main factor for the establishment of the committee. At a regional level, Structural Fund delivery mechanisms include

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Government departments and in the case of the Ministry of Industry, EOMMEX, its SME agency, but also not-for-profit organisations. These include a few existing agencies already working with SMEs but also new agencies connected directly to SMEs and their representatives (e.g. Chambers of Industry and Commerce). Private sector-led intermediary organisations now have a much more prominent role in the delivery of SME measures compared with the pre-1994 period. In contrast, the role of EOMMEX has been cut back.

Ireland. The Department of Enterprise, Trade & Employment has the lead role in Structural Fund SME policy in Ireland. It calls on the technical expertise of *Forfas*, the state policy and advisory agency for industrial and science and technology development. Other government departments with an interest in this field include the Department of Agriculture, Food & Forestry, the Department of Tourism, the Department of the Gaeltacht, and the Department of the Marine.

Forbairt is the industrial development agency charged with the delivery of Structural Fund SME support services at a regional level through its eight local offices (the Shannon Development (SFADCo) and Udaras na Gaeltachta act as its agents in their respective regions). *Forbairt*'s main target is manufacturing and internationally-traded service sector firms employing ten or more people. In recognition of the special needs of very small firms, *Forbairt* has also set up a small business unit focusing exclusively on SMEs with less than 50 people.

Other SME support agencies in Ireland include the 35 *County Enterprise Boards* (CEBs) which were set up to fill a gap that existed in providing support services to micro-enterprises with the potential of employing up to 10 people; *An Bord Trachtála* (ABT), the Irish Trade Board, which assists indigenous manufacturing and service sector firms develop sustainable domestic and overseas markets; *FAS*, the national training authority; and the six *Business & Innovation Centres* (BICs)

A new integrated industry development agency - *Enterprise Ireland* - was established in July 1998. This super-agency constitutes a single delivery point for the range of enterprise support and development services formerly provided by *Forbairt*, ABT and the in-company training division of *FAS*. SMEs have now a one-stop-shop for the key Government-funded programmes in the enterprise development, science-technology-innovation, marketing, and business training fields.

Forfas monitors the co-ordination of Structural Fund SME measures with other SME interventions. In practice, co-ordination in implementation is achieved through overlapping membership on agency boards and the use of inter-agency task forces to operate joint programmes (e.g. the Company Development Programme).

Italy. At a national level, three Ministries are directly involved in Structural Fund SME policy (the Ministry of Industry, Ministry of Universities and Research, and Ministry of Foreign Trade) and a fourth (the Ministry of Treasury and Budget) is

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responsible for the co-ordination of all EU Structural Fund interventions.

There are a large number of public agencies (e.g. SPI, INSUD, IPI, SIG, and ITAINVEST) and large public financial institutions (e.g. MEDIOCREDITO) with a role in delivering Structural Fund SME programmes. IPI supplies technical assistance to the Ministry of Industry; ITAINVEST contributes to the capital of SMEs in difficulty or in expansion; SPI promotes incubators and business centres; SIG is responsible for business creation in less developed areas and INSUD for supporting investments in tourist sector. MEDIOCREDITO manages funds for supporting direct investments or exports of SMEs. National agencies generally originate from the special intervention programmes for the South which ended in the 1992 after more than 30 years. In recent years, they have received new mandates and responsibilities but their role and co-ordination is not always clear and there is likely to be some rationalisation in the near future.

Almost all national and Structural Fund SME policy responsibilities are in the process of being decentralised in Italy with regional authorities set to assume a far greater role in the design and delivery of programmes. At the moment, responsibility for SME policy is shared between national and regional institutions. Only the 'Autonomous Regions'²⁹ have direct responsibility for aid to investment for SMEs, but under a recent law (the 'Bassanini Act'), similar responsibilities will be transferred to the other regions. As yet, there is no 'one-stop-shop' system. All regional authorities have some responsibility for SME training, sites and premises, business services, aid to investment in handicraft, tourism and agricultural sectors. Regional agencies and public financial institutions support the authorities in implementing SME policies. Thus, in most regions, there is at least one public financial institution, one Business and Innovation Centre and one Science or Technology Park. These agencies are largely involved in implementing EU policy and the Region delegates specific interventions to them³⁰.

An important factor encouraging the development of 'one-stop shops' is Law 488 giving banks a role in the administration of Structural Fund financial schemes for SMEs and requiring a single organisation to be appointed as the intermediary between public authorities and the local business community. There is already quite a high degree of informal networking between SME support organisations to build on. In the Mezzogiorno, formal steps are being taken to amalgamate development agencies using the French DATAR agency as a model.

²⁹ Valle d'Aosta, Trento, Bolzano, Friuli Venezia Giulia, Sicilia and Sardegna are the autonomous Regions.

³⁰ In all regions a more or less developed network of services centres exists. The Regions support these centres, but generally do not utilise them to directly implement measures of structural policy.

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Luxembourg. The most important Ministry with regard to Structural Fund SME policy is the Ministry of Economy. It is responsible for overseeing the economic development zones, with more day-to-day responsibilities being delegated to the *Ministere de Tutelage*. The Ministry also plays an important role in stimulating R&D activity within enterprises. The Ministry of National Education and Professional Training (MENFP) has responsibilities for R&D in the higher education sphere, and the Centres de Recherche Publics are also an important actor here. Responsibilities are also held by the SNCI, which disburses loans, and the *Ministere de l'Etat*. Regarding professional training for SMEs, overall responsibility lies with the MNEFP, with the CFPCs and the INFPC being the key public implementation bodies. Numerous actors are involved from the private sector, as seen already, with the most significant being the Chambres de Commerce, des Metiers, des Employes Prives, OLAP and the IFBL.

Netherlands. Structural Fund SME policies in the Netherlands are delivered through a number of different agencies. The Ministry of Economic Affairs (MEA) has overall policy responsibility and also oversees a special organisation called *Senter* which manages programmes in the field of technological innovation, international co-operation and sustainable development.

At a regional level, in addition to the government agencies, an important provider of Structural Fund-supported SME services is the so-called 'Information and Guidance Structure'. This brings together the Chambers of Commerce, Institutes for SMEs and Innovation Centres and private sector organisations such as banks and accountants, and focuses on providing guidance and counselling to SMEs on a non-commercial basis. The Chambers of Commerce continue to have a significant role in their own right in the provision of SME support services, particularly with regard to finance, trade-related advice and the implementation of public programmes.

At the beginning of 1998, the regional network of *Innovation Centres* and the *Institutes for SMEs* merged to form a new 'one-stop-shop' organisation called *Syntens*. This organisation provides a range of advisory services to SMEs, ranging from information to logistics and management. Other important functions of the new network are to act as a sign-posting mechanism so that SMEs can be referred more easily to appropriate sources of assistance. A good example of this 'one-stop-shop' approach is in Twente where the Overijssel Development Agency (OOM), which manages the Structural Fund programmes, is co-located with the Chamber of Commerce and Syntens.

Portugal. Although the IAPMEI (Instituto de Apoio as Pequenas e Medias Empresas e ao Investimento), a public agency, has the lead role in co-ordinating Structural Fund programmes in favour of SMEs, there is still a considerable degree of overlap between different agencies and little evidence, either at a national or regional level, of a 'one-stop-shop' approach emerging. However, very recently, steps have been taken

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by the Ministry of the Economy to improve the co-ordination of SME measures.

Sweden. The Ministry of Industry & Trade has the overall responsibility for SME policy and for overseeing Structural Fund programme implementation. At an operational level, the *National Board for Industrial and Technical Development (NUTEK)* is the agency responsible for the implementation of policy (Objectives 2 and 5b) in three main areas affecting SMEs - innovation and technology (including energy and environment issues), business development (in particular support for start-ups and SMEs) and regional development.

Although overall responsibilities are quite centralised at a national level in Sweden, there has been an increasing regional decentralisation of delivery mechanisms. The *County Administration Boards (CAB)* now have responsibility for managing most public programmes, including SME assistance. Each year the 22 CABs are allocated central government funding for regional development measures (the so-called 'County Funds'). This funding includes SME aid and an allocation for related regional development projects. The level of funding has increased in recent years, reflecting a move towards increasing decentralisation (for example the CABs may now decide over Regional Development Grants that fall below SEK 20 million. Above this threshold NUTEK still takes the award decision.

Another sign of increasing decentralisation in Sweden is the responsibility that is now given to semi-autonomous bodies for administering some specific grants. Thus, the *Stiftelsen Innovationscentrum* administer subsidised loans to SMEs seeking to develop innovative products and services; *Stiftelsen Industrifonden* administer subsidised loans and loan guarantees to support SME product development, marketing and to help improve SME financing (*Stiftelsen Norrlandsfonden* administer loans and loan guarantees to SMEs in the five northern counties). *ALMI Business Partner AB* (ALMI) is the main organisation in Sweden for providing financial support, commercial and technical advice to SMEs. It has its origin in the 1930s when small businesses began to form local mutual support associations. More recently, these associations have been used by the central government and the CABs as channels for delivering support (especially financial assistance) to SMEs. ALMI has 22 affiliates in the different Swedish counties. The *Swedish Export Council* is also an important provider (partly in collaboration with ALMI) of SME support services relating to international markets. In the innovation and technology transfer field and training for SMEs, there are many regional/local organisations (such as *Industry Research Institutes*, *Competence Centres* at different universities, the '*Technology Bridge*' *Foundations*, *Holding Companies for Patent Financing*, different regional consortia, etc) that operate Structural Fund-backed schemes targeted at SMEs.

During the last years the tendency in different Swedish regions has been increasingly to adopt a 'one-stop-shop' approach, both for technology related programmes and for other business advisory services. One of NUTEK's roles is to stimulate co-operation between different technology transfer and business advisory institutions at a regional

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level.

United Kingdom. Responsibility for Structural Fund SME measures in England lies with the Department of Trade & Industry's Business Links and Small Firms Division. Elsewhere in the UK, this responsibility lies with the Scottish Office, Welsh Office and Northern Ireland Office.

The 1990s have seen significant changes in UK policy towards SMEs. The extent of decentralisation is now probably greater in the UK than any other EU Member State. At a local and regional level in England, the main SME support service delivery mechanisms are the Business Links (BLs), Training & Enterprise Councils (TECs), Chambers of Commerce, and Local Authorities. In April 1999, some responsibilities were transferred to the new Regional Development Agencies. In Scotland and Wales, the development agencies (Scottish Enterprise and the Welsh Development Agency) have long played an important role in managing the implementation of SME programmes although at a sub-regional level there is a similar structure of local agencies. In Northern Ireland, this function is undertaken by the Local Economic Development Unit (LEDU).

The establishment of *Training & Enterprise Councils* (TECs) in the early 1990s, and *Business Links* (BLs) shortly afterwards, marked an important watershed in UK policy towards SMEs. In particular, it represented a shift away from centrally delivered programmes in favour of local mechanisms supported by public-private sector partnerships. There is now a network of 75 TECs in England with a further eight in Wales. In Scotland, a network of Local Enterprise Companies (LECs) was established. These were given wider responsibilities - covering infrastructure as well as training and SME support - than their counterparts in England and Wales.

Following a transfer of responsibility for small firms policy from the Employment Department (ED) to the DTI in 1993, TECs assumed the lead role in delivering a range of SME support services. DTI funded programmes delivered through TECs included business counselling, advice and information; business skills training and a diagnostic service. By the mid-1990s, some £40 million p.a. was being allocated by the DTI to these measures (between 3 and 4% of total DTI expenditure on trade and industry). In addition, TECs were given responsibility for delivering several ED enterprise programmes, namely initiatives to promote start-up and the Investors in People programme (aimed mainly at larger companies but with a target for SMEs).

Business Links (BLs) were launched by the DTI in England in April 1993 with similar bodies being established in Scotland and Wales. In part, the decision stemmed from criticism of the TEC's role which was seen as focusing too much on start-ups rather than existing SMEs with growth potential. However, more fundamentally, there was a view that the local delivery of support to SMEs was still fragmented with TECs, Chambers of Commerce, Enterprise Agencies and Local Authorities competing with one another to obtain funding and to provide services. The mission of Business Links

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was (and remains) to create a 'one stop shop' for business support services by bringing the different providers together. To this end, most programmes (with the exception of RSA) have now been channelled through Business Links. By 1997, the network of 80 Business Links (with a combined total of 200 outlets) was largely complete. At the same time, there has been further rationalisation of UK business support organisations with mergers between TECs, Business Links and Chambers of Commerce.

Whilst TECs and BLs are by far the most important agencies delivering publicly-funded assistance to SMEs in the UK, it is important to note the role of other organisations, in particular the Chambers of Commerce and Local Enterprise Agencies. *Chambers of Commerce* have a dual function in the UK - representing the interests of local business and, second, providing services directly to firms. They are membership-based (although, unlike the situation in the rest of the EU, membership is not obligatory) and most of their income is derived from subscriptions. Services typically provided by Chambers to SMEs include business advice, export advice and market intelligence, help in identifying business contacts, information services and events such as training seminars and workshops. *Local Enterprise Agencies* - once the main source of assistance to start-ups and smaller firms - have largely been integrated into the BL network and re-branded as BL 'outlets'. Whilst they continue to have an important function in advising start-ups (usually under contract to TECs), there has tended to be a shift in favour of established SMEs in line with the priorities of the BL network as a whole.

In 1999, the UK Government announced its intention to set up a national '*Small Business Service*'. This will bring together all Government-funded schemes for SMEs and be operated through Business Links.

3.6.2 Non Regionally Focused Delivery Mechanisms

In addition to the regional and national structures described above, there are a number of EU-supported networks that also play an important role in helping SMEs obtain access to assistance. Table 20 provides a summary description of the main EU-supported networks with a role in SME promotion.

Table 20: European Networks for SMEs

Euro-Info-Centres. The function of the Euro-Info-Centres (EICs) is to provide SMEs with information on European programmes, legislation, markets and other matters, thereby helping them to take advantage of opportunities created by the Single European Market and EU programmes for third countries. There are currently 227 EICs in EU Member States (with a further 27 EEICs in other countries). In 1996, the EICs processed some 350,000 inquiries from SMEs.

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Business Cooperation Network. BC-Net is a computerised database that matches up offers and requests from SMEs seeking co-operation partners. It is operated through a network of 300 correspondents in 40 countries. In 1996, 7,300 inquiries were dealt with by BC-Net.

Bureau de Rapprochement des Entreprises. The BRE network has the same function as BC-NET but differs insofar as business co-operation offers and requests are processed on a non-confidential basis. BRE currently has 500 correspondents in 73 countries. Some 8,200 inquiries were processed in 1996.

Innovation Relay Centres. The EU's 52 Innovation Relay Centres (IRCs) advise firms - especially SMEs - on innovation and technology transfer, especially opportunities for collaboration across borders and to participate in EU RTD programmes. In 1996, there were 39,500 inquiries leading to an estimated 380 technology transfer agreements.

Craft Network of Focal Points. The Craft (Co-operative Research Action for Technology) network, which was launched in 1994, exists to help SMEs search for partners and help with proposal writing for the Technology Simulation Measures (TSM). Between 1994-96, some 1,200 SMEs participated in CRAFT projects. A recent evaluation by the Commission suggests that the UK is doing very well with UK SMEs co-ordinating more than twice as many successful exploratory awards as any other Member State.

Rural Information Carrefours. The purpose of the Carrefours is to disseminate information on EU programmes and measures and to encourage links between rural areas from different Member States. There are 77 Carrefours in the EU as a whole.

OPET. The OPET programme seeks to promote non-nuclear energy technologies. There are 41 support units in the EU.

MIDAS. The Multi-media Information Demonstration and Support Network seeks to stimulate multi-media demand and to raise awareness. It is part of the INFO2000 initiative. There are 23 MIDAS nodes. The initiative was launched in 1996.

The function and organisation of these EU-supported networks is quite different. All have the basic aim of helping SMEs to maximise the benefits of EU membership but the way in which they do this varies. The different functions include:

- dissemination of EU-related business information to SMEs (EICs, Carrefours);
- promotion of cross-border business co-operation opportunities (EICs, BC-NET and BRE, Europartenariat, Interprise);
- advice and assistance with regard to technology transfer and the Fourth Framework Programme (CRAFT Focal Points, IRCs, OPET);
- help in identifying employment opportunities in other Member States (EURES).

The value added of these networks lies in providing information and assistance to SMEs on European business opportunities and schemes that is not available from national or regional organisations. In this respect, the above list of functions can be reduced to two generic types of support - provision of specialist information and assistance on EU issues and, second, helping to develop cross-border opportunities for

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SMEs.

4.6 Top Down Analysis of SME Beneficiaries and Outputs

An analysis of the monitoring data held by national and regional authorities suggests that approaching 800,000 SMEs have been assisted by the Structural Funds during the 1994-99 programming period. Table 21 below provides a 'best estimate', based on the research in Member States, of the number of SMEs assisted by Structural Fund programmes during the 1994-99 period.

Table 21: Top Down Estimate of Number of SMEs Assisted by Structural Funds

Member State	Number of SME Beneficiaries by Region					Total
	1	2	5b	6	Other	
Belgium	4,000	3,000	1,000	0	0	8,000
Denmark	0	1,000	1,000	0	0	2,000
Germany	35,000	47,000	8,000	0	0	90,000
Greece	55,000	0	0	0	0	55,000
Spain	111,000	32,000	1,000	0	0	144,000
France	10,000	17,000	15,000	0	0	42,000
Ireland	16,000	0	0	0	0	16,000
Italy	65,000	32,000	14,000	0	61,000	172,000
Luxembourg	0	1,000	0	0	0	1,000
Netherlands	3,000	7,000	1,000	0	7,000	18,000
Austria	1,000	2,000	3,000	0	0	6,000
Portugal	18,000	0	0	0	0	18,000
Finland	0	2,000	2,000	3,000	0	7,000
Sweden	0	1,000	1,000	2,000	0	4,000
United Kingdom	40,000	150,000	20,000	0	0	210,000
Total	358,000	295,000	67,000	5,000	68,000	793,000

Note: Estimates rounded up to nearest 1000.

Given the generally poor quality of monitoring data and absence altogether of output information in some regions, producing a precise estimate of the number of SMEs that are likely to have benefited from Structural Fund programmes and the associated employment outputs is not straightforward. A variety of sources were used to by the researchers to arrive at the above estimates including monitoring data and existing evaluation studies. In some cases, no estimates of the number of SMEs assisted by the Structural Funds could be obtained from the national research and we have therefore used the EU average cost per assisted SME as a multiplier to provide an estimate.

A comparison between the estimated number of assisted SMEs and the total population of eligible small firms in regions covered by the Structural Funds is provided Section 5.4. This suggests that approximately 21% of eligible SMEs received Structural Fund assistance during the 1994-99 programming period.

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Table 22 provides an estimate for each Member State, based on the same sources as used above of employment outputs associated with Structural Fund interventions in favour of SMEs.

Table 22: Top Down Estimate of Jobs Attributable to SME Measures (1994-99)

Member State	Estimates of Gross Jobs Created/Saved by Region					Total
	1	2	5b	6	Other	
Belgium	6,000	15,000	1,000	0	0	22,000
Denmark	0	4,000	1,000	0	1,000	6,000
Germany	86,000	58,000	17,000	0	0	161,000
Greece	55,000	0	0	0	0	55,000
Spain	31,000	100,000	10,000	0	0	141,000
France	34,000	110,000	27,000	0	0	171,000
Ireland	96,000	0	0	0	0	96,000
Italy	94,000	64,000	20,000	0	4,000	182,000
Luxembourg	0	1,000	0	0	0	1,000
Netherlands	7,000	34,000	7,000	0	12,000	60,000
Austria	1,000	2,000	6,000	0	0	9,000
Portugal	19,000	0	0	0	0	19,000
Finland	0	11,000	3,000	7,000	0	21,000
Sweden	0	14,000	3,000	9,000	0	26,000
United Kingdom	45,000	192,000	16,000	0	0	253,000
Total	474,000	605,000	111,000	16,000	17,000	1,223,000

Note: Estimates rounded up to nearest 1000.

Again, in some cases no estimates of the number of jobs created or saved by Structural Fund intervention in favour of SMEs were provided by the national research. We have therefore used the EU average cost per gross job created or saved as a multiplier to provide an estimate. The category 'other' mainly refers to Community Initiatives that are not already included under Objectives 1,2, 5b and 6 (in the case of Netherlands it also includes SME beneficiaries of Objective 4 programmes).

Belgium. The quality of monitoring data for SME measures is quite good and this, together with the current interim and ex-post evaluations, has been used to arrive at the estimate of the number of SME assisted and employment outputs.

Denmark. Likewise, in Denmark it has been possible to obtain detailed information on Structural Fund SME outputs from the monitoring data and evaluation studies.

France. In most regions, the monitoring systems used by SGAR have been computerised but the emphasis appears to be very much on monitoring financial inputs rather than physical outputs such as the number of SMEs assisted and employment effects. The main source of information on outputs are therefore the interim evaluations. However, relatively few of these provide detailed information on

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the results of SME measures.

Germany. To arrive at an estimate of the number of SMEs assisted and employment outputs for the period 1994-99 as a whole, the evaluators have scaled up the interim evaluation findings for the 1994-96 period (using cost per assisted SME/job created or saved as a multiplier).

Greece. There appears to be very little systematic monitoring of Structural Fund SME outputs. Likewise, where SME-orientated measures are being delivered as part of wider programmes that do not target particular types of enterprises, data on beneficiaries by firm size is generally not available. The data shown above therefore represents very much a 'best estimate'.

Spain. As in many Member States, there are considerable difficulties in estimating the number of SMEs that have benefited from Structural Fund intervention. The evaluators have therefore scaled up the results from interim assessments. Although there are estimates from official sources regarding the number of jobs likely to be created or saved by Structural Fund programmes, these estimates are not broken down by type of measure. A rough estimate has been made by apportioning Structural Fund expenditure in line with estimates elsewhere in this report.

Ireland. The quality of output data in Ireland is good with the mid-term evaluation of the current Objective 1 programme including a considerable amount of information SME outcomes. In addition, other research has been carried out, for example a recent study comparing the performance of assisted and non-assisted SMEs (which found that assisted firms had increased jobs by 17% compared with non-assisted ones where there was a decline).

Italy. The estimates for Italy have been made by the evaluators using Structural Fund expenditure to scale up information on the number of SMEs assisted and jobs contained in monitoring records. The estimate for SMEs includes start-ups (if these are excluded, the total number assisted SMEs reduces to 57,000 with jobs created or saved being 155,000).

Luxembourg. As in most other Member States, the main source of output data is the mid-term evaluations.

Netherlands. There is a lack of data on expected employment outputs for the Dutch SME measures. As a way of nevertheless coming up with an estimate, the evaluators reviewed a number of other studies³¹ to calculate for each type of region how many jobs might reasonably be expected to be created/saved per MECU of Structural Fund expenditure on SME measures. The total, according to the evaluators, could be 15,000 higher or lower than shown above.

³¹ Other studies reviewed by the evaluators in the Netherlands were the Friesland 1989-93 ex-post evaluation, South Limburg 1989-91 ex-post evaluation, and Flevoland 1994-99 interim evaluation.

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Austria. There is limited data available in Austria on expected SME measure outputs. The estimate of the number of SMEs assisted have been obtained from the authorities who, in turn, have details of the number of projects supported but only a rough idea of how many of these involve SMEs. The estimate of employment outputs is based on scaling up monitoring data from November 1997.

Portugal. The estimate regarding the number of assisted SMEs is based on a forecast made at the outset of the current programming period. Relatively little information exists on outputs. With low unemployment rates, estimating the volume of SME job outputs is not seen as a priority in most programmes. More particularly, whilst employment estimates exist for PEDIP and the OPs, these are not broken down for specific interventions such as SME measures.

Finland. The recently completed interim evaluations provide quite good output estimates as well as other feedback on SME measures. The Objective 2 evaluation, for example, included a survey of SME beneficiaries (roughly a quarter of all assisted firms).

Sweden. Although the authorities are in the process of setting up a national database, this is not yet functioning as intended and the use of performance indicators (including employment effects) is very limited for Objective 2, 5b and 6 Structural Fund programmes. Against this, NUTEK appears to have quite good information on project sponsors (e.g. it can provide detailed public/private classifications) and in June 1997 it carried out research to determine, amongst other things, how much of the Structural Funds was going to SMEs. The quality of mid-term evaluations is considered to have been very variable with some being able to quantify outputs, but most not doing so, at least with any degree of precision.

United Kingdom. In the case of Objective 1 and 5b regions, estimates for the number of SMEs assisted by the Structural Funds and employment outputs have been obtained from the mid term evaluations. Evaluation work for the UK's Objective 2 regions has only recently been started and the estimates are therefore based on a combination of monitoring data, other research and Ernst & Young's own estimates.

Top Down Estimates of Cost Effectiveness

Two basic measures have been used to assess cost-effectiveness - the cost of assisting an SME and, second, the cost per gross job created or saved by assisted SMEs. The 'top-down' analysis suggests that at an EU level:

- based on a figure of 793,000 assisted SMEs, Structural Fund expenditure per firm averages around ECU 27,000;
- based on a 'top-down' estimate that Structural Fund measures have helped to create or save 1.2 million jobs, the average Structural Fund cost per gross job

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created or saved is around ECU 17,000

By themselves, these estimates of the cost per output associated with Structural Fund expenditure on SMEs mean very little. To place the cost per job estimates in context, they should, for example, be compared with the cost to public authorities of maintaining an unemployed person. For example, in Denmark, the estimated ECU 29,000 cost per job created or saved by Structural Fund interventions in favour of SMEs compares with ECU 18,000 paid annually to unemployed people (giving a real or net cost per SME job of ECU 11,000).

4.7 Conclusions - Top Down Analysis

This section has provided a 'top-down' analysis of Structural Fund interventions in favour of SMEs based on an analysis of programme documents and other official information sources. A number of conclusions are worth highlighting.

First, the analysis of SPDs suggests that a very substantial proportion Structural Fund resources (ECU 21.3 billion or 18% of the total) has been directly invested in SME promotion measures during the 1994-99 programming period.

Second, there is a considerable variation between Member States and regions in the proportion of Structural Fund expenditure being devoted to SME promotion. According to our analysis, Structural Fund expenditure that is directly earmarked for SMEs ranges from an estimated 14.5% of total outlays in Objective 1 regions to 35.0% (Objective 2), 31.5% (Objective 5b) and 25.4% (Objective 6). However, it should be emphasised that precise estimates are difficult because of the way in which Structural Fund expenditure is classified in different Member States. A considerable amount of other Structural Fund expenditure 'indirectly' benefits SMEs.

Well over a third (39.3%) of the EU's 18 million SMEs are located in regions that are eligible for Structural Fund assistance. Given this number of eligible SMEs, there is clearly a danger of the Structural Fund resources being spread too thinly to have any real impact. The way in which SME measures are targeted is therefore a key issue. Limiting assistance to SMEs in particular locations, size bands and sectors appears to be the most common way of targeting Structural Fund interventions although here there are widely varying practices, too. The research also highlights the development of 'one-stop-shop' delivery mechanisms and the contribution they are making to improving SME access to Structural Fund programmes.

Third, the 'top-down' estimates suggest that some 793,000 SMEs have directly benefited from Structural Fund interventions in the current period. Many more will have also indirectly benefited, for example from networking initiatives. Accurate output estimates of this type, and of the job creation effects, need to be treated with caution not only because of the inherent difficulties of measuring outputs but also because national monitoring systems are in many cases unreliable. If anything, the 'top-down' estimates regarding the number of SMEs assisted and associated job

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outputs are likely to understate the benefits attributable to Structural Fund programmes during the 1994-99 programming period. There are several reasons for this. First, to the extent that some estimates are based on targets rather than actual outcomes, the recession of the early 1990s means that targets would have been set in an atmosphere of caution. In the second place, there is a tendency amongst some programme managers to set conservative targets so that they can be more easily achieved. Thirdly, monitoring systems often do not capture all the outcomes. In Section 6.3 we compare the 'top-down' estimates with 'bottom-up' ones derived from the research and survey work which generally suggest higher outputs.

Finally, Structural Fund interventions have had an important effect on national structures and practices with regard to SME promotion - going far beyond the EU-supported programmes themselves. In most Member States, there is evidence from the 'top-down' analysis of improved management procedures. This does not, however, necessarily translate into more efficient and transparent delivery mechanisms at a local level, as the analysis in the next section makes clear.

REGIONAL CASE STUDIES ANND SME SURVEY

5

Introduction

This section of the report provides a ‘bottom-up’ input to the evaluation of Structural Fund impacts on SMEs. The analysis is set out as follows:

- *Section 5.1* - Methodological approach
- *Section 5.2* - Regional case studies and project evaluations;
- *Section 5.3* - Analysis of survey feedback from SME beneficiaries;
- *Section 4.5* - conclusions - case studies and SME survey.

Before providing an analysis of the research, we briefly summarise the methodological approach to the ‘bottom-up’ dimension of the evaluation.

5.1 Methodological Approach

To carry out the ‘bottom-up’ aspect of the research, a total of 26 regions were selected as being broadly representative of Structural Fund coverage as a whole. These regions, selected in consultation with the Commission and national authorities, are listed below in Table 23.

Table 23: Selection of Case Study Regions

Member State	Type of Region				Total
	<i>Objective 1</i>	<i>Objective 2</i>	<i>Objective 5b</i>	<i>Objective 6</i>	
B	Hainaut	Limberg			2
DK		North Jutland			1
D	Saxony	North Rhine Westfalia			2
EL	Attica and Epirus				2
E	Castilla la Mancha Castilla y Leon	Navarra			3
F		Pays-de-la-Loire	Brittany		2
IRL	Ireland				2
I	Apulia	Tuscany			2
L		Luxembourg			1
NL		Twente			1
A		Styria			1
P	Lisbon & Tagus Valley				1
FIN		Satakunta		Kiannu	2
S				Jamtland	1
UK	Highlands & Islands	East Midlands			2
Total	11	11	1	2	26

Note: The research in Ireland covered the whole country and was treated as two case studies.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

The approach to the evaluation in each of the selected regions involved:

- face-to-face interviews with regional authorities and organisations involved in delivering Structural Fund aid to SMEs;
- a review of 90 Structural Fund projects to assist SMEs, providing broad regional and thematic coverage;
- a telephone survey of 1,072 SMEs in the selected regions that had benefited from Structural Fund assistance (and some non-assisted SMEs).

In each the selected regions, a programme of face-to-face interviews was carried out using a common questionnaire provided by Ernst & Young. Apart from interviewing regional authorities, business support intermediaries and other organisations involved in delivering Structural Fund aid to SMEs, the fieldwork in each region focused on an in-depth evaluation of selected projects and schemes.

The selection of projects was based on the typology of Structural Fund SME measures developed for the study. In each of the case study regions, the selection focused on 2-3 initiatives or projects that were especially significant because of the relatively high level of Structural Fund financial support for the measure as a whole and/or because they were felt to be interesting examples of the sort of activities being pursued. Regional authorities were consulted in drawing up the sample but the evaluators ultimately made the final decision regarding which projects were selected for analysis. Ernst & Young reviewed the sample and suggested appropriate adjustments to ensure a balance at an EU level between different aspects of Structural Fund intervention in favour of SMEs.

The final component of the ‘bottom-up’ research involved a survey of over 1,072 SMEs located in the 26 regions selected for the study. The methodology for the survey, explained in more detail below, was consistent with the other aspects of the Phase 3 research with a focus on SMEs in each region that had benefited from Structural Fund assistance falling into the ‘key theme’ categories.

5.2 Regional Case Studies and Project Evaluations

As part of the ‘bottom-up’ dimension of the research, a sample of projects relating to SME development was chosen in each region for in-depth evaluation. Table 24 provides a breakdown of the sample (a detailed list is contained in Appendix B).

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Table 24: Selection of SME Projects for In Depth Evaluation

Country	Selection of Structural Fund Projects						Total
	<i>Financial Assistance</i>	<i>Business Support</i>	<i>Innovation & Technology</i>	<i>Physical Infrastructure</i>	<i>SME Training Measures</i>	<i>Equal Opportunities</i>	
B	0	1	0	0	4	0	5
DK	0	1	3	0	0	0	4
D	0	2	0	0	0	1	3
EL	2	0	0	0	0	0	2
E	5	6	7	0	0	0	18
F	2	0	0	0	3	0	5
IRL	3	3	2	0	0	0	8
I	3	2	2	0	0	0	7
L	0	0	0	0	0	0	0
NL	0	2	2	2	0	0	6
A	0	0	0	0	0	0	0
P	0	2	0	0	1	0	3
FIN	0	1	0	1	2	0	4
S	0	0	5	0	0	2	7
UK	5	2	7	1	3	0	17
Total	20	22	28	4	13	3	90

It should be noted that in some cases, a ‘cluster’ of projects was examined and the totals given in Table 24 therefore understate the number of individual actions that were reviewed as part of the fieldwork.

The project evaluations set out below are intended to serve a two-fold purpose – to provide more detailed insights into the type of SME measures supported by the Structural Funds than can be obtained from a purely ‘top-down analysis and, secondly, to highlight what works well/not so well and the scope for transferring know-how from one region to another.

4.2.1 Financial Aid Schemes for SMEs

The fieldwork relating to financial assistance/engineering’ examined 20 projects in nine different regions. The research highlights a number of pointers to good practice including:

- extending the eligibility criteria for schemes to facilitate SME access;
- making grant payments up-front rather than retrospectively to help cash flow;
- improving the impact of schemes by targeting SMEs in particular sectors;
- the importance of packaging together of Structural Fund grants, loans and other

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types of SME financing and advisory support;

- the way in which the use of commercial banks and other private sector bodies as intermediaries helps to improve delivery of financial aid to SMEs;
- the role of financial engineering initiatives and key lessons from experience.

This and other feedback from the research is considered in more detail below.

Improving Grant Aid, Loans, Interest Rate Subsidies and Guarantee Schemes

Financing methods such as grant aid schemes and interest rate subsidies account for the bulk of Structural Fund assistance to SMEs. As the examples below demonstrate, steps have been taken in a number of regions to introduce innovations to what are in many respects 'traditional' forms of SME financing, many of which are transferable.

The 'Access to Finance Scheme' (AFS) in Ireland highlights a number of important lessons with regard to long-term SME financing schemes. Following a very positive response to the 1994 **Small Business Expansion Loan Scheme** (SBELS), which was restricted to SMEs in manufacturing, tourism and internationally traded services, the Irish authorities have used EU funding to introduced a long-term fixed interest scheme of subsidised loans for SMEs. The AFS scheme encourages commercial banks to make more low-interest, long-term loans available to SMEs employing less than 50 employees. A total of 9,000 new jobs are likely to be created by the scheme (at a cost of only ECU 3,000 per job).

Key changes - which have a wider relevance - include the broadening out of eligibility criteria and the use of commercial banks as intermediaries. Unlike SBELS, the new AFS is available to all non-agricultural small businesses and is implemented by the four main national commercial banks (SBELS was administered by a single state-owned bank). Also, the minimum loan available has been reduced from £40,000 to £20,000. Against this there are a number of less positive aspects: additionality has become marginal given the downward trend in market interest rates which has meant that the differential with the AFS rate has declined. Feedback from SME beneficiaries also highlights a number of strong - and weak - points to the scheme that have a wider relevance. In the first place, the fixed rate element appeals most to beneficiaries. But, against this, many SMEs would like the flexibility to repay the loan before the seven-year term expires if they are in a position to do so (this is a drawback highlighted in other case studies). Irish experience also emphasises the importance of prior consultation with intermediaries over the design schemes to avoid an unnecessary administrative burden on the banks and their information systems, again an important learning point for other regions.

In several of the case study regions, steps have been taken to improve SME grant

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schemes by making payments up-front rather than retrospectively - a practice that could be (and in some cases, is being) adopted elsewhere - and by streamlining application and monitoring procedures. For example, in Spain, in the region of Castilla y Leon, the **SME Investment Grant Scheme** supports productive investment in smaller firms, in particular investment in new or existing infrastructure and the relocation of activities to priority areas. This scheme is innovative since it gives SMEs access to grant aid at the time when the firm makes an investment rather than in retrospect. A further innovation has been to extend the scheme to investment projects of less than 100 Mptas, thereby directly targeting SMEs. In contrast, the **Loan Subsidies for SME Tourism Investment Scheme** in Navarra, which provides an interest rate subsidy up to 5% on loans to SMEs involved in tourism, still operates retrospectively. Beneficiaries are required to submit documentation proving that the investment has taken place for the specified purpose within 15 days of completion of the project. Until 1995, the grant was reimbursed within a period of two months but since 1996 payments have been seriously delayed because of an unexpected rise in demand for assistance. The research suggests that this problem is by no means confined to the Navarra scheme.

The Tuscany Objective 2 and 5b **Interest Rate Subsidy Schemes** are worth highlighting because of the targeting of SMEs in particular sectors - handicraft, environmental investments and tourism - which is generally felt to have improved impacts. Under the scheme, FidiToscana, a financial institution owned by the public authorities finances 40% of the total investment at a interest rate of 1.75% (to cover its expenses). Banks and other financial institutions finance a further 40% of the total investment at a market interest rate (about from 7.5% to 10%) with SMEs financing the remainder from their own resources. In order to finance these interventions, FidiToscana has created a revolving fund with public resources.

FidiToscana also operates **Guarantee Funds** for SMEs in specific sectors. This scheme, is targeted on agricultural enterprises in the Objective 5b areas and funded by the EAGGF. However, the success of the measure has been limited - SMEs in agriculture and fishing have benefited in Italy for decades from large-scale public financial assistance, being able to obtain credit at extremely low rates. Now things are changing and available aids are much less advantageous than before, but firms have difficulty in accepting the new situation. In the industrial sector, the measure has not yet started. However, very high demand is forecast.

Most of the examples outlined above of how 'traditional' Structural Fund schemes have been improved - lowering eligibility thresholds, up-front payments, sectoral targeting, the speeding up of application procedures and simplification of monitoring arrangements - could clearly replicated elsewhere. However, this does depend on the capacity of intermediaries to manage schemes more efficiently and in this respect the involvement of private sector institutions in administering Structural Fund schemes has been helpful.

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'Packaging' of SME Financial Assistance Measures

The importance of packaging together of Structural Fund grants, loans and other types of SME financing and advisory support - to provide firms with flexible and integrated assistance at the different stages of their growth is a key message from the research.

A good example of how 'traditional' and newer types of SME financing have been combined is to be found at the **NOVI** science park in the North Jutland region of Denmark. Here, EU grant aid has been combined with a national venture capital scheme to provide SMEs with an integrated financial aid package (the NOVI scheme is being promoted by the Danish authorities as a model for other science parks).

A further example is to be found in the French region of Bretagne. Here, there are several forms of Structural Fund financial support to SMEs that have been packaged together. These schemes - the **FDPMI** and **POA Leasing Schemes**, focus on helping SMEs to modernise, especially by purchasing new plant and equipment (buildings and transport equipment are excluded). The aim is to increase SME productivity. In both cases, public financial support goes to intermediaries, including leasing companies (where the support contributes to reducing the cost of building leases). Schemes such as this represent almost a third of the total public funds given to SMEs. In contrast, only 5.9% of Structural Fund resources devoted to SME measures is in the form of 'traditional' grant aid schemes (SME Modernisation Grants are the most important form of support). There are no financial engineering measures in the French Objective 5b programme, but the combination of other types of finance has led to de facto financial engineering. Recent evaluations in France suggest that integrated SME financial aid schemes of this type produce better results than where they operate separately.

The importance of packaging financial assistance together with business advisory support so that SMEs can make the best use of assistance is demonstrated by the **Financial Services for Clothing and Textiles Scheme** in the UK's East Midland's region. This scheme, which is delivered by NADCAT (National Association for Clothing and Textiles), offers grants to SMEs of up to £2,000 (representing a maximum of 50% of the sum to invest) to improve productivity and growth. Typically, grants have been used by SMEs to attend exhibitions and produce marketing material, to purchase specialist and IT equipment, and to improve production systems. In terms of targets and outputs the project has been broadly successful. However, analysis of the scheme reveals a number of weaknesses. Firstly, the number and size of the grants awarded has reduced the cost-effectiveness of the scheme. Secondly, the system of making claims retrospectively has led to financial problems for SMEs - particularly the most vulnerable ones, thereby defeating the object of the scheme. Thirdly, and perhaps most significantly, the scheme provides only a limited amount of advice alongside the grant aid. Feedback from beneficiaries and partners strongly suggests that the scheme would have achieved better results if more emphasis had been placed on providing both financial and advisory assistance. Experience elsewhere, particularly with financial

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engineering schemes, points to similar conclusions.

Role of Intermediaries in SME Financing Schemes

The current Structural Fund programming period has seen private financial institutions playing an increased role in operating SME financing schemes with positive effects in terms of efficiency and effectiveness. However, the transferability of experience in this respect is more problematical.

In the Spanish region of Castilla-La-Mancha, for example, Structural Fund support has been used to develop the **Institute of Official Credits (ICO) SME Productive Investment Scheme**. This scheme is marketed and delivered through a public-private network of Technology Centres, Chambers of Commerce and the Local Centres for Innovation and Promotion (CLIPES). Application and selection procedures take about three months and payments are made between 3-6 months after the investment has been completed, which is faster than with purely public agency-led schemes. The Structural Funds' contribution has been essential - in fact it would have been very difficult to set up the schemes without these additional resources. Apart from financial resources to stimulate the investment, the Structural Funds have also brought about a change in the culture of intervention with greater emphasis now being placed on improving SME competitiveness and on improving the way in which schemes are administered by increasing the involvement of private sector organisations. Assessments of this scheme has been generally positive, especially with regard to the role of private sector intermediaries and more efficient and faster processing of applications.

In the case of Castilla y Leon's **Incentives Scheme**, apart from introducing up-front payments (see above), there have also been improvements to the way in which the scheme is administered and marketed to SMEs. The most interesting and innovative aspects of this is the close collaboration with the saving banks. The ADE has signed agreements with the six local saving banks in Castilla y Leon. This collaboration with savings banks has now developed to the stage where there are now has over 2,000 information points in 338 rural banks and 600 local banks. As a result, SMEs are becoming increasingly aware of the scheme and the take-up rate has increased. Also, the processing of applications has been substantially speeded up compared with previous measures (territorial incentives) when it took nearly two years to deal with applications and another two to release final payments. Now there are stricter time limits (6 months for approvals and one year for payments). However, the flexibility of providing grants on a 'just-in-time' basis does pose some difficulties for intermediaries although the benefits are seen as outweighing the risks.

Another example of where the use of private sector intermediaries has helped to improve the deliver Structural Fund aid is in Italy's Objective 1 regions. Here, the SPD measure '**Aid to Investment**' accounts for a very high proportion (70%) of total expenditure on SME measures. This has been used to support the implementation of

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Law 488/92 which provides local firms with grant aid towards capital investment costs for selected projects (the previous more or less automatic eligibility rules having been phased out). Although all firms can receive assistance, at least 50% of the funds are reserved for SMEs. According to the evaluators, the implementation of the measure has greatly improved as a result of transferring responsibility for project selection from the Ministry of Industry to the region's commercial banks. This approach has dramatically speeded up application procedures (which previously could take up to five years). There are similar examples in a number of other EU Member States – such as Austria and Portugal – where private sector intermediaries have helped to improve the efficiency of SME financing schemes.

Elsewhere, the case studies highlight continuing difficulties. For example, in Greece, the **Industrial Investment Grants** and **Business Service Grants** schemes, which are run by EOMMEX through its regional offices, demonstrate serious weaknesses in programme management, targeting, monitoring and evaluation.

Although the schemes are now being co-ordinated centrally by the Greek authorities, there is still a need to rationalise programme structures to minimise overlapping. Secondly, there seems to be problems in adapting budget plans where the take-up deviates from expectations. In the case of industrial investment grants, any surplus is routinely passed on to the national investment budget that operates as an effective fall-back fund. In the case of industrial grants to new entrepreneurs, where demand has substantially exceeded the available CSF budget, there is no fall-back fund to resolve problems arising from unexpected demand for assistance. As a result there are serious delays in approving grant payments and applicants remain uncertain for a long period of time as to whether their projects will be funded or not.

Delays of this kind are further accentuated by the time lag between the submission and processing of applications, the time taken by EOMMEX headquarters to allocate the available budget between regions, and the time taken for making payments to beneficiaries. A further complication, in the case of business services grants, is poor targeting. There appears to be an absence of any substantive, purposeful, targeting in relation to regional development strategies and trends, to sectoral or local comparative advantages, or to other criteria. Also, there is an absence of pro-active marketing and targeting of potential beneficiaries. This is more of a problem in the case of industrial grants where a proactive approach is more relevant and where the funds involved and their potential impact is sizeable. Monitoring and evaluation is also weak.

In the earlier examples cited above, the administration of Structural Fund schemes has been greatly improved by introducing private sector intermediaries. Amongst other things, this has led to a much faster processing of applications for assistance, thus addressing a major concern of SMEs frequently highlighted in research over complicated and time-consuming procedures and delayed payments. But clearly, it is not possible to involve the private sector in this way in regions where the financial

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services sector is itself relatively under-developed.

Development of SME Financial Engineering Schemes

Financial engineering - seed and venture capital, factoring, leasing and guarantee schemes - has become a much more significant element in current programmes. Again, the research points to a number of key learning points but also to the complications of transferring good practice from one region to another.

An example of where financial engineering measures have become far more significant under current Structural Fund programmes is Ireland. Here, there are now two Structural Fund-backed financial engineering schemes. The **State Equity Investment Measure** demonstrates the switch that has taken place in Ireland from capital grants to equity participation. The objective of this measure, which is being administered by Forbairt, is to assist SMEs, individually or jointly, to develop businesses capable of competing successfully on an international basis. Assistance - usually in the range ECU 25,000 to ECU 250,000 - consists of ordinary shares but there is flexibility to consider other options (e.g. redeemable, convertible, preference shares might be appropriate in the case of high growth companies). It is envisaged that the portfolio will eventually consist of straight equity investments in some 300 SMEs trading across all sectors. Forbairt will take a minority share holdings of the order of 5%-10% and anticipates that investments will pay for themselves within a 5-7 year development phase with any surplus being reinvested in the fund.

This scheme and a second Irish measure - the **Venture Support Measure** - highlight a number of more widely applicable lessons. The Venture Support Measure seeks to bridge the equity gap for SMEs by using Structural Fund resources to attract matching seed and venture capital contributions from the private sector. A key point - backed up by research elsewhere - has been Forbairt's strategy of using professional experts to manage the funds with a commercial remit and the objective of making the funds self-financing. Other notable features of the strategy include not taking more than 50% of the voting rights in SMEs (usually 20-25%) but seeking Board representation and/or participation in other committees; fund managers having autonomy with regard to investment decisions; the venture capital assistance to SMEs being restricted to a fixed period; and revenue from investments (interest, dividends and capital gains) being reinvested in the funds. These are important good practice points which apply equally to schemes elsewhere.

Although the Irish financial engineering measures did not become fully operational until 1996, the initial impact has been very encouraging with strong interest from the private sector venture capital industry and full allocation of the £33 million committed to the funds by the end of 1996. In 1997 the measures developed significantly, a total of ten funds becoming fully operational. The six largest had made a combined total of 16 investments worth £6.5 million. All reported good deal activity and good quality

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projects.

Financial engineering measures (participation in the capital of SMEs) are also included in the Tuscany Objective 2 SPDs for the 1994-96 and 1997-99 periods. Resources being devoted to financial engineering amount to over ECU 10 million (including ECU 3 million from the Structural Funds). The **FidiToscana Venture Capital Fund** is experimental since it was not included in the previous planning period and is innovative in the national context (no similar national interventions are being implemented). In addition to directly assisting SMEs, a second aim of the measure is to encourage financial institutions to introduce new types of financing and to establish new relationships with SMEs.

To begin with, the scheme provided a maximum public contribution of ECU 250,000 but few SMEs were interested in equity financing involving such relatively small amounts. Subsequently, the maximum investment level has been raised to ECU 500,000 but even this amount is considered on the low side. Unlike schemes in many other regions (e.g. the Irish schemes referred to above), FidiToscana does not place a representative on the board of directors, but is included on the SME's board of auditors. To date, FidiToscana has received 16 applications, of which five have been supported. There have been some complications caused by a two-year delay in obtaining final approval from the Commission to proceed with the scheme. This drastically reduced the time available for implementation of the measure. SMEs have also encountered difficulties in obtaining information on the measure.

The importance of combining venture capital financing with business advice to SMEs is illustrated by several initiatives in the UK. This is illustrated in the UK's East Midlands region with the **Nottingham Trent Venture Programme (VIP)** which run by the Djanogly Innovation Centre for Europe (DICE). The VIP was established in 1997 with the aim of helping SMEs in the East Midlands to develop new products and processes. Under VIP, £1 million has been raised from a variety of sources including the ERDF (ECU 650,000), local authorities and the private sector. SMEs can obtain between £10,000 and £17,500 in non-refundable finance to help with product development. The VIP scheme provides a package combining financial assistance with various other types of assistance including a review of the company's activities and plans; a financial and technical appraisal of the project for which assistance is sought; access to R&D facilities and expertise, and various advisory services.

The VIP programme highlights the importance of involving private sector expertise not only in the management of venture capital funds but also in providing the wider range of business services needed for relatively complex financial instruments to work properly. In the case of the VIP scheme, it is designed to run along side other business support services provided by the Business Links, TECs, Local Authorities and professional firms. These organisations also act as a filtering mechanism, helping to identify SMEs that qualify for assistance. A secondee from NatWest is responsible at

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the VIP's 'Sifting Committee' for appraising financial aspects of applications and ensuring that they satisfy additionality requirements. To date, 27 SMEs have received assistance from VIP and, according to DICE, this has led to the creation of almost 90 new jobs. The ERDF is seen as having played an important catalytic role in helping to get the scheme off the ground. Although the necessary funding could probably have been raised from other sources, the contribution of the ERDF provided impetus and gave Nottingham Trent University (the host organisation for DICE) the confidence to press ahead with the initiative.

Another venture capital scheme in the UK, the **Highlands & Islands Ventures (HIV)** scheme, provide a good example of how finance and advisory support can be combined. This scheme is run by Grampian Regional Council and managed by Aberdeen Asset Management. The fund was set up in 1995 with £1 million of ERDF support matched by a consortium of public/private bodies, including HIE and the Grampian Council. The venture capital fund provides investment of between £50,000 and £250,00 in a variety of companies ranging from start-ups to SMEs with growth potential with investments taking the form of part-equity of between 5% and 40% of shares and loan stock. Interest is payable on loan stock over a 3-7 year period, but the SME has a 12-month capital holiday before payment is due. HIV maintains a close relationship with assisted companies, either by appointing a non-executive member of the board or attending board meetings as an observer.

The HIV scheme places considerable emphasis on the 'hands-on' monitoring of assisted SMEs - again, an important lesson. After-care is regarded as being as important as the help provided during the initial investment period. Also, a close relationship with the SME provides an opportunity for other support needs to be identified, particularly in with regard to additional financing and management training.

The HIV scheme also points to a number of complications with financial engineering measures. Over the three years the HIV has been operating, a total of nine companies have been assisted, with a further two approvals in the pipeline. Initial targets were set as double this (20 investments over 3 years) and the sums invested were expected to average £100,000 whereas they have, in fact, tended to be smaller. Only 4% of the 200 applications made so far have satisfied the main criteria of growth potential and management skills. Due to the innovative nature of the scheme, the risk element has also been quite high - in fact, the first two companies assisted subsequently failed with a combined bad debt of £1.5 million - and the volume of investments is much smaller than anticipated. The analysis suggests that the investment rate could be improved if companies were given more assistance with their applications. This experience clearly applies elsewhere, too.

An example in the UK of a Structural Fund-backed financial engineering initiative that has not succeeded at all is the **Highland Equity Capital** and again there are lessons to be learnt. This scheme aimed to provide equity investments of £30,000-50,000 to new

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and expanding SMEs, complimenting existing loan and equity schemes - a goal that proved to be entirely inappropriate. The response from SMEs has been very poor with few applications for assistance (only two or three firms have made inquiries) and there has only been one beneficiary. The reason for the scheme's failure appears to be linked to the relatively high cost to SMEs of the scheme – it provides investments in the form of preference shares of up to £50 000, but the fixed dividend firms are required to pay is seen as being prohibitively high (the equivalent of about a 20% premium over a 5-year period, not taking inflation into account). More thorough prior research to assess the feasibility of the scheme, and SMEs' willingness to pay the premium, might have led to this problem being avoided.

Some regions have not placed great emphasis on developing financial engineering schemes. Examples of where this is so include Castilla-La-Mancha in Spain. Traditionally, one of the main difficulties facing smaller companies in Spain and in particular in Castilla-La Mancha has been access to suitable finance. Within the ERDF Operational Programme particular attention has been devoted to financial assistance through different types of schemes which account for 7.5% of the total Operational Programme. However, no steps have as yet been taken to extend interventions to include financial engineering.

There is evidence from the research that regional characteristics have influenced the development and success of SME financial engineering schemes. In Germany, for example, there is a contrast between the Objective 1 region, where financial engineering schemes have been largely developed outside the framework of the Structural Funds, and Objective 2 regions where the programmes have included measures of this type as an integral component. North Rhine Westfalia, in particular, has devoted a considerable amount of Structural Fund resources (ECU 50 million) to financial engineering measures (venture capital, loan schemes, guarantees). However, with the exception of North Rhine Westfalia, the small size of Western Germany's Objective 2 regions is seen as having led to complications, the evaluators' view being that venture capital and other similar instruments are 'supplied reasonably at the national and Laender level' and cannot often be cost-effectively developed for smaller areas.

Another interesting finding from the case study research is the way in which financial engineering measures have been targeted. In general, the research suggests that specialised seed and venture capital schemes, which have a clear sectoral focus, work better than schemes that are open to any type of SME. In Sweden, special loan and venture capital schemes have been introduced with even more precise targets. As in other Member States, the focus is on start-ups and smaller SMEs with growth potential, but young people, women and 'green' businesses are also targeted.

Of all Structural Fund SME financing instruments, financial engineering probably poses the greatest complications with regard to transferring experience from one region to another. There is a need for specialised fund management expertise, and a supportive

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environment of financial and business services - which does not exist in many assisted regions. Also, the success of equity schemes depends, crucially, on the existence of exit mechanisms for investors, typically secondary stock markets, and these have not been developed in many EU Member States.

4.2.2 Business Support Services

In the field of 'Business Support Services', we examined 22 projects in seven different regions. Below we focus on:

- the importance of linking business support to an initial diagnosis of SME needs;
- SME consultancy schemes, how they work and the advantages of networking and 'packaging' of assistance;
- the approach adopted to promoting SME 'internationalisation' and lessons to be learnt from experience.

The promotion of SME clustering and networking, together with the differences between 'horizontal' and vertical' models.

Diagnosis of SME Needs

The research suggests that Structural Fund schemes are more effective where business support places an emphasis on an initial diagnosis of SME needs. A number of case study projects demonstrate good examples of SME needs assessment practices.

This is illustrated in the Spanish Objective 2 region of Navarra by the **Competitiveness Enhancement Scheme** which provides grants to cover initial diagnostic and consultancy services to SMEs. During the 1994-95 period, according to an on-going evaluation, 80 SMEs from a wide range of industrial sectors have participated in the schemes. According to the research, the scheme has been very successful with the benefits to SMEs including an increase in productivity, obtaining access to expertise to develop information systems, an increased commitment to staff training, and a faster rate of start ups, particularly in the fields of advanced engineering and consultancy. The initial diagnosis of SME needs is seen as having played a very important role in ensuring that assistance is properly targeted and that small firms make best use of schemes.

Likewise, in Portugal's PEDIP II business support programme, the requirement that SMEs agree to a diagnostic review before applying for assistance has been built into most business support measures. The **PEDIP Firm Auditing Scheme** illustrates how this approach works with the scope of the diagnostic reviews covering a broad field including financial management, investment and strategic planning and evaluating development options. In the past, IAPMEI used to check the quality of the reviews by

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visiting applicant firms before allowing potential beneficiaries to progress to the next stage of the scheme. However, due to the large number of applications (there have so far been 1,240 applications), IAPMEI now conducts an ex-post analysis of auditing and diagnostic studies. This points to a wide lesson - the need for strict quality control over SME diagnostic activities where this function is contracted out to ensure that the exercise has credibility and that beneficiaries accept the results and are willing to take action to implement recommendations.

In the UK, the **Business Links Diagnostic Service** provides a further example of SME needs assessment practices. Personal Business Advisers (PBAs) are employed by the Business Links to review SME needs before any assistance is provided. Some quite sophisticated diagnostic methodologies have been developed - for example, obtaining views from company staff but also competitor firms on the strengths and weaknesses of a business. This service is generally provided free of charge and leads to an 'action plan' being drawn up and agreed with the SME. PBAs then help the SME to implement the 'action plan' ensuring that the various types of assistance are delivered in a co-ordinated and efficient manner. The lesson here - again widely applicable - is that there needs to be a strong degree of continuity between the initial diagnosis of SME needs, the preparation of action plans, and the delivery of assistance.

A weakness of many SME business advisory schemes lies at the very beginning of the process, at the point where firms' needs are assessed, and the above examples point to important lessons in this respect. However, the transferability of experience depends very much on the availability of the expertise required to carry out SME diagnostic reviews and the organisational capacity (enhanced by 'one stop shop' structures) to co-ordinate these services with other types of Structural Fund assistance.

SME Consultancy Schemes, Networking and 'Packaging' of Assistance

As noted earlier, in many Structural Fund programmes there has been a growing emphasis on providing 'softer' types of SME business support services, in particular various types of consultancy. There are a number of pointers to good practice from the research, many of which are associated with networking concepts.

The growing focus of Structural Fund interventions on 'softer' consultancy-orientated interventions is demonstrated particularly clearly in the North Jutland region of Denmark. During the 1990s, there has been significant growth - from 8.5 % to 16.5 % of total Structural Fund expenditure on SMEs in the resources devoted to consultancy support services. In the North Jutland programmes, business advisory services are not classed as a distinctive Structural Fund measure but are integrated into other measures that are grouped together under the heading of '**Knowledge Projects**'. Evaluations suggest that well over half of all consultancy assistance has been taken up by very small SMEs (employing less than six people).

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The Danish 'Knowledge Projects' measures highlight an emphasis on promoting networking between business support providers. The measures also point to some of the complications of networking. In particular, the current network of advisory bodies and private consulting firms has not operated entirely without complications in North Jutland. Each organisation often tries to position and promote itself to justify its existence - which encourages competition and secrecy rather than co-ordination and co-operation between intermediaries. Various attempts have been made to improve the network, ranging from structural changes to a better division of labour. However improvements are not yet clearly visible. There are clearly lessons to be learnt here for other regions - pointing to the benefits of the 'one stop shop' model.

In Tuscany - where the tendency towards 'softer' types of business support is also evident - the **Counselling and Technical Assistance** measure contained in the 1996-97 Objective 2 programme is worth highlighting because of its focus on groups and networks of SMEs as well as individual firms. The measure supports external counselling or technical assistance with regard to compliance with EU regulations for quality issues, energy efficiency, pollution and waste control, problems related to the growth or subcontracting, internal organisation and management of the firm, and identification new markets, strategic marketing, and internationalisation. The measure has been quite successful with a high rate of applications (monitoring data shows that by the end of 1997, 325 projects out of 780 applications had been assisted). The focus on clusters of SMEs is seen as one reason for the relatively high take-up.

Germany's **Eco-Audits** are a significant feature of the most of its Structural Fund programmes and a good example of a consultancy scheme that is more or less unique to one Member State. In Saarland, for example, 14 consultancy projects have been supported that involve eco-audits and actions to improve environmental aspects of production in SMEs. Measures of this type are also a distinct feature of the SME measures adopted in Berlin and Bremen. In North Rhine Westfalia, more than half the SME Initiative funds have been devoted to 'eco-audits' within the context of actions to improve quality management. In other Member States, environmental considerations are important, but unlike in Germany there are very few examples from the research of measures focusing specifically on SMEs.

The **RETEX Programme** in Tuscany demonstrates the advantages of ensuring that business advisory services have a sectoral orientation. The programme contains three measures supporting business services for SMEs and other firms in the textiles sector. The first measure has two central aims - to stimulate demand for external consultancy and to support the purchase of equipment other than capital goods. It therefore offers a mix of advisory services and aids to investment. The total cost of the measure is ECU 19.7 million (of which ECU 14.1 million comes from the Structural Funds). A second measure supports actions to promote networking between SMEs (like the Counselling and Technical Assistance measure reviewed above). This scheme provides advisory

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services on product innovation, product diversification, quality issues, marketing, supply chain issues, customer care, and research and development. Because it is sectorally focused, it is easier to develop the specialist know-how required to fully meet SMEs' development needs in these fields. Also, there is greater scope for promoting networking between beneficiaries.

Experience in Portugal illustrates the complications - and advantages - of packaging different types of SME business support services together. The **Dynamic Factors of Competitiveness Scheme** provides SMEs with advisory support with regard to product design, quality, energy, environment, marketing, and safety issues. Although this scheme supports a wide range of actions only 56 applications from SMEs have been so far received (with only 11.2% of the budgetary allocation being used). There are two main reasons for the low take-up rate. Firstly, SMEs that apply for this measure cannot apply to another scheme which also supports productive investment; and, secondly, many SME are not ready for - or do not see the relevance of - non-productive investments (illustrating the importance, highlighted earlier, of SME diagnostic services). Merging the two related schemes could overcome these negative factors.

The lessons to be learnt from the above examples with regard to networking between business support providers, and the packaging of advisory services, are clearly relevant to other regions and highly transferable. On the 'demand-side', however, the idea of targeting interventions on SME clusters and encouraging firms to network between themselves as a way of generating and disseminating know-how, pose greater complications from the point of view of transferability and depend on locationally specific factors.

Promoting SME Internationalisation

Since the early 1990s, there has been considerable emphasis on using Structural Fund business support programmes to promote SME 'internationalisation'. Again, there are important lessons to be learnt from the experience in different regions.

The **PIPE (Plans for the Initiation of Export Promotion)** scheme in Sapin's Castilla-La Mancha region is interesting because of the focus on SMEs with no previous track-record of exporting. This scheme represents the most important and arguably most innovative element of the multi-regional Global Grant programme run by the Chambers of Commerce in Castilla-La-Mancha. Considerable emphasis is placed on providing on-going support to firms in view of their lack of exporting experience - a pointer to good practice that clearly applies in other regions. The scheme has been well-received in the region with 24 PIPEs now operating and more expected to come on-stream in the future.

SMEs seeking to export often find that it is difficult to obtain the necessary finance. Ireland's **Targeted Marketing Consultancy Programme (TMC)** is a good example of

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how this problem is being tackled. The TMC programme was introduced in 1990 to help Irish exporters to compete more successfully against overseas and not faced with the same problems of peripherality as their Irish counterparts. It is designed to encourage Irish SMEs to increase their export marketing where there is a reasonable prospect of a good sales return within a 3-5 year period. While the TMC Programme covers all export markets, the focus is on Continental Europe. The scheme fills a gap in the market since a typical TMC project has a higher risk than a bank or finance house might accept in providing loan finance but is not a proposition that would qualify for export credit. The financial aspects of the scheme are also interesting because of the switch from grants to loans. In the early years of the TMC Programme, half the Board's contribution was in the form of a loan and the balance was in the form of a grant that became repayable if the project was successful. In recent years, the percentage of the Board's contribution in the form of loans has been increasing. The repayment of loans is linked to the sales achieved by beneficiaries (with a two-year moratorium to generate added sales revenues before the repayment period commences).

Another scheme examined in Ireland, which is similar to the Portuguese PIPE, is the **Programme for New and Emerging Exporters (PNE)**. This was launched in April 1997 and is a continuation of a number of previous programmes which were designed to assist companies to break into export markets. It aims to assist new exporters during a twelve month period through one-to-one company advisory support, workshops and in-market financial assistance provided by the Irish Trade Board (ITB). About 70 companies are recruited annually to participate in the scheme. Like the Portuguese PIPE scheme, the success of the Irish PNE initiative would appear to depend very much on its 'hands-on' approach. Financial aspects of the PNE programme are also worth highlighting. There is no cost to SMEs participating in PNE workshops which help companies to understand the realities of export markets and create opportunities networking (recently, the workshops have been upgraded to include modules on the EMU/Euro currency and use of the Internet). However, business advisory services subsequently provided to ITB clients are charged at commercial consultancy but at subsidised rates to the PNE companies. Companies that have successfully gone through the PNE become part of ITB's core client group and are assigned a Marketing Advisor with responsibility for their particular sector.

The **Contracting Foreign Trade Experts Scheme** in the Spanish region of Navarra demonstrates some of the complications encountered by Structural Fund interventions in the 'internationalisation' field. This initiative has not achieved its targets, the main reason being that it duplicated the activities of the Chambers of Commerce in the framework of the Global Grant. In addition, firms have been reluctant to hire an expert from the programme's database, preferring to make their own choice. In fact, only three companies benefited from this assistance in 1997 and the scheme has not been included in future programmes. (This reinforces an earlier finding from the case study research on SME diagnostic services).

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There have also been complications - of a different type - with the **Commercial Promotion Scheme** in Navarra. This aims to help firms improve their marketing activities. The type of assistance provided includes the production of marketing materials, organisation of commercial missions and participation in international fairs in order to access new markets. The scheme covers the costs associated with the design and production of brochures (up to 40%), travel expenses for trade missions, participation in fairs, business meetings and market research (up to 50%). However, SME export activities are generally restricted to the European market whereas the Commission regulations stipulate that activities must take place in non-EU markets in order to observe competition rules. Since around 85% of the region's export activity is carried out within EU boundaries this poses some difficulties. Notwithstanding these complications, this scheme appears to be working quite well, with a high rate of take-up by SMEs, making it by far the most successful internationalisation measure in Spain.

A more 'hands-on' approach to promoting SME 'internationalisation' has been adopted in Castilla y Leon. Here, the **Openness of Markets Scheme** facilitates joint ventures between SMEs in the region and non-EU countries. Another initiative, the **External Antennae** scheme, aims to provide SMEs in the region with access to specialised advisory services to boost exports to markets outside Europe. These services include translation, contact search, and help with participation in trade fairs, promotional trips, licences, and other aspects of exporting. This scheme has overlapped with some activities carried out by EXCAL and it is intended to modify the Global Grant so in the future, this scheme will fund of EXCAL clients and further duplication can be avoided.

The approach adopted in the German region of Berlin to promoting SME internationalisation is interesting because of the focus on projects that have a regional (and potentially, national and international) significance. Examples of '**Regional Projects**' include support for the development of a East-West Academy, the 'Co-operation Office of the Germany Business Community', Berlin Trade Fair and European Business School. All these projects are seen as directly or indirectly benefiting SMEs and raising awareness of internationalisation opportunities.

In most of the examples of SME 'internationalisation' projects discussed above, there are no obvious constraints on replicating good practice in other regions. The only exception to this are the examples of projects in the German region of Berlin that are probably only appropriate to larger Structural Fund programmes.

Promotion of SME Clustering and Networking

A number of the current Structural Fund programme place considerable emphasis on promoting SME networking and clustering. Two distinct models exist - 'horizontal' networks between SMEs themselves and 'vertical' supply chain networks between SMEs and larger companies. Below we review projects that illustrate the way in which

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these different types of initiatives work and what can be learnt from experience.

A first example of an initiative to develop SME clusters based on the ‘horizontal’ networking model is the **Vlechtwerken** project (‘vlechtwerken’ means to interweave) in Twente, the Netherlands, which is managed by Syntens (one of the region’s major intermediaries). This project is Structural Fund-backed and demonstrates a very intensive and successful approach to building clusters. Syntens advisors are rigorous in selecting potential candidates and especially in giving guidance on how to build mutual trust. The ‘Vlechtwerken’ scheme differs from other networking initiatives by being less restrictive in the way it targets SMEs in the early stages and devoting more resources to the final phases of selection and network development. An important lesson to be learnt here is that clusters cannot be built simply by listing and matching the core competencies of a number of firms. Co-operation at this depth is a sensitive matter for firms and substantial time and effort is required to establish trust and thereby to share risks and benefits. Often the cycle for selecting suitable firms and building clusters has to be repeated several times before a new cluster around a ‘product-market’ combination is formed. Clearly, the capacity of other regions to replicate the Twente model depends very much on the availability of resources given the time-intensive nature of the initiative.

The **Twente Twinning Centre**, also in the Netherlands, is a good example of ‘vertical’ networking. The Centre offers premises to SMEs from the ICT sector where they can obtain tutoring from, amongst others, larger companies in the region. A related initiative, the **Twente Module Group (TMG)**, is also worth highlighting as an example of a virtual network that manages the development of complete subsystems for large company outsourcing contract by dividing the work between its stockholders, some 60 Twente SMEs. TMG (and its counterpart in the technology transfer field) are becoming quite successful. However, the success of initiatives such as these depends on the presence of large companies in a region and their willingness to use supply chain linkages to promote local SMEs. These circumstances do not always exist, particularly in less-developed regions.

Another good example of a Structural Fund-backed ‘vertical’ networking model, again with a sectoral focus, is the East Midland’s **Connect NK** scheme in the UK. The scheme is run by North Kesteven Council in the Objective 5b area with a £36,000 ERDF grant and operates in the craft and design sector with a network of almost 200 SMEs from the area. Connect NK’s objectives are to promote development of SME networking with larger companies by helping members to attend exhibitions, identify marketing opportunities, develop new products secure new contracts. All SMEs based in the district are eligible to participate in the network although companies that are included in the Directory of Producers (sent out to all members and over 200 designers) are hand-picked. In this way, design companies are matched up with local firms (virtually all SMEs or sole traders) who act as producers. In the near future, Connect

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NK will be linked to the ODEN (Open District Electronic Network) web-site funded under KONVER, which in turn has links with Warwick University. The value of this scheme lies in the fact that it covers an area which is deeply rural and targets micro SMEs in the craft sector that would otherwise have great difficulty accessing markets outside their immediate locality. The project has been extremely successful.

Experience in the Highlands & Islands region of the UK points to the complications that typically arise in promoting SME networking. Here, the Highland Council's **MARK Scheme** (Market Research Project) is taking a long time to achieve results. This is seen as being largely due to SMEs reluctance to network, particularly at an international level. The scheme utilises several electronic networks (including BRE and BC-NET) as well as the Council's own contacts in other countries to search for suitable business partners, distributors and agents. However, smaller companies are often slow to see the advantages of developing international links and fear plagiarism, increased competition, or are simply put off by unfamiliar regulations and procedures.

Clustering is one of the most innovative aspects of current Structural Fund programmes. It reinforces the idea that future SME support should not only deal with technology or business strategy but should also focus on benchmarking and helping SMEs to learn from each other, as well as exploiting the economies of scale derived from bringing SMEs together in networks. However, although the rewards are potentially substantial, there are significant barriers to setting up SME networks. As the above examples highlight, smaller firms tend to concentrate on the potential dangers rather than benefits of networking. 'Vertical' networks, involving networking between SMEs and with larger companies and exploiting the supply-chain as a mechanism for transmitting know-how to SMEs, have many advantages in this respect. Smaller firms are often more willing to collaborate with larger companies than with each other. Location and sector-specific factors are, however, important in this respect.

4.2.3 Innovation and Technology

The fieldwork relating to the type of measure 'Innovation and Technology' examined 27 projects in nine different regions. The research in this field focuses on:

- the importance of raising SME awareness of the benefits of innovation and technology;
- ways of promoting SME innovation and the absorption of new technology, including finance-based, sector-focused and networking initiatives;
- the targeting of innovation and technology transfer programmes, and performance measurement;
- the role of R&D centres in technology transfer to SMEs and how mechanisms can

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be improved;

- innovative ways of promoting the development of 'vertical' and 'horizontal' technology-based SME clusters.
- Using ICT to extend technology transfer possibilities to SMEs in developing regions that lack a strong indigenous R&D base.

Awareness Raising and Marketing of SME Innovation and Technology Measures

The need to proactively target SMEs, and to raise their awareness of the importance of innovation and technology, is clearly demonstrated by many of the case studies.

Good examples of awareness-raising initiatives are to be found in most countries. In the Spanish region of Castilla La Mancha, for example, the Structural Fund-backed **Technology Information and Advice Programme** aims to raise SME awareness of European programmes - in particular EUROINDEPYME (aimed at promoting new technologies in SMEs) and MINT (participation of SMEs in the EU R&D Framework Programme). This is mostly done through seminars and conferences. Local partners in the region believe that without Structural Fund initiatives such as these, it would have taken an additional ten years to reach the same stage in terms of impact. Experience elsewhere in Spain is similar. For example, R&D measures in Castilla y Leon are proactively marketed through presentations in each province and via agents such as technology centres, as part of the **Regional Technology Plan**, which has helped to provide an overall framework for the efforts of partner organisations. Activities such as these take place in most countries.

An key lesson from the research in this field is the need to adopt a holistic approach to marketing R&D schemes with technology aspects linked to (more easily understood) SME business priorities. This is illustrated in Denmark, where innovation and technology measures are part of the **Knowledge Projects in Manufacturing and Service SMEs** measure and are not (as in most countries) specified separately as an R&D measure in the current SPD. Support to promote development and application of new technology falls primarily under what in North Jutland are called 'knowledge projects', i.e. activities where the main purpose is to help SMEs obtain access to information, expertise or competence in particular areas. Knowledge projects are not exclusively related to support for technology and innovation, but also cover disciplines such as market research and development of management structures. At an operational level, the approach adopted by the UK Business Links, with **Information and Communications Technologies Advisers** (ICTs) working closely in teams together with other SME advisers to deliver 'seamless' packages of assistance illustrates the same principle.

Several other case studies highlight the need for R&D initiatives aimed at SMEs to be

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demand-side driven. In Ireland, R&D expenditure has surged and current Structural Fund-backed measures have attracted many more SMEs than the previous schemes. This is partly because of an emphasis on a customer-orientated approach with financial assistance being given directly to SMEs for specific projects and not to intermediaries. Greater emphasis is placed on the technology dimension of proposals (rather than traditional employment-creation). However, experience suggests that there have been problems, too. In particular, the pilot scheme had been biased towards large companies (by setting the minimum grant level at £250,000. This has excluded many SMEs who could not afford to match-fund. The scheme has also lacked a competitive element that would have ensured selection of best-quality proposals.

These practices - awareness-raising initiatives and linking innovation and technology measures closely to other business advisory services - are clearly relevant to all regions and are important in helping to ensure that SMEs take advantage of Structural Fund schemes.

Promoting SME Innovation and the Absorption of New Technology

Structural Fund interventions in the innovation and technology field have various aims. Below, we focus on measures aimed at helping SMEs to innovate and absorb new technology.

There are several examples from the case studies of financial incentives to promote SME innovation and absorption of new technology. Thus, in France, the **ATOOUT Scheme** in Brittany provides grants to SMEs with the aim of helping them to develop advanced computerised methods of production and management. The finance can be used for a range of purposes - purchase of machinery and technology, consultancy services, etc. It is delivered through grants of up to 35% of the eligible expenses. To date, some 59 SMEs have been supported under the ATOOUT scheme. Another programme, the **FRAAT Scheme**, helps to cover non-material investment costs in the field of technology and innovation as well consultancy services to help with the development of new processes and products and marketing. The scheme is available to firms up to 500 employees. Priorities are medical and biological engineering, automation and computer sciences, aqua-culture and agronomy. To date, however, only five SMEs have received support under this scheme. (The reasons for this are not clear from the evaluation).

In many cases, the best way of promoting innovation and the use of new technology by SMEs is by establishing links with R&D centres. Most regions have introduced technology transfer initiatives aimed at SMEs. Thus, in Brittany, the Structural Funds have dedicated ECU 13.5 million to developing the capacities of universities and research centres, especially where this involves an element of technology transfer to SMEs. For example, **APRETTTS** (Association de Promotion de la Recherche et de Transfert de Technologie de Saint-Nazaire) has obtained assistance to develop

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partnership links with higher education establishments to work with SMEs and to develop SME diagnostic services. A further example - **GEIPDEL** - is a private organisation that provides technical services to SMEs specialised in electrothermy. Using a Structural Fund grant, the organisation has so far assisted 72 SMEs.

Current Structural Fund programmes in Spain are also good example of the emphasis on promoting SME innovation and technology transfer. Thus, in Castilla La Mancha, the **Innovation Projects Scheme** aims to facilitate the incorporation of new technologies in the region's industrial or technological services firms, especially SMEs. The projects involve employing external expertise to aid technological development. Another related initiative, the **Research, Information and Technological Diffusion Scheme**, promotes participation in national and international R&D programmes and is often concentrated on sectors such as textiles, shoes, wood and furniture. For the promotion of industrial quality and security and design, Structural Funds actions include diagnostic and advisory services, the improvement of SME management, and support for centres of industrial design research.

The importance of identifying potential, as well as actual, innovation opportunities in SMEs - a key lesson from the research - is highlighted by several case studies. Many SMEs are not well-placed to identify how their products and services could be improved and need external assistance to do so. An interesting initiative in this respect is the '**Innovation Prospecting Project**' in the Jämtland region of Sweden. This scheme involves identifying 'dormant' ideas in SMEs and providing them with product development and market introduction support with a view to commercialisation. The project has received ECU 400,000 of Structural Fund assistance for 1997-1999. Another scheme, with a focus on SMEs in the wood manufacturing sector, encourages their exploitation of new technology whilst **ECO-BUILD**, which targets SMEs in the timber industry, is being used for developing and marketing new ecological building materials. The projects are carried out under the Competence Development in SMEs measure and received ECU 150,000 for 1995-1997.

A number of projects highlight issues relating to the targeting of innovation and technology transfer programmes, and performance measurement. In the UK, the East Midlands Objective 2 **Coal and Mineral Technology Centre (CMTC)** is a good example of a sectorally-targeted scheme aimed at encouraging innovation in SMEs in mining and related industries. It was set up as a technology transfer organisation in Nottingham in 1996 to assist SMEs in a declining sector by accessing new supply chain opportunities and encouraging diversification and new product development. The types of assistance delivered include consultancy to reduce costs and increase efficiency or to develop new products and services, grants to buy equipment, training in waste management, and help with identification of new markets and overseas partners or distributors. The CMTC management considers that a major strength of the scheme lies in the fact that it is sectorally-focused and market-led. This is clearly an important point

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and highly relevant to other regions.

Experience in Ireland demonstrates how the quality of R&D projects can be improved by introducing competitive bidding procedures. The new **Industrial R&D Initiative** builds on earlier programmes by consolidating all financial supports for company-led R&D in industry to help increase flexibility and efficiency. It also helps SMEs by focusing on projects involving grants of not more than £500,000 and stipulating no minimum project size. This measure redresses the large-firm bias of the previous period and a significant proportion of beneficiary companies are now SMEs. But flaws remain, most significantly the lack of competitive selection, and the failure to vet deadweight. Nevertheless, the measure has succeeded in attracting a relatively large number of start-ups and first-timers.

Like many similar schemes elsewhere, the Irish Industrial R&D Initiative has encountered problems in seeking to attract good quality projects and to promote collaborative R&D. This deficiency is being addressed by the **Research, Technology & Innovation Initiative (RTI)** which involves an open competition for assistance which has improved the quality of applications and enhanced value for money - again an important point that could be taken on board by similar programmes elsewhere. In addition, steps have been taken in Ireland to help SMEs by streamlining application procedures for expenditure of less than £50,000. Grant levels of up to 50% of eligible costs are available for first-time R&D performers for collaborative projects (including EUREKA projects). The RTI model has also introduced the competitive element, phased tranches of funding and policed draw-down schedules. However, notwithstanding these improvements, there are still complications - in particular, monitoring and technical follow-up procedures are seen as weak and there is considered to be excessive bureaucracy.

The difficulty of linking R&D schemes to easily measurable output targets, such as job creation, is illustrated by experience in Spain. Castilla y Leon's **SME Technological Development Scheme** helps firms to adapt and implement new technologies with medium technical risk and to improve processes or products, as well as facilitating pre-competitive research with high technical risk. The scheme provides funding for up to 50% of costs associated with recruitment, supplies, advisory services, research activities and other operating expenses. The scheme has been successful insofar that it has attracted a large number of applicants in its first year, but impacts in terms of job creation are not readily identifiable. It is argued that job creation is not the main purpose of the scheme although steps are nevertheless being taken to quantifiable impacts.

Most if not all of the good practice examples highlighted above involve relatively straight-forward changes to the way in which Structural Fund programmes in the innovation and technology transfer field operate and are highly transferable.

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Role of R&D Centres in Technology Transfer to SMEs

As noted above, a priority of many Structural Fund interventions is to promote the transfer of technology from R&D centres to SMEs. Below, we examine initiatives that focus on the supply-side.

A good example of an initiative in the technology transfer field is to be found in Denmark's North Jutland region. Here, the **Science Park NOVI** acts as a mechanism for promoting collaborative R&D projects between SMEs and Aalborg University. A current project part-funded by the Objective 2 programme involves NOVI screening technological R&D results with the objective of utilising them to boost innovation in SMEs. The STRIDE programme has also made an important contribution to the development of a favourable environment for technological development in the region by supporting the establishing of networks between firms and research institutions.

A particularly innovative scheme in Sweden's Jämtland region is the **VINDUE-network**. Under one component of this scheme, students visit SMEs during their summer vacation to produce audits identifying innovation and development opportunities then continue working on the projects on a voluntary basis whilst they pursue their studies. The three main disciplines are export, specific product development projects and the exploitation of information technology. Contacts initiated in the summer of 1997 led to 40 projects with small firms and in 1998 a total of 200 SMEs were assisted. As a consequence of the project, six students have so far been recruited on a full-time basis by the SMEs with whom they have worked. The scheme has also been used to initiate a larger collaborative product innovation project involving three SMEs and three research units (environment technology, biochemistry and computing sciences).

The VINDUE-network is the largest and strategically most important network initiative funded by Objective 6 in Sweden. The network comprises 19 members; 11 small and medium-size IT-service firms, two large IT-service firms (TELIA and Ericsson), the University of Mid Sweden, the SINTEF research institute of Trondheim (in Norway), a patent office and two consulting firms which specialise in regional development and training projects. The network is open to all firms and organisations using advanced information technology.

There are several other examples in Sweden's Objective 6 Jämtland region worth highlighting of R&D projects with an SME orientation. For example, the **County Board Technology Transfer Programme**, which is run by a private technical consulting firm, KOINOR Ab, provides SMEs with a technical audit followed by assistance to develop new products, new process technology or other business process development. An important part of KOINOR's assistance involves linking SMEs to a local research institution to help further develop projects. Help is also given to recruit engineering, financial or marketing personnel for the development of projects. Between

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1996 and 1997, KOINOR assisted approximately 130 SMEs with diverse technological support, including ten larger collaboration projects for which firms hired project leaders.

Clearly, other regions could benefit from replicating technology transfer methods such as those analysed above. However, the capacity to do so depends very much on having a strong base of R&D institutions and this is often lacking in assisted regions.

Promotion of 'Horizontal' Networking Between Technology-Based SMEs

Several Structural Fund projects provide very good examples of innovative ways of promoting the development of 'horizontal' technology-based SME clusters. Again there are important good practice lessons.

Example of such initiatives are to be found in several Member States. Thus, in Spain, the **Associated Technology Centres Network** in Castilla y Leon is using Structural Fund resources to promote networking and technology transfer to SMEs. The programme funds up to 70% of the costs associated with these activities for SMEs and up to 100% for non-profit organisations. No particular sectors are targeted but the technological quality and pre-competitiveness of the project are the main selection criteria. The Technological Services scheme represents an important innovation in the context of the Global Grant and has emerged as a result of the Regional Technology Plan.

In the Netherland's Objective 2 Twente region, the **Technological Society Twente (TKT)** and the **Knowledge Industry Twente (KIT)** projects make up what is regarded as the most successful technological network in the country. The KIT project aims to establish groups of SMEs as a single conglomerate of high-tech knowledge and the main R&D supplier. TKT consists of around 80 high-tech firms which have the capacity to solve almost any technological problem, operating in continuously changing alliances. TKT was an initiative of Twente University and the BTC and consists mainly of young entrepreneurs who have started their own business within the framework of the TOP project. TKT organises all kinds of activities (workshops, training) and brings firms together. As the analysis of similar clustering and networking initiatives in the business support field has demonstrated (see previous section), this type of initiative can be very complex to manage, especially in the technology field.

Several initiatives in Italy also demonstrate the role of the Structural Funds in the promotion of SME technology-orientated clusters and networks (both 'horizontal' and vertical'). In Tuscany, for example, the **Co-operation and Networking Scheme** aims to develop linkages between R&D suppliers and SMEs (especially in the field of innovation and technology transfer), large companies and their sub-contractors, producers, traders and clients. A related measure, the **Telecommunication Services for SMEs** scheme is jointly operated by managers from Tuscany's public agencies and

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companies operating in the field of telecommunications. The scheme helps SMEs to acquire both basic and more advanced telecommunication services such as electronic networking between firms in the same industrial district and across Europe, collaboration between research centres, sub contracting, and specific telecommunication service for individual SMEs.

An important conclusion from the research is that the extent to which the Dutch and Italian networking schemes cited above are replicable depends very much on the organisational capacities and expertise of local partners in a region, and not just on its technological resources.

Development of ICT Infrastructure for SMEs

Other Structural Fund measures focus on developing ICT infrastructure. Although actions of this type do not necessarily focus specifically on SMEs, there are some good examples of projects that are orientated towards smaller firms in assisted regions.

A good example of this type of measure operating in a predominantly rural area is to be found in the East Midlands region of the UK. Here, the **Lincolnshire Regional Access Centres (LRAC)**, funded under the Objective 5b programme, opened its first three centres in January 1997. LRAC is the first phase of the wider Lincolnshire Access Network project under the Lincolnshire 2000 strategy. Its aim is to provide SMEs and individuals - particularly those in rural areas - access to information technology and the opportunities it affords. So far, four main centres and a further eight 'village centres' have been established. The types of services offered via the scheme are broad-ranging and link in with other schemes and intermediaries; use of hardware, software and Internet, inclusion in the LRAC web-site and the option of publishing their own page, video-conferencing, IT audits and training, and access to open learning courses. Revenue is generated by charging a fee (a first visit to an access centre is free). The scheme has been very successful, having gone a long way towards achieving its targets for a three-year period in just over a year.

The UK also provides a good example of a similar scheme operating in a relatively large and remote region. In the Highlands & Islands region, a substantial investment has been made in providing the necessary ICT infrastructure for local SMEs. A good example is the **Western Isles ICT Advisory Service** that has been set up with Structural Fund assistance to stimulate investment by SMEs in information technologies. A wide range of ICT services are provided but tailored specifically to local SME needs. This includes identification and demonstration of new products, consultancy on issues, such as Year 2000 compliance, investigation and creation of inward investment opportunities with local supply chain benefits, and a Telecoms skills register. The scheme has had a substantial impact, having established extensive links with European and US organisations and being on the verge of securing a major investment from Scottish Telecom in the form of a call centre. It is envisaged that

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Western Isles ICT Advisory Service project will be used as a model and eventually rolled out to other parts of the region.

Another way in which SMEs in specific sectors can be assisted is through the provision of shared sites and premises. In the Highlands and Islands, an example of this is the ICT-focused business incubator, **Skye Telematics Centre**, in Portree. This currently houses four micro-companies employing some 14 people and involved in information and telecommunications. In addition to making use of common support services, tenants benefit from the networking opportunities the centre encourages. Elsewhere in the Highlands & Islands, another good example of an ICT infrastructure-related project is the **West Moray Telematics Scheme**. The scheme, which is still in its early stages, will involve setting up a network of community-based IT centres with the aims of stimulating a cascade of knowledge into local SMEs. Once fully operational, the Moray Telematics Centres will provide training (including web design) and hardware and encourage exploitation of a range of ICT-related media, including Internet research and advertising. Currently, only one site has been set up but three others are under consideration.

As these and other case study examples make clear, ICT has an increasingly important role in extending technology transfer possibilities to SMEs, especially in remote regions that lack a strong indigenous R&D base. Other research carried out by Ernst & Young for the Commission also highlights the importance of ICT to making business support services available to SMEs in assisted regions. In a study for DGV, research was carried out to examine the extent to which ICT is leading to a decentralisation of business services with companies relocating to low-cost areas outside the EU's capital regions and yet still being able to deliver services to the main centres of population. The conclusion was that this was happening with knowledge-intensive business services. From the SME perspective located in regions eligible for Structural Fund aid, this trend is clearly beneficial since it should lead to an improvement in the availability of good-quality business services and also presents opportunities to exploit new markets.³²

4.2.4 Physical Infrastructure Projects

The fieldwork relating to the type of measure 'SME Physical Infrastructure' examined three projects in three different regions. Key issues examined include:

- the importance of integrating business incubator-type operations into a broader range of SME support mechanisms;

³² See Ernst & Young 'Business Related Services and Local and Regional Development', Study for European Commission (DGV), 1996.

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- the role of small-scale SME physical infrastructure projects in regional development strategies, particularly with regard to image improvement;
- specific operational good practices with regard to the targeting of SMEs and complications of transferring experience and models from one region to another;
- the problems of transferring business incubator models from one region to another.

Structural Fund assistance has been used in a number of regions to support property-based initiatives aimed at SMEs including managed workshops, industrial units, and business incubators. In the mid-19890s, a programme to develop a network of Business & Innovation Centres (BICs) was initiated by the Commission. An independent evaluation has recently been completed of this programme. Below, we focus on these and other types of projects that illustrate the diversity of SME physical infrastructure initiatives and important learning points.

The first example - from the Netherlands - illustrates how a business incubator operation for SMEs has been successfully integrated into the broader fabric of property-based and technological initiatives rather than acting as a 'stand-alone' facility. As noted in the 'top-down' analysis of Structural Fund expenditure on SMEs (see Section 4), physical infrastructure plays an important role in the Twente Objective 2 programmes. The development of premises suitable for SMEs, including managed workspace and business incubators, is a very important aspect of the programme and accounts for a significant proportion of the current SPD's expenditure. A good example of the type of projects being supported is the **Twente Business Technology Centre (BTC)**.

The BTC, which is located near Twente University (UT), is designed to accommodate start-up entrepreneurs. Together with the UT, BTC acts as an incubator and facilitator for innovation and technology-oriented firms. It is one of the drivers for the nearby Business & Science Park and the linkages between the two are important in ensuring that technology-based SMEs are assisted at the various stages of their development. The building is 16 years old and is being renovated within the framework of the Objective 2 programme for 1997-1999. Part of this involves the creation of an ICT network in order to promote co-operation between BTC firms. Over a period of 16 years, 260 small firms have been based in the BTC. The initiative is considered a success and the high turnover and job creation rates (almost 500 new jobs in the last 3 years) illustrate that the assisted SMEs tend to be fast growing enterprises.

The case study research elsewhere highlights similar lessons and also the 'image improvement' role that high quality SME physical infrastructure projects can play in a region. Some SME physical infrastructure developments, e.g. technology centres and parks, can have a very high profile and can act as 'flagship' projects that improve the

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image of an area as a whole and make it more attractive to outside investors. An example of this is the **Tapton Park Innovation Centre** in the East Midlands region of the UK. The project received £1.2 million from the ERDF under the 1994-96 programme with the remainder of £3 million investment coming from a number of local organisations (Chesterfield Borough Council, North Derbyshire TEC, the Chamber of Commerce and Business Link).

After opening, Tapton Park Innovation Centre rapidly achieved full occupancy. An analysis of the list of tenants indicates that the Centre's admission criteria have been strictly enforced. This points to an important lesson, namely the need for SME incubators to adopt a very targeted approach if they are to maintain their credibility and to resist pressures to simply maximise occupancy rates to generate the revenue to cover running cost. Financial pressures can, of course, make it difficult to do this unless a subsidy is provided until a break-even point is reached.

Businesses currently accommodated at the Tapton Innovation Centre include computer software, graphics design, Internet technology, and consultancy activities. By and large, the Centre has successfully achieved the desired clustering of compatible activities. Altogether, the tenants now employ some 140 people. It is expected that firms will move on after three years although exit rules are likely to be interpreted flexibly depending on the availability of alternative premises. It is envisaged that the Centre will become financially self-sustaining, covering its running costs from revenue, in the near future. ERDF assistance is considered to have been vital in helping the project to go ahead. Without this assistance, the project would almost certainly have gone ahead, but on a more modest scale and possibly at a later date. It would have been difficult to generate the income needed to cover running costs had the Centre been built on a more modest scale. Arguably, it is already on the small side but there are constraints on development of the site which meant that more space could not be made available for the Centre's development.

Picking up an earlier point made in this section, the Tapton Innovation Centre is also a good example of how a physical infrastructure initiative has been linked to other local schemes and strategies to promote knowledge-intensive activities. This includes the conversion of Tapton House into a college of further education offering technology-related courses to around 400 adults from the local community, and the development of Dunston Technology Park on a 15-acre site on the outskirts of Chesterfield. The Technology Park currently consists of four modern office buildings that have been developed by the private sector. When fully developed, it is anticipated that the Technology Park will help to create over 500 jobs. These related initiatives have also received Structural Fund assistance.

In contrast to the examples from the Netherlands and UK reviewed above, experience in Finland demonstrates the mixed results achieved by Structural Fund interventions in

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this field and the difficulties of seeking to transplant the incubator model from advanced to lagging regions. Two SME incubator schemes were covered by the research, and both, according to the evaluator, show poor results. The **Kainuu SME Incubator**, which is located in the technology park, has relatively low occupancy. The director of the incubator had calculated that a typical European BIC in areas with a population base of around 1.5 million should expect to assist around 10 SMEs each year. However, the project in Kainuu performs far less well against this benchmark with only one or two companies being admitted per year. The admission criteria restrict entry to SMEs that have the prospect of achieving high growth rates and, according to the Ministry of Trade & Industry's guidelines, should be hi-tech orientated. Again, experience in this respect has been disappointing with the profile of assisted SMEs not matching the intended criteria.

Business Incubators are currently being re-launched in Kainuu. But, taking into account the above analysis, there is some doubt as to whether the model will succeed - at least compared to excessively high expectations. The population base is not large enough to generate the volume of technology-based, high growth start-ups required to sustain a BIC-type incubator operation. Experience therefore points Finland's community development corporation model, now 15 years old, as still being more appropriate and it could be argued that the authorities in Finland have scale illusions when trying to apply to sparsely populated areas models that require a much greater population base to succeed. This being so, the re-launched will probably need to focus on high-tech SMEs from selected local industries (e.g. wood processing, food etc.) and spin-offs from the existing firms (including some hi-tech companies).

There are clearly some important lessons to be learnt from the case study research in this field concerning the transferability of experience in the SME physical infrastructure field from one EU region to another. In particular, more complex actions, such as business incubators, need to be tailored closely to regional conditions.

4.2.5 SME Training Measures

The fieldwork relating to the type of measure 'SME Training' examined 15 projects in five different regions. Our analysis of the various training initiatives focuses on:

- the importance of proactive marketing and customising training to meet SME needs, including sector-based and networking approaches;
- the role of specialist placement schemes and SME management training;
- the use of ICT and other innovate methods of transferring know-how to SMEs;
- the need for integration of SMEs training with other business support measures.

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Proactive Marketing, Networks and Customising Training to Meet SME Needs

A number of the case study projects highlight the importance - also stressed in the Objective 4 mid-term evaluations - of customising Structural fund training schemes to individual SME needs and promoting networking. Below, we highlight the various ways in which this is being done.

The need to proactively market SME training schemes, and to customise training very closely to individual SME needs, is illustrated by the Finnish **Training Needs Barometer** scheme. This ESF project has been in operation for two years. The region - Satakunta - has been divided into four sub-regions with each having a training adviser to visit SMEs to assess their training needs. This has proved to be a very effective method of marketing Structural Fund training measures. A conservative estimate is that demand has increased by over 40% as a result of this face-to-face marketing. Experience elsewhere also emphasises the effectiveness of this type of highly customised approach.

Another example of a training needs assessment scheme operating in Satakunta is the **Multi-skill Project** which analyses SME training and development requirements in greater depth than the Training Needs Barometer. This starts with a comprehensive analysis of the SME (marketing, production, R&D, finance), skills of the personnel (motivation, organisation, working culture) and its position in the market. A training plan is then completed for every employee. Analyses have been carried out for over 50 manufacturing or business service enterprises. Satakunta Professional School provides the training. The training can be firm-specific or it can be delivered to a group of SMEs. So far, 50 manufacturing and business services SMEs have participated in the scheme.

The Highlands & Islands provides a good example of Structural Fund-backed schemes that encourage lifetime learning, this time focusing on developing the skills of SME training assessors. A number of **Work Based Training Schemes** for SMEs have been developed in the region, an area consisting of 26 islands without a single further education institution. The approach adopted has been to increase the number of NVQ (National Vocational Qualifications) assessors, the initial target being to have 140 qualified personnel. As a result, some local SMEs have now developed company training programmes with 'work-based assessors' to award SVQs (Scottish Vocational Qualifications). This in turn boosts demand for training generally, raising general standards and encouraging other SMEs to follow suit. Several of the region's larger companies now act as work-based training centres where SMEs can send employees.

An important lesson from the Highlands & Islands case study research is that this approach can be complicated by the reluctance amongst SMEs to network with one another. There tends to be a suspicion of competition and also many small firms are extremely isolated, geographically or in terms of their sector and operations. An

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additional constraint is that many SMEs fear that an investment in training will not be recouped because their staff will be ‘poached’. Although operating on a very modest scale, the Highlands & Islands project is nevertheless an interesting example of the steps being taken to address issues such as these and to adapt training initiatives to suit the particular needs of SMEs. The mid-term evaluation of Objective 4 programmes in Germany also highlights successful networks for delivering training support to SMEs. According to the evaluation, over 90% of the Objective 4-funded projects involve groups of companies.

The research suggests that a sector-based approach to SME training can also help to ensure that assistance is tailored closely to company needs. An example of where this applies is the Belgian **Skills for the Tourism Sector** scheme, which operates in Hainaut. Initially, the measure included two types of actions - an audit to identify the needs of the sector and a scheme to promote tailored training programmes based on the results of the audits. According to the management of FOREM, the first action has been stopped due to insufficient links between the audits and the training offered. Reflecting the research in other fields, experience in Belgium and elsewhere highlights the advantages of adopting a sector-specific approach to SME training. The Objective 4 mid-term evaluation for the Netherlands also highlights the benefits of the sector-based approach to SME training that has been developed there.

The above analysis suggests that there are a number of replicable good practices - the need for a customised approach to SME training, the role of assessors, and the potential – but also the complications - of developing networking between SMEs in the skills field, together with sector-based approaches.

Specialist Placement Schemes for SMEs and Management Training

Several case studies provide good examples - all highly transferable - of how the recruitment and placement of specialists can temporarily fill SME skills gaps whilst at the same time providing valuable work experience for those involved.

The Irish **Graduate Placement Programme** is a good example of a placement scheme aimed at SMEs. The scheme has been developed by the Irish Trade Board and consists of two elements. Under the first element of the programme, the ITB recruits approximately twenty graduates from a cross-section of academic disciplines for a two-year internship with SMEs where they help with export marketing activities after which they are placed with exporting companies. The second element of the programme involves the placement by the ITB of business graduates in client companies for a 12-month period. Approximately 60-70 graduates are placed every year.

Several other examples of SME placement schemes are also worth highlighting from the research. The **Recruitment Support Scheme (ARC)**, a scheme operated in France, provides a further example of a similar type of scheme for SMEs. The scheme aims to

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improve SME management skills that are all too often limited to the founder. The grant supports the recruitment of specialists in functions such as finance, marketing, production, R&D, etc. An evaluation study by Nantes University of ARC and FRAC draws a number of conclusions about the schemes. The additionality of ARC is partial as it speeds up planned recruitment and acts as a kind of insurance. Impacts were positive with increases in quality (79%), productivity (63%), and turnover (50%) as a result of the recruitment. The research also concluded that the recruited employee was also likely to eventually obtain a long-term position in the firm.

Another scheme that provides graduates to work on a temporary basis in SMEs is the **Advanced Graduate Placement Scheme** in the Highlands & Islands region of the UK where graduate retention is also a priority. To participate in the scheme, graduates must have been awarded a degree and have some commercial experience, particularly in an R&D field. Under the scheme, graduates are supported in their placement for one year, SMEs contributing £75 per week towards the costs. Firms are encouraged to offer graduates a permanent position at the end of their placements. A good example of how the scheme works is in Skye and Lochalsh. Here, the Graduate Opportunity Programme has succeeded in attracting 8-10 graduates back to the area as a result of 6-month placements with local SMEs designed to lead to full time permanent employment. The ESF pays the graduates' salaries. This scheme has been particularly attractive to SMEs involved in R&D and high-technology industries where innovation, up to date skills and thinking are critical. The scheme has recently been evaluated by the local LEC. The broad conclusions are that both graduates and SMEs have obtained real benefits although the placements were felt to be too short. An important factor in the scheme's success is seen as being the backup support (help with training, counselling, etc) provided to graduates and SMEs by LECs over the duration of placements.

A number of projects demonstrate how Structural Funds for training - outside Objective 3 and 4 programmes - are being used to improve SME management skills. Again, there are some important lessons. For example, in the French region of Brittany, recruitment and advisory services grants are provided via **Management Training Schemes for SMEs** in order to enhance the capacities of smaller firms. These schemes have been very popular and in the 1994-96 period the Objective 2 programme supported 184 projects. Around 100 advisory services grants have been provided under several other sector-specific schemes - FRAC for industry, FRAC 'Artisanat' for craft and distribution, FACIT for tourism and FRAAT for innovation and technology. Unfortunately, there is still little direct feedback on the scheme since information on only 32 of the 100 beneficiaries is available.

Use of ICT to Improve SME Access to Training and Know-How

Other case studies demonstrate innovative ways of helping SMEs to develop the skills of their employees. ICT-based initiatives are particularly interesting in this respect since

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they allow training to be accessed by many more SMEs, particularly in remote or rural areas, and also allow greater user flexibility.

In Belgium, several initiatives provide examples of Structural Fund support for the training of SME employees and the importance of developing effective co-ordinating mechanisms. The **Foreign Business Scheme** provides training to SMEs in languages, international trade and exploits ICT to deliver assistance. Another initiative, the **Communication Technology Scheme**, includes training in SAP and communications management. A non-profit organisation has been created (CITEGECO) in collaboration with FOREM, universities and Fabrimetal (a Belgian federation of companies in metal, manufacturing, mechanical, electronic engineering and plastics) to develop and promote the links between universities, research centres and SMEs.

Another example, on a much smaller scale, of how ICT can be used to transfer know-how to SMEs exists in the Belgian Objective 1 region of Hainaut. Every week FOREM, a local agency, holds **'Cybertuesday'** meetings at which SMEs are informed of developments in information technology. It also provides an opportunity for SME managers to exchange experience and to find solutions to specific business problems. There is a high demand for this event.

In the UK, **The University of the Highlands & Islands** project is a good example of an ambitious ICT-based scheme to make training more accessible to SMEs. The project accounts for a relatively high proportion of expenditure under Measure 2 (Financial Support for Research and Development) of the SPD's business development priority. Research undertaken for the RITTS programme suggested that there was latent demand amongst the Highland & Island's SMEs for improved R&D training support but that a key obstacle to upgrading skills was the absence of a university and poor further education (FE) provision. This project aims to develop a university, with sites across the region and virtual access to any course or resource via a web site, aims to make learning accessible to the entire population, including SMEs. This will allow SMEs to plug into resources from the entire UHI network, either direct via their own facilities or using the nearest UHI site. Despite its great promise, a mid-term review has suggested the University of the Highlands & Islands project was proceeding poorly with respect to providing direct assistance to SMEs. The report recommended that business support agencies needed to provide more specialist advice to SMEs to help promote the UHI concept. Since the research was carried out, there appears to have been little further progress in this respect and the consultants' conclusion would appear therefore to remain valid.

There are a number of very significant pointers to good practice here - the needs for co-ordinating mechanisms and role of ICT in making training more accessible to SMEs. The Objective 4 mid-term evaluations also highlight innovative practices in the SME training field. Indeed, as the evaluations point out, In Denmark, Sweden and Finland

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innovation in relation to existing schemes is one of the selection criteria for projects.

Integration of SME Training with Other Business Support Measures

Several case studies highlight the importance of integrating SME training into a broader range of business support measures, thereby ensuring that skills development is related to SME priorities and interventions are mutually-reinforcing.

A number of the case studies also highlight the complications. For example, the **PEDIP II** interim evaluation in Portugal suggests that training measures continue to suffer from problems because of poor co-ordination. As well as PEDIP II, three other organisations INETI, IAPMEI, and GEP share responsibility for SME training initiatives and there is an overlapping of functions (the consequent confusion caused training actions to be delayed until the end of 1996). Another consequence is that SMEs find the project selection procedures very confusing and do not understand training regulations. PEDIP II approach has been to promote holistic SME development rather than a piecemeal project-by-project approach. Training actions have been integrated into most of the sub-programmes.

In the Belgium region of Hainaut, there is also still inadequate integration between ERDF and ESF measures in the field of SME training at a national level, but steps have been taken on the ground to improve synergies. Thus, the 'Intercommunale IEG' passes on all ERDF proposals to the local **FOREM** branch which has responsibility for ESF programmes. For example, when a Taiwanese company decided to invest in the region, the Intercommunale IEG advised the company about the advantages of investing in Hainaut. One of the firm's requirements was for qualified personnel so the IEG contacted the local FOREM to provide appropriate training to local unemployed. Currently, the company employs almost 80 persons in the region, and continues to expand. There are also good examples of this type of linkage between training and business development initiatives in several UK regions.

The type of practical steps that can be taken to improve linkages between ERDF and ESF measures for SMEs are illustrated by the research in Denmark. Traditionally, enterprises in North Jutland have not paid much attention to training. Communicating opportunities offered by ESF to firms has been part of the problem. Not surprisingly the focus has been on the larger ERDF and some firms simply did not realise that ESF funding was available for training. There has, however, been a great improvement following the introduction by the regional authorities of **Joint ERDF and ESF Application Procedures**. But despite an increase in awareness of ESF opportunities the problem of how to encourage SMEs to focus on skills development persists.

Finland illustrates the importance and scale of Structural Funds for the training for SME employees. According to one estimate, this funding has increased training in Objective 2 and 5b areas by between 10 and 20 times. The main explanation is that only 10 % of

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employment training financed by the Ministry of Labour can target employed people. It is therefore apparent that Structural Fund training schemes have filled a gap in the market at least quantitatively, which is not the case in direct financial or other assistance to firms.

4.2.6 Equal Opportunities

Several case studies concentrated on examining Structural Fund initiatives aimed at promoting equal opportunities for women entrepreneurs and women employed in SMEs. Key lessons from the research include:

- entrepreneur networking initiatives as a way of promoting equal opportunities;
- the importance of strengthening management competence and training support;
- the need to adopt a proactive and targeted strategy with regard to equal opportunities.

In Sweden, creating equal opportunities for women is a priority which runs horizontally across the Objective 6 programme with a focus on measures concerned with competence development. In Jämtland, all five SME measures stress equal opportunities for women as a key project selection criterion. Two types of SME project focus exclusively on women - strengthening the competence of female managers and entrepreneurs and training for women running micro-SMEs ('one woman businesses').

Networking is a key to the success of these schemes. The **Female Entrepreneurs Scheme** is a mentoring project for women in Jämtland who have recently started a new business. The project brings together a group of experienced female managers and business owners who act as mentors for new entrepreneurs, often by being represented on the firm's board. The project also encourages the female entrepreneurs to create networks enabling them to exchange experiences and provide mutual support.

Another much larger project targeting female entrepreneurs - and again emphasising the role of networking - is managed by the Federation of the Municipalities of Jämtland. Female consultants deliver free advice and information to any woman who wants to start or has started a new business. They also provide a wide range of opportunities including training and networking activities to female entrepreneurs who manage micro firms mainly in sectors such as tourism, handicrafts, small-scale food production and retail.

Under Sweden's measure Competence Development for SMEs, the **Competence Development in Leadership for Women Project** targets female white-collar employees in SMEs and aims to strengthen their management competence with a training programme. The fact that the programme is exclusively for female employees

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who are likely to have faced similar obstacles also encourages networking to exchange experiences. Other small-scale initiatives include courses in book-keeping and taxation, exhibition visits, language courses and seminars for women who have recently started new businesses. Support is given for developing the use of computers, particularly e-mail and Internet facilities. A 'show-room' for women who want to exhibit their handicraft and design products, and a course in new product development are also planned.

The scale of projects promoting equal opportunities tends to be small. Thus, a total of 24 women are involved in the Swedish Competence Development in Leadership for Women programme. Likewise, in the Female Entrepreneurs project, approximately 20 mentors support 40 female entrepreneurs. In Jämtland, the two projects delivered by FOKUSAB together represent only a tiny proportion of the measure's funding, reflecting the extent of the minority of women in managerial positions or who have successfully started a new business. In contrast, the Female Entrepreneur project run by the Federation of the Municipalities is a much larger component of the Competence Development in SMEs measure with EU-funding of around ECU 2 million (53.2% of the EU-funding of the measure). The two projects are connected since several participants of the first project have subsequently been encouraged to act as mentors in the second project. The research suggests that value added demonstrated by projects targeted at female entrepreneurs and managers is often high. In Jämtland, for example, the two projects delivered by FOKUS AB are completely new and would not have been carried without EU funding. The projects together have received almost ECU 79,000 of Structural Fund assistance for the period 1996-1999.

The second example covered by research of an SME-related equal opportunities initiative is in Germany. Here, there is less of a focus on using Structural Fund assistance for particular projects to encourage equal opportunities. However, **Special Equal Opportunities Bureaux** in different regions are responsible for bringing about a general improvement in conditions for women in the job market and increasing the female working population by improving business opportunities for women. Their role entails:

- co-ordinating and monitoring measures for career development;
- creating training schemes linked to various institutions and encouraging qualifications for women, particularly in commercial technical areas;
- promoting and facilitating the reintegration of women particularly in SMEs;
- improving the chances of promotion for women in firms (particularly SMEs).

Similarly, as regards Structural Funds SME measures, promotion of equal opportunities for women is an important policy goal within the Objective 2 regions. Due to prior high

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dependency on a single industry in North Rhine Westfalia and in Thuringia, the proportion of women employed in these regions is far below average and their unemployment rates are high. However, whereas at a policy level, equal opportunities are relatively high priority, at implementation level they are weaker.

In Thuringia, for example, it is perhaps not surprising that due to the severity of problems faced by industry in general and SMEs in particular, equal opportunities have not been given much consideration in the Structural Fund programmes. It is believed that equal opportunities will result if qualification levels among women increases and if previously unemployed women can be employed. However, according to the evaluators, the strategy is not sufficiently proactive - they point out that where inequality exists, positive and concrete steps to redress the balance should be taken. However, for a region suffering so many obstacles to growth, that of redressing the balance and productivity of female to male ratio seems to be less prioritised. In order to improve the services offered, regional institutions have started to co-ordinate their activities in order to exchange know-how and carry out larger projects as equal partners.

In Section 6, we pull together the case study research to identify and analyse 'good practice' lessons.

5.3 Analysis of Feedback from SME Beneficiaries

This section analyses the feedback from a survey of SMEs that formed part of the 'bottom-up' dimension of the research. The topics covered are:

- *Section 5.3.1* - survey methodology and sample;
- *Section 5.3.2* - marketing of EU schemes and initial contact with SMEs
- *Section 5.3.3* - types of EU assistance used and delivery mechanisms
- *Section 5.3.4* - benefits to SMEs and impact assessment

The purpose of the survey work was to provide feedback directly from the final beneficiaries of Structural Fund SME measures. This information - and the views of non-assisted firms - provides an important input to the evaluation. The analysis is based on a sample of 1,072 assisted and non-assisted SMEs located in the 26 assisted regions selected for the case studies.

5.3.1 Survey Methodology and Sample

The following approach was used to carrying out the survey:

- a structured questionnaire was designed for the survey consisting of some 35 closed

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and open-ended questions;

- a sampling frame of some 1,950 SMEs was created by obtaining client details from intermediaries in the 26 regions chosen for the case studies;
- to minimise the risk of bias, intermediaries were asked provided lists of client SMEs from which Ernst & Young and its subcontractors then selected the firms to be surveyed;
- beneficiaries were selected that had made use of EU schemes within the past two years, the focus being on six key SME measure types examined as part of the wider research;
- target SMEs were contacted by telephone to obtain information, in some cases the questionnaire being sent to them in advance;
- in addition to the 805 SME beneficiaries of Structural Fund aid, the sample included some 267 non-assisted firms (25% of the total sample).

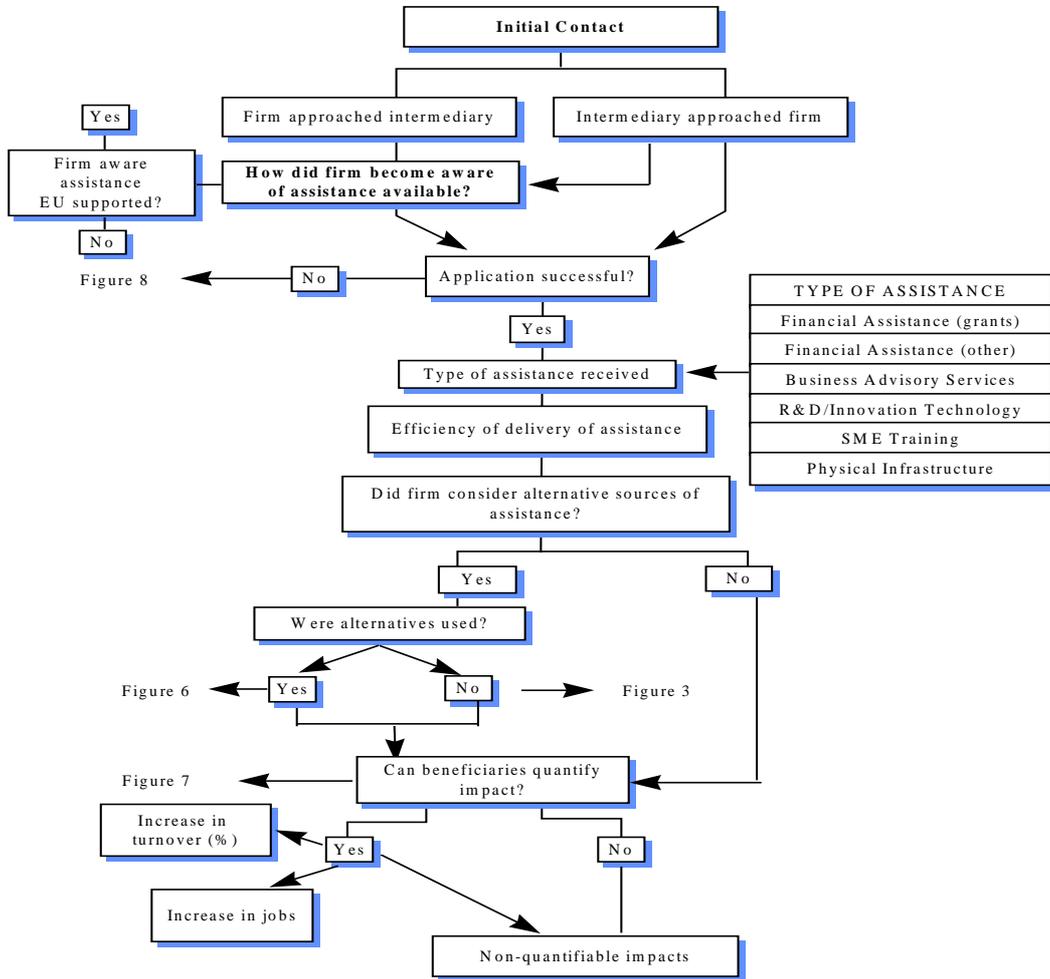
Ernst & Young was responsible for the overall survey design and co-ordination. The subcontractors carried out the telephone interviews in each country using the common questionnaire³³. Completed questionnaires were then sent to Ernst & Young for processing. This was done using a computerised database (Microsoft Access). Although very endeavour was made to create a representative sample, and to minimise the risk of bias resulting from the use of intermediaries to help identify assisted SMEs, the usual cautions for a survey of this type need to be added in interpreting the survey results.

The analysis set out below is restricted to the EU level for most questions. It should be noted that a detailed analysis of the survey responses on a country-by-country basis is provided in the various national reports. Figure 8 provides an overview of the methodology.

Figure 8: Overview of SME Survey Methodology

³³ In some countries – Belgium, Spain, Italy and Sweden – where subcontractors did not have the resources to carry out the survey, Ernst & Young used NOP to undertake the interviews.

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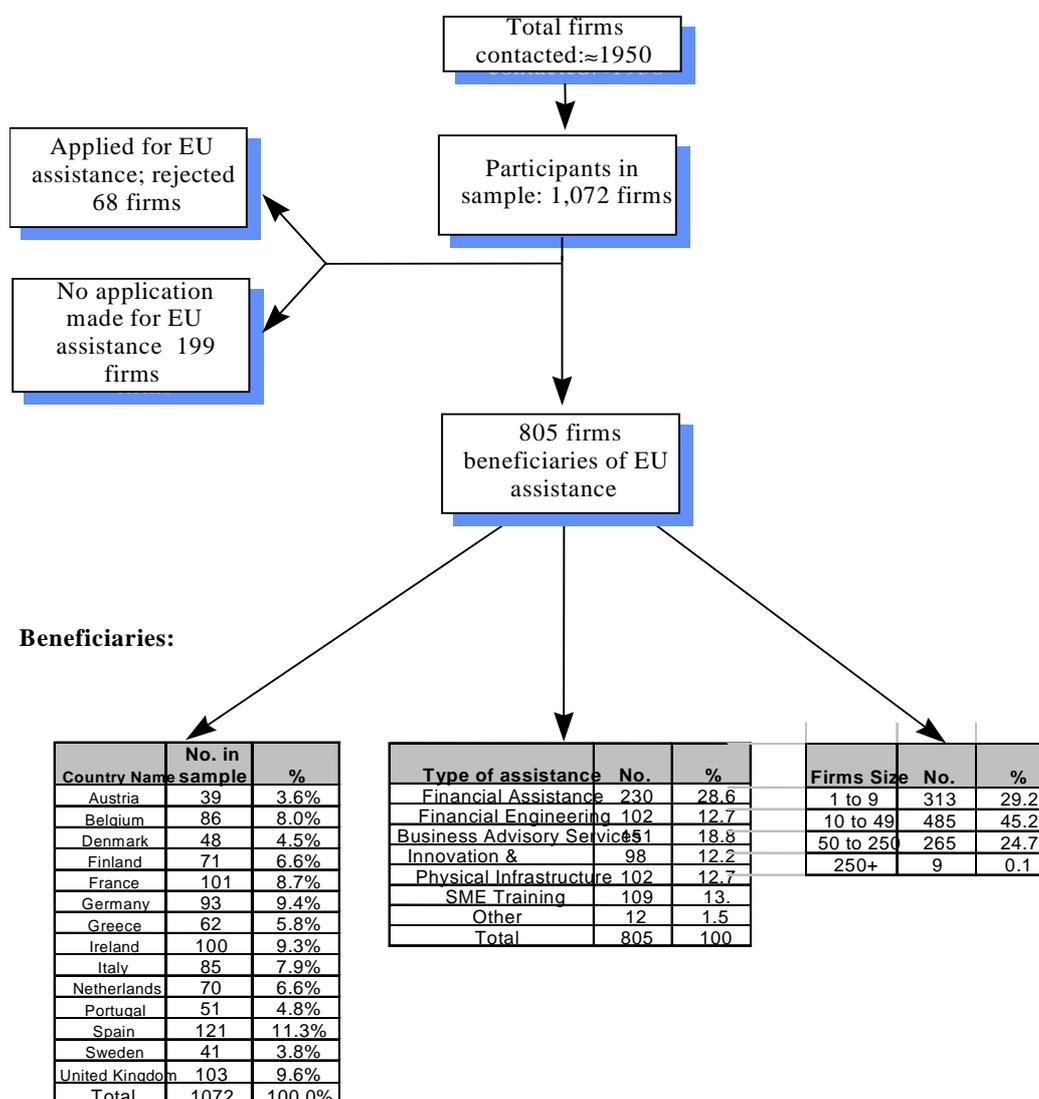
Sample Characteristics

A total of 1,950 SMEs were contacted during the survey, eliciting responses from 1,072 firms. Although the focus was on obtaining the views of SMEs that had received assistance, the sample included non-assisted small firms as well, as shown in Figure 9 and Table 25.

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Figure 9: Sample Structure



It should be noted that the distribution of the sample across EU Member States does not reflect the level of Structural Fund aid different countries have received. Instead, the emphasis was on obtaining between 30-50 responses from each of the 26 regions covered by the survey, this number being considered as the minimum required for a disaggregated analysis.

Similarly, although an effort was made to obtain a good spread of SMEs across different sectors and size bands (at various points in the survey, subcontractors were asked to top up their samples to ensure that a balance was being maintained), it would have been impractical to control these variables too closely. Table 25 provides an analysis of the

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sample in terms of the split between assisted and the non-assisted SMEs.

Table 25: Sample Structure - Assisted and Non-Assisted SMEs

Type of Responses	No of Responses	Percentage
Received assistance from EU schemes	805	75.1
Applied for assistance but rejected	66	6.2
Applied for assistance but withdrew	2	0.1
Other non-assisted SMEs	199	18.6
Total	1,072	100.0

Source: Ernst & Young analysis of Phase 3 survey data

Non-assisted SMEs shared broadly similar characteristics to the assisted firms. Feedback from them is important in providing a different - and, in theory, completely unbiased - perspective on the role played by Structural Fund programmes. In practice, there are of course many factors that might explain differences in the performance of assisted and non-assisted SMEs, of which Structural Fund aid is but one, and comparisons need therefore to be treated with considerable caution.

Table 26 below provides a breakdown of the sample of 1,072 assisted and non-assisted SMEs by Member State. It was agreed with the Commission that the research would not cover Objective 5b in depth.

Table 26: Analysis of SME Sample by Member State

Member State	Responses by Type of Region				Total	
	<i>1</i>	<i>2</i>	<i>5b</i>	<i>6</i>	<i>No.</i>	<i>%</i>
B	51	35			86	8.0
DK		48			48	4.5
D	60	33			93	8.7
EL	62				62	5.8
E	75	46			121	11.3
F		53	48		101	9.4
IRL	100				100	9.3
I	57	29			86	8.0
L					0	0
NL		70			70	6.5
A		39			39	3.6
P	51				51	4.8
FIN		18		53	71	6.6
S				41	41	3.8
UK	52	51			103	9.6
Total	505	422	48	94	1,072	100.0

Source: Ernst & Young analysis of Phase 3 survey data

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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The overall survey response rate was 54.9%. Reasons for non-responses included difficulty in identifying the person in a firm with knowledge of the Structural Fund assistance, contact details being wrong, and firms ceasing trading since receiving EU Structural Funding. Similarly, some firms claimed that they did not have the time to participate in the survey or would not do so for other reasons.

Table 27 provides a breakdown of the sample by SME size. Approaching half the sample consisted of firms employing between 10-49 people, the remainder being fairly evenly divided between the 1-9 and 50-249 size bands.

Table 27: Analysis of SME Sample by Size

Member State	Number of Employees								Total	
	1-9		10-49		50-249		250-500		No.	%
B	25	29.0	44	51.2	17	19.8	0	0	86	100.0
DK	10	20.8	22	45.8	16	33.3	0	0	48	100.0
D	15	16.1	41	44.1	36	38.7	1	1.1	93	100.0
EL	23	37.1	31	43.1	8	12.9	0	0	62	100.0
E	20	16.5	50	41.3	51	42.1	0	0	121	100.0
F	28	27.8	46	45.6	27	42.1	0	0	101	100.0
IRL	3	3.0	50	50.0	46	46.0	1	1.0	100	100.0
I	22	25.9	52	61.2	12	12.9	0	0	86	100.0
L	0	0	0	0	0	0	0	0	0	100.0
NL	38	54.3	29	41.4	2	2.9	1	1.4	70	100.0
A	12	30.8	15	38.5	11	28.2	1	2.6	39	100.0
P	14	27.5	18	35.3	15	29.4	4	7.8	51	100.0
FIN	33	46.5	27	38.0	11	15.5	0	0	71	100.0
S	23	56.1	15	36.6	3	7.3	0	0	41	100.0
UK	52	50.5	33	32.0	17	16.5	1	0.1	103	100.0
Total	318	29.7	473	44.1	272	25.4	9	0.8	1,072	100.0

Source: Ernst & Young analysis of Phase 3 survey data

Table 28 provides an analysis of the sample by SME industrial classification (NACE). As can be seen, a good coverage of different sectors was achieved.

In carrying out the survey, an effort was also made to structure the sample so that there was a focus on specific types of Structural Fund assistance to SMEs covered by the Phase 2 fieldwork. Figure 10 provides a breakdown of the sample structure according to thematic focus, using the standard typology of measures developed for the research.

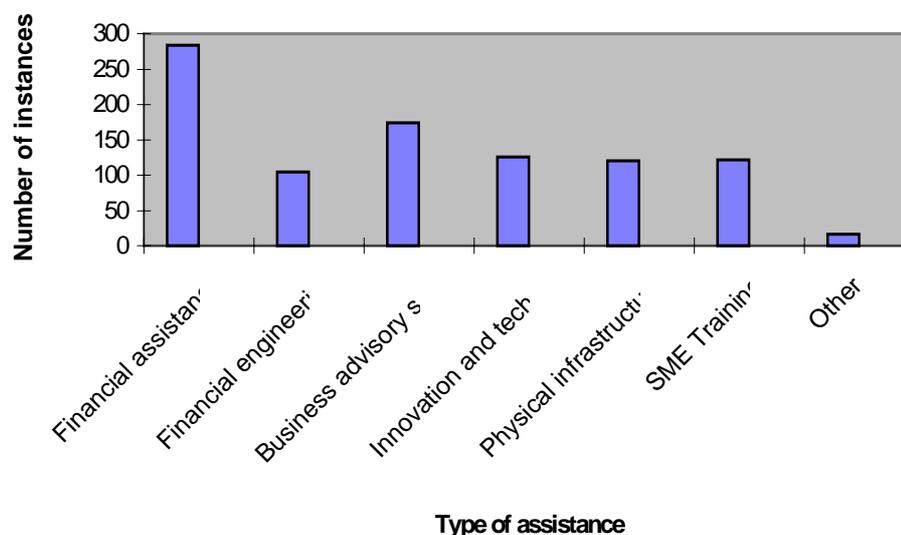
REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 28: Analysis of SME Sample by Industrial Sector

Sectoral Breakdown of Sample	No	Percentage
Engineering (mechanical/electrical/instrument)	110	10.3
Manufacturing of metal articles	75	7.0
Processing of metals/ extraction of metal ores	28	2.6
Manufacturing (other)	103	9.6
Textiles, footwear, clothing	54	5.0
Business Services/ IT	39	3.6
Food, drink, agriculture	67	6.9
Wholesale distribution	31	2.9
Retail distribution	27	2.5
R&D	15	1.4
Chemicals, plastics & man-made fibres	52	4.9
Timber & furniture industry	47	4.4
Fuel related/ water/ energy	20	1.9
Motor vehicles/ transport	67	6.3
Paper products, printing & publishing	37	3.5
Hotels and Catering	25	2.3
Services	47	4.4
Others / Non-codifiable	221	20.6
Total	1,072	100.0

Figure 10: Type of Assistance Used



REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

Below, we turn to the first of the issues covered by the survey – how SMEs found out about the Structural Fund assistance available to them.

5.3.2 Marketing and Initial Contact with Structural Fund Schemes

This section analyses the feedback from SMEs with regard to:

- how SMEs first became aware of EU-supported schemes;
- whether they initiated the contact with intermediaries, or vice-versa;
- how easy it was to obtain assistance from an EU-supported scheme;
- whether or not alternatives to Structural Fund aid were considered by SMEs.

How SMEs Came Into Contact With EU Schemes

With regard to the first of these questions - how SMEs first became aware of the EU-supported schemes - Table 29 provides an analysis of the responses based on 805 of the 1,072 assisted SMEs in the sample that answered the question.

Table 29: How Firms Became Aware of EU Supported Schemes

Source of Awareness	No of Responses	Percentage
Carried out own enquiries	225	28.0
Made aware through public advertising	89	11.1
Made aware by another firm, trade body, etc	181	22.5
Referred by another intermediary	250	31.1
Other source	59	7.3
Total	805	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The question of how contact with an EU-supported scheme was first made is important for several reasons. First, it sheds light on how proactive intermediaries are in targeting SMEs that can potentially benefit from external assistance. Second, responses to this question also have a bearing on deadweight and the effectiveness of targeting (the issue of deadweight is examined in further detail below in Section 4.5).

As can be seen from the above table illustrating main sources of awareness, a high proportion of firms (31.1%), first became aware of EU schemes through an intermediary referral. However, almost as many firms (28.0%) became aware of EU supported schemes through their own enquiries with different business support service providers.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Many firms commented that a combination of these and other factors had made them aware of a particular EU scheme rather than one factor alone. There is some variation in the responses according to Member State and type of region (Objective 1, 2, 5b or 6). Thus, in certain Member States, SMEs were more likely to have become aware of the schemes as a result of public advertising (e.g. Belgium, Denmark) whereas elsewhere, firms tended to rely on their own enquiries as the principal source of information (e.g. Germany, Greece, Portugal, Netherlands). Likewise, SMEs located in Objective 1 regions were more likely to have heard about the schemes from public advertising than in Objective 2, 5 or 6 regions, perhaps reflecting a greater emphasis on awareness-raising in lagging regions. In the UK and Ireland, in contrast, many firms commented that long-standing relationships with local intermediaries and networking with other local firms were key factors in raising awareness of particular schemes. It is also interesting to analyse SME responses to this question according to the type of assistance received. Here, the survey responses suggest that SME awareness of schemes as a result of public advertising was more likely with SME training measures and financial assistance than with the other types of more specialised assistance.

Table 30 provides an analysis of the responses with regard to how SMEs came into contact with Structural Fund schemes, correlated with the type of scheme.

Table 30: How Firms Contacted EU Supported Schemes

type of Assistance	SME Approached Intermediary	Percentage	Intermediary approached SM	Percentage
Financial assistance	180	81.1	42	18.9
Financial engineering	81	79.4	21	20.6
Business advisory services	108	73.5	39	26.5
Physical infrastructure	69	73.4	25	26.6
Innovation and technology	70	71.4	28	28.6
SME Training	71	67.6	34	32.4
Other	7	58.3	5	41.7
Total/Average	586	75.1	194	24.9

Source: Ernst & Young analysis of Phase 3 survey data

Nbte: 25 firms gave no response

There are also interesting patterns to emerge from an analysis by type of region. This suggests that intermediaries in the less-developed Objective 1, 5 and 6 regions tend to be more proactive in marketing EU schemes than their counterparts in Objective 2 regions.

Table 31 provides an analysis of responses from SMEs regarding how easy or otherwise it is to find out about EU-supported schemes.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 31: How Easily Firms Found Out About EU Schemes

Firm Perceptions	No of Responses	Percentage
Very easy	215	26.7
Quite easy	417	51.9
Quite difficult	121	15.1
Very difficult	33	4.1
Don't know	18	2.2
Total	805	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The fact that 78.6% of SME respondents generally found it relatively easy to obtain information on EU-supported schemes is encouraging (a combination of the 'quite easy'/'very easy' responses). The analysis suggests that there are some interesting variations between Member States. Firms in the UK, Ireland and Germany were more likely to state that EU assistance was 'very easy' to find out about whereas in the Netherlands, Belgium and Italy there was a higher proportion of firms who judged finding out about EU assistance to be 'fairly difficult.' This finding is puzzling since it does not correspond with patterns with regard to the development of 'one-stop-shops'.

Also highly relevant is a breakdown of the responses to this question by firm size and type of scheme. The results of the analysis by SME size are shown below in Table 32.

Table 32: How Easily Firms Found Out About EU Schemes - Analysis by Firm Size

Firm Perceptions	1-9		10-49		50-250		Over 250		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Very easy	47	24.6	98	27.5	63	28.0	2	25.0	210	26.9
Quite easy	98	51.3	180	50.4	118	52.4	2	25.0	398	51.0
Quite difficult	29	15.2	54	15.1	33	14.7	1	12.5	117	15.0
Very difficult	8	4.2	17	4.8	7	3.1	1	12.5	33	4.2
No response/ don't know	9	4.7	8	2.2	4	1.7	2	25.0	23	2.9
Total	191	100.0	357	100.0	225	100.0	8	100.0	781	100.0

Source: Ernst & Young analysis of Phase 3 survey data

Table 32 suggests, somewhat surprisingly, that smaller SMEs do not necessarily find it more difficult than larger ones to find out about EU-supported schemes. The more interesting comparison is between SMEs generally and larger firms, but here the sample size for larger firms is too small to enable definite conclusions to be drawn from the analysis. (It should be noted that it was not an aim of the research to survey companies employing over 250 people although some were nevertheless questioned). It is also worth mentioning that in the 'suggestions section' of the survey, a large number of

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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SMEs commented that a greater emphasis on raising awareness of EU schemes is needed.

Table 33 provides an analysis of the survey findings with regard to how easy it was for SMEs to find out about the different types of EU assistance. For the purpose of the analysis, we only taken into account the 'Very Easy' and 'Quite Easy' responses (these are combined).

Table 33: How Easily SMEs Found Out About EU Schemes - Analysis by Type of Assistance (Based on 'Very' and 'Quite' Easy Responses)

Type of Assistance	1-9	10-49	50-250	250+	Total	Total sample	%
	No.	No.	No.	No.	No.	No.	No.
Financial assistance	35	79	44	3	161	213	75.6
Financial engineering	17	43	24	0	84	102	82.4
Business services	40	47	26	0	113	145	77.9
Innovation & technology	12	30	28	0	70	98	71.4
Physical infrastructure	24	40	20	0	84	102	82.4
SME Training	14	37	34	1	86	109	78.9
Other	3	2	5	0	10	12	83.3
Total/Average	145	278	181	4	608	781	77.8

Source: Ernst & Young analysis of Phase 3 survey data

Note: Final percentage column indicates percentage of firms judging finding out about EU assistance as 'very easy' or 'quite easy' out of total number of firms answering the question.

The analysis suggests that SMEs find it more difficult to obtain information on the more specialised types of EU assistance such as Innovation & Technology schemes and Financial Assistance than for other schemes. However, the differences are marginal and not too much should be read into the analysis by scheme type.

Alternative Sources of Assistance

SMEs were asked whether they had considered using alternative sources of assistance. This question is important for a number of reasons. First, it sheds some light on the extent to which EU schemes are filling gaps in provision - evidence of firms considering alternatives to Structural Fund aid but being unable to find comparable schemes would clearly be a positive finding in this respect. Conversely, where alternatives exist and are considered by SMEs, the findings are important in providing information on possible 'crowding out' effects.

From the total sample of 805 assisted SMEs, 227 (28.2% of the total surveyed) had considered investigating alternatives to the EU schemes. Table 34 provides a breakdown of the responses classified according to the type of EU assistance used by SMEs.

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Table 34: Alternatives to EU Schemes

Type of EU Assistance	Were Alternatives to EU Schemes Considered?				
	Yes		No		Total
	No.	%	No.	%	No.
Financial assistance	77	33.5	153	66.5	230
Financial engineering	34	33.3	68	66.6	102
Business advisory services	43	28.4	108	61.6	151
Innovation and technology	17	17.3	81	82.7	98
Physical infrastructure	23	22.5	79	77.5	102
SME Training	28	25.7	81	74.3	109
Other	5	41.6	7	58.2	12
Total	227	28.2	578	71.8	805

Source: Ernst & Young analysis of Phase 3 survey data

As can be seen from Table 34, SMEs making use of Innovation & Technology grants and Physical Infrastructure schemes were less likely to have considered alternatives than firms using other types of EU assistance such as Financial Assistance schemes. Whilst not a definite test of the extent to which EU schemes address market failures, it is not unreasonable to assume that the reason why other schemes were not considered was, in many cases, because alternatives did not exist (see below for further analysis on this question). Table 35 provides an analysis of the survey responses concerning the availability of alternatives to Structural Fund assistance.

Table 35: Alternatives to EU Schemes by Type of Region

Type of Region	Were Alternatives to EU Schemes Considered?				
	Yes	%	No	%	Total
1	120	30.0	285	70.0	400
2	75	24.8	228	75.2	303
5b	20	57.1	15	42.9	35
6	12	17.6	56	82.4	68
Total	227	28.2	577	71.8	805

Source: Ernst & Young analysis of Phase 3 survey data

Analysis of the survey data suggests that SMEs in Objective 2 and 6 regions are less likely to have considered alternatives than firms in Objective 1 or 5 areas. This almost certainly reflects the more developed infrastructure of EU-supported business support structures in Objective 2 and 6 regions. It may also reflect the more complete integration of EU-supported with other national and regional schemes in these areas.

SMEs that considered alternatives to EU schemes, but decided not to use them, were

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asked why this was the case. Table 36 provides an analysis of the responses.

Table 36: Why Firms Did Not Use Alternatives

Firm Reasons	No of Responses	Percentage
Same type of assistance not available	50	30.9
Same type of assistance available, but too costly	35	22.4
Other reasons	73	46.7
Total	158	100.0

Source: Ernst & Young analysis of Phase 3 survey data

NB: Multiple Responses possible. Based on 130 firms who considered, but decided against using alternative sources of assistance

A less positive finding is the relatively high proportion of responses falling into the second category of Table 36 above - 'same type of assistance available, but too costly'. This is a possible pointer to EU schemes displacing or 'crowding out' other potential suppliers of assistance to SMEs. These suppliers will often be private sector organisations and an aim of Structural Fund programmes should be to develop rather than displace the business services sector, thus reducing the need for public intervention.

Further analysis of the survey responses to the question of SME use of alternatives to Structural Fund schemes indicates that there is some variation between different types of assisted regions. Table 37 summarises the results.

Table 37: Alternatives to EU Schemes (By Type of Region)

Type of EU Assistance	Were Alternatives to EU Schemes Considered?					
	Objective 1		Objective 2		Objective 5b/6	
	No	%	No	%	No	%
Same type of assistance not available	25	34.8	14	23.3	6	24.0
Same assistance available, but too costly	15	22.7	18	30.0	2	8.0
Other reasons including lack of information	28	42.4	28	46.7	17	68.0
Total	66	100.0	60	100.0	25	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The above analysis goes some way in explaining why this was so – in many cases the reason was because alternatives simply did not exist (especially, as noted above, in Objective 1 regions); a lack of information on available EU schemes was also an important factor. Last but not least, many SMEs claimed they did not need external assistance.

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5.3.3 Types of EU Assistance Used and Delivery Mechanisms

Below, we examine the survey feedback on the type of EU assistance used by SMEs and their views on how efficiently the delivery mechanisms work. Specific issues covered by the analysis are:

- the types of EU-supported assistance used by SMEs;
- where multiple types of assistance were used, the extent of packaging;
- pricing practices and the willingness of SMEs to pay for assistance;
- how efficiently assistance from EU-supported schemes was delivered;
- where alternatives had been used, how they compared with EU schemes;
- whether or not SMEs would be prepared to use the schemes again.

Taking the first of these issues, Table 38 provides an analysis of the types of EU-supported schemes used by SMEs making up the survey sample. It should be remembered that the sample was structured to provide broad coverage of the different 'key themes' examined by the study and is not therefore representative of the broader population of users.

38: Types of Assistance Used by SMEs

Type of EU Assistance	Take-up by SMEs			
	Frequency of Use		Selected for Analysis	
	No.	%	No.	%
Financial assistance	303	30.7	230	28.6
Financial engineering	107	10.9	102	12.7
Business advisory services	184	18.7	151	18.8
Innovation and technology	131	13.3	98	12.2
Physical infrastructure	123	12.5	102	12.7
SME Training	122	12.4	109	13.6
Other	16	1.6	12	1.5
Total	986	100.0	805	100.0

Source: Ernst & Young analysis of Phase 3 survey data

NB: Multiple Responses listed in 'Frequency of Use' column

In Table 38, the 'Frequency of Use' column indicates the number of SMEs that mentioned that they had used a particular type of EU assistance. The next column - 'Selected for Analysis' - provides a breakdown of the types of EU assistance that the survey analysis focuses on.

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Packaging of Assistance

Where SMEs received help from more than one type of EU scheme, it is highly relevant to establish how well delivery of the different schemes was packaged or co-ordinated. Table 39 provides an analysis of the responses where SMEs were multiple-users.

Table 39: Multiple Users - Co-ordination of Delivery Mechanisms

Extent of Co-ordination	No of Responses	Percentage
Different EU schemes completely integrated	59	24.2
Schemes partially integrated	15	6.1
Schemes not integrated at all	170	69.7
<i>Subtotal</i>	244	100.0
SME beneficiaries (multiple users)	229	29.3
SME beneficiaries (single scheme users)	552	70.7
Total	805	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The analysis highlights a general lack of co-ordination and packaging with regard to the delivery of Structural Fund aid. From the point of view of SMEs, it is clearly desirable for different EU schemes to be packaged together or at least closely linked by efficient cross-referral procedures between intermediaries so that less time is spent by investigating the various options. From a slightly different perspective, integrated delivery mechanisms are more likely to bring about synergy and linkage effects, thereby maximising the benefits of assistance.

In this respect, synergies between ERDF business support measures and ESF human resources development actions are especially significant. As Table 40 shows, in the majority of cases where SMEs made use of both types of Structural Fund aid, there was generally felt to be no real integration.

Table 40: Packaging of ERDF and ESF Schemes

Extent of Co-ordination	No of Responses	Percentage
Different EU schemes completely integrated	6	5.8
Schemes partially integrated	1	1.0
Schemes not integrated at all	40	38.8
Don't know or not relevant	61	59.2
Total	103	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The analysis shown in Table 40 has been undertaken by isolating multiple users who stated that the main type of EU assistance they had used was 'Training and Skills

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Development' (mainly ESF-funded). They were then asked how well these measures were packaged together with the other (mainly ERDF-funded) schemes covered by the study. The results suggest that there is considerable scope for improving the integration of measures, which reflects the findings from other aspects of the study.

Awareness that SME Schemes are EU Funded

As part of the survey, we asked SMEs whether they were aware that the assistance received was EU-supported. Under the Structural Fund regulations, intermediaries are supposed to ensure that the EU's support for schemes is publicised.

Table 41 provides an analysis of the responses to this question on awareness.

Table 41: Awareness that Schemes were EU-Supported (Type of Assistance)

Firm Perceptions	Yes	Percentage	No	Percentage
Financial assistance	165	77.5	48	22.5
Financial engineering	70	68.6	32	31.4
Business advisory services	104	71.7	41	27.3
Innovation and technology	79	80.6	19	19.4
Physical infrastructure	74	72.5	28	27.5
SME Training	81	74.3	28	25.7
Other	8	66.7	4	32.3
Total/Average:	604	74.4	201	25.6

Source: Ernst & Young analysis of Phase 3 survey data

The relatively high overall positive response rate of (74.4%) is encouraging but almost certainly reflects some sample bias: firms that made use of assistance (the bulk of the sample) will in most cases have become aware that the schemes were EU-supported either after the initial contact or as a result of receiving an offer letter. It is difficult to establish retrospectively whether they were aware that schemes were EU-supported before applying for assistance. It would be necessary to have a completely random sample of SMEs to obtain an unbiased picture and this was not the aim of the survey.

It is also interesting to analyse responses to this question by Member State. For this purpose, we have combined the responses relating to different types of assistance. Table 42 analyses the survey results.

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Table 42: Awareness that Schemes EU-Supported (By Member State)

Member State	Aware		Not Aware		Total
	No	%	No	%	
B	49	74.2	17	25.8	66
DK	38	100	0	0	38
D	47	67.1	23	22.9	70
EL	40	97.6	1	2.4	41
E	41	44.6	51	55.4	92
F	65	80.2	16	19.8	81
IRL	79	79.8	20	19.2	99
I	55	83.3	11	16.7	66
L	0	0	0	0	0
NL	17	60.7	11	29.3	28
A	8	42.1	11	57.9	19
P	27	96.4	1	3.6	28
FIN	38	71.7	15	28.2	53
S	29	96.6	1	3.4	30
UK	71	62.1	22	23.9	93
Total	581	74.4	200	25.6	781

Source: Ernst & Young analysis of Phase 3 survey data

Viewed from a national perspective, there is clearly a very mixed picture with relatively high levels of awareness in some Member States (Denmark, Sweden, Italy, France and Ireland) but not in others (e.g. Austria and Spain). Low levels of awareness that schemes are EU-supported should not necessarily be interpreted negatively. It could, for example, indicate that EU schemes are being very effectively integrated into national programmes. SMEs will usually be more familiar with these and, arguably, a high degree of integration is the best way of ensuring maximum take-up of Structural Fund assistance

Pricing of Assistance to SMEs

The question of whether or not SMEs are required to pay for assistance is important from the point of view of achieving financial sustainability and avoiding possible ‘crowding out’ effects. Table 43 provides an analysis of the survey responses to this question, broken down by type of scheme.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 43: Pricing of Assistance to SMEs.

Type of EU Assistance	Did SMEs Pay for EU Assistance?							
	Completely		Partially		Not at all		Total	
	No.	%	No.	%	No.	%	No.	%
Financial assistance	40	32.8	40	28.0	133	25.8	213	27.3
Financial engineering	7	5.7	18	12.6	77	14.9	102	13.1
Business advisory services	19	15.6	36	25.2	93	18.0	148	19.4
Innovation and technology	5	4.1	19	13.3	72	14.0	96	12.3
Physical infrastructure	11	9.0	11	7.7	80	15.5	102	13.1
SME Training	40	32.8	17	11.9	51	9.9	108	13.8
Other	0	0.0	2	1.4	10	1.9	12	1.5
Total	122	100.0	143	100.0	516	100.0	781	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The analysis suggests that by far the most common practice amongst intermediaries is not to charge SMEs for the EU-supported assistance they receive. There is some variation across the different types of schemes, but this is hardly significant.

Linked to the above question on pricing was another asking SMEs that were not charged for the assistance received, whether they would have been prepared to pay at least something. The responses are set out below in Table 44.

Table 44: Willingness of SMEs to Pay For Assistance

Type of EU Assistance	Willingness of SMEs to Pay for EU Assistance					
	Yes		No		Don't Know	
	No	%	No	%	No	%
Financial assistance	27	32.5	39	47.0	17	20.5
Financial engineering	35	47.3	33	44.6	6	8.1
Business advisory services	27	34.6	24	30.8	27	34.6
Innovation and technology	21	32.8	35	54.7	8	12.5
Physical infrastructure	25	32.5	37	48.0	15	19.5
SME Training	18	41.9	21	48.8	4	9.3
Other	4	44.4	5	55.6	0	0
Total	157	36.7	194	45.3	77	18.0

Source: Ernst & Young analysis of Phase 3 survey data

NB: Based solely on firms which didn't have to pay an intermediary body for assistance received (ie. 428 firms. 88 firms declined to answer this supplementary question)

Although there are some variations and overall the responses are very divided, the proportion of SMEs indicating a willingness to pay for assistance from EU schemes is nevertheless quite high. This could have implications for the financial sustainability of Structural Fund interventions (examined in the next section). However, some caution

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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needs to be exercised in interpreting the survey findings since the number of SMEs stating that they were willing to pay for assistance is a relatively small proportion of the total sample and not all firms were able or willing to give a response to this question.

How Efficiently Structural Fund Assistance is Delivered

A key question in the survey was to ask SMEs for their views on how efficiently assistance from Structural Fund programmes had been delivered. Table 45 provides an analysis of the responses.

Table 45: How Efficiently Structural Fund Assistance is Delivered

Views on Delivery of Assistance	No. of Responses	Percentage
Very professionally	330	42.3
Quite professionally	362	46.4
Not very professionally	57	7.3
Not professionally at all	15	1.9
Don't know	17	2.2
Total	781	100.0

Source: Ernst & Young analysis of Phase 3 survey data

Overall, the findings to this question are very positive - the 'Very Professionally' responses account for a significant percentage of the responses and there are very few entirely negative responses. Table 46 provides an analysis by EU Member State.

Table 46: How Efficiently Structural Fund Assistance is Delivered (By Member State)

Member State	Total Sample	Assistance Delivered 'Very Professionally'	
		No Answering 'Yes'	Percentage
B	66	19	28.8
DK	37	11	29.0
D	70	17	24.3
EL	18	13	72.2
E	92	30	32.6
F	81	35	43.2
IRL	99	44	44.4
I	66	29	43.9
L	0	0	0
NL	28	10	35.7
A	19	6	31.5
P	28	5	17.9
FIN	53	40	75.5
S	30	7	23.3
UK	93	64	68.8
Total/Average	781	330	42.3

Source: Ernst & Young analysis of Phase 3 survey data

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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As can be seen, there was a considerable variation between Member States in the responses to this question with some countries (e.g. Greece, Finland, UK) scoring better than others (e.g. Portugal, Germany, Sweden, Belgium, Denmark). Also interesting, is to break down the responses by type of assistance. Here we have included both the ‘Very Professionally’ and ‘Quite Professionally’ responses in the analysis.

Table 47: How Efficiently Assistance was Delivered (By Type of Assistance)

Type of EU Assistance	Views on How Efficiently Assistance Delivered			
	Very Professionally		Quite Professionally	
	No.	%	No.	%
Financial assistance	82	54.3	119	51.7
Financial engineering	44	35.7	48	47.1
Business advisory services	82	43.1	49	32.5
Innovation and technology	44	36.3	46	46.9
Physical infrastructure	37	44.9	55	53.9
SME Training	44	40.4	52	47.7
Other	8	66.6	2	16.7
Total	341	42.4	371	46.1

Source: Ernst & Young analysis of Phase 3 survey data

EU Schemes Compared with Alternatives

A further perspective on how efficiently EU-supported schemes are delivered and how well they meet SME requirements can be obtained by comparing SME views on the schemes with alternatives (where they existed). Relatively few firms in the survey sample (96 firms or 12.3%) considered alternatives and actually went ahead and used them. However, of those who did, 28.6% said that EU schemes were better than alternative sources of assistance, 16.3% responded that EU schemes were worse than comparable alternatives and 55.1% viewed EU schemes as being essentially no different from comparable alternatives. The relatively few SMEs considering and using alternatives is another pointer to the extent of possible ‘crowding-out’ effects.

Finally, as a check on earlier ‘customer satisfaction’ questions, we asked SMEs whether they would be willing to use the same source of EU assistance again. The results, shown below, are generally very positive and reflect the findings in relation to other survey questions reported above.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

Table 48: Willingness to Use Same Source of Assistance Again

Willingness to Use Assistance Again	No. of Responses	Percentage
Yes	692	85.9
No	52	6.5
Don't know	53	6.6
Total	805	100.0
Reasons for Negative Responses	No. of Responses	Percentage
Difficulties encountered with schemes	52	46.4
No need for further assistance	53	47.3
No particular reason	7	6.3
Total	112	100.0

Source: Ernst & Young analysis of Phase 3 survey data

5.3.4 Benefits to Firms and Impact Assessment

This last sub-section analysing the SME survey responses considers:

- what sort of SME projects Structural Fund aid was used for;
- the importance of these projects to the SMEs' development;
- the impact of assistance on SMEs' performance and growth prospects;
- feedback from small firms that were not assisted by the Structural Funds.

There is a distinction to be made between 'customer satisfaction' (analysed in the previous section) and the benefits to SMEs and impact of Structural Fund interventions (e.g. it is possible to be satisfied with ineffective assistance, and vice versa). Below, we analyse the survey data on impacts.

This aspect of the analysis has been undertaken in two stages:

- *Stage 1* - how important Structural Fund aid was to the SMEs' project;
- *Stage 2* - how important the project was to the firm's development and performance.

Experience suggests that it is not possible to combine these stages in one overall question. This approach also makes it easier for SMEs to provide the information needed to quantify the impact of assistance.

Stage 1: Importance of Structural Fund Aid to SME Projects

The first stage of the analysis examines precisely what EU-supported schemes were used for and how important it was to SME projects. Table 49 provides an analysis of the

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

findings in relation to the first part of this question.

Table 49: What Type of SME Projects Structural Fund Aid Was Used For

SME Projects	No Responses	Percentage
Financing start-up/expansion	241	21.4
Business and strategy planning	136	12.1
Product design and development	167	14.8
Marketing, sales strategy, exporting, etc	128	11.3
Information and communications technology	86	7.6
Business premises and other infrastructure	180	16.0
Management training	57	5.1
Workforce training and skills development	133	11.8
Other purposes	0	0.0
Total	1,128	100.0

Source: Ernst & Young analysis of Phase 3 survey data

NB: Multiple responses possible. Percentage indicated signifies the relative frequency of the above-mentioned business objectives in the Structural Fund-assisted schemes chosen by beneficiaries

As noted earlier, it should be remembered that the sample was structured to provide a focus on various 'key themes'. The distribution of responses shown in Table 49 therefore reflects the focus of the study and is not necessarily representative of the total population of SMEs in Member States that have benefited from Structural Fund assistance.

We then asked SMEs how important EU assistance had been in the realisation of their plans with regard to the specific project or aspect of their operations it was used for ('additionality'). There were a number of possible responses:

- ***Absolute additionality***, i.e. the project would not have proceeded at all without assistance;
- ***Partial additionality***, i.e. the project would have gone ahead without Structural Fund aid, but would have been delayed and/or only gone ahead on a modified basis;
- ***Deadweight***, i.e. Structural Fund aid made no difference to the SME's plans and the firm would have proceeded with the project anyway.

The results of this analysis are shown below in Table 50. It should be noted that firms will have a tendency to stress the importance of external aid in situations where the analysis identifies beneficiaries, especially where these firms may be considering a further application for assistance. This will tend to exaggerate the extent of additionality. The risks of this happening were minimised in this study by guaranteeing anonymity to the SMEs that were covered by the survey.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 50: Importance of Assistance to Projects

Contribution of EU Assistance to Projects	No Responses	Percentage
<i>Without EU assistance:</i>		
Project would not have proceeded at all	182	22.6
Project would have been delayed or scaled down	394	48.9
Project would have proceeded as planned without changes	205	25.5
Don't know or no response	24	3.0
Total	805	100.0

Source: Ernst & Young analysis of Phase 3 survey data

As can be seen from Table 50, the results are generally positive with 22.6% of SMEs giving responses that point to absolute additionality ('without assistance, projects would not have proceeded at all'). This level of absolute additionality is broadly in line with other research examining national schemes. However, the relatively high proportion of deadweight is concerning and could point to an inadequate screening of SME applicants for EU schemes, leading to a situation where many small firms were given assistance although they would probably have gone ahead with their plans without it.

Table 51 below provides a cross-tabulation of the 'additionality test' with the types of assistance that SMEs received.

Table 51: Additionality by Type of Assistance

How Assistance Helped SMEs	Level of Additionality					
	Absolute		Partial		Deadweight	
	<i>No</i>	%	<i>No</i>	%	<i>No</i>	%
Financial assistance	61	30.0	106	52.2	36	17.7
Financial engineering	18	17.8	37	36.6	46	45.5
Business advisory services	33	23.9	75	54.3	30	21.8
Innovation and technology	22	22.9	51	53.1	23	24.0
Physical infrastructure	14	13.7	50	49.0	38	37.3
SME Training	31	28.7	54	50.0	23	21.3
Other	1	8.3	2	16.7	9	75.0
Total	180	23.7	375	49.3	205	27.0

Source: Ernst & Young analysis of Phase 3 survey data

NB: 21 firms did not give a response

There is some variation in the levels of additionality from one type of Structural Fund assistance to another. Thus, for example, whereas Financial Assistance and SME Training schemes scored highly in terms of absolute additionality, others such as Physical Infrastructure do not. This confirms other research showing that grant aid to start-up businesses, for example, scores much higher in terms of additionality than the

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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provision of information services to existing SMEs. An important question here is the extent to which these variations simply reflect the type of assistance provided, as opposed to the nature of the beneficiary and/or other variables. Table 52 below cross-tabulates the levels of additionality with SME size.

Table 52: Additionality by Firm Size

Additionality	1-9		10-49		50-250		Over 250		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Absolute additionality	65	32.8	69	19.7	46	20.4	0	0.0	180	23.0
Partial additionality	76	38.8	187	53.4	107	47.3	5	71.4	375	48.0
Deadweight	49	24.7	85	24.3	68	30.1	1	14.3	203	26.0
Don't know or no response	8	4.0	9	2.6	5	2.2	1	14.3	23	3.0
Total	198	100.0	350	100.0	226	100.0	7	100.0	781	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The results of this analysis indicate, perhaps not surprisingly, that additionality tends to be higher when Structural Fund interventions target smaller SMEs than in situations where the beneficiaries are larger firms.

Table 53 below analyses the extent of additionality and deadweight by Member State. It should be noted that for the purposes of the analysis, we have not included the firms shown in the above table that gave a 'don't know' or 'no response' answer.

Table 53: Additionality by Member State

	Absolute Additionality		Partial Additionality		Deadweight	
	No	%	No	%	No	%
B	8	15.3	32	61.5	12	23.2
DK	11	28.9	22	57.8	5	13.3
D	28	40.0	34	48.5	8	11.5
EL	3	16.6	14	77.7	1	5.7
E	9	9.8	32	35.1	50	55.1
F	16	20.2	40	50.6	23	29.2
IRL	12	12.1	54	54.5	33	32.4
I	15	23.0	29	44.6	21	32.4
NL	10	35.7	15	53.5	3	10.8
A	6	31.5	7	36.8	6	31.7
P	7	25.0	16	57.1	5	17.9
FIN	18	35.2	26	50.9	7	13.9
S	13	44.8	9	31.0	7	24.2
UK	25	27.1	45	48.9	22	24.0
Total	183	23.4	393	50.3	205	26.3

Source: Ernst & Young analysis of survey data

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Caution should be exercised with regard to the data shown above. In some countries, the number of firms that were able to answer questions on additionality was relatively small and this may have influenced the results. A further factor is that, as made clear earlier, the research in different Member States had a thematic focus (business support, technology and innovation, SME training, etc), and this may also have distorted the findings.

Relying on beneficiary feedback to assess the extent of additionality demonstrated by Structural Fund interventions in favour of SMEs is clearly not ideal from a methodological point of view. Whilst every effort was made to eliminate any bias arising from the role of intermediaries in helping to select the sample (see Section 4.4.1 above), firms that claimed that the assistance was fully additional could clearly be influenced by an intention to apply for further aid. Similarly, where SMEs claimed that assistance was unnecessary, this could reflect an attempt to assert independence. These and other complications can, to some extent, be overcome by rigorous probing although the scope for doing so in a telephone interview is limited. The other drawbacks of a survey-based approach to assessing additionality are well-known³⁴ but, equally, alternative (econometric) methods are not always possible to apply and would not have been so in this study.

Minimising the extent of deadweight and maximising additionality is clearly a key to ensuring that Structural Fund interventions in favour of SMEs produce the best results. In the final section of this report, we suggest steps that might be taken to achieve this.

Step 2: Impact of Assistance on SME Development

Step 2 of the analysis involves examining the impact of Structural Fund assistance on SMEs. Two different survey-based methods have been used to assess quantitative impacts:

- *Method 1* – based on firms' own estimates of the impacts;
- *Method 2* – a before-and-after analysis of employment levels in assisted SMEs.

Before presenting the results, we consider the perceived relevance of Structural Fund assistance to SMEs' needs. In the survey, firms were asked to indicate how important the assisted project was to their company's development. Table 54 provides an analysis of the results of this 'relevance' test.

³⁴ See, for example, McEldowney in 'Policy Evaluation and the Concepts of Deadweight and Additionality' in *Evaluation: The International Journal of Theory, Research and Practice*, Vol. 3, Number 2 (April 1997), pages 184-186.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 54: Relevance of Projects to SME Development

Relevance	No Responses	Percentage
<i>Project was:</i>		
• Crucial to the firm's overall development	288	35.8
• Important but not critical to its development	390	48.5
• Only of marginal importance to its development	112	13.9
• Don't know and no responses	15	1.8
Total	805	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The analysis shown in Table 54 suggests that Structural Fund interventions are generally being targeted on appropriate SME projects, i.e. ones which are likely to have the most impact on SME performance. Again, it is interesting to look at the responses by firm size.

Table 55: Relevance of Assisted Projects Analysed by Firm Size

Relevance	SME Size (Employment) Bands								Total	
	1-9		10-49		50-249		Over 250		All Sizes	
	No.	%	No.	%	No.	%	No.	%	No.	%
Crucial	77	39.5	120	33.9	88	38.2	2	33.3	287	36.6
Important	91	46.7	178	50.3	115	50.0	3	50.0	387	49.3
Marginal	27	13.8	56	15.8	27	11.8	1	16.7	111	14.1
Total	195	100.0	354	100.0	225	100.0	6	100.0	785	100.0

Source: Ernst & Young analysis of Phase 3 survey data. Npte: 20 firms gave no response

The findings of this analysis, with a reasonably even distribution of responses across the size categories, suggest that the 'relevance test' is less sensitive to SME size than other factors. That said, there is some evidence of a pattern with a higher proportion of smaller SMEs indicating that assisted projects were 'crucial' or 'important' than larger ones.

Below, we provide an analysis of the survey data with regard to employment impacts using the two methods referred to above.

Method 1 – Firms' Own Assessment of Employment Impacts. In carrying out the survey, we asked SMEs to distinguish between measurable and less-easy-to-quantify effects of Structural Fund assistance. Taking the first of these categories, some 494 or 46.1% of the total sample of the 1,072 SMEs surveyed said that the effects could be quantified in terms of jobs created or saved (and/or additional turnover). We have assumed that these effects are fully additional.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 56 provides an analysis of the additional jobs and turnover attributed by this sub-sample of SMEs to the Structural Fund assistance they received.

Table 56: Impact on SME Employment and Turnover (Method 1)

SME Size Bands (Employment)	Total Assisted SMEs	SMEs quantifying impact	% increase in SME turnover	Additional jobs per SME	Total jobs by Size Band
1-9	199	117	47.20	2.30	269
10-49	368	228	20.10	7.08	1,614
50-249	224	147	33.70	21.35	3,138
Over 250	8	2	16.90	35.50	71
Total (unweighted):	799	494	31.80	10.10	5,092

Source: Ernst & Young analysis of Phase 3 survey data

The above analysis suggests that some 5,021 gross additional jobs SMEs (total of 5,092 shown above less data for firms with over 250 employees) were created or saved in the 492 assisted firms who said that the benefits of Structural Fund assistance was quantifiable in terms of new or safeguarded jobs. As Table 58 shows, there was a considerable variation in the number of new jobs generated, ranging from an average of 2.3 new/safeguarded jobs per SME for the smallest enterprises in the 1-9 employee size band to an average of 35.5 per firm for the largest companies. In providing information, SMEs were asked not to include job increases attributable to other factors (i.e. not directly attributable to EU assistance).

Method 2 – Before-and-After-Comparison. Another way of estimating the employment impacts attributable to Structural Fund interventions is to compare employment levels for the SME sample as a whole before and after receiving assistance. We have then adjusted the difference to take into account additionality using the feedback from SMEs analysed earlier (i.e. we have stripped out deadweight counting only those firms that said that without Structural Fund assistance, they could not have proceeded with their plans). This method captures situations in which SMEs were unable to quantify the impact of Structural Fund assistance but where there was nevertheless a positive effect in terms of jobs created or saved.

Table 57 provides an analysis of the results of the analysis using this 'before-and- after' method to estimate the impact of Structural fund aid to SMEs.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 57: Impact on SME Employment (Method 2)

Sample Category	Sub Sample	Whole Sample			
		Previously	Now	Difference	% Change
<i>Assisted SMEs:</i>	<i>No.</i>				
Gross Jobs	805	28,858	35,265	6,409	22.2
Full additionality	182	5,815	6,811	996	17.1
Partial additionality	393	14,610	17,887	3,277	22.4
Deadweight	205	7,596	9,556	1,960	25.8
No response/ unable to say	25	837	1,011	174	20.8
Total:	805	29,854	34,269	4,415	14.8

Source: Ernst & Young analysis of Phase 3 survey data

Using the second methodology therefore gives a lower estimate for employment effects attributable to Structural Fund interventions – 4,273 jobs (full and partial additionality) compared with 5,021 jobs estimated using the first method (see Table 56). The main reason for the difference lies in the fact that the Table 57 data includes firms where jobs were lost whereas this is not the case with the results shown in Table 56.

It should be noted that the above job effect estimates are net of additionality, but do not take into account possible displacement and indirect effects. Some idea of the possible scale of these effects can be obtained from the survey feedback on assisted SME competitors and suppliers. A total of 651 or 62.8% of the SME respondents answering this question stated that their markets were primarily outside the immediate area whilst 673 or 64.9% said that this was the case with suppliers. A detailed assessment of displacement and indirect effects would have involved asking SMEs a lot of additional questions and this was not feasible in a telephone survey. As a result we have relied on parameters from other research to arrive at an estimate of net effects (see Section 4.6).

Non- Measurable Impacts on SMEs

In addition to the measurable impacts, the survey feedback suggests that Structural Fund assistance had other benefits for SMEs. Table 58 provides an analysis of the survey data.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 58: How EU Schemes Helped SMEs

Non Measurable Impacts	No Respondents	Percentage
Absorption and development of new technology	406	18.8
Networking with other SMEs	254	11.8
Promotion of internationalisation	252	11.7
Strengthening of supply chains with large firms	232	10.8
Promotion of lifetime learning and skills development	213	9.9
Improved environmental awareness	195	9.0
Access to other EU financial schemes	101	4.7
Access to other EU R&D programmes	102	4.7
Improved equal opportunities for women and others	86	4.0
Improved access to EU public procurement markets	74	3.4
Other project or aspect	243	11.3
Total	2,158	100.0

Source: Ernst & Young analysis of Phase 3 survey data

Note: Multiple responses possible

As Table 58 shows, a wide range of non-quantifiable benefits were reported by SMEs, the absorption of new technology tending to be mentioned most frequently. It should be noted that there could be some bias in the responses, reflecting the fact that the survey focused on ‘key themes’.

Comparison with Non-Assisted Firms

The sample included 267 non-assisted firms or approaching a quarter of total number of SMEs surveyed. To put the above job estimates into context, we have compared the growth in employment for assisted SMEs over the past two years (not adjusted for additionality) with the change for non-assisted SMEs.

Table 59 below compares estimates for total jobs/jobs per assisted/non-assisted SME over the period when Structural Fund aid was provided.

Table 59: Employment Growth in Assisted and Non Assisted SMEs

Employment Measures	Sample	Baseline	Now	Difference	Change
Assisted (total jobs)	805	28,858	32,265	3,407	+11.8
Assisted (average jobs per SME)	805	35.8	40.1	4.3	-
Non-assisted (total jobs)	267	7,341	8,141	800	+10.9
Non-assisted (average jobs per SME)	267	27.5	30.5	3.0	-
Total - Assisted and Non Assisted (jobs)	1,072	36,199	40,406	4,207	+11.6
Total – Assisted and Non Assisted (average)	1,072	33.7	37.7	4.0	-

Source: Ernst & Young analysis of Phase 3 survey data

Note: Non-assisted sample based on 256 firms/ Assisted firms sample size of 781 firms

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

As can be seen, employment levels in assisted SMEs would appear to have increased at a faster rate than in non-assisted firms - an average of over four new jobs being created or saved by SMEs that received Structural Fund assistance compared with three in the non-assisted businesses. This comparison should, however, be treated with caution since the difference between the rates of job creation could reflect other causal factors such as some Structural Fund schemes being targeted on high growth firms.

Finally, we provide below an analysis of the survey responses from non-assisted SMEs concerning the effects of not having received Structural Fund assistance. As mentioned earlier, and evident from the analysis, feedback from this category of SMEs is important in shedding light on the counterfactual situation.

Figure 11 illustrates the approach to this aspect of the survey.

Figure 11: Methodology for Non-Assisted Firms

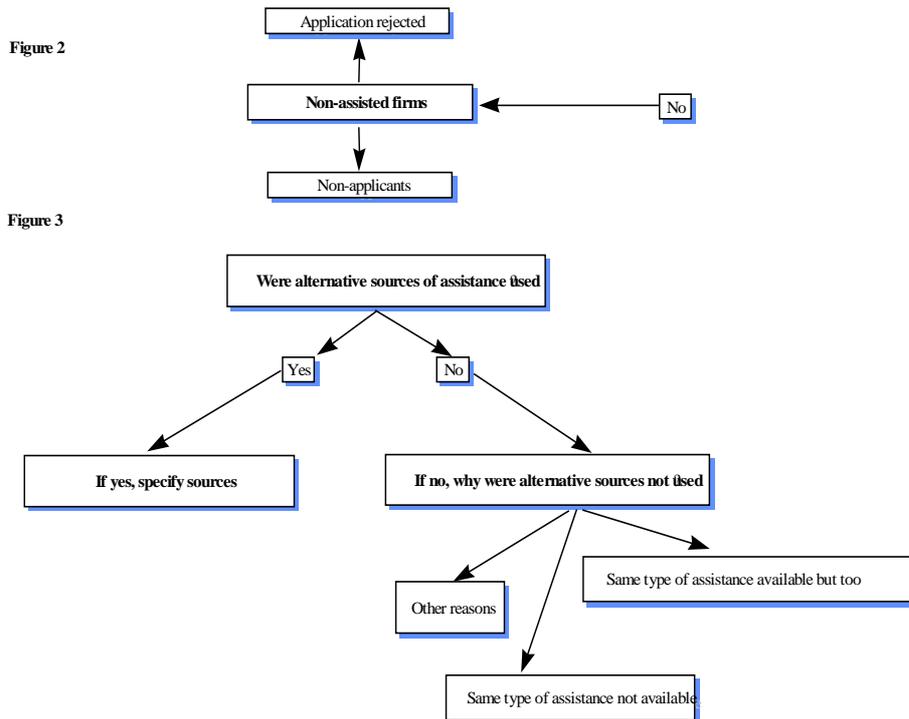


Table 60 provides a breakdown of the non-assisted SMEs, distinguishing between those that applied for assistance but were not helped, either because the firms themselves withdrew their applications or because their applications was turned down, and others that did not apply in the first place.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

Table 60: Sample of Non Assisted SMEs

Category of Non Assisted Firms	Number	Percentage
Applied but withdrew/application refused	71	26.5
No application was made for EU assistance	196	73.5
Total	267	100.0

Source: Ernst & Young analysis of Phase 3 survey data

Firms that had not applied for help from a Structural Fund scheme were asked whether they were aware of the sources of assistance available to them and, if so, why they had not asked for support. Not all SMEs could answer these questions. The responses for the SMEs that could are shown below in Table 61.

Table 61: Non Assisted Firms' Awareness of EU Assistance and Reasons for Non Use

Awareness of EU Schemes	Number	Percentage
Aware of EU schemes	107	54.6
Not aware of EU schemes	89	45.4
Total:	196	100.0
Reasons for not applying for assistance	Number	Percentage
No need for assistance	24	40.7
Not aware of precisely how schemes could help	2	3.4
EU procedures too complex and time-consuming	13	22.0
National schemes more suitable	3	5.1
Other reasons/don't know	19	32.2
Total:	59	100.0

Source: Ernst & Young analysis of Phase 3 survey data

The responses shown in Table 61 are quite encouraging. A relatively high proportion of non-assisted SMEs were aware that EU-supported schemes existed but the reason for not using them was in a large number of cases because assistance was not needed (rather than, for example, because the schemes were not considered worth using). Less positive is the high proportion of SMEs that were put off applying for assistance from Structural Fund-backed schemes because of the perceived complicated and time-consuming procedures involved.

Further analysis of the survey responses from non-assisted SMEs establishes that 14 out of 71 rejected firms (19.7%) had obtained help from an alternative source. SMEs rejected for EU assistance schemes were asked what difference the absence of assistance had made to their company. Table 62 provides an analysis of the responses.

REGIONAL CASE STUDIES AND SME SURVEY *(Continued)*

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Table 62: Effect of Not Receiving EU Assistance on SMEs

Effect on Firms	No Respondents	Percentage
<i>Absence of EU assistance:</i>		
Made no difference to the firm's performance	5	14.7
Made some difference but not critical	11	32.4
Made a major difference to the firm's performance	18	52.9
Total	34	100.0

Source: Ernst & Young analysis of Phase 3 survey data

Note: 25 firms were unable to determine the difference the absence of EU funds made

These findings for rejected SMEs are particularly interesting - the high proportion of respondents saying that the absence of Structural Fund aid had made some or a big difference to their performance being generally supportive of the analysis of additionality elsewhere in this section.

Considerable caution should be exercised in comparing the survey data for assisted and non-assisted SMEs. Whilst an effort was made to create a sample of non-assisted SMEs with broadly similar characteristics to the assisted firms, it was not possible to adopt a classic experimental approach, i.e. random selection of 'treatment' and 'control' groups prior to interventions taking place. Also, the sample of non-assisted SMEs is relatively small. For these and other reasons, only broad comparisons can be made between the findings for assisted and non-assisted SMEs in the sample.

In the next section, we provide a summary analysis of good practice lessons from the 'bottom up' dimension of the evaluation and examine the impact of Structural Fund interventions in favour of SMEs on regional development.

ASSESSMENT OF GOOD PRACTICES AND IMPACTS

6

This section provides examines the overall 'good practice' themes that emerge from the regional case studies. An emphasis is placed on key lessons that can be applied to future Structural Fund programmes with regard to:

- targeting of Structural Fund aid for SMEs;
- promotion of vertical and horizontal clusters and networks;
- development of 'one stop shop' delivery mechanisms;
- maximising the sustainability of Structural Fund schemes;
- increasing the role of the private sector in programmes;
- coherence and linkages between SME and other measures;
- programme management, monitoring and evaluation.

The second part of the section brings together 'top-down' and 'bottom-up' dimensions of the research to provide an overall assessment of the impact of Structural Fund SME measures on regional development.

6.1 Key Good Practice Lessons

The regional case studies highlight many examples of highly effective schemes and practices (and some less effective ones). Below we consider key good practice lessons and their transferability from one region to another.

Improving the Targeting of Structural Fund Aid for SMEs

The need for a more effective targeting of Structural Fund SME aid is one of the main lessons to be learnt from the research. The research suggests that the key to this lies in:

- improving appraisal of SME needs before programmes start;
- a clearer definition of Structural Fund SME targets, especially in terms of sectors;
- building the diagnosis of SME needs into Structural Fund programmes;
- ensuring the adoption of rigorous project selection criteria;
- placing more emphasis on making Structural Fund aid contingent on SMEs achieving performance targets.

ASSESSMENT OF GOOD PRACTICES AND IMPACTS *(Continued)*

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The research suggests that there is a need to define the targets of Structural Fund interventions in favour of SMEs much more clearly - both at a strategic and operational level. The current SPDs have improved the quantification of targets but programme documents and subsequent actions often do not demonstrate close alignment between SME measure objectives and broader SPD regional development objectives.

A number of the project evaluations demonstrate the benefits of sector-based targeting in helping to ensure that measures are tailored to the requirements of SMEs. Likewise, the targeting of measures on SMEs in the smaller size bands – typically below 50 employees – where market failure is most pronounced is likely to increase the relevance and additionality of interventions. This appears to be especially important in the field of innovation and technology and SME training where the research suggests that smaller SMEs have particular difficulty in identifying their own support needs and are less likely to initiate the process of obtaining external assistance. Ideally, Structural Fund schemes should focus on SMEs with the high job and wealth creating potential. To the extent that schemes targeted on such SMEs are proactively marketed, a problem is how high growth firms should be identified since there is usually very little publicly available information upon which to base a judgement. The research sheds little light on methods of tackling this problem.

The research highlights the important role that diagnostic services can play in ensuring that Structural Fund schemes are efficiently targeted. Particularly interesting in this respect are initiatives such as the PEDIP Firm Auditing Scheme in Portugal where an SME needs assessment is now built into most aspects of the programmes. The Business Links in the UK demonstrate a similar approach. Linked to this is the need to ensure that project selection criteria include a rigorous additionality test (this is also a key to minimising deadweight and displacement effects associated with Structural Fund programmes for SMEs). There are also some interesting examples from the research in Ireland of how the provision of aid to SMEs can be made contingent on achieving specific output targets, e.g. with regard to job creation or export turnover. Improved diagnostic methods, project selection criteria and setting performance targets at the level of individual SME beneficiaries are all good examples of steps taken to improve the targeting of Structural Fund aid.

Examples from the research of schemes where inadequate appraisal work and a poor definition of targets was almost certainly the cause of subsequent problems include the Kainnu SME incubator in Finland. The evaluation suggests that this was based on a model that was not appropriate to the region. Likewise, the Commercial Promotion Scheme in the Navarra region of Spain was seen as being largely irrelevant to the needs of most SMEs in the region. There was also a questionmark over the continuing relevance of some financial aid measures in favour of SMEs. This applies, for example, to some SME ‘soft’ loan schemes where the benefits have become marginal as commercial interest rates have fallen.

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Promoting SME Clustering and Networks

The research suggests that initiatives to promote clusters and networks are a particularly effective way of developing the small firms sector. The sustainability of these types of intervention would also appear to be high. Two distinct clustering models exist:

- ‘horizontal’ networks between SMEs themselves;
- ‘vertical’ supply chain networks between SMEs and other organisations.

With regional development increasingly driven by knowledge-intensive activities, ‘horizontal’ initiatives of this type are especially relevant. The development of ‘vertical’ clusters and networking is, however, also important as a means of developing SMEs, transmitting know-how up and down the supply chain, and ‘embedding’ larger firms (for example, inward investors) in local economies. From a strategic point of view, the concept of sectorally-orientated clusters and networks provides a more focused and coherent framework for planning interventions. Good examples of Structural Fund-supported SME networking initiatives from the research include the Vindue network in Sweden, which involves proactively identifying R&D projects in SMEs with the potential to be commercialised, and the ‘Vlechtwerken’ SME clustering initiative in The Netherlands.

The research suggests that whilst the formation of clusters usually happens spontaneously and over a considerable period of time, Structural Fund-backed intervention can accelerate this process. From the point of view of SMEs, the clustering process is typified by:

- usually but not always, a physical collocation of SMEs engaged in similar activities;
- the growth of trading relationships and other links between SMEs within the cluster;
- over time, the development of more substantive linkages including joint ventures, mergers and acquisitions between SMEs leading to consolidation of the cluster;
- a self-sustaining process of renewal and growth with spin-offs from existing firms leading to the formation of new SMEs in the cluster.

The case studies highlight a number of examples of how Structural Fund aid can contribute to this process, especially in its earlier stages (e.g. support for BICs, and other common workspace initiatives and services for SMEs, as well as actions with an explicit aim of helping to promote networking on a wider scale. The case study research also demonstrates the important lesson that clusters cannot be built simply by listing and matching the core competencies of a number of firms. Co-operation at this depth is a sensitive matter for firms and substantial time and effort is required to establish trust

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and thereby to share risks and benefits. Often the cycle for selecting suitable firms and building clusters has to be repeated several times before a new cluster is formed around a 'product-market' combination. Clearly, the capacity of other regions to replicate the Twente model depends very much on the availability of resources given the time-intensive nature of the initiative.

Clustering is one of the most innovative aspects of current Structural Fund programmes. It reinforces the idea that future SME support should not only deal with technology or business strategy but should also focus on benchmarking and helping SMEs to learn from each other, as well as exploiting the economies of scale derived from bringing SMEs together in networks. However, although the rewards are potentially substantial, there are significant barriers to setting up SME networks. As the above examples highlight, smaller firms tend to concentrate on the potential dangers rather than benefits of networking. 'Vertical' networks, involving networking between SMEs and with larger companies and exploiting the supply-chain as a mechanism for transmitting know-how to SMEs, have many advantages in this respect. Smaller firms are often more willing to collaborate with larger companies than with each other and there is scope for Structural Fund programmes to do more in this area, especially by pump-priming networks that link smaller and larger firms. Locationally-specific factors including the prevailing business culture are, however, important in this respect.

Improving Delivery Mechanisms - 'One Stop Shops'

Where they are being developed, the research suggests that 'one-stop-shop' mechanisms enable Structural Fund programmes to be operated more efficiently with SME support tailored more closely to business needs. The study suggests that a distinction can be made between three basic different types of 'one stop shop' models:

- centralised and highly integrated models where different organisations merge and co-locate their functions in one place;
- decentralised 'one stop shop' models which have the same features of the first type but operate outlets from a number of different locations;
- models where individual organisations retain their autonomy but form a co-ordinated network with a 'seamless' referral of clients from one provider to another.

All three types are to be found in assisted regions. Thus, in the Belgian region of Hainaut (and other regions), where steps are being taken to rationalise delivery mechanisms for SME schemes, the inter-communal IDETA and IDEA have developed common Centre for Enterprise and Innovation (CEI) with three local outlets (this corresponds with the second of the above models). In addition to receiving Structural Fund support, the CEI has various private and public organisations as shareholders. The CEIs have responsibility for Structural Fund programmes but also have a role in co-

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ordinating other SME programmes.

A particularly good example of a 'one-stop-shop' corresponding to the first of the models (the 'centralised and highly integrated' model) is to be found in the Twente region of the Netherlands where the development agency (OOM), which manages Structural Fund programmes, is co-located with the Chamber of Commerce, Syntens and several specialist business support intermediaries. There is also one telephone number that SMEs can use to contact these and other organisations with a seamless referral of enquiries from one part of the network to another until the most appropriate provider is found for a client. Business Links in the UK operate in a very similar way.

The research suggests that where 'one-stop-shop' arrangements exist, partnership working is more evident and Structural Fund measures for SMEs are generally better planned and implemented. In some countries, for example, France, Germany, Portugal and Sweden, there is as yet no real tendency towards a 'one-stop-shop' approach and SMEs are still confronted with a confusing array of intermediary structures. The management of Structural Fund programmes at a regional and local level is also more complicated.

Experience in Finland demonstrates the complications of developing the 'one-stop-shop' concept in peripheral and sparsely-populated regions. Here, there has been a trend towards developing 'one-stop-shops' as a means of enabling SMEs to access as many services as possible via a single body and location. The most important step in this direction has been the unification of three regional ministries into one entity i.e. the creation of the Employment and Economic Development Centre. There have also been developments in Finland towards a diffused or multilevel 'one stop-shop' system for the delivery of business advisory services. Experience here suggests that a flexible approach is needed with a balance being struck between the centralisation of support structures and preserving multiple points of access at a local.

Distance has a huge effect on the demand for business advisory services and there are questions to which answers are known only at local level, for example regarding the availability of premises. Consequently, ensuring that advisory services cascade down to a local level is very important. On the other hand, the greater or more developed a firm is, the more specialised its needs. For very specialised services there is often insufficient demand at local and regional levels - at least not in sparsely populated regions of Finland where, despite their efficiency, one-stop-shops have a limited application and do not always provide the ideal solution, particularly in rural and peripheral areas. Experience here suggests that the third of the models outlined at the beginning of this section is the most appropriate (the 'co-ordinated network' model).

Although 'one stop shop' agencies have an important role to play in administering Structural Fund programmes in many regions, there is little evidence to suggest that the EU is playing a direct role in their development. What can, however, be said is that the

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emphasis placed under the reformed Structural Funds on forming regional partnerships to support the implementation of programmes has helped to create the conditions in which 'one-stop shop' systems can be established in many regions. It is also evident that in some areas EU-supported Business & Innovation Centres (BICs) perform a similar function to 'one stop shops'. The idea of encouraging Euro-Info-Centres (EICs) to become 'first stop shops' for EU-related information and assistance is relevant in this respect, too.

Maximising the Sustainability of Structural Fund Schemes

With many regions facing a reduction in the level of Structural Fund aid under the new programmes, improving the financial sustainability of SME schemes is becoming increasingly important. The case study research highlights a number of 'good practice' pointers in this respect:

- adjusting the balance between grants and refundable Structural Fund SME aid;
- more emphasis on income generation so that schemes become financially self-sustaining;
- from a non-financial perspective, focusing on Structural Fund interventions that have sustainable outputs and impacts.

The research highlights the development in many regions of new and more sustainable SME financing methods but these still account for a small share of total Structural Fund expenditure. Venture capital funds, 'business angels' and quasi-equity schemes are not suitable for many SMEs but they are appropriate for technology-based enterprises and other knowledge-intensive businesses that are increasingly the focus of EU and national programmes.

These types of SME finance, and others such as revolving loan funds, have the advantage of being more cost-effective and sustainable from a funding point of view. However, in many cases, it is still too early to judge how successful financial engineering schemes will be given the relatively long-term nature of investments. But the research is encouraging. Schemes such as the Highlands and Islands Ventures scheme in the UK are already making a profit and have increased net asset value. In the case of the Highlands & Islands scheme and some others, surpluses are now being reinvested in the funds. Some other venture capital schemes we examined were either unprofitable or, where surpluses were being made, these were not being reinvested, thereby raising questions as to the long term sustainability of the schemes.

There are far fewer good practice examples from the research of SME support schemes where a significant proportion of costs are recouped by charging for services. Seeking to maximise income from Structural Fund-backed schemes is clearly to some extent at

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odds with the rationale of using EU resources to address market failures with regard to SME support (against this, subsidised schemes can, as argued earlier in the report, lead to a ‘crowding out’ of private sector business service providers).

Sustainability should also be considered from a non-financial perspective. The key lesson to be learnt here is that the provision of Structural Fund assistance should, if possible, involve capacity-building and a permanent transfer of know-how to SMEs to ensure there are lasting benefits. Examples, in the SME training field of where this has been successfully achieved include the Work Based Training for SMEs scheme and the Advanced Graduate Placement Scheme in the UK, both of which scored highly in our assessment in terms of sustainability because most assisted SMEs have now developed their own in-house company programmes. The sustainability of the SME physical infrastructure projects covered by the research would seem to be often more marginal. Thus, there is little evidence that the Kainnu SME incubator (FIN) is - or is likely in the foreseeable future to - generate sufficient rental income to cover running costs. In the case of the Tapton Park Innovation Centre (UK), sustainability chiefly depends on whether additional space can be made available to achieve critical mass. Likewise, with the BTC project (NL) there is a limited capacity to sustain the project with its own resources. One of the main elements of the project is raising the price of managed workspace to a competitive (market) level. However, if Structural Fund assistance (and other funding) ceases, rental costs would be too high and might not attract enough tenants to continue to be successful.

Although it is possible to arrive at reasonably definite conclusions regarding the financial sustainability of many Structural Fund SME schemes covered by the research, it is far more difficult (for the reasons explained earlier) to evaluate this factor from the point of view of outputs. Here, the question that needs to be answered is: to what extent are the benefits of Structural Fund schemes, in terms of their contribution to SME competitiveness and growth prospects, likely to be sustainable beyond the period during which assistance is provided? Some initiatives covered by the research (e.g. in the training, and innovation and technology fields) clearly demonstrate that know-how is being transferred into small firms, whilst others are likely to have knock-on effects beyond the immediate beneficiaries (e.g. SME networking and clustering initiatives). In other cases, these sorts of lasting effects are far less clear.

Role of the Private Sector

Research in a number of the regions points to the positive role of the private sector in helping to implement Structural Fund SME measures. This applies at both the programme level but also with regard to specific schemes.

Structures have been developed at a programme level in a number of regions to encourage the private sector to make an input to Structural Fund SME measures. In the Finnish Objective 2 region, for example, the 100 or so business leaders were closely

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involved (via the Regional Council) in discussions to define the programme's priorities and this continues with, for example, the Employment and Economic Centre organising regular meetings with local firms. Likewise, in the Twente region of the Netherlands, to take another example, the so-called 'branch groups' (independent, sector-specific associations of local firms) constitute one of the main intermediary organisations. A good example in Twente is the VMT (Association of Twente Metal Industry Firms).

The research suggests that, in addition to helping to define SME measures, the private sector can play a very important role in helping to actually deliver SME schemes. A good example of this is in North Rhine Westfalia in Germany, where the 30 'Sector Initiatives' act as an important delivery mechanism, helping to devise actions for SMEs and to then implement them, and in the Objective 6 Jamtland region of Sweden where co-operatives perform a the same function. In the East Midlands region in the UK, the role played by the Structural Fund-assisted Clothing & Textiles Association, is also interesting in this respect. Where the private sector is now playing a greater role, typically through sector groupings, Structural Fund interventions tend to have a much more pronounced 'bottom-up' character which, in turn, mean that actions are usually tailored more precisely to SME needs.

With regard to specific measures, the case studies in several regions highlight the particularly important role of private organisations in helping to deliver financial aid packages. This is, for example, the case in the two Italian regions covered by the research where the involvement of banks has, amongst other things, greatly speeded up the time required to process SME applications for assistance. Likewise, the Irish 'State Equity Investment Programme' relies mainly on private sector intermediaries and this has resulted in much faster application procedures and better monitoring. As experience in both Ireland, the Spanish region of Castilla-La-Manche region and the UK Highlands & Islands region demonstrates, private sector professional expertise has also been crucial to the success of financial engineering actions. Similarly, in the business services field, the establishment of 'one-stop-shops' such as the Business Links (UK) and Centres for Enterprise and Innovation (B) would appear to have led to improved integration of different schemes and facilitated SME access to them.

Coherence and Linkages Between SME and Other Measures

The research points to a number of good examples of how different types of Structural Fund aid for SMEs can be combined and how this improves overall impacts.

The Danish evaluator, for example, highlights the increase in multi-fund projects. Research in the Twente region of the Netherlands, provides an interesting explanation for this tendency. Here, the research suggests that once economic conditions began to improve in the mid-1990s - and, in particular, unemployment levels began to fall from a peak of 20% - the regional authorities came under less pressure to simply create jobs and could place more attention on longer-term, structural measures. Typical in this

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respect is the so-called ‘cluster policy’ i.e. interventions designed to improve networking between SMEs, and between small firms and large companies in the region (discussed earlier in this section). Measures of this type have been, almost by definition, more internally coherent.

Other examples of where synergies between ERDF and ESF measures have been achieved in the SME field include the TOP entrepreneurship development project in The Netherlands. This scheme helps students in their last year at Twente University to set up their own enterprise, initially with finance, business planning advice and training, then with sheltered premises in the BTC (technology centre) and, finally, after leaving the centre, with after-care. This ‘combi-project’ brings together ERDF and ESF resources in a highly coherent way to provide a combination of business advice, financial, physical infrastructure and training support. Community Economic Development (CED) measures in some of the current UK Objective 2 programmes also achieve good integration between ERDF and ESF schemes for SMEs, as do some of the innovation and technology programmes that include a significant training element.

The research suggests that SME measures combining ERDF and ESF inputs often stand out as being particularly innovative. However, that said, constraints on achieving an integration of different measures are still considerable. These appear to stem in large part from the different ways in which ERDF and ESF funding systems work and the existence of separate administrative structures and procedures.

Programme Management, Monitoring and Evaluation

Although improvements have taken place during the current Structural Fund period in most regions, SME programme management practices, and the quality of monitoring and evaluation, is still very varied.

The research suggests that in many regions, the time required to process SME applications (and to make payments) is still excessively long although, as experience in the Finnish Objective 2 and 6 regions shows, the problem often lies at a national rather than regional level. Where decision-making is decentralised to regions, the procedures operate much more quickly. Similarly, the involvement of private sector organisations in helping to administer Structural Fund SME measures also appears from the research in Austria, Italy and other countries to have beneficial effects from the point of view of improving administrative efficiency. Another noteworthy example is to be found in the Twente region of the Netherlands, where the Overijssel Development Agency (OOM) is responsible for Structural Fund programmes, steps have been taken during the current period to develop an integrated and computerised system for managing SME (and other) measures. Elsewhere, developments have been less positive. In Greece, for example, the research in Epirus and Crete, suggests that although some steps have been taken to improve programme management arrangements, monitoring by the Regional Secretariat is still very weak with little scrutiny of SME beneficiaries. The approach adopted by EOMMEX is far better, with the systematic follow-up of SMEs that obtain assistance

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(partly in order to identify additional support needs) being built into programme management procedures.

In many other regions, the case studies also point to a lack of good quality Structural Fund SME monitoring data, and the general absence of systematic monitoring, 'client satisfaction' survey work and impact assessments by intermediaries. Financial engineering initiatives, which tend to place considerable emphasis on monitoring assistance (albeit usually in purely financial terms) are different in this respect although, as noted earlier, it is often difficult to judge the results of many schemes given the long-term nature of investments. In the case of other Structural Fund SME schemes, there are greater methodological and practical difficulties. In particular, there is the problem of obtaining the information from SMEs required to evaluate the impact of Structural Fund measures. Unlike ESF programmes where there is generally easier access to information on beneficiaries, much of the information required to monitor and evaluate the impact of Structural Fund interventions on SMEs is not in the public domain and confidential to individual firms (e.g. data on turnover and profits).

Whilst it is clearly important that basic outputs - number of SMEs assisted and job outputs - should continue to be measured (and preferably more accurately, especially in the case of jobs maintained), consideration needs to be given to how other outputs and impacts can be captured. At a minimum, this should involve providing data on the type and intensity of Structural Fund aid provided to SMEs and a more detailed analysis of the type of beneficiaries (e.g. size and sector breakdown). This would enable impacts to be measured much more accurately. Looking further ahead, there is a need to develop methods for measuring the impact of Structural Fund interventions on SME competitiveness, especially since this has become an increasingly important aim of programmes.

The research suggests that 'thematic' studies involving detailed research with a limited number of SMEs can provide valuable information on Structural Fund impacts. In this respect, the Danish research carried out for this study is interesting in highlighting the advantages of a thematic approach to the evaluation of Structural Fund programmes with special themes such as the merits of assisting SMEs, rather than larger firms, being periodically considered in studies. A similar approach has been adopted in the Western Scotland region of the UK.

Replicating Good Practices Across EU Regions

There are three main factors influencing the extent to which good practices can be replicated:

- the relevance of good practice in one region to another region;
- the extent to which specific locational factors facilitate or complicate replication

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- how easily experience can be transferred from the point of view of resources, expertise and other 'operational' requirements.

The pointers to good practice highlighted in this and the previous section are relevant to most regions and programmes. At present, however, there does not appear to be a systematised transfer of good practices between practitioners in the SME support field with a reliance instead on feedback from ad hoc contact and research. In the final section of this report, we recommend that the Commission should encourage the development of 'best practice' networks so that those directly involved with the implementation of Structural Fund SME schemes can share experience and know-how. The Commission's 'Concerted Actions' represents a very good starting point in this respect.

6.2 Impact of Structural Fund SME Measures on Regional Development

To assess the impact of Structural Fund SME interventions on regional development, and especially employment, the analysis draws on a combination of the top-down monitoring data held by regional authorities and the bottom-up survey results.

Absorption of Structural Fund Aid by SMEs

To provide a clearer idea of the scale of Structural Fund interventions in favour of SMEs during the 1989-93 period, Table 63 provides an estimate of target market penetration, broken down by Member State.

Table 63: Proportion of SMEs Assisted by Structural Funds (1989-99)

Member State	Eligible SMEs	Assisted SMEs (1989-99)			%
		1989-93	1994-99	Total	
	1996				
Belgium	65,000	2,000	8,000	10,000	15.3
Denmark	53,000	1,000	2,000	3,000	5.6
Germany	1,220,000	51,000	90,000	141,000	11.5
Greece	509,000	32,000	55,000	87,000	17.0
Spain	847,000	58,000	144,000	202,000	23.8
France	625,000	91,000	42,000	133,000	21.2
Ireland	81,000	3,000	16,000	19,000	23.4
Italy	1,675,000	291,000	172,000	463,000	27.6
Luxembourg	3,000	500	1,000	1,500	50.0
Netherlands	41,000	4,000	18,000	22,000	53.6
Austria	80,000	0	6,000	6,000	7.5
Portugal	189,000	11,000	18,000	29,000	15.3
Finland	86,000	0	7,000	7,000	8.1
Sweden	63,000	0	4,000	4,000	6.3
United Kingdom	1,550,000	166,000	210,000	376,000	24.2
Total	7,087,000	710,500	793,000	1,503,500	21.2

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Source: Analysis of Eurostat statistics on SMEs and monitoring data (see Section 3). Note: Data rounded up to nearest 1000.

As shown in Table 63, the evaluation suggests that some 1.5 million SMEs have been, or will have been, assisted by Structural Fund interventions during the 1989-99 programming period. This equates to 21.2% of the seven million SMEs that are located in assisted regions and which, according to the analysis in Section 4.1 make up the target market. A wider measure - taking the whole small firms sector into account - suggests a that some 8.3% of the EU's 18 million SMEs have or will have benefited from Structural Fund interventions.

The above estimates should be interpreted cautiously. Firstly, as pointed out earlier, it proved extremely difficult to obtain data the number of assisted SMEs for the 1989-93 period. To provide an estimate, we have therefore taken the expenditure for each Member States on SMEs during 1989-93 (as estimated in Ernst & Young's earlier 1993 study) and divided this by the average Structural Fund expenditure per SME figures presented earlier in this report. In some cases, it has proved possible to obtain estimates of the number of SMEs assisted during the 1989-93 period from national authorities as a result of more recent information becoming available. Secondly, the same SMEs may have received assistance from the Structural Funds in both the first and second programming periods and, as a result, there will almost certainly be an element of double counting. Last but not least, crude data on the number of SMEs assisted by the Structural Funds does not of course take the intensity of aid into account and some SMEs will have received considerably more assistance than others.

SME Employment Effects

The method we have used to provide an estimate of the employment effects that can be attributed to SME measures is summarised below in Figure 12 (a) and (b).

Figure 12(a): Methodology for Estimating Employment Effects (Bottom Up)

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Bottom Up Method:

1. Starting with the Phase 3 survey data on the gross jobs created or saved by the sample of 1,072 assisted SMEs (see Table 68)
2. Calculating from the survey data the average number of gross jobs created or saved by SMEs in each size band (sole trader, micro, small, medium)
3. Scaling up the number of gross jobs created or saved according to the proportion of SMEs in different size bands (Eurostat analysis) in the Objective 1, 2, 5b and 6 regions of each country (assumptions) to provide an analysis broken down by Member State and a global estimate at the EU level
4. Adjusting the gross jobs created or saved by SMEs to take into account the average survival rates (other research) for different sizes of small firms in different types of regions
5. Making adjustments for additionality (based on the survey feedback from SMEs) and for displacement and indirect effects (using parameters from other research) to convert the estimates for gross jobs created and saved by SMEs into net jobs

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Figure 12(b): Methodology for Estimating Employment Effects (Top Down)

Top Down Method

1. Starting with the estimate, from the Phase 2 analysis of monitoring data, of gross employment outputs attributable to SME in Objective 1, 2, 5b and 6 regions (see Table 23)
2. Based on monitoring data estimates of the number of assisted SMEs in Objective 1, 2, 5b and 6 region, and the same assumptions regarding the split between SMEs in different size bands (see Step 3 above), making adjustments to the gross job estimates to take into account differing SME survival rates (see Step 4 above)
3. Making adjustments for additionality, displacement and indirect effects to convert the estimate of gross jobs created or saved by SMEs into net jobs (see Step 5 above)
4. Comparing the 'bottom-up' and 'top-down' estimate of net employment effects.
5. Undertaking a scenario analysis by varying the assumptions regarding SME survival rates, SME targets and the parameters for additionality, displacement and indirect effects in Objective 1, 2, 5b and 6 regions.

Below, we examine three scenarios:

- *Scenario 1* – where 'pessimistic' assumptions have been made regarding the likely performance of assisted SMEs.
- *Scenario 2* – the 'base case' using parameters that are derived as closely as possible from the research and SME survey work.
- *Scenario 3* – the 'optimistic' scenario where assisted SMEs perform exceptionally well in terms of survival rates and the creation of additional, non-displacing jobs.

Scenario 1. Scenario 1 is a situation where Structural Fund programmes do not have any particular targets and the profile of assisted SMEs corresponds closely to that of the small firms sector as a whole in terms of size distribution. Likewise, although benefiting from Structural Fund aid, assisted SMEs perform no better than smaller firms generally in terms of survival rates with between a third and a half of firms (depending on their size and location) going out of business within the five year period. For the surviving firms, the adjustments for additionality, displacement and indirect effects are around average for small firms measures.

Scenario 2. Under Scenario 2 – the base case – Structural Fund interventions are targeted more precisely, the emphasis being on assisting micro and small firms rather start-ups and sole traders. This leads to a higher average rate of job creation per assisted SME. Similarly, Structural Fund schemes result in an above average rate of survivals amongst assisted SMEs (around 75%) although there is some variation depending on the type of region - survival rates are slightly lower in Objective 1 and 5b regions than in Objective 2 regions. Additionality, displacement and indirect effects are slightly more

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favourable than under Scenario 1.

Scenario 3. Scenario 3 demonstrates the affect of making relatively optimistic assumptions with regard to the various parameters. This could, for example, be justified on the basis that compared with the early 1990s, macro-economic conditions have been relatively favourable for much of the current Structural Fund programming period. Table 64 below summarises the parameters used for the three scenarios (full details are provided in Table 67).

Table 64: Summary of Parameters Used for Scenarios

Assumptions	Scenario 1	Scenario 2	Scenario 3
Targeting of SMEs	No targeting	Medium Sized SMEs	Larger SMEs
SME Survival Rates	Low	Average	High
Additionality	Low	Average	High
Displacement	High	Average	Low
Indirect Effects	Low	Average	High

Table 65: Assumptions Used for SME Job Creation Scenarios

Assumptions	Scenario 1				Scenario 2				Scenario 3			
<i>Regions</i>	<i>1</i>	<i>2</i>	<i>5b</i>	<i>6</i>	<i>1</i>	<i>2</i>	<i>5b</i>	<i>6</i>	<i>1</i>	<i>2</i>	<i>5b</i>	<i>6</i>
<i>SME Survival Rates (%):</i>												
0 employees	55	55	55	55	60	65	60	65	65	70	65	70
1-9 employees	60	60	60	60	70	75	70	75	75	80	75	80
10-49 employees	65	65	65	65	80	85	80	85	85	90	85	80
50-249 employees	70	70	70	70	90	90	90	90	90	90	90	90
Average:	63	63	63	63	75	78	75	78	79	82	79	82
<i>Distribution of SMEs (%):</i>												
0 employees	50	50	50	50	15	10	35	35	10	5	15	15
1-9 employees	40	40	40	40	40	35	40	35	40	45	40	40
10-49 employees	9	9	9	9	40	45	20	25	45	45	40	40
50-249 employees	1	1	1	1	5	10	5	5	5	5	5	5
Total	100	100	100	100	100	100	100	100	100	100	100	100
<i>Conversion Parameters:</i>												
Additionality	75	75	75	75	85	75	75	75	85	80	85	85
Displacement	10	20	10	10	10	15	10	10	5	10	5	5
Indirect Effects	1.2	1.2	1.2	1.2	1.25	1.25	1.25	1.25	1.3	1.3	1.3	1.3

Using the methodology outlined in Figure 12 (a) and (b), and the assumptions detailed above, Tables 66 to 67 provide the results of the calculations for each of the three

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scenarios.

Top Down Estimates. Turning first to the top-down scenarios, the analysis of EU Member States' monitoring data suggests that Structural Fund interventions in favour of SMEs during the 1994-99 period will result in a total of 1,223,000 gross jobs being created or saved (see Table 22). This converts into a net total of approaching 793,000 net jobs created or saved (base scenario) with a range of between 528,000 and 956,000 net jobs depending on the parameters applied. The results of the calculations are shown below in Table 66.

Table 66: Top Down SME Job Creation Estimates

Member State	Monitoring Data	Scenario 1 'Pessimistic'	Scenario 2 'Base Case'	Scenario 3 'Optimistic'
	<i>Gross</i>	<i>Net</i>	<i>Net</i>	<i>Net</i>
Belgium	22,000	9,100	13,800	16,700
Denmark	6,000	2,500	3,600	4,400
Germany	161,000	71,400	107,800	128,900
Greece	55,000	24,700	39,000	45,200
Spain	141,000	60,500	90,500	110,200
Finland	21,000	9,000	12,400	15,600
France	171,000	74,300	108,800	133,400
Ireland	96,000	43,500	68,800	79,600
Italy	182,000	80,600	121,400	145,200
Luxembourg	1,000	300	500	600
Netherlands	60,000	20,300	29,800	36,700
Austria	9,000	4,200	5,500	6,900
Portugal	19,000	8,600	13,500	15,700
Sweden	26,000	11,800	16,400	20,600
United Kingdom	253,000	107,700	161,200	196,800
TOTAL:	1,223,000	528,500	793,000	956,500

Source: Phase 2 Analysis of Monitoring Data and Ernst & Young calculations. Note: Estimates rounded up to nearest 100.

Bottom Up Estimates. The survey work suggested some 5,000 gross additional jobs SMEs were created or saved by the sample of SMEs used for the Phase 3 survey work with the average number of additional jobs ranging from 2.3 per firm (start-ups and sole traders) to 23.3 per firm (medium sized enterprises).

Using the same assumptions for the way in which Structural Fund assistance is targeted in terms of firm size, survival rates, and the parameters for additionality, displacement and indirect effects as were used for the 'top-down' scenarios gives a 'bottom-up' estimate of the net jobs attributable to Structural Fund interventions of just over 2,016,000. (base scenario) with a range of between 461,000 and 2,663,000 depending

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on the parameters applied.

The fact that Scenario 1 is so far out of line with the other two scenarios reflects the broad range of the ‘bottom-up’ estimates for the number of gross jobs created or saved by SMEs in differing size bands (see Table 59). More particularly, the survey work suggested that micro businesses perform relatively poorly with regard to job creation (creating an average of 2.3 additional jobs per SME compared with 7.08 for small firms and 23.3 for medium sized ones) and Scenario 1 assumes that a high proportion of assisted SMEs as made up of micro firms.

Table 67: Bottom Up SME Job Creation Estimates

Member State	Survey Estimates	Scenario 1 'Pessimistic'	Scenario 2 'Base Case'	Scenario 3 'Optimistic'
	<i>Gross</i>	<i>Net</i>	<i>Net</i>	<i>Net</i>
Belgium	25,100	5,300	20,900	27,100
Denmark	2,000	400	1,600	2,000
Germany	333,500	67,200	269,400	342,700
Greece	137,400	29,500	128,900	186,100
Spain	447,500	111,100	419,900	556,300
France	114,000	20,700	91,000	125,000
Ireland	40,400	8,700	37,800	54,600
Italy	362,300	90,300	375,900	555,400
Luxembourg	700	100	500	600
Netherlands	35,900	5,200	28,000	33,100
Austria	15,600	3,000	12,500	18,200
Portugal	51,500	13,800	56,000	85,400
Finland	15,900	3,300	13,100	19,800
Sweden	8,700	1,900	7,500	11,300
United Kingdom	716,700	101,200	553,400	645,600
TOTAL:	2,307,200	461,700	2,016,400	2,663,200

Source: Phase 3 Analysis of SME Survey Data and Ernst & Young calculations. Note: Estimates rounded up to nearest 100.

To complete the impact analysis, we provide a summary breakdown by type of region of the ‘top-down’ and ‘bottom-up’ estimates for SME jobs that can be attributed to Structural Fund interventions. It should be noted that Table 68 compares the base scenarios only.

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Table 68: Summary Analysis of SME Job Creation by Type of Region (Base Scenarios)

Method	Gross	Estimate of Net SME Jobs Created and Saved				Total Net Jobs
		Objective 1	Objective 2	Objective 5b	Objective 6	
Top Down	1,223,000	326,000	362,000	62,000	10,000	793,000
Bottom Up	2,307,000	913,000	874,000	95,000	8,000	2,016,000

Note: Net total excludes 33,000 jobs (top-down) and 126,000 jobs (bottom-up) that do not relate to particular assisted regions in EU Member States.

What explanation can be offered to explain the difference between the ‘top-down’ and ‘bottom-up’ job estimates? The explanation most probably lies in a combination of factors. More specifically:

- some monitoring records used for the ‘top-down’ job estimates are based on results achieved at the mid-point of programmes, thereby underestimating the likely total outputs for the 1994-99 Structural Fund programming period as a whole;
- the top-down estimates are produced by policy makers who may have an incentive to set low targets on the basis that they are easier to achieve. Also, targets would have been set shortly after the recession of the early 1990s and in an atmosphere of caution;
- in some cases, the impact of Structural Fund interventions will not become fully apparent during the current programming period;
- the sample used for the Phase 3 SME survey work could contain a bias although, as explained earlier, every effort was made to avoid this happening.

Bearing these factors in mind, we conclude that the bottom-up estimate - 2.3 million gross jobs and 2.0 million net (base case) - are probably closest to accurately capturing the impact of Structural Fund SME interventions during the 1994-99 programming period. To put the scale of SME programme employment outputs into context, it is helpful to compare the estimated jobs created or saved with the total effects associated with the 1994-96 Structural Fund interventions. No readily available global estimates exist, but some indication can be obtained by taking Structural Fund expenditure (ECU 153 million) for the current period and applying a cost per job based on other evaluations. Thus, for example, a cost per job of ECU 15,000 would lead to an estimate of total Structural Fund employment outputs for the current period of around 10.2 million jobs.³⁵ On this basis, SME programmes (taking the base scenario) are likely to

³⁵ The figure of ECU 15,000 per job was calculated for the 1989-93 Objective 2 programmes. See Ernst & Young’s ‘Evaluation of Objective 2 Programmes 1989-93: Synthesis Report’ (May 1997). See Appendix C for total Structural Fund expenditure for the period 1994-99.

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account for between 11.8% (top-down estimate) and 23.5% (bottom-up estimate) of total Structural Fund gross employment effects.

6.3 Conclusions - Good Practice and Impacts

By way of conclusion, we drawn on the various aspects of the evaluation to present key conclusions regarding the overall value added of Structural Fund interventions in favour of SMEs.

Figure 13: Role of Structural Funds – ‘Balance Sheet’

On the **positive** side:

- Structural Fund aid has made substantial additional resources available for SME promotion, in some countries accounting for most of the funding committed to the small firms sector.
- As the above analysis suggests, EU measures have made a significant contribution to the job and wealth creation process.
- EU aid has also reinforced SME business support structures and addressed various manifestations of ‘market failure’ in the availability of assistance to smaller firms.
- EU intervention has led to the introduction of innovative SME schemes in such fields as financial engineering, ‘internationalisation’, technology transfer, clustering and networking, and the equal opportunities fields.
- The programmes have helped to push SME promotion up the policy agenda in many EU Member States.

However, there are also some **less positive** overall conclusions:

- Although improving, the co-ordination of SME measures is still weak in many countries and there are fragmented delivery mechanisms.
- Many Structural Fund SME measures are unfocused with aid being spread thinly across the small firms sector rather than being concentrated on enterprises capable of making a significant contribution to job and wealth creation.
- Monitoring information on SME outputs is still poor quality and does not capture the full range of positive impacts.
- The way in which Structural Fund interventions in favour of SMEs should and do contribute to broader regional development aims is not clear in many programmes.

The positive outcomes listed above are ones that would probably not come about in the absence of Structural Fund programmes, at least not in the same timeframe. They point to a high degree of value added. However, notwithstanding the positive outcomes, key questions that need to be asked are:

- has Structural Fund aid to SMEs achieved its objectives?
- could more outputs have been achieved for the same input of EU funding or the

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same outcomes achieved with a reduced financial input?

- could alternative EU policy instruments be used to achieve the same objectives - promoting regional development, social and economic cohesion, etc?

Taking the first question, it is clear from the assessment set out in the previous subsection that Structural Fund interventions have had a major impact on SMEs and on regional development. As to whether the interventions have achieved their objectives, no definitive conclusions are possible because the objectives were not precisely defined at the outset of the period under review.

With regard to the second question, the evaluation points to good value for money in terms of measurable indicators such as the cost per job associated with Structural Fund interventions in favour of SMEs. However, there are undoubtedly a number of factors that might improve the efficiency and effectiveness of interventions. This includes (as argued earlier in Section 6.1) better targeting of Structural Fund aid on SMEs with particularly high job and wealth creation potential, combined with more rigorous appraisal methods to maximise additionality and minimise negative side-effects. Linked to this is the need to improve monitoring and evaluation procedures so that the benefits of measures can be more comprehensively assessed and demonstrated. Likewise, more emphasis on the financial sustainability of schemes – for example by shifting the balance from grants to loans and equity investments – should also lead to better value for money. Last but not least, the report highlights the scope for an adjustment in the level of expenditure between different types of Structural Fund SME measures, and this too could result in outcomes and value for money being enhanced.

Looking ahead, the research suggests that rather than increasing the level of Structural Fund committed to SME promotion in the post-2000 period - which at 18% of total outlays under the current programmes is already considerable - the emphasis should be on making even more effective use of the resources already earmarked for SMEs.

The third question - whether alternative EU policy instruments could be used to achieve the same objectives - is more hypothetical. Assuming that Structural Fund programmes continue to include measures to develop the EU's productive potential, the question is more to do with the appropriate balance between different types of businesses. The dilemma here is that whilst larger SMEs generally have the capacity to generate the most jobs and wealth, there is also a higher risk of Structural Fund intervention having deadweight effects. The current focus in most programmes on SMEs employing less than 50 people is therefore probably appropriate (subject to the comments above regarding targeting).

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Below, we summarise the main conclusions from the research. Policy implications are considered in the next subsection.

7.1 Overall Conclusions

Overall, it is clear from the research that Structural Fund interventions have had a significant impact on the SME sector and, in so doing, have made an important contribution to wider regional policy aims:

- *during the 1989-99 period, some 1.5 million SMEs received Structural Fund assistance (about 8% of all SMEs in EU Member States)*
- *during the 1994-99 period, around 2 million net jobs were created or saved as a result of Structural Fund assistance to SMEs (probably about a quarter of all net Structural Fund jobs)*
- *in the absence of Structural Fund assistance, 70% of SMEs said they would not have gone ahead with their project or that it would have been delayed/modified*

As to whether the interventions have achieved their objectives, no definitive conclusions are possible because the objectives were not precisely defined at the outset of the period under review.

Looking ahead, the research suggests that rather than increasing the level of Structural Fund committed to SME promotion in the post-2000 programmes - which at 18% of total outlays is already considerable - the emphasis should be on making even more effective use of the resources already earmarked for SMEs. More precise targeting on SMEs that can contribute most to job and wealth creation, combined with further adjustment in the allocation of resources to different types of SME measures and more emphasis on achieving an improved sustainability of interventions (e.g. through greater use of revolving finance), are the key to achieving this aim.

Structural Fund Expenditure on SMEs

1. A substantial proportion - around 18% - of Structural Fund expenditure is directly allocated to SMEs in current programmes. Based on an analysis of the SPDs, we estimate that some ECU 21.3 billion of Structural Fund resources (18.2% of the total) has been invested directly in SME promotion measures during the 1994-99 programming period. Compared with the earlier 1989-93 period (when it is estimated some ECU 10 billion was allocated to SMEs) there has been a substantial increase in the resources committed to SME promotion. (It should be noted that comparisons are difficult because of the less clear categorisation of Structural Fund expenditure in earlier programmes and the accession of new Member States.)

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2. *There is a considerable variation between Member States and regions in the proportion of Structural Fund expenditure being devoted to SME promotion.*

According to our analysis, Structural Fund expenditure that is clearly earmarked for SMEs ranges from an estimated 14.5% of total outlays in Objective 1 regions to 35.0 (Objective 2), 31.5% (Objective 5b) and 25.4% (Objective 6). Precise estimates are difficult because of the way in which Structural Fund expenditure is classified in different Member States. More specifically, in Objective 1 regions, where a very high proportion of businesses are SMEs employing less than 250 people, there tends to be a less explicit allocation of expenditure to firms in particular size bands. However, this only partially explains the relatively low proportion of Structural Fund expenditure on SMEs in Objective 1 regions and other factors such as the emphasis on improving physical infrastructure in less-developed regions are also relevant.

3. *Structural Fund resources are being used to support a wide range of measures in favour of SMEs.*

According to the analysis, financial assistance schemes (grants, loans, interest rate subsidies, etc) and financial engineering measures (venture capital, seed capital, etc) account for the highest proportion of Structural Fund expenditure on SMEs - around a third (34.6%) of the total - followed by ESF-funded training measures for small firms (16.9%), business support services (12.6%), support for innovation and technology development (11.7%), SME physical infrastructure (10.0%), and other interventions (14.2%) such as initiatives to promote small firms in particular sectors and to encourage networking. Although difficult to quantify, there appears to have been a shift during the 1990s away from direct intervention to assist SME development (e.g. financial aid, physical infrastructure) to an emphasis in recent years on more knowledge-intensive measures (e.g. support for innovation and technology transfer) and interventions to improve the business environment for SMEs and their internal competences (e.g. development of business advisory services).

4. *There are good examples in a number of regions of highly successful and innovative measures being implemented to assist SMEs.*

Ernst & Young's synthesis report includes a detailed thematic analysis of good (and less good) practices with regard to the use of Structural Fund resources to promote SMEs. This includes examples of 'one-stop-shop' delivery mechanisms being developed; the leveraging of private sector support for SME support measures; particularly effective ways of combining ERDF and ESF interventions; lessons relating to what can be done to make specific types of SME intervention work better; and new types of support that seem to be having a positive impact such as various initiatives to promote 'horizontal' and 'vertical' networking.

5. *Targeting of SME Measures*

5. *There is a need for targeting and effective targeting strategies.* Over a third (39.3%) of the EU's 18 million SMEs are located in regions that are eligible for Structural Fund assistance. Given the number of eligible firms, there is clearly a danger of the Structural

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Fund resources devoted to SME promotion being spread too thinly to have any real impact. Practices with regard to the targeting of measures is therefore a key issue examined in the evaluation. It is clear from the analysis that the extent of targeting varies considerably from one Member State and region to another. Thus, whereas almost all SMEs - retailers being an example of exceptions - are considered eligible for assistance in some cases (e.g. Greece, Ireland), elsewhere more selective criteria have been adopted (e.g. Belgium, Finland, Portugal and the UK).

6. In many of regions, Structural Fund interventions have been focused on particular types of SMEs within the size band 1-249 employees. Limiting assistance to SMEs in particular size bands appears to be the most common way of targeting Structural Fund interventions. Examples of this approach are to be found in a number of Member States including Denmark, Italy and Netherlands. The value added of Structural Fund interventions, in terms of the benefits to individual firms, tends to be highest with smaller SMEs but there is evidence to suggest that the targeting of medium-sized SMEs produces the greatest value added to regional economies in terms of additional job and wealth creation. There is also often a difference with regard to the timing of outputs. However, in some countries, the broader SME definition of a firm employing up to 500 would appear to be still in use.

7. There is also evidence of Structural Fund interventions being targeted on SMEs in particular sectors. In most assisted regions, SMEs in some sectors (e.g. retailers, services) are excluded from Structural Fund programmes. (e.g. Ireland excludes the general service sectors from most SF interventions.) However, there are also good examples of a interventions having a precisely-defined sectoral orientation aimed at developing SME clusters. Exceptions include SMEs engaged in food processing (e.g. Ireland), renewable energy (Finland), transport and distribution (Netherlands), multi-media (North Rhine Westfalia in Germany). There are also examples from the research of actions to promote 'emerging sector' clusters, including the promotion of horizontal networking between SMEs themselves and vertical supply chain linkages between SMEs and larger firms. The targeting of SMEs in particular sectors is particularly evident with specialised types of assistance (e.g. financial engineering, innovation and technology support) which are resource-intensive and where only certain types of SMEs are likely to benefit. The research suggests that intermediary organisations require specialist, sector-specific expertise to successfully operate schemes such as these, which they do not always have. Where Structural Fund interventions focus on SMEs in key sectors, ie. sectors whose growth prospects largely determines the performance of local economies as a whole, there is likely to be a far greater contribution to regional development. SMEs in 'emerging' sectors as well as those in existing key sectors are especially relevant in this respect. There can, however, be difficulties in identifying individual SMEs in these sectors with growth prospects and the capacity to make effective use of Structural Fund aid.

8. In some regions, Structural Fund interventions in favour of SMEs are also being

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targeted in a way that is designed to help particular social groups. Thus, in Sweden, for example, there are several Structural Fund-backed schemes that give priority to helping women develop their business interests. Likewise, both here, and in Germany and Spain, there are good examples of Structural Fund resources being used for programmes - particularly in the financial engineering field - that are specifically designed to help young entrepreneurs. In general, the feedback on the effectiveness of schemes such as these is favourable.

9. Overall, the research suggests that more could be done to improve the targeting of Structural Fund interventions in favour of SMEs. The research suggests that greater emphasis needs to be placed on closely aligning SME measures with regional development strategies. In particular, interventions need to be focused on developing the competitiveness and growth prospects of SMEs in 'key' clusters/sectors whose prospects are likely to determine the outlook for regions as a whole. At present, there is relatively little evidence of SME measures targeted in this way.

Delivery Mechanisms

10. Business support organisations with a role in delivering Structural Fund assistance to SMEs place relatively little emphasis on proactively marketing schemes. According to feedback from the survey work that formed part of the research, most SMEs (74.7% of the sample of 1,072 firms) make their own enquiries about the availability of external assistance rather than being approached first by an intermediary organisation. There is, however, some variation according to the type of intermediary and type of intervention. For example, according to the survey feedback, intermediaries responsible for delivering SME assistance in the fields of innovation and training tend to be more proactive in marketing EU-supported schemes than organisations delivering other types of assistance. Proactive targeting is critical to ensure effective targeting of measures.

11. According to the survey feedback, a significant proportion (41.3%) of SMEs have difficulty in finding out what assistance is available to them. Smaller SMEs face the most problems in this respect. This finding from the research is not particularly surprising and reflects the results of other research. As the detailed analysis in the report shows, in addition to firm size, there are also considerable differences in awareness levels according to type of intervention and region. More positively, the survey work suggests that a high proportion of SMEs (74.4%) are aware that the schemes they have made use of are EU-supported - which is not to be taken for granted given that most Structural Fund measures are closely integrated into national and regional programmes.

12. Most SMEs (66.7%) are satisfied with the way in which Structural Fund assistance is delivered to them although there are quite marked variations between Member States. According to the survey, satisfaction with intermediary organisations is higher in countries such as Finland, Ireland and the UK than in other Member States.

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There is also a significant variation according to type of intervention. On the negative side, amongst the criticisms voiced by SMEs, lack of information on available assistance, together with a perception that application procedures are bureaucratic, complicated and time-consuming, tend to be the most frequently-mentioned.

13. There is a growing awareness of the need to rationalise the structures used to deliver assistance to SMEs with the ‘one-stop-shop’ model being adopted in a number of countries. A significant proportion of SMEs (75.1%) surveyed by us had made use of more than one type of assistance but complained that they were not ‘packaged’ together. Although not directly attributable to Structural Fund intervention, the research suggests that steps are being taken to develop ‘one-stop-shop’ delivery mechanisms at a local and regional level in a number of Member States (e.g. Belgium, Denmark, Finland, Spain and the UK). The report identifies three types of ‘one-stop-shop’ model - centralised and highly integrated models; decentralised ‘one-stop-shop’ models that operate from a number of outlets; and a third type where business support providers operate autonomously but there are good client referral mechanisms. The choice of model clearly depends on regional circumstances. Progress in developing ‘one-stop-shops’ appears to be greatest with types of SME assistance that are knowledge-intensive and that depend inherently on networking between intermediaries. At a national level, the research suggests that steps have been taken in most Member States to improve the co-ordination of Structural Fund interventions in favour of SMEs (this is likely to have facilitated the development of ‘one-stop-shops’ at a local and regional level).

14. There is some evidence of Structural Fund interventions having a ‘crowding out’ effect. An important issue examined in the study is the extent to which Structural Fund interventions are genuinely addressing market failures, i.e. deficiencies in the provision of domestically-funded SME support measures. Approaching a third (28.9%) of SMEs surveyed by us had considered investigating alternatives to schemes backed by the Structural Funds. Amongst these firms, the reasons for not using alternatives - the key to shedding light on possible ‘crowding out’ effects - were predominantly that alternatives either did not exist (30.8%) or were not used for reasons other than to do with pricing. However, approaching a quarter of the respondents (22.4%) stated that alternatives were too costly, a possible indication of private sector providers of business support services being displaced by EU-supported public interventions. There is some variation in this respect according to types of intervention and region.

15. There are good examples from the research of steps being taken to develop public-private sector partnerships as a way of strengthening delivery mechanisms for Structural Fund assistance to SMEs. ‘One-stop-shop’ models in several Member States (e.g. Netherlands and UK) emphasise the involvement of private sector organisations - typically professional firms and local employers - in helping to define business support priorities and to deliver assistance. Where steps of this sort have been taken, there appear to be considerable benefits. For example, in Italy, transferring

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responsibility for the administration of financial assistance schemes from public agencies to commercial banks has greatly speeded up the process of delivering assistance to SMEs and led to a more targeted approach. More generally, the use of private sector intermediaries tends to make schemes more accessible, the appraisal of SME applications tends to be carried out more quickly and to a higher standard, and Structural Fund assistance can be integrated more easily into broader packages that contain a mix of subsidised and commercial funding. This and other research suggests that private sector expertise is especially needed to operate more complex financial engineering schemes, such as venture capital funds.³⁶

16. The research suggests that there may be scope to adjust Structural Fund SME measure pricing policies. At present, most SMEs (75% according to the survey work) are not required to pay for the assistance they receive. However, according to the research feedback, a significant proportion of these firms - over a third (36.6%) - would be willing to make some financial contribution. Perhaps not surprisingly, there is a considerable variation in the responses according to type of SME (smaller firms being less willing to pay than larger firms), type of assistance, and region. Overall, however, the study does point, tentatively at least, to the potential for greater emphasis to be placed on income generation.

Structural Fund Impacts on SMEs

17. The top-down research suggests that some 793,000 million SMEs will have been assisted by Structural Fund interventions during the current 1994-96 programming period with some 1.2 million (gross) jobs being created or saved. The 'top-down' estimates have been arrived at by analysing a variety of information sources including the targets set out in SPDs and monitoring data help by national authorities and/or contained in interim evaluations. It needs to be emphasised that output data is of a relatively poor quality with gaps for some Member States and regions. As such, the above 'top-down' estimates almost certainly understate the outputs attributable to Structural Fund interventions.

18. 'Bottom-up' aspects of the research suggest that the gross additional employment outputs directly attributable to Structural Fund interventions in favour of SMEs during the 1994-96 period are likely to be around 2.3 million gross jobs (2 million net) created or saved. This estimate has been arrived at by scaling up the jobs created or saved by the sample of assisted SMEs used for the survey work. Taking into account additionality, and possible displacement and indirect effects, results in a 'bottom-up' estimate of 2.0 million net jobs created or saved. The level of deadweight (21.4%) supports other findings suggesting that the targeting of Structural Fund interventions in

³⁶ See Ernst & Young 'Evaluation of Financial Engineering Schemes' (1998) report to European Commission (DG XVI).

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favour of SMEs needs to be improved. It should be noted that the report contains quite a wide range of 'bottom-up' estimates, various scenarios being examined with regard to Structural Fund targeting, SME survival rates, and with regard to the parameters for additionality, displacement and indirect effects.

19. The 2 million net additional gross jobs created or saved that can be attributed to interventions in favour of SMEs is equivalent to up to a quarter of all employment outputs generated by the Structural Funds during the current 1994-99 period. The net jobs are equivalent to be between 11.8 (top-down estimate) and 23.5% (bottom-up) of the total number of jobs created or saved by Structural Fund interventions. The net cost per job is estimated at an average ECU 17,000 but there are wide variations between Member States and types of regions. It should be noted that in many cases, Structural Fund interventions are designed to improve the competitiveness of SMEs which in the short-term, at least, can mean that there are few if any employment benefits.

20. Feedback from SMEs suggests that in addition to effects on employment, Structural Fund interventions have helped to promote SME competitiveness and growth in a variety of ways. These include promoting the absorption of new technologies, networking with other SMEs, internationalisation, strengthening supply chain linkages with larger firms, improving skills and heightening an awareness of environmental issues. An increasing emphasis has been placed on objectives such as this under the current Structural Fund programmes. The report contains a detailed analysis of these and other impacts on SMEs and makes the point that effects of this kind are difficult to quantify in terms of short-term employment outputs.

21. The research suggests that Structural Fund intervention in favour of SMEs have demonstrated added value in a number of ways. In the first place, the Structural Funds provide additional resources for investment in SME support programmes (the report contains an analysis of the EU contribution compared with resources raised from purely domestic sources). However, Structural Fund interventions are also having important non-financial benefits. Above all, Structural Fund measures have made an important contribution to addressing 'market failures' and other deficiencies in the provision of support services to SMEs. This has been achieved either by filling gaps in the range of services available to SMEs (e.g. in the innovation and technology field) and/or by introducing new practices that would probably not have developed indigenously (e.g. financial engineering). There have also been less easy-to-measure impacts: thus, in some countries (e.g. Greece, France, Portugal and Spain), interventions have helped to raise the profile of SME policy as a regional development instrument; the need to comply with Structural Fund programme management requirements has also led to improved administrative practices being introduced more quickly than would probably have been the case in the absence of the SPDs although, as the report notes, the effects have primarily been at a national level and there has not been a complete 'filtering

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down' impact on delivery mechanisms at a regional and local level.

22. In terms of the six 'key evaluation issues', the performance of Structural Fund SME measures is mixed. The study suggests that most interventions score highly in terms of their relevance to wider regional development objectives. There is mixed performance against the criteria of efficiency, effectiveness, utility and sustainability. This assessment, coupled with the other feedback from the evaluation, points to a number of priorities for future Structural Fund interventions in favour of SMEs.

7.2 Recommendations and Policy Implications

Recommendations and policy implications arising from the research are set out below.

Good Practice and Future Measure Level Priorities

23. The report highlights a large number of ways in which Structural Fund schemes for SMEs can be improved and a priority should be to ensure that this experience is shared between regions. At present, there does not appear to be a systematised transfer of know-how between practitioners in the SME support field with a reliance instead on feedback from ah hoc contact and research. We recommend that the Commission should encourage the development of 'best practice' networks, for example in the field of financial engineering, so that those directly involved with the implementation of Structural Fund schemes can share experience and good practice.

24. With regard to specific measures, priorities in the SME financing field should include developing a closer partnership with private sector intermediaries. As noted in the conclusions, this and other research is supportive of the argument that Structural Fund interventions in the SME financing field work far better where private sector organisations are used to help administer programmes. This does of course presuppose the existence of a developed financial and business services sector in regions, which is often not the case (especially in Objective 1 and 5b regions); it also depends on schemes being designed in a way that enables intermediaries to operate them profitably and here there is scope for improvements to be made - especially with regard to concessionary loan and interest rate subsidy schemes. We recommend that the Commission should seek to work more closely with financial institutions in designing and implementing Structural Fund SME financing measures, encouraging programme managers to do so in their regions but also possibly through a closer partnership at a European level between the Commission and leading financial organisations and their associations. In the short-term, a priority should also be given to helping SMEs adapt to the Euro.

25. Consideration should be given under the new Structural Fund programmes to further adjusting the balance between grant schemes and other types of SME finance such as loans and venture capital - thereby improving the sustainability and cost-effectiveness of schemes. The research highlights the development in many regions of

CONCLUSIONS AND RECOMMENDATIONS

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(Continued)

new SME financing methods but these still account for a small share of total Structural Fund expenditure. Venture capital funds, ‘business angels’ and quasi-equity schemes are not suitable for many SMEs but they are appropriate for technology-based enterprises and other knowledge-intensive businesses that are increasingly the focus of EU and national programmes. These types of SME finance, and others such as revolving loan funds, also have the advantage of being more cost-effective and sustainable from a funding point of view. We recommend that priority should therefore be given to further developing financial engineering schemes, tackling key ‘enabling’ factors such as the need for professional expertise to manage schemes, setting up appropriate management structures and (in the case of venture capital) developing exit mechanisms for investors including access to secondary stock markets.

26. As far as SME business advisory services are concerned, a key priority should be to bring about an improved ‘packaging’ and integration of measures with more emphasis on diagnosing SME needs and on revenue generation from services. The research points, in a number of Member States, to the importance of building a diagnostic component into business support programmes so that provision can be tailored more precisely to SME needs and an action plan prepared defining how these needs should be tackled. We recommend that the Commission stipulates that all Structural Fund programmes involving assistance above a certain threshold should include a structured diagnostic and action planning element (see also Point 29). More emphasis should also be placed on ‘packaging’ different types of business support services together, in particular SME financing schemes, training and advisory support. At a local level, these functions are usually delivered by separate agencies but the Commission is well-paced, through the mechanism of Structural Fund programmes, to encourage networking between providers and an integration of components from different schemes (this does, however, depend to a certain extent on improved co-ordination at an EU level - see Point 37). We also recommend that pricing practices for Structural Fund-backed business support services - and other initiatives - should be reviewed to determine the scope for generating additional revenue for reinvestment in schemes. A careful balance needs, however, to be struck so that a greater emphasis on income generation does not have a ‘crowding out’ effect or deter targeted SMEs from making use of schemes.

27. In addition to actions relating to publicly-funded SME support services, the Commission and its partners should consider what can be done, especially in Objective 1 and 6 regions, to strengthen the private sector business services sector. Business services are one of the fastest growing sectors in many local economies and one which tends to have a particularly high concentration of knowledge-intensive SMEs. However, quite apart from the importance of the sector in its own right to regional development, business services have a critical input to make to the competitiveness and growth prospects of other sectors, and especially to SMEs in

CONCLUSIONS AND RECOMMENDATIONS

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(Continued)

them.³⁷ We therefore recommend that the Commission should consider ways of strengthening the private sector business services sector, especially in lagging and peripheral areas, as a priority in new regional development programmes. Experience highlighted in this report with regard to how ICT can help facilitate this process is particularly relevant in this respect.

28. *Current priorities in the field of SME innovation and technology are broadly appropriate but more should be done to integrate these measures into other SME support schemes.* SME innovation and technology measures are the subject of a separate evaluation study which will doubtless recommend specific improvements. This study has, however, highlighted the merits of broadly-defined 'knowledge' initiatives where actions with regard to SME innovation and technology transfer are integrated into more holistic set of measures to help small firms develop their competitiveness and growth prospects.

29. *Training measures should be customised more closely to SME needs with a diagnostic and action planning stage built into all business support programmes.* A number of 'best practices' have been highlighted by the research in this field including the importance of ensuring that training measures are customised closely to SME needs. We recommend that new Structural Fund programmes should place more emphasis on SME diagnostic services and the preparation of training action plans, ensuring that these are built into all schemes as a 'foundation' component (see also Point 26). More generally, there is a need to achieve a closer integration of ERDF and ESF measures in favour of SMEs.

30. *Taking the various types of SME measures together, consideration should be given to adjusting the balance between Structural Fund expenditure priorities in the post-2000 programmes.* We recommend that the Commission should consider shifting Structural Fund expenditure in new programmes from SME grant aid schemes - which currently account for a high proportion of total outlays - to the other types of intervention, especially business support services, risk capital schemes, the promotion of innovation, and SME training measures. With interest rates having fallen to a relatively low level, and likely to remain so following the introduction of the Euro, the case for interest rate subsidies and other concessionary loan and grant schemes is far less compelling except in regions where there is clear evidence of 'market failure'. More generally, the shift that has taken place in favour of 'softer' and more indirect types of Structural Fund intervention aimed at improving the overall business environment for SMEs should be maintained.

Cross-Cutting and Programme Level Priorities

³⁷ See Ernst & Young 'Business Related Services and Local and Regional Development' (1996), report to European Commission (DGV).

CONCLUSIONS AND RECOMMENDATIONS

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(Continued)

31. In the future, more emphasis should be placed in Structural Fund programmes on the development of SME clusters and on initiatives to promote ‘horizontal’ and ‘vertical’ networks. The research has highlighted a number of initiatives to promote SME clusters, concluding that these are a particularly effective way of developing the small firms sector. With regional development increasingly driven by knowledge-intensive activities, ‘horizontal’ initiatives of this type are especially relevant. The development of ‘vertical’ clusters and networking is, however, also important as a means of developing SMEs, transmitting know-how up and down the supply chain, and ‘embedding’ larger firms (for example, recent inward investors) in local economies. From a strategic point of view, the concept of sectorally-orientated clusters and networks provides a more focused and coherent framework for planning interventions. We therefore recommend that the Commission and its partners should place much more emphasis on actions in this field in future programmes.

32. More emphasis should be placed by Structural Fund SME measures on equal opportunities. The research has highlighted a number of initiatives to promote the role of women as entrepreneurs and SME owner-managers. Some schemes are also designed to help young people succeed in business. At present, there appear to be relatively few specific initiatives of this type, notwithstanding a commitment to equal opportunities at a political level in Member States. We recommend that the Commission should renew its efforts to ensure that future SME programmes include more initiatives to promote equal opportunities, drawing on best practice from the regions where measures are already in place.

33. There is a need to define the targets of Structural Fund interventions in favour of SMEs much more clearly - both at a strategic and operational level. The current SPDs have improved the quantification of targets but neither the programme documents nor subsequent actions demonstrate a lot of strategic thinking with regard to the aims of SME measures or a close alignment between these measures and overall regional development objectives. In the report, we have suggested a framework based on the concept of ‘key sectors’, i.e. concentrating resources on SMEs in sectors whose competitiveness and growth prospects are likely to determine the outlook for regional economies as a whole. This does not amount to ‘picking winners’ but rather targeting interventions in a way that will produce the best return in terms of job and wealth creation for a given level of financial inputs.

34. At an operational level, there is a need to improve project selection methods so that the additionality of Structural Fund aid to SMEs is maximised and deadweight is minimised. The feedback from the SME survey work has pointed to a relatively high level of deadweight. Apart from improving the overall targeting of Structural Fund aid, more should be done to emphasise the importance of testing for additionality in project selection procedures and criteria. The priority placed by regional authorities on maximising the absorption of Structural Fund aid can also be at odds with the need to focus resources only on projects and SMEs that genuinely needs and can benefit from

CONCLUSIONS AND RECOMMENDATIONS

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(Continued)

assistance.

35. Similarly, consideration should be given to developing a broader range of standard output indicators for Structural Fund SME measures and improving the systems used by regional authorities for monitoring progress against them. The ‘top-down’ aspect of this evaluation has relied on two main output indicators - the number of SMEs assisted and gross jobs created or maintained - which reflects the type of monitoring data available from regional authorities. Whilst it is clearly important that these outputs should be measured (and preferably more accurately, especially in the case of jobs maintained), consideration needs to be given to how other outputs and impacts can be captured. At a minimum, this should involve providing data on the type of Structural Fund aid provided to SMEs and a more detailed analysis of the type of beneficiaries (size and sector breakdown). This would enable impacts to be measured much more accurately. Looking further ahead, we recommend that an effort should be made to develop methods for measuring the impact of Structural Fund interventions on SME competitiveness, especially since this has become an increasingly important aim of programmes.

36. With regard to delivery mechanisms for Structural Fund assistance to SMEs, the Commission should examine ways in which it can accelerate the development of a ‘one stop shop’ approach. Whilst the co-ordination of Structural Fund measures in favour of SMEs has improved at a national level in most Member States, the research suggests that delivery mechanisms are still fragmented at a regional and local level. The survey carried out as part of this evaluation confirms that SMEs remain confused over where to go for assistance with negative consequences for absorption rates. To address this problem - and the related issue of ‘packaging’ (Points 27 and others) - we recommend that the Commission should give high priority to developing ‘one stop shop’ delivery systems, making this an explicit objective of future Structural Fund programmes in the SME field. However, a prescriptive approach should be avoided - as the research highlights, there are a number of equally effective models, depending on circumstances in a region. However, basic principles should be defined by the Commission. These include the need for ‘one stop shops’ to be supported by broad public-private partnerships; to be business-led (preferably with SMEs represented at board level); to include ‘Personal Business Advisers’ whose function is to proactively market and co-ordinate the delivery of services to SMEs; and for delivery systems to be fully integrated - all these principles should be integral to whichever variant of the basic model is adopted.³⁸

EU Level Policy Priorities

³⁸ See Ernst & Young’s ‘Evaluation of Business Links’ (1995) and ‘Review of the Role of Business Link Personal Business Advisers’ (1996), reports to the Department of Trade & Industry, for a description of the UK models.

CONCLUSIONS AND RECOMMENDATIONS

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(Continued)

37. At an EU level, there is a need to improve the overall coherence of different Commission programmes that have a bearing on SME development. As argued above (Point 29), there is a need to bring about a closer integration of ERDF and ESF measures that benefit SMEs. But in addition to Structural Fund measures, there are a large number of other Commission initiatives and programmes that are targeted on SMEs or are beneficial to them. Although the Commission has issued various policy statements, action programmes and co-ordination frameworks covering the broad range of SME interventions, the fact that different Directorate-Generals are involved in administering programmes tends to militate against a coherent approach in practice and also to complicate steps to bring about a closer integration of schemes 'on the ground'.³⁹ We therefore recommend that the Commission should step up its efforts to improve the coherence and practical co-ordination of SME programmes, starting at a European level but also giving attention to how the situation at a regional level can be improved. The development of 'one stop shops' (Point 35) is again highly relevant in this respect.

37. From an EU policy perspective, the recommendations set out above should not lead to more resources being devoted to Structural Fund SME measure, but rather ensuring that existing resources are used to better effect. The research confirms that the proportion of Structural Fund budgets devoted to SME measures has increased significantly during the 1990s with a very substantial level of resources - an estimated 18% of total expenditure - now being targeted on smaller firms. Improving the effectiveness of Structural Fund interventions - for example, by placing more emphasis on refundable types of SME financing, the promotion of networking and other 'softer' types of intervention - should be possible to achieve without increasing the level of EU budgetary commitments. However, this does presuppose that efforts are stepped up to maximise the leverage effect of Structural Fund expenditure with a view to maximising the financial contribution to schemes made by public authorities and the private sector. We therefore recommend that the Commission places greater emphasis on the principles of leverage and financial sustainability, and encourages more 'challenge' type SME support schemes involving competitive bidding for grant aid, in the new programmes. With many regions facing a reduction in future levels of Structural Fund assistance after the 1999 reforms, this approach is especially appropriate.

38. Looking ahead, the Commission should ensure that the new Structural Fund Regulations contain a renewed commitment to promoting SMEs. The evaluation feedback suggests that SME measures remain highly relevant to broader EU policy objectives, especially with regard to competitiveness, employment, and regional

³⁹ See, for example, Ernst & Young 'Review of EU Supported SME Networks in the United Kingdom', Department of Trade & Industry (1998) for an analysis of the relationship between different European Commission-supported networks for SMEs in the UK.

CONCLUSIONS AND RECOMMENDATIONS

(Continued)

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development and cohesion. This should be acknowledged in the new Structural Fund regulations.

EVALUATION TEAM

A

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<i>Greece</i>	Dr Nikos Varelidis	PRISMA, Athens
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<i>United Kingdom</i>	Lisa Cunningham	Ernst & Young, London

LIST OF PHASE 3 CASE STUDY PROJECTS

(Continued)

B

Financial Assistance Projects		Country	Objective	Region
1	Industrial Development Grants	GR	1	Eperius and Crete
2	Business Service Grants	GR	1	Eperius and Crete
3	SME Modernisation Grants	F	5b	Britanny
4	Finance for Investment in Equipment	E	1	Castilla-La-Mancha
5	Institute of Official Credit Scheme	E	1	Castilla-La-Mancha
6	SME Incentives Scheme	E	1	Castilla-y-Leon
7	Interest Rates Subsidy Scheme	E	2	Navarra
8	Capital Grants	I	2	Tuscany
9	Interest Rate Subsidy Scheme	I	2	Tuscany
10	Guarantee Scheme	I	2	Tuscany
11	Aid for SME Tourism Investment	E	2	Navarra
12	Access to Finance Scheme	IRL	1	All areas
13	Financial Services to Clothing & Textiles	UK	2	East Midlands
14	State Equity Investment Programme	IRL	1	All areas
15	Venture Support Scheme	IRL	1	All areas
16	Nottingham Trent Venture Programme	UK	2	East Midlands
17	Highlands & Islands Ventures	UK	1	Highlands & Islands
18	Employment Fund	UK	1	Highlands & Islands
19	Highlands Equity Capital	UK	1	Highlands & Islands
20	Innovation & New Technology Grants	F	5b	Britanny
Business Support Projects		Country	Objective	Region
21	Knowledge Projects	DK	2	North Jutland
22	Plans for the Initiation of Export Promotion	E	2	Castilla-La Mancha
23	Contacting Foreign Trade Experts	E	1	Castilla y Leon
24	Commercial promotion	E	1	Castilla y Leon
25	Openness of Markets	E	1	Castilla y Leon
26	External Antennas	E	1	Castilla y Leon
27	Targeted Marketing Consultancy Programme	IRL	1	Ireland
28	Programme for New and Emerging Exporters	IRL	1	Ireland
29	Graduate Placement Programme	IRL	1	Ireland
30	Firm Auditing	P	1	Lisbon and Tagus Valley
31	Dynamic Factors of Competitiveness	P	1	Lisbon and Tagus Valley
32	Counselling and Technical Assistance	I	2	Tuscany
33	Services for Unemployed Entrepreneurs	D	2	North Rhine Westfalia
34	Vlechtwerken	NL	2	Twente
35	Twente Module Group (TMG)	NL	2	Twente
36	Connect NK	UK	2	East Midlands
37	Business Co-operation	UK	1	Highlands & Islands
38	Commission for the Promotion of Exports	E	1	Castilla y Leon
39	Centre for Enterprise and Innovation (CEI)	B	1	Hainaut
40	Agencies to Promote Entrepreneurial Activity	D	2	North Rhine Westfalia
41	Employment & Economic Dev Centre	FIN	6	Kainuu
42	RETEX Programme	I	2	Tuscany
Innovation and Technology Projects		Country	Objective	Region
43	Knowledge projects	DK	2	North Jutland
44	Science Park NOVI	DK	2	North Jutland
45	Technological Infrastructure	E	1	Castilla La Mancha
46	Research and Technological Diffusion Scheme	E	1	Castilla La Mancha

LIST OF PHASE 3 CASE STUDY PROJECTS

(Continued)

B

47	University of Mid Sweden Tech Transfer Unit	S	6	Jämtland
48	VINDUE-network	S	6	Jämtland
49	County Board Technology transfer programme	S	6	Jämtland
50	Research, technology and Innovation Initiative	IRE	1	Ireland
51	Coal and Mineral Technology Centre (CMTC)	UK	2	East Midlands
52	Lincolnshire Regional Access Centres	UK	2	East Midlands
53	Western Isles ICT Advisory Service	UK	1	Highlands and Islands
54	Business Co-operation and Public Procurement	UK	1	Highlands and Islands
55	Meet the Buyer	UK	1	Highlands and Islands
56	West Moray telematics scheme	UK	1	Highlands and Islands
57	Skye Telematics Centre	UK	1	Highlands and Islands
58	Technology Information & Advice Programme	E	1	Castilla la Mancha
59	Regional Technology Plan	E	1	Castilla y Leon
60	Development of New Production Technology	DK	6	North Jutland
61	Innovation Projects & New Technologies	E	1	Castilla la Mancha
62	Innovation Prospecting	S	6	Jämtland
63	ECO-BUILD	S	6	Jämtland
64	Industrial R&D Initiative	IRE	1	Ireland
65	SME Technological Development Scheme	E	1	Castilla y Leon
66	Technological Society Twente (TKT)	NL	2	Twente
67	Knowledge Industry Twente (KIT)	NL	2	Twente
68	Co-operation and Networking Scheme	I	2	Tuscany
69	Telecommunication Services for SMEs	I	2	Tuscany
70	Associated Technology Centres Network	E	1	Castilla y Leon
Physical Infrastructure Projects				
	Country	Objective	Region	
71	Business Technology Centre (BTC)	NL	2	Twente
72	Kainuu SME Incubator	FIN	6	Kainuu
73	Tapton Park Innovation Centre	UK	2	East Midlands
SME Training Project				
	Country	Objective	Region	
74	Work Based Training for SMEs	UK	1	Highlands & Islands
75	Advanced Graduate Placement Scheme	UK	1	Highlands & Islands
76	The University of the Highlands & Islands	UK	1	Highlands & Islands
77	Recruitment Support Scheme (ARC)	F		Brittany
78	FRAC	F	2	Brittany
79	Training Needs Barometer	FIN	6	Satakunta
80	Multi-skill Project	FIN	6	Satakunta
81	Foreign Business Scheme	B	1	Hainaut
82	Communication Technology Scheme	B	1	Hainaut
83	Skills for the Tourism Sector	B	1	Hainaut
84	“Cybertuesdays”	B	1	Hainaut
85	PEDIP II	P	1	Lisbon & Tagus Valley
86	Contractual Measures	P	1	Lisbon & Tagus Valley
87	Sector Specific Training Schemes for SMEs	F	2	Brittany
	Name of Project	Country	Objective	Region
88	Female Entrepreneurs Scheme	S	6	Jämtland
89	Leadership for Women Scheme	S	6	Jämtland
90	Special Equal Opportunities Bureaux	D	2	Germany

STRUCTURAL FUND FINANCIAL COMMITMENTS 1994-99

C

Member State	Structural Fund Expenditure 1994-99 (MECU)							Total MECU
	1	2	3 and 4	5a	5b	6	CI's	
Belgium	730	342	465	195	77	0	287	2,096
Denmark	0	119	301	267	54	0	102	843
Germany	13,640	1,566	1,942	1,143	1,227	0	2,206	21,724
Greece	13,980	0	0	0	0	0	1,151	15,131
Spain	26,300	2,416	1,843	446	664	0	2,774	34,443
France	2,190	3,774	3,203	1,933	2,238	0	1,601	14,938
Ireland	5,620	0	0	0	0	0	483	6,103
Italy	14,860	1,463	1,715	814	901	0	1,893	21,646
Luxembourg	0	15	23	40	6	0	20	104
Netherlands	150	650	1,079	165	150	0	421	2,615
Austria	162	99	387	380	403	0	143	1,574
Portugal	13,980	0	0	0	0	0	1,058	15,038
Finland	0	179	336	347	190	450	150	1,652
Sweden	0	157	509	204	135	247	125	1,377
United Kingdom	2,360	4,581	3,377	450	817	0	1,570	13,155
EU Total	93,972	15,360	15,180	6,916	6,862	697	14,051	153,038

Source: European Commission (DG XVI)

SUMMARY BEST PRACTICE ANALYSIS

D

SME TRAINING	EXAMPLES
<ul style="list-style-type: none"> Measures incorporating business advisory services together with an SME training scheme as part of an integrated assistance package such as those operating in the UK and Portugal deliver better results in terms of additionality and value-added than simple stand-alone schemes There are a number of good examples of training projects which use ICT as an innovative means of linking SMEs in peripheral regions with regional R&D institutions/ higher education research centres There are several good examples of innovative schemes targeting specific groups such as women, (equal opportunities measures) young people and the unemployed. Such measures are designed to develop core skills competencies amongst disadvantaged groups and counteract inequality, with Germany and Sweden leading the field Given the immensely varied training requirements of SMEs, there is a clear need for schemes to be customised and carefully tailored to meet the widely differing needs of SMEs. The reluctance of SMEs to invest in staff development programmes and to accord training the importance it merits underlines the need for intermediaries to adopt a proactive marketing approach in order to promote increased SME investment in training A number of work-based schemes have been introduced in order to assuage the fears of SMEs reluctant to release employees for external training Specialist placement schemes are a highly cost-effective means of helping SMEs to fill skills gaps and obtain specialist knowledge (frequently IT-related) at a fraction of the going market rate There are considerable advantages to adopting a sector-specific approach to SME training in that specific training needs can be more effectively diagnosed and measures targeted 	<p>UK, P</p> <p>F, SW, Western Isles ICT Advisory Service, UK,</p> <p>Competence Development Scheme, SW, Special Equal Opportunities Bureau, D</p> <p>All Member States</p> <p>All Member States</p> <p>Training Needs, Fin,</p> <p>Graduate Placement Scheme, Ire, NL, UK</p> <p>Skills for the Tourism Sector, B</p>
FINANCIAL ENGINEERING	EXAMPLES
<ul style="list-style-type: none"> Financial Engineering measures which incorporate ongoing business advisory support as an integral scheme component (e.g. Spain, UK) stand a significantly greater chance of succeeding than schemes where assistance is a one-off payment 	<p>HIV scheme, UK</p>

SUMMARY BEST PRACTICE ANALYSIS

D

<ul style="list-style-type: none"> • The leveraging in of private sector investment and the strong emphasis placed on commercial viability has enabled some FE schemes to become self-financing (e.g. Italy, UK). The most successful financial engineering schemes provide SMEs with a full range of post-assistance advisory services, available on an ongoing basis. Ongoing aftercare services help to minimize the downside risk to venture capitalists and helps to maximize the growth potential of the assisted SME. • Due to a whole host of economic and cultural differences between Member States, financial engineering schemes are often difficult to transfer at the EU level. One possible means of overcoming the problem of transferability is to combine traditional financing methods with a more innovative venture capital element. • Research suggests that specialized seed and venture capital schemes with a clear sectoral focus work better than schemes targeted at the broader SME community. Specialist knowledge of the target market is imperative for project managers. • Effective targeting is of crucial importance in improving and maximizing the efficiency of financial engineering schemes. It is imperative that applicants are tightly screened and meet relevant eligibility criteria. Hands-on, post-assistance monitoring of FE schemes can help minimise venture start-up failure rates and help identify the changing needs of SMEs at different stages of their development 	<p>UK, I, E (SME Incentives Scheme)</p> <p>Applicable in all Member States, current examples of best practice include DK NOVI scheme</p> <p>HIV scheme, UK</p>
<p>FINANCIAL ASSISTANCE</p>	<p>EXAMPLES</p>
<ul style="list-style-type: none"> • There remains scope for improving traditional forms of financial assistance, i.e. grant aid, loans, interest rate subsidies etc. Schemes which combine traditional forms of financial assistance with a more innovative approach such as the leveraging in of private sector investment tend to be more flexible and responsive to SME needs and are often transferable on a pan-European level. SMEs need flexible funding options which respond to their evolving needs • Subsidised interest rate loans provide SME beneficiaries with stability, particularly in economies dominated by the boom and bust economic cycle. The more successful schemes have purposely 	<p>Access to Finance Scheme, IRL</p> <p>Interest Rate Subsidy Scheme, E</p>

SUMMARY BEST PRACTICE ANALYSIS

D

incorporated greater flexibility in terms of the length of repayment, eligibility thresholds, sectoral targeting and the packaging together of different assistance types.	Subsidised Loan Scheme, IRL
BUSINESS SUPPORT SERVICES	EXAMPLES
<ul style="list-style-type: none"> • Business Support schemes are at their most effective when a systematic diagnosis of SME needs takes place prior to assistance being granted, carried out by an objective intermediary in close conjunction with SMEs. A successful preliminary diagnosis of SME needs facilitates effective targeting of different advisory services by intermediaries • Networking and clustering have proved to be two of the more innovative ‘soft’ types of measures, with highly positive results. However, considerable doubt has been cast over the extent to which successful networking schemes are transferable at the pan-European level • The ‘one-stop shop’ delivery mechanism facilitates SME access to relevant business support services since assistance is administered and organised by one clearly accountable body rather than by numerous competing organisations (e.g. UK, Denmark, Finland, Netherlands). • There are good examples of the ‘horizontal’ networking model which encourages inter-SME knowledge-sharing, joint, collaborative developments and sector-specific clusters. Spearheaded by countries such as the Netherlands, horizontal networking enables assisted SMEs to benefit from economies of scale by acting collectively. In terms of joint projects, horizontal networks can help SMEs to minimise the risks involved in developing new products/ services and maximises the potential benefits • Several model projects were identified where the primary aim was to promote ‘internationalisation’. Since SMEs generally find it difficult to secure the necessary financing to develop their export markets, grant-based aid such as the Targeted Marketing Consultancy Programme (TMC) can help fill the gap in the market • Increased private sector involvement tends to lead to improved efficiency, particularly in the fields of financial engineering and innovation and technology 	<p>Competitiveness Enhancement Scheme, PEDIP, P, E</p> <p>Knowledge Projects, DK</p> <p>UK, Den, B, Fin, NL</p> <p>Vlechtwerken, NL,</p> <p>Ire, E, UK</p> <p>UK, I</p>
INNOVATION AND TECHNOLOGY	EXAMPLES
<ul style="list-style-type: none"> • ICT has a crucial role to play in extending technology transfer to SMEs in developing regions that lack a strong, indigenous R&D base. There are good examples of ICT infrastructure 	Western Isles ICT Advisory, UK, FIN,

SUMMARY BEST PRACTICE ANALYSIS

D

<p>projects orientated towards smaller firms in developing regions.</p> <ul style="list-style-type: none"> • Horizontal (i.e. inter-SME) technology networks (also known as technology clusters) have a vital role to play in terms of fostering mutually beneficial inter-SME relationships. Successful schemes encourage co-operation and co-development • Vertical networking measures help foster technology/ R&D orientated linkages between SMEs and suppliers/ large companies • SME technology networks enable micro-SMEs to access IT expertise and procure specialist know-how. Joint, collaborative research projects can help SMEs achieve economies of scale • There are some good examples of awareness-raising schemes which aim to encourage investment in both R&D and IT by highlighting the potential benefits new technology can bring to small firms. Pro-active targeting clearly has an important role to play in this field. • Universities have an important role to play vis-à-vis successful technology transfer. Highly productive joint projects between the SME community and public/ private research institutions are much in evidence, enabling SMEs to participate in innovative R&D projects / new product development programmes which, operating as simple stand-alones, they would be unable to undertake, in view of their limited resources. • There are good examples of sector-specific targeting of marketing schemes, particularly collective and export-related (e.g. UK, Ireland, Finland, Spain, Italy and Germany). 	<p>Tech. Society Twente, NL Knowledge Industry Twente, NL, UK. NL</p> <p>DK, NL, Fin</p> <p>Technology, Information and Advice Scheme, E</p> <p>Science Park NOVI scheme, Den, Fin, NL</p> <p>Orkney Marketing Scheme, UK, I, D, IRL, Fin, E</p>
<p>Physical Infrastructure</p>	<p>EXAMPLES</p>
<ul style="list-style-type: none"> • Projects which are part of a broader strategy, e.g. business incubators promoting R&D and technology transfer, tend to have greater impact (e.g. Netherlands, UK.) Business incubators, when well-managed, can act as a growth facilitator for high-tech, high-growth firms • Some developments, e.g. technology parks, act as flagship projects that can be important in improving the image of an area to outside investors 	<p>Twente Business Technology Centre, NL</p> <p>Tapton Park Innovation Centre, UK</p>

IMPACT ASSESSMENT METHODOLOGY

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Methodological Steps for Calculating Net Additional Jobs Created or Saved by Structural Fund Interventions in Favour of SMEs, 1994-1999

