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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 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.

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 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
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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 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.
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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 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
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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 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 build 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
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data currently available from regional authorities. Whilst it is clearly important that these basic outputs should be measured (and preferably more accurately, 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.