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COMMISSION STAFF WORKING PAPER

IMPACT ASSESSMENT

Accompanying the document

Proposal for a regulation of the European Parliament and the Council

establishing a Programme for the Competitiveness of enterprises and small and medium-sized enterprises (2014 to 2020)

{COM(2011) 834 final}
{SEC(2011) 1453 final}

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1. INTRODUCTION

The purpose of this Impact Assessment (IA) Report is to assess the expected impacts of an EU Competitiveness and SME programme, as proposed by the Commission in its MFF Communication of 29 June 2011.

This programme (hereinafter referred to as the “new programme") is intended to build on the Entrepreneurship and Innovation Programme (EIP)[1] (referred to as the “current programme”) which forms one of the three pillars of the Competitiveness and Innovation Framework Programme (CIP) under the current MFF.

With small and medium-sized enterprises (SMEs) as its main target, the CIP provides better access to finance, delivers business support services in the regions and supports innovation activities (including eco-innovation). It encourages a better take-up and use of information and communication technologies (ICT) and helps to develop the information society. It also promotes the increased use of renewable energies and energy efficiency.

The CIP has an overall budget of € 3,621 million and is divided into three operational programmes. Each programme has its specific objectives, aimed at contributing to the competitiveness of enterprises and their innovative capacity in their own areas:

- The Entrepreneurship and Innovation Programme (EIP, approximately €2100 million)
- The Information Communication Technologies Policy Support Programme (ICT-PSP, approximately €700 million)
- The Intelligent Energy Europe Programme (IEE, approximately €700 million).

In the preparations for the next multi-annual financial framework (MFF), it was decided that the activities currently under the EIP and regarded as successful would be continued under two new programmes: innovation-related activities of the current EIP would be brought under Horizon 2020, the new framework programme for research and innovation, whereas the competitiveness and growth related activities of the EIP would form a competitiveness and SME programme.

2. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

2.1. Identification

Lead DG: DG ENTR

2.2. Organisation and timing

Work on the present impact assessment started in May 2010. The following DGs were invited to join the interservice impact assessment steering group (IASG): SG, BUDG, LS, AIDCO, CLIMA, EAC, EMPL, ENV, ECFIN, ENER, INFSO, MARKT, MOVE, REGIO, RELEX, RTD, TRADE. The group met five times and representatives of the above DGs were present in these meetings.

[1] A list of acronyms and a glossary on financial instruments can be found in Annexes 1 and 2, respectively.

2.3. Consultation and expertise

2.3.1. EIP evaluations[2]

The Commission has conducted EIP interim and final evaluations (completed April 2009 and April 2011) and an interim evaluation of the CIP (March 2010). These evaluations of the EIP and the CIP have shown that the objectives of the programmes are relevant to and aligned with the strategic aims of EU policies. Despite a limited budget, progress has been visible, in particular concerning the most important actions that address SMEs. Interviews and other evidence point to a clear European value-added. (More detailed information about the findings and recommendations of the evaluations is provided in Annex 3.)

2.3.2. EACI evaluation[3]

Part of the EIP budget has been delegated to the Executive Agency for Competitiveness and Innovation (EACI). An evaluation, finalised in May 2011, concluded that EACI was performing well and was an efficient and effective delivery mechanism for the initiatives for which it has operational responsibility. It confirmed that almost 100% of the budget had been executed. (A short summary is provided in Annex 4.)

2.3.3. External studies

In July 2010, an external study was commissioned[4] to support the preparation of this impact assessment report, based on a combination of desk research, extensive contacts with Commission services and interviews with stakeholders and experts. The final report was accepted in June 2011. (The executive summary and main report are provided in Annex 5.)

A separate study was carried out on tourism which provided an evaluation of current tourism-related initiatives.[5] The main conclusion of the study was that, even if Europe is still world's No 1 tourism destination, there remains room for improvement in the visibility of Europe as a tourist destination. The final report was accepted in July 2011 and the executive summary is annexed to this report (in Annex 6).

2.3.4. Public consultation

Public consultation on a possible successor to the CIP was launched as part of the impact assessment process.[6] It was addressed to public and private organisations or individuals who wished to give their views, such as enterprises, business organisations, research and innovation support providers and national, regional and public administrations.

The public consultation process consisted of:

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2 http://ec.europa.eu/cip/documents/implementation-reports/index_en.htm

3 http://ec.europa.eu/cip/files/docs/evaluation-of-eaci-may-2011_en.pdf

4 Economisti Associati in collaboration with EIM Business & Policy Research, The Evaluation Partnership, Centre for Strategy and Evaluation Services, and Centre for European Policy Studies

5 By the Centre for European Policy Studies (CEPS).

6 http://ec.europa.eu/cip/public_consultation/index_en.htm

– an online survey (including a specific survey on financial instruments[7]), which was open from 8 November 2010 to 11 February 2011;

– a public conference organised on 25 January 2011;

– meetings with the representatives of Members States in the different CIP management committees; and

– a meeting the CIP Strategic Advisory Board on 2 February 2011.

The consultation confirmed that many parts of the current programme work well, and that there is wide support for maintaining an EU programme targeted at supporting SMEs and creating a favourable business environment. Issues concerning access to finance for SMEs have also been discussed in the meetings of the SME Finance Forum in September 2010 and March 2011. (A more detailed summary of the consultation is provided in Annex 7.)

2.3.5. Survey on administrative costs

In June 2011 a survey was conducted on the administrative costs incurred by entities that received support under the EIP. Out of 795 entities contacted, a total of 153 organisations replied, a response rate of about 19%. The executive summary of the final report is provided in Annex 8.

2.4. Scrutiny by the Commission Impact Assessment Board

The Impact Assessment Board of the European Commission assessed a draft version of the present impact assessment and issued its opinion on 02/09/2011. The Impact Assessment Board made several recommendations and, in the light of the latter, the final impact assessment report has been amended.

3. CONTEXT

The need to stimulate the competitiveness of European business has been emphasized repeatedly by the EU over the past decade.[8] At the core of the Europe 2020 strategy, which sets a new policy agenda aimed at achieving the overriding objective of “smart, sustainable and inclusive growth”, lies the belief that the long-term sustainability of Europe's way of life depends on its ability to provide its citizens with growing living standards on a sustainable basis and broad access to jobs.[9]

European competitiveness policy is intended to put into place the institutional and policy arrangements that create conditions under which businesses can grow in a sustainable way. Improved productivity is the dominant source of sustainable income growth, which in turn contributes to growing living standards. Competitiveness also depends on companies’ ability

[7] http://ec.europa.eu/cip/files/docs/public-consultation-annex2-to-final-report_en.pdf

[8] Competitiveness is defined here as a sustained rise in the standard of living of a nation or region and as low a level of involuntary unemployment as possible. Sustainable competitiveness reflects the ability to achieve and maintain the (economic) competitiveness of industry in accordance with sustainable development objectives. EC, European Competitiveness Report, 2010.

[9] Sternberg and Arndt, The Firm or the Region: What Determines the Innovation Behaviour of European Firms?, Economic Geography, Vol. 77, No. 4 (Oct., 2001), pp. 364-382.

to take full advantage of opportunities such as the European Single Market.[10] This is especially important for SMEs, which constitute 99% of European businesses, provide two out of three private sector jobs and contribute more than half of the total value-added created by businesses in the EU. In the past five years, 80% of new jobs in Europe have been created by SMEs.[11]

Evidence gathered by the Commission suggests that the potential for competitiveness and entrepreneurship of the European economy still has to be fully unleashed[12], that Europe is under-performing compared to the USA and more advanced Asian economies (Japan, South Korea) and that its advance on the BRIC countries (Brazil, Russia, India and China) is gradually shrinking.[13]

In response to this long-term trend, the European Parliament and the Council decided in 2006 to establish the current programme to address key issues affecting the competitiveness of the European economy, namely, the weak entrepreneurial spirit in Europe, an insufficiently-friendly business environment, in particular for SMEs, difficulties that SMEs face in getting access to finance and sub-optimal exploitation of innovation.

Background: The EIP pillar of the CIP

The EIP has six key objectives:

i to facilitate access to finance for the start-up and growth of SMEs and encourage investment in innovation activities;

ii to create an environment favourable to SME cooperation, particularly in the field of cross-border cooperation;

iii to promote all forms of innovation in enterprises;

iv to support eco-innovation;

v to promote an entrepreneurship and innovation culture;

vi to promote enterprise- and innovation-related economic and administrative reform.

The recent evaluations of the EIP have highlighted a number of striking successes:

– Over 130,000 SMEs have so far received loans thanks to the EIP guarantee facility, where the leverage ratio is currently around 1:32 (i.e. for every Euro spent on guarantees through the EIP, €32 are finally obtained by the beneficiary). A further 185,000 are expected to benefit from this measure, a target which has been verified by the Court of Auditors as

10 Eckehard Rosenbaum, Competitiveness Rankings of European Countries – How Much Do They Tell Us?, Intereconomics 2 (2011) 83

11 Structural Business Statistics Database (Eurostat) http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/data/database

12 EC, A rationale for action, accompanying document to the Communication Europe 2020 Flagship Initiative Innovation Union, COM(2010) 546.

13 EC, EU and BRICs: Challenges and opportunities for European competitiveness and cooperation, Industrial Policy and Economic Reform Papers 13 (2009)

"likely to be achieved".[14] Since each loan case leads on average to 1.2 jobs per each firm assisted[15], the programme is expected to have generated close to 380 000 jobs.

– €1.267 billion of venture capital has been mobilised for innovative SMEs, resulting in a 1:6.8 leverage ratio. For example, the 2010 Nobel Prize laureates in physics, Professor Andre Geim and Dr Konstantin Novoselov, are part of a UK venture-backed team which is partly financed by EIP.

– The Enterprise Europe Network is providing integrated services to SMEs via more than 3,000 staff in 600 regional offices.[16] The Network helps SMEs to access market information, to find potential business and technology partners and to participate in the 7th Framework Programme for Research and technological Development (FP7). It offers advice on funding and internationalisation services. More than 4,000 cross-border partnership agreements between companies have already been concluded through the Network in just 30 months and 15,000 promotion, information, match-making and brokerage events have been organised.

– 70,000 students and pupils and 1000 teachers and professors of entrepreneurship have been beneficiaries of nine projects in entrepreneurship education co-founded by the EIP in 2009 and 2010. These projects will serve as models for introducing novel methods of entrepreneurship education and speed up its expansion in all Member States.

– Studies collecting data, assessing market performance and the regulatory framework at industry level in the single market have identified strengths and weaknesses at industry level and shaped the Europe 2020 flagship Communication on a new industrial policy for the globalisation era.

– The European Network of Female Entrepreneurship Ambassadors has campaigned in 22 Member States to inspire women to set up businesses. 101 new women-led companies resulted from the work of the Ambassadors in the first year alone.

– There has been a major reduction in the time taken and the costs involved in starting up and running a small enterprise. In 2010 the average time and cost to start up a private limited company was 7 days and € 399, compared to 12 days and € 485 in 2007; this reduction is partly due to best practice exchanges and benchmarking financed by the EIP.

– The China Intellectual Property Rights (IPR) SME Helpdesk provides training to European SMEs on how to protect their intellectual property when doing business in China, as well as confidential consultations on individual business problems. It does this over the web, by e-mail and telephone in both China and Europe. In its first three years it served about 50,000 website users and offered over 400 private consultations.

The management of over 80% of the programme in budgetary terms has benefited from efficiency gains from delegation of responsibility for implementation from the Commission to external agencies (to the European Investment Fund (EIF) for financial instruments and the

[14] European Court of Auditors, Special report on the effectiveness of the Small and Medium Enterprise Guarantee facility, No 4, June 2011, http://eca.europa.eu/portal/pls/portal/docs/1/8006724.PDF

[15] EIP Final Evaluation, April 2011

[16] The network's geographical coverage includes EU Member States, candidate countries, future candidate countries and other third countries. http://www.enterprise-europe-network.ec.europa.eu/index_en.htm

Executive Agency for Competitiveness and Innovation (EACI) for the Enterprise Europe Network, pilot and market replication projects, and IPR-related projects). Both external agencies have been highly efficient, examples being the low level of overhead costs for the EIF and the short payment times of EACI. (See also Section 8.3.2 below).

4. PROBLEM DEFINITION

Competitiveness has been put under the spotlight of EU policy-making in recent years because of the market, policy and institutional failures that undermine the competitiveness of European enterprises at the global level, and in particular SMEs, the main source of economic growth and job creation in the EU. The ability of enterprises to adopt more sustainable processes and products, as well as their capacity to grow through easier access to finance and global markets, are key elements of their competitiveness in terms of productivity.[17]

Impact of the financial and economic crisis post-2008

The economic environment for European business has been made more difficult by the economic crisis from 2008[18], which has also had long-term consequences for the competitiveness of European businesses.[19] Productivity has been negatively affected by firms having to freeze investment projects. This will reduce future productivity by extending the life of relatively obsolete equipment and remove the opportunity to improve productivity through re-organisation of the production process.

A downturn in the business cycle has a structural impact on access to finance. During recessions, use of short-term debt increases while use of long-term debt (used to finance investment) slows down.[20] The economic crisis has had an adverse effect on SMEs' access to bank financing.[21] For micro-firms, the tightening of bank lending is frequently reported as a source of deteriorating access to finance. SMEs have been disproportionally affected by the economic downturn.[22] The most pressing problem facing Euro-area SMEs is "finding customers" (28%), whereas access to finance is the second most important problem (19%).[23] Banks are more risk-averse, asking for higher risk margins and demanding more collateral and security.[24]

The economic crisis has presented both an opportunity and a challenge for European policy-makers. On the one hand, it has made the task of securing future economic growth more difficult. On the other hand, the downturn has spurred them to improve the structural conditions for competitiveness of European businesses and unlock the potential of growth for SMEs, as reflected in the endorsement by the European Council of the EU Small Business

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[17] These are further developed below in section 4.2.

[18] Commission Communication "Review of the "Small Business Act" for Europe, COM(2011)78 final. http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

[19] EC, European Competitiveness Report, 2009 p. 5-6

[20] Michaelas et al. (1999), "Financial Policy And Capital Structure Choice In U.K. SMEs: Empirical Evidence From Company Panel Data", Small Business Economics, 12, 113-130.

[21] ECB, Survey on the Access to Finance of Small and Medium-sized Enterprises in the EU, September 2009 and subsequent surveys for the euro area first and second half of 2010 .

[22] OECD, 'The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses', 2009

[23] ECB, Survey on the Access to Finances of SMEs, February 2010

[24] UEAPME, European SME finance Survey/Results, 2009

Act in December 2008 including an action plan and of the Review of the Small Business Act in May 2011.

Against this background the European Commission has considered the options for a new programme for the next multi-annual financial framework that, building on the experience accumulated with the current programme and taking account of the difficult economic and financial situation, could contribute to achieving the objectives identified in the Europe 2020 strategy.

4.1. The problems that require action

The overarching problem is that the European businesses are losing out on competitiveness on a global scale[25], due principally to market failures which undermine the capacity of enterprises to compete with their counterparts in other parts of the world. European SMEs show lower productivity and grow more slowly than their counterparts in the USA for example, and they are less able to adapt successfully than larger businesses in Europe.

Aggregate labour productivity tends to be lower for EU SMEs than for large EU firms since their share of value-added is typically lower (45% in manufacturing and almost 60% in services) than their share of employment. This size-class difference is partly due to the sectoral distribution of small and large enterprises. Larger companies are more present in manufacturing, which is capital-intensive, whereas smaller companies are predominantly active in the service sector, which is more labour-intensive. (This difference does not exist in the US, where small businesses employ about half of the private sector work force and produce about half of private sector output).[26]

As recently as in 2009, firms cited lack of access to finance, lack of incentives facilitating cooperation between actors, difficulties in finding partners, and lack of knowledge about support instruments as hampering their growth.[27] Pressing global challenges, such as increased competition from emerging economies have further hampered European business' development on the global stage and in key third markets. Against the background of globalisation, which is also driving structural changes, some industrial sectors such as tourism and consumer goods[28] are failing to reap the potential benefits of restructuring.

Many of the European businesses' competitiveness problems can be classified under two categories: on the one hand, underlying constraints to sustainable competitiveness and, on the other hand, unfriendly conditions for entrepreneurship and growth of SMEs. This intertwined challenge can be broken down into a set of structural problems which have been amplified by the recent economic crisis:

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25 ec.europa.eu/enterprise/enterprise_policy/analysis/observatory_en.htm

26 Impact Assessment on the SBA, SEC(2008) 2101. See also Flash Eurobarometer Series #196, Observatory of European SMEs, 2007, available at: ec.europa.eu/enterprise/enterprise_policy/analysis/observatory_en.html

27 Commission of the European Communities, 'Making public support for innovation in the EU more effective: Lessons learned from a public consultation for action at Community level', Brussels, 9.9.2009 SEC(2009)1197 final

28 Tourism directly contributes almost 5% of the EU GDP, and its indirect impact on competitiveness and sustainability appears substantial. In terms of growth of the EU tourism industry, however, the pace of growth in Europe is significantly slower than in the rest of the world. World Travel and Tourism Council, "European Union 2011 Key Facts" (2011)

- ***problematic access to finance for SMEs*** that struggle to demonstrate their credit-worthiness and have difficulties in gaining access to risk capital: this has a negative effect on the level and quality of new business creation. The fragmentation of the EU venture capital (VC) market means that VC funds are usually smaller than counterparts in the USA, for example. The contribution of specialist skills, deeper pockets and better links to industry networks allow US funds to support firms to grow more rapidly. As a consequence European SMEs are less reliant on equity capital than their US counterpart and many fast-growing European enterprises look to expand in the US instead than in Europe.[29] Concerning lending to SMEs who applied for a bank loan in 2009 and 2010, on average 29% did not get any credit or got less than they applied for.[30] Regarding the venture capital markets, there is a long term deficiency related to the level of funding and investments partly related to the fragmentation of the EU market.[31]

- ***low levels of entrepreneurial firm creation and poor performance:*** notwithstanding the similar number of EU and US firms founded each year, European SMEs have lower productivity levels than their US counterparts.[32] For instance, young leading high-tech companies are not created as often in Europe as in other regions of the world. Early-stage entrepreneurial activity in the USA is higher than in any of the 14 EU countries considered in the Global Entrepreneurship Monitor. And SMEs are structurally weaker than bigger firms. About 20% to 40% of entering firms fail within the first two years of life, while only 40% to 50% survive beyond the seventh year.[33]

- ***weak entrepreneurial spirit:*** according to the 2009 Eurobarometer survey on Entrepreneurship, only 45% of European citizens would like to be self-employed. For comparison, in the United States 55% of the population would like to be their own boss (and in China 71%).

- ***a business environment not conducive to start-up and growth***, characterised by persistent regulatory fragmentation across Europe in some areas and excessive administrative burdens in some Member States: this limits economic growth.[34] According to different surveys, between 70% and 88% of businesses consider difficulties with administrative rules in other EU Member States as ‘very important’ or ‘important’ in deciding whether or not to engage in cross-border trade.[35]

- ***Issues preventing industry specialization and sectoral competitiveness***: the erosion of the competitive edge of Europe’s economy is also a consequence of its industrial structure, in which new enterprises fail to play a significant role in the dynamics of the industry and

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29 Europe Innova, Meeting the challenge of Europe 2020, A report by the Expert Panel on Service Innovation in the EU, February 2011

30 European Central Bank and European Commission, SME Finance Surveys, 2009-2010

31 Communication from the Commission on Removing obstacles to cross-border investments by venture capital funds, COM(2007)853 final; the "Commission summary report on the cross-border venture capital in the EU, December 2009": http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=4053&tpa_id=127&lang=en

32 McKinsey Global Institute, Global Entrepreneurship Monitor, 2007, 2009.

33 European Competitiveness Report 2008, Communication from the Commission, COM(2008) 774 final, p.81.

34 http://www.consilium.europa.eu/App/NewsRoom/related.aspx?bid=76&grp=19214&lang=EN&id=347

35 CSES study, pages 29 and 31 respectively.

are unable to enter markets and to subsequently grow into market leaders.36 Policy makers must tackle specific barriers faced by firms in new sectors, such as access to risk finance, reflect general, systemic weaknesses.[37] In particular, strong European sectors (such as tourism and textiles[38]) still need to adapt to changing market conditions, including growing international competition, and ensure a diversified offer of new products and services. Concerning tourism, there is a general lack of knowledge outside Europe about European tourist destinations and inside the Union about thematic tourism products such as cultural and sustainable tourism. Consumer goods sectors such as textile, footwear or sport goods are characterised by strong predominance of small traditional companies[39] with a limited capacity to take up the risks and costs of incorporating creative business concepts.

- These problems are also linked to the ***limited internationalisation*** of SMEs inside and outside Europe.[40] The single market is not always a friendly environment for SMEs. Only 8% engage in cross-border activities on a regular basis and only about 5% have set up subsidiaries or joint ventures abroad.[41] The 2010 Monti Report recommended action in order to create a business environment that is more tailored to SMEs' needs (see box below).[42]

Despite the creation of an EU Single Market, doing business across borders in Europe is still subject to significant barriers for SMEs. According to a survey of nearly 10,000 companies across the EU27 carried out in Spring 2009, these barriers include insufficient access to capital, lack of information, administrative burdens associated with launching cross-border activities, especially in view of the fragmentation of the regulatory landscape in Europe.

Outside Europe, there are even lower levels of company internationalisation (25% of EU SMEs export directly outside national markets but only 13% export beyond the EU), partly because of the much greater policy and regulatory divergence between the EU and other major economies. Only 16% of SMEs are aware of support programmes for internationalisation abroad.[43]

This situation is a matter of concern as internationalisation plays an essential role in the creation of new fast-growing businesses at a time when long-term domestic growth prospects

36 Cincera M and Veugelers R, Young Leading Innovators and EU's R&D intensity gap, IPTS Working Paper on Corporate R&D and innovation - No. 07/2010

37 Veugelers R and Cincera M Europe's missing Yollies, Breugel Policy Brief 2010/06

38 According to the latest issue of the UNWTO World Tourism Barometer, tourist growth was positive in all regions of the world with the exception of the Middle East. Some sub-regionsachieved double-digit growth: South America (+17%), South Asia (+14%) and South-east Asia (+10%). Europe exceeded expectations (+6%) but is still lagging behind.

39 The total annual turnover is estimated at €500 billion with approximately 5 million people, with high average female employment.

40 European Commission, Internationalisation of European SMEs. Final Report, EIM on behalf of European Commission, DG Enterprise and Industry (2009)

41 A New Strategy for the Single Market, report by Mario Monti, May 2010, p. 42; "Internalisation of European SMEs", Final report, December 2009, ec.europa.eu/enterprise/policies/sme/files/support_measures/internationalisation/internationazlisation_sme_final_en.pdf

42 A New Strategy for the Single Market, report by Mario Monti, May 2010, p. 43

43 According to the study conducted by EIM

are limited. The large and positive impact of engaging in international activities on SMEs' productivity and competitiveness are well documented.[44] Companies with more than 10 years of activity are nearly twice as internationally active than the average, which means that companies at the beginning of their life cycle are less likely to take this step. In 2009 only 2.5% of European SMEs invested abroad, but SMEs involved in international subcontracting reported faster employment growth from 2007 to 2008 than non-active SMEs.[45]

4.2. Underlying drivers of the problem

The challenges facing European businesses in terms of their economic growth and competitiveness can be traced back to a number of concurrent factors, and primarily to the following market, policy and institutional failures:

- ***Information asymmetries*** are a key determinant of the problems experienced by SMEs in accessing finance[46], as they reinforce the hesitancy of providers of finance and limit the supply of risk financing. Risk-taking rewards are often considered to be insufficient and therefore risks are not been taken which would have positive societal effects.[47]

- ***Transaction costs*** tend to magnify the impact of information asymmetries in financial transactions, aggravating the conditions faced by smaller firms. Similar problems occur in other contexts, as when small firms need to go through intermediaries when engaging in cross-border activities, which often operate according to different rules and cost structures.

- ***Lack of policy coordination and networking*** reduces the benefits associated with the dissemination of best practices. Ineffective policy coordination, often accompanied by competing networks providing business services to SMEs, leads to duplication of effort and waste of scarce resources. Lack of coordination hampers the search for the best skills and the creation of new business models that exploit these skills and competences across the EU27 and beyond.

- The sub-optimal situation created by the above factors is amplified by the diversity (and sometimes the lack) of entrepreneurship and SME-related policies at Member State level, which contribute to the ***fragmentation of the policy framework*** in Europe. The result is an uneven regulatory landscape with lack of pro-active support (individual encouragement of

[44] A study for the UK government found a strong positive correlation between being internationally active and reporting high turnover and employment growth. Technopolis, Drivers, Barriers, Benefits and Government Support of UK International Engagement, 2005.

[45] According to the study conducted by EIM in 2009 and basically confirmed by the more recent study by EIM, "Opportunities for the Internationalisation of SMEs", June 2011:
- exporters' employment growth 7% versus non exporters 3%;
- importers employment growth 8% versus non importers 2%;
- SMEs both importing and exporting employment growth 10% versus others 3%;
- SMEs with FDI employment growth 2007-2008 16% versus others 4%.

[46] OECD Observer, *Financing SMEs and entrepreneurs*, Policy Brief November 2006

[47] Binks, M.R., Ennew, C.T. & Reed, G.V., Information Asymmetries and the Provision of Finance to Small Firms, International Small Business Journal, 1992,Volume 11, No 1; Chan, Y-S., Kanatas, G, Asymmetric Valuations and the Role of Collateral in Loan Agreements, Journal of Money, Credit and Banking, 1985, Volume 17, No 1; Sharpe, S. A., Asymmetric Information, Bank Lending and Implicit Contracts : A Stylized Model of Customer Relationships, Journal of Finance, 1990, Volume 45, No 4

SMEs to use the tools and services available) in some Member States and regions, especially in the EU12.

These problem drivers are closely linked to each other and do not allow EU companies to perform at their best in terms of competitiveness and sustainability.

Findings of evaluations and consultations with stakeholders

The current EIP programme has to a certain extent mitigated the degree to which European businesses, and SMEs in particular, are affected by these factors**.** The EIP final evaluation and the public consultation have shown a number of positive developments:

– **Financial instruments**: The final evaluation has shown that the 12 years of EU presence in the venture capital market has had a stabilising effect and has kept this market going in difficult times. The guarantee facility, too, has proven to be an efficient way of responding to challenging market circumstances in SME finance and of developing guarantee instruments and markets across Europe. Since 2007, the loan guarantee facility has helped SMEs to borrow over 6 billion EUR for investment under more favourable conditions. According to stakeholders, the financial instruments (both, the risk capital and guarantees instrument) are seen as highly relevant and having impressive leverage effect.

– According to the EIP final evaluation, the **Enterprise Europe Network** is well- focused on its main objectives of promoting innovation, business co-operation and cross-border trading, but its basic information service is also important for clients. A client survey in 2009 suggested that the Network has been delivering its integrated services to the high satisfaction of its clients with answers to all survey questions being generally positive and ranging between 70% and 90%. Satisfaction rates are particularly high (80-90%) for general information services, Network services SMEs can subscribe to (such as customised (automated) partnership proposals, tender alert services, legislation watch, etc.) and the Network's publications.[48] With its integration into the business support system across Europe and the strength of the personal links between its members, the Network has become a major policy asset for the EU's relationship with enterprises and has considerable further potential in terms of the engagement of SMEs with the objectives and actions of the EIP.

– As regards **smaller-scale actions**, the final evaluation of the EIP found that there are some elements which have had a major effect. For example, the action programme for reducing administrative burdens and its follow-on actions has been effective in identifying and following through regulatory simplifications valued at over €40 billion. Other actions contributed to developments that have significant support, such as the measures that support SBA implementation. The public consultation revealed that measures designed to promote entrepreneurship and to improve the business environment are supported but stakeholders underline that they should have clear European added-value.

The evaluations of the current programme have been positive as regards the effectiveness and efficiency of the programme, especially regarding the high level of participation of SMEs and the promotion of an environment favourable to their competitiveness and job creation. Most

[48] A summary of the survey results is provided in Annex 9.

measures of the current CIP work well, as demonstrated for instance by the high level of satisfaction of the clients of the Enterprise Europe Network, which is proposed to be retained as the main vehicle for reinforcing interactions and synergies with other EU financial programmes. The need for continuity and stability of actions was underlined by stakeholders. One of the main messages received from stakeholders at the conference on the future of the measures supported by the CIP which took place in Brussels at the end of January 2011 was "Don't fix what is not broken".

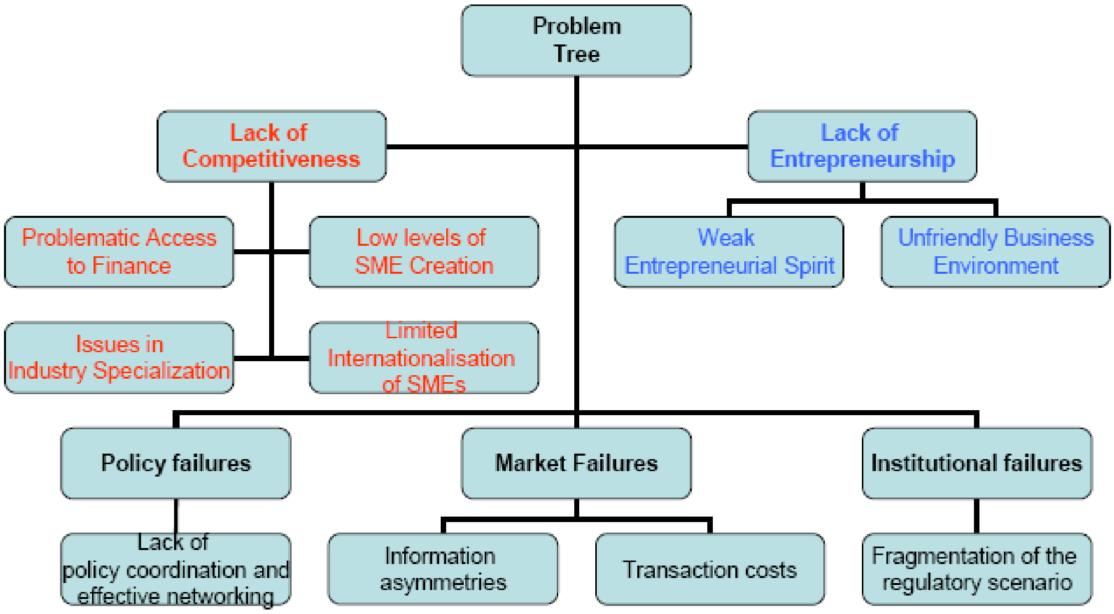
Furthermore, statistics and reports from the public consultation[49] show support for all envisaged activities from well above 80% of respondents. As regards support for to improve the framework conditions of the business environment and access to finance scores are even higher, above 90%. For the latter, Equity capital (71%), Hybrid instruments (78%) and Loan guarantees (71%) are deemed the most relevant financial instruments in terms of promoting competitiveness. In light of the lessons learned from the economic downturn and the fragile economic recovery, any future programme would retain the in-built flexibility for the implementation of the current programme to react to changing economic circumstances. The possibility to react to changes in market demand, for example by shifts between the equity and debt facilities of the Financial Instruments under the current programme, will be retained in future. Also the other fields of envisaged activities received broad support such as the provision of business support services (85%), support to the internationalisation of SMEs (76%) and the exchange of best practices (73%). As not so relevant was sector-specific support considered with around 50% of respondents considering it as very relevant or relevant. However, certain recommendations from the evaluations and from the public consultation have been taken into account in the design of the new programme such as greater focus on SME internationalisation.

In 2011, the European Court of Auditors issued a special report on the effectiveness of the SME guarantee facility (SMEG) with six recommendations to improve the design of the SMEG. The main recommendation concerned the European added value of the SMEG and is considered in the corresponding section of this report (see section 4.5). In addition, a general assessment of the monitoring system of the current EIP was conducted in a recent IAS performance audit. The recommendations of this audit report are considered in the sections on monitoring and indicators (see sections 9.2 and 9.3).

See Annexes 3, 7 and 11 for further details of the evaluations, consultation results and the audit.

49 Available under HTTP://EC.EUROPA.EU/CIP/PUBLIC_CONSULTATION/INDEX_EN.HTM

Figure 1 Problem Tree



4.3. Who is affected, in what ways and to what extent?

European firms are the main stakeholders affected by the underlying drivers of the problem to which the new programme should respond. SMEs are more affected than larger firms because of their characteristics in terms of capital ownership, management and methods of financing, which call for tailor-made policy intervention.

European SMEs are heavily affected by the following problems[50]: (i) low market stability, low levels of capital investment, weak management skills and resistance to advice or change; (ii) lack of entrepreneurial drive, which is mostly a consequence of non-economic motives, such as 'the way of life', living in an attractive area, and/or family ties that drew the owners into the occupation in the first instance; (iii) limited business skills, which lead to limitations in respect of marketing, delivering quality, price policy, cost control and ability to re-adjust; (iv) lack of finance, due to informational asymmetries as well as the problem drivers outlined above, which become even more severe in times of financial constraint .

As SMEs are the main source of new jobs in the EU, their weakness directly affects the labour force. Addressing these weaknesses would significantly improve EU employment prospects. Many workers would be affected by the new programme, as SMEs are Europe's main engine for employment. In 2010, SMEs accounted for 99.8% of the stock of enterprises, and 67% of employment in the non-financial business economy. 30% of total employment is concentrated in micro-enterprises (10 employees or fewer). Between 2002 and 2008, employment in the non-financial business economy has on average increased by 1.9 million jobs annually, or

[50] Kristin Hallberg, 'A Market-Oriented Strategy for Small and Medium Scale Enterprises', World Bank, 2000

1.5% a year. Over 80% of this employment growth has been registered in SMEs, which is more than the SMEs' share in total employment (67%). SMEs have a much higher employment growth rate (1.9% annually) than large enterprises (0.8% a year). Within the SME-sector (firms with up to 250 employees), the highest growth rate is found in micro and small enterprises.[51]

Any proposed programme will be horizontal in its nature and will target excellence among all businesses eligible for support, being open to all economic actors and in this sense non-discriminatory. The same applies also to the geographical distribution of beneficiaries. As high-growth SMEs are the main stakeholders of the new programme, it is difficult to predict which Member States are going to be direct beneficiaries. However, smaller Member States are likely to benefit proportionally more from any new programme, as they have more fragmented business structures.

4.4. Foreseen evolution of the problem

Given the severity of the consequences of the economic crisis[52] and the declared intentions of the EU to address it through the Europe 2020 strategy, this Impact Assessment Report takes the 'business as usual' as the baseline option. A discontinuation option, will however, also be considered.

Notwithstanding the gradual pace of economic recovery, the economic outlook in the EU remains fragile, especially taking into account structural challenges such as high debt levels, an ageing population, and a shrinking labour force. Over the medium term, the economic growth is likely to remain subdued in those Member States with specific challenges resulting from domestic macroeconomic and structural imbalances accumulated prior to the crisis. The aggregate picture is likely to mask differences in development, with some countries registering a solid rebound in activity while others lag behind. Emerging economies are expected to perform strongly thanks to robust domestic demand, trade and commodity price developments. Global market competition from developed and emerging economies, such as China and India, will further intensify. This will go hand in hand with increased competition for scarce resources and rising resource prices, to which SMEs are sensitive.[53]

Apart from these macroeconomic considerations, other more specific factors will affect the policy problem, providing a mixed picture of positive and negative trends:

- ***Regulatory developments*** will influence the future conditions for SME access to finance. On the one hand, implementation of the Basel III rules on capital and liquidity

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51 Figures based on Structural Business Statistics Database (Eurostat) http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Structural_business_statistics_overview

52 OECD, 'The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses', 2009

53 European Commission, Directorate-General for Economic and Financial Affairs, European Economic Forecast, Commission Staff working document, 2010.

requirements might lead to a tightening of lending conditions.[54] On the other hand, the recently recast Directive on late payments is expected to improve business cash flow.[55]

- ***Developments in public policy***: At Member State level, budgetary difficulties are likely to reduce state support for the development of entrepreneurship and SME-friendly policies.

- ***Development of smart, green jobs, products and services in traditional industries*** are expected to have strong positive impact on European competitiveness in the future[56]. High demand for sustainable products and services are expected from the implementation of the climate and energy strategy across the EU, as well as other environment-related provisions derived from the Community *acquis*. The same development is likely to apply in traditionally strong sectors where the EU's global position is currently being eroded, such as tourism or textiles, characterised by a high proportion of SMEs, where high demand for personalised, inclusive products and services can be expected as a result of global demographic changes and emerging social trends.[57]

In the absence of new policy initiatives at the European level to reinforce current measures to promote competitiveness, entrepreneurship and SMEs, the market, institutional and policy failures outlined in the preceding sections would persist and perhaps worsen. More specifically:

- The external study found that, with reasonable estimates, the SME financing gap would concern between 400,000 and 700,000 enterprises giving a static view based on the total number of 23 million existent SMEs. This is a general indication of the market deficiencies but it most likely underestimates them since it does not consider the average inflow per year of 1.8 million start-ups to the EU market or recurrent financing needs from the existent stock of SMEs.[58] Significant numbers of SMEs could use funds productively if they were available but cannot obtain finance from the financial system: total foregone loans are estimated to be between € 40 and € 70 billion.[59] European SMEs would be deprived also of the benefit of an improved trans-European venture capital market, and the ratio of VC investments to GDP would remain much lower in the EU than in the US.[60]

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54 Basel Committee on Banking Supervision, Basel III: A global regulatory framework for more resilient banks and banking systems - revised version June 2011, http://www.bis.org/publ/bcbs189.htm

55 Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 recasting the legislation on combating late payment in commercial transactions.

56 Tukker, Tischner, New Business for Old Europe – Product-Service Development, Competitiveness and Sustainability, Greenleaf Publishing (2006)

57 US EP, "Green Servicizing" for a More Sustainable US Economy: Key Concepts, tools and analyses to inform policy engagement, www.epa.gov/osw/partnerships/stewardship/docs/green-service.pdf

58 European Commission, European SMEs under pressure, Annual on Small and Medium-sized Enterprises, 2009

59 One fundamental problem in dealing with the SME financing gap is lack of basic information about just how big such a gap may be. Moreover, the definition of an SME varies between financial institutions, some only compiling figures by size of loan, not by size of the borrower, and some not keeping regular statistics of SME lending at all. OECD, Financing SMEs, 2006.

60 Europe's venture capital investments as a share of GDP are only around 25% of that of the US. Although there is clearly some diversity across European countries, even the European country with the greatest investment as a share of GDP in 2009 (Sweden) manages only half the rate of the US. /…/

- The role and effectiveness of national and European business support structures would be undermined by national budget cuts, sub-optimal coordination with other EU and national initiatives, and uncertainties about the role of the private sector in developing networks and facilitating partnerships.

- The EU is facing the key challenge of ensuring its long-term economic growth through modernisation of traditionally strong sectors. In such sectors as textiles or tourism, the lack of EU support would make it more difficult to achieve sustainability and inclusiveness objectives by promoting more sustainable models of business and more efficient use of natural resources.

- SMEs' internationalisation would be promoted by Member States with different intensity, and sometimes not at all, with the risk of under-performing in fast-growing emerging markets. In particular, Europe's outstanding potential for SMEs to access global markets would not be fully exploited.[61]

The economic crisis and its consequences have demonstrated that uncoordinated national policy responses are of limited value, as they do not muster the critical mass to influence the performance and growth of European businesses in global markets and they lack consistency. Against this backdrop, a co-ordinated EU-level support to European competitiveness and entrepreneurship, with a special focus on SMEs, could constitute a significant additional contribution to the challenges that Member States are facing. Without further action at EU level, European businesses would have even more difficulties to adapt in an increasingly competitive and interconnected global market.

A failure to address these problems at European level, even with limited resources that can only have mitigating effects in the event of a major economic downturn, would make it more difficult for the European economy to achieve the Union's Europe 2020 goals. In any case, any new programme is supposed to tackle market and regulatory failures which are likely to persist under any conceivable economic development. Concerning access to finance, for instance, there is a well-identified need to support the development of a European cross-border market for venture capital, inter alia through the provision of initial funding through the EU. These long-term efforts are necessary whatever phase the economy is in due to the structural deficiencies in the EU as compared to other economies such as the US. Nonetheless, in order to adapt to changing economic conditions, the new programme will be designed in such a way as to have enough in-built flexibility for its implementation arrangements to shift its strategic focus and operational measures to react to the general economic development.

Such venture capital is not particularly mobile in Europe, meaning that the already limited syndication possibilities are reduced still further compared to the US. EIF working paper 2011/09

61 A study by EIM conducted on the opportunities for EU SMEs in markets outside the EU, in 2011, highlighted the potential for growth for SMEs in relation to seven key target markets: Brazil, Russia, India, China (BRIC), Japan, South Korea and Ukraine. In addition, five other target markets were considered (Armenia, Azerbaijan, Belarus, Georgia and Moldova) as constituting a good example of untapped growth markets for SMEs.

4.5. EU right to act and added value

The EU right to act derives from the Treaty on the functioning of the European Union, particularly from Article 173: EU action should be aimed at "*encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings*." Entrepreneurship and SME support measures do not constitute an exclusive competence of the EU. The Lisbon Treaty endowed the European Union with powers to support, coordinate and complement action by Member States in this field.

In addition, in the case of tourism, EU intervention also draws on Article 195: "*The Union shall complement the action of the Member States in the tourism sector, in particular by promoting the competitiveness of Union undertakings in that sector.*" The Lisbon Treaty, providing this new legal basis in the area of tourism, recognises its economic weight as a sector within the EU[62] and the EU value added of policy initiatives in this sector.

In these areas of competence, the case for action at the EU level relies on five main sources of European added value:

- the benefits associated with the ***strengthening of the Single Market***, by overcoming market fragmentation in areas such as venture capital investment, cross-border lending and credit enhancement as well as informational and organizational constraints which prevent SMEs from taking advantage of the opportunities that the Single Market offers. For instance, the main purpose of the financial instruments will be to improve access to finance to SMEs in a market segment which is not covered by Member States' measures, which are restricted to investments and support within each country. The focus will be on financing expansion of growth-oriented enterprises that are aiming at international expansion, cross-border activities and to develop a cross-border SME finance market. Only an EU-level programme can fulfil this role. In this way, the improved design of the guarantee facility will also respond to the sixth recommendation of the Court of Auditors' special report.

- the possibility of achieving significant ***demonstration and catalytic effects***, through the dissemination of industrial and policy best practices. Under the current programme, the best examples in promoting entrepreneurship and SMEs at national, regional and local level can be selected for the European Enterprise Awards competition. The Awards are aimed at rewarding the best measures taken by public authorities. Every year around 400 projects have competed in the national competitions and around 56 are selected by their countries to participate in the European Competition where the European jury selects six winners. From the 250 national nominees, more than 30 have won an award and been showcased across Europe as a best practice. Transferring skills and knowledge across frontiers contributes to align Member States' policies, create new business partnerships and reduce the gap between European economies. European national and local administrations have the possibility to present their successful initiatives at the SBA Conference, organised every year by the Commission and the EU Presidency. The

[62] Tourism industry generates more than 5% of the EU GDP, with about 1,8 million enterprises employing around 5,2% of the total labour force (approximately 9,7 million jobs). When related sectors are taken into account, the estimated contribution of tourism to GDP creation is much higher: tourism indirectly generates more than 10% of the European Union's GDP and provides about 12% of the labour force

Conference has become the key event for promoting the exchange of good practices in the EU and beyond. For example, the latest SBA Conference in Budapest attracted 340 participants from EU and 30 non-MS. 28 good practices were presented in the work-shops. As regards financial instruments, the role of the EIF facilitates constant exchange of best practices in the areas of both guarantees and venture capital, while the catalytic effect is acknowledged to be particularly high for venture capital.

- the achievement of ***economies of scale*** in areas where it would be difficult for individual Member States to achieve the required critical mass. For instance, in the field of support to SMEs abroad, European added value is created by the bundling of national efforts and, by establishing services that would lack critical mass if provided at national level (for example, through support to IPR enforcement). The China IPR SMEs Helpdesk, funded by the current programme, offers advice which would be otherwise unavailable to SMEs from smaller Member States.[63] Otherwise, EU intervention can contribute to avoid duplication of effort, promote cooperation between Member States and coordination with relevant non-Member States. In the case of tourism, there is clear added value in taking initiative at the EU-level especially in the following areas: the consolidation of the knowledge base in the tourism sector by the means of pan-European surveys and studies to better understand the demand and the supply side, without which data comparability and consistency across the EU would not be achieved[64]; the development of joint transnational strategies for tourism promotion of Europe as home to high quality and sustainable tourist destinations[65]; as well as the extension of the tourism season, which could be done better with exchanges between different Member States than by each country individually.

- supporting ***coherence and consistency*** in national measures through the exchange of best practices at European level and benchmarking.[66] One of the best examples for the success of benchmarking exercises financed under the current programme is the action for simplification of start-up procedures. Since 2008, the situation and progress country-by-country and year-by-year has been monitored taking into account three aspects of simplification (in respect of which a benchmarking exercise was mandated by the Competitiveness Council): average time, administrative costs and procedures to start-up a limited company. The action consisted of semi-annual expert meetings ("the network of National Start-up Co-ordinators") nominated by Member States. Its purpose was to develop a measurement methodology, track progress and support this progress with the exchange of good practices and information. Since 2002 registration times have dropped by 70% and costs have more than halved. Following the success of this measure, targets have been reviewed by the February 2011 Review of the Small Business Act (SBA).

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63 Over 50,000 different users of the IPR web portal and e-learning services over the first 3 years, with over 2 million hits; more than 30 training seminars and interactive workshops run every year, of which 2/3 performed in Europe, to gather SMEs' concerns.

64 Studies/surveys carried out by individual smaller Member States would have less European added-value and fail to cover the EU wide scope and might generate a duplication of research already carried out in other countries.

65 This type of measures implies a higher added-value and impact if done with a coordinated/complementation approach between the Member States; moreover smaller Member States tend to have fewer resources for promotion of their destinations and especially for the promotion of transnational tourism products.

66 EIM, June 2011

- the ***unique expertise acquired by EU institutions:***

    - This is the case of the EU financial institutions, the European Investment Bank (EIB) and the European Investment Fund (EIF), whose experience in designing and implementing SME-friendly financing schemes is unparalleled. The experience gained by the EIF over more than 10 years constitutes a uniquely valuable asset. It has acted since 2007 as an investor in 19 CIP-supported venture capital funds, often in a cornerstone role, leveraging over €1.4 billion of total investment in growth-oriented SMEs. As regards historical performance, under the first generation of EU venture capital (the ETF Start-up Facility under the Growth & Employment Initiative from 1998-2000) over 98% of the money invested has already been, or should ultimately be, paid back from beneficiaries, including Skype (voice-over IP telephony), Vertaris (paper recycling) and Solaire Direct (Photovoltaic structures).

    - The Enterprise Europe Network has achieved tangible results by putting emphasis on promoting the internationalisation of SMEs (in the Internal Market and beyond) through providing information on EU matters as well as the possibility to feed into the decision making process. Its role is especially important in overcoming information asymmetries faced by SMEs and alleviating transaction costs associated with cross-border activities. The value of the Enterprise Europe Network is constituted by the shared methodologies, instruments and tools used qualified service providers mandated and (co-) financed by their regional / national authorities.

Taking into account the above, the subsidiarity principle according to which the EU is entitled to act if "the objectives of the proposed action cannot be sufficiently achieved by the Member States", is fully respected. The proposed EU intervention is in line with the Lisbon Treaty, as it will specifically target policy failures such as lack of coordination and effective networking and market failures such as information asymmetries which can only be tackled at European level. In particular, the activities related to tourism will address the absence of a well-consolidated and coordinated tourism policy, both in terms of streamlining initiatives at the EU level, and in terms of coordination between the EU and its Member States.[67]

None of the measures considered under the current or future programme calls for the substitution of national initiatives by an EU-level measure or binding decisions at the European level. On the contrary, EU intervention is designed to make national measures work better, by giving a European dimension to them, by better coordination and the removal of cross-border obstacles to cooperation either by private actors or public authorities. Cooperation of national and regional actors and structures is encouraged by means of "horizontal" networking rather than "vertical" centralization. For instance, the SME Performance Review regularly provides information structured according to the SBA principles and based on core indicators comparing the performance of the individual Member States to the EU average. Moreover, the "Good Practices" database provides this information on-line and contains activities taken by public authorities in the 27 EU Member States to improve the business environment of SMEs. Over 90 good practice examples at national and regional level were proposed during the second half of 2010.

[67] OECD Centre for Entrepreneurship, SMEs and Local Development. (2010). "OECD Tourism Trends and Policies 2010"

EU action also has to be proportional, in other words, efforts and means deployed have to be fully justified by the goals. In this respect, given the challenges faced by the European economy, the size and scale of EU action is expected to generate positive impacts across Europe through crowding-in and multiplier effects. Because of the current budgetary constraints, any EU-level measures have been carefully selected in order to provide measures which can demonstrate EU added value.

Based on the above analysis, it can be concluded that the proposed EU-level intervention to promote entrepreneurship and competitiveness, especially taking into account SMEs needs, is fully justified.

5. OBJECTIVES

The hierarchy of objectives is summarised in Figure 2 below.

5.1. General policy objectives

The overarching objective of the new programme would be to contribute to the achievement of Europe 2020's objective of "*smart, sustainable and inclusive growth*". In particular, the proposed programme would contribute to the headline target concerning employment (75% of the 20-64 year-olds to be employed). In order to contribute to this overall objective, two general objectives are envisaged:

- to strengthen the sustainable competitiveness of Europe's industrial base and,
- to encourage entrepreneurship and the creation and growth of SMEs.

5.2. Specific policy objectives

In view of the above general objectives, the specific objectives to be pursued are:

(a) to improve framework conditions for the competitiveness and sustainability of EU businesses;

(b) to promote entrepreneurship;

(c) to improve access to finance;

(d) to improve access to markets.

These objectives describe the results to be achieved by the new programme, respect the S.M.A.R.T. (specific, measurable, achievable, relevant and timed) criteria and are accompanied by performance indicators.

5.3. Operational policy objectives

The specific objectives identified above can be broken down into more operational objectives, focusing on the overcoming of specific obstacles to growth and/or the creation of more conducive framework conditions for growth, largely based on the principles of the Small Business Act for Europe (SBA)[68]:

i to enhance the effectiveness of policies and institutions supporting competitiveness and growth;

ii to foster the competitiveness of targeted EU sectors;

iii to facilitate market uptake of sustainable, inclusive products, services and processes;

iv to tackle obstacles to SMEs' potential to grow and create jobs;

v to improve framework conditions for entrepreneurship development;

vi to foster entrepreneurial attitudes, mindsets, skills and capabilities;

vii to improve SMEs' access to venture capital and mezzanine markets and strengthen EU-wide markets for these instruments;

viii to improve conditions for guarantees and other forms of risk sharing including cross-border lending and commercial activities;

ix to help SMEs take full advantage of the Single Market;

x to help SMEs to access and develop activities in markets outside the EU;

xi to reduce differences between EU and third country regulations for industrial products, industrial policy and business environments.

68 http://ec.europa.eu/enterprise/policies/sme/small-business-act/

Figure 2 **Hierarchy of objectives**

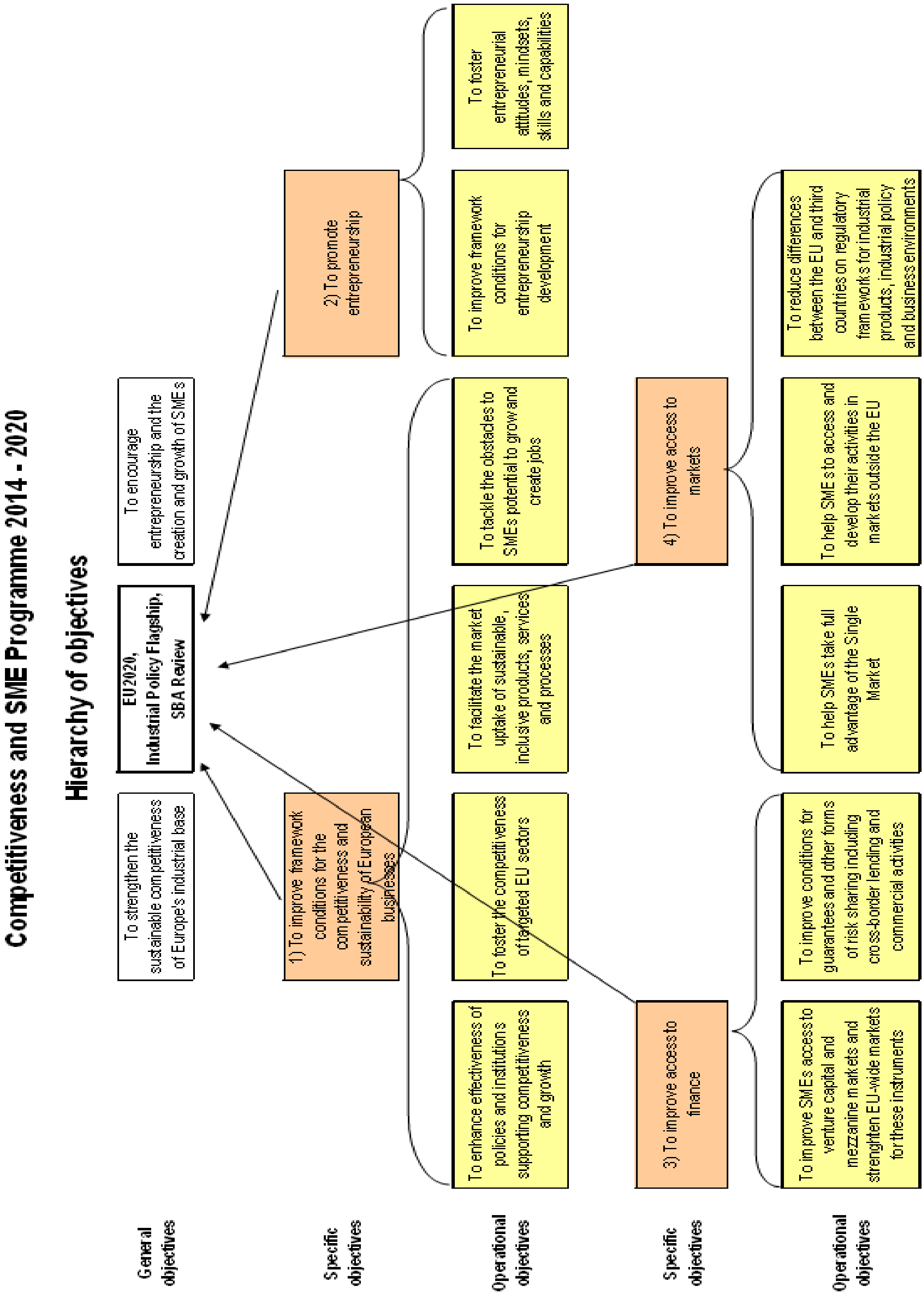

Table 1 summarises the relationship between the problems identified in Section 4 and the proposed objectives.

Table 1 Logic of Intervention

	Problems	Objectives
GENERAL	**I) Loss of competitiveness of the European economy**	I) To strengthen the sustainable competitiveness of Europe's industrial base
	II) Lack of entrepreneurship and SME creation	II) To encourage entrepreneurship and the creation and growth of SMEs
SPECIFIC	**(a) fragmentation of regulatory scenario**	(a) to improve framework conditions for the competitiveness and sustainability of EU business;
	(b) lack of policy coordination and ineffective networking	(b) to promote entrepreneurship;
	(c) information asymmetries in accessing funding	(c) to improve access to finance;
	(d) transaction costs in cross-border activities	(d) to improve access to markets;
OPERATIONAL	**(1) issues in industry specialization and competitiveness;**	(1a) to enhance the effectiveness of policies and institutions supporting competitiveness and growth; (1b) to foster the competitiveness of targeted EU sectors;
	(2) limited investment and adoption of (eco)-sustainable products and processes;	(2) to facilitate market uptake of new business concepts as well as sustainable, inclusive products and processes;
	(3) unfriendly business environment;	(3) To tackle obstacles to SMEs' potential to grow and create jobs;
	(4) low levels of entrepreneurial firm creation and poor performance;	(4) To improve framework conditions for entrepreneurship development;
	(5) weak entrepreneurial spirit;	(5) to foster entrepreneurial attitudes, mindsets, skills and capabilities;

	(6) problematic access to finance;	(6a) to improve SMEs' access to venture and mezzanine markets and strengthen EU-wide markets for these instruments; (6b) to improve conditions for guarantees and other forms of risk-sharing including cross-border lending and commercial activities;
	(7) limited internationalization of SMEs	(7a) to help SMEs take full advantage of the Single Market; (7b) to help SMEs to access and develop activities in markets outside the EU; (7c) to reduce differences between EU and third country regulations for industrial products, industrial policy and business environments.

5.4. Consistency with other policies and objectives

The Commission Communication on the next MFF has underlined that it is essential that the specific interests and circumstances of SMEs are taken into account in the design of all EU policies and funding programmes. The future financial framework will be designed to facilitate the participation of small businesses in funding programmes, by simplifying rules, reducing the costs of participation, accelerating award procedures and providing a "one-stop shop" to make life easier for beneficiaries of EU funding.

The Europe 2020 Strategy identifies the enhancement of competitiveness as an objective of high importance to be achieved, inter alia, by setting up a "framework for a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe's primary, manufacturing and service industries and help them seize the opportunities of globalization and of the green economy".[69]

The relevance of SMEs for the Europe 2020 strategy was recently acknowledged in the Review of the Small Business Act (SBA) of February 2011, endorsed by the Competitiveness Council of 30 May 2011, which emphasised three priority areas: smart regulation, access to finance and access to markets. Although most initiatives foreseen by the 2008 SBA have been launched, the Review states that more must be done to help SMEs, especially by reducing deficiencies in financial markets, promoting business cooperation and cross-border partnership, and sectoral initiatives in line with the Industrial Policy Flagship initiative.

Due to its importance for the achievement of the Europe 2020 goals, the improvement of the business environment for SMEs is mentioned in six out of seven Europe 2020 flagship

[69] Europe 2020 Communication, COM(2010) 2020 final.

initiatives.[70] Of particular relevance for the new programme is the flagship initiative "An industrial policy for the globalization era" which outlined a new strategic approach, addressing European competitiveness as well as the creation and growth of small and medium-sized enterprises and the promotion of an entrepreneurial culture.[71] Its key objectives include:

– strengthening the Single Market by improving market surveillance, information, partner search and advice services for SMEs, creating a market for business services, and reinforcing IPR enforcement as well as European standardisation;

– improving sectoral policy frameworks at both EU and Member State and regional level particularly relevant for EU competitiveness, such as tourism and user-driven consumer goods, as well as addressing key social challenges;

– promoting entrepreneurship, job creation and inclusive growth by simplifying administrative requirements and procedures to start up a business, promoting the development of critical skills and mindsets for future entrepreneurs and generating entrepreneurship among women and young people;

– improving the business environment, in particular by improving access to finance, smart regulation, and reinforcing the "Think Small First" Principle;

– capitalising on globalisation through support services to improve access to markets outside the EU particularly for SMEs.

The proposed new programme will also provide a tool which can serve other policy objectives. The Enterprise Europe Network will provide a vehicle for links with other programmes and initiatives, in terms of "top-down" diffusion of information, promoting them, as well as "bottom-up" collection of feedback from stakeholders. Other Commission services are interested in using the Network partners both in Europe and overseas for the delivery of parts of their programmes to SMEs: DG RTD wishes to build the National Contact Points for SMEs into the Enterprise Europe Network, DG CLIMA is exploring how a Network-like structure could contribute to making a "technology mechanism" of the Climate Change Convention (UNFCCC) accessible to European SMEs, and DG AIDCO believes that a Network-type mechanism can deliver programmes like SWITCH Asia (encouragement of cleaner production in Asia) more effectively.

Synergies with other programmes will also be maximised. For example, the guarantee activities proposed in the new programme will operate alongside guarantee activities funded under the EU Structural Funds. The SMEG successor will focus more on guarantees supporting cross-border and multi-country lending, as well as securitisation, in line with a recommendation by the European Court of Auditors to maximize EU added value in any successor to the SMEG facility.[72] This would ensure a high degree of complementarity with

[70] An Industrial policy for the Globalisation Era, Innovation Union, Youth on the Move, A Digital Agenda for Europe, Resource Efficient Europe, An Agenda for new Skills and Jobs.

[71] Communication from the Commission, An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage, Brussels, COM(2010) 614.

[72] European Court of Auditors, *ibid,* page 50.

other EU programmes, such as JEREMIE, which are focused on the national and regional levels.

The new programme would avoid overlaps with other programmes. As stated earlier, the programme will not cover actions addressing market failures related to innovation, which will be included in the Horizon 2020 programme. For example, it is foreseen that Financial Instruments in Horizon 2020 will focus on financing research- and innovation-driven enterprises, in particular clean technologies and life sciences, where the funding is at a sub-optimal level given the high level of capital required. As a consequence, the new programme would instead target growth-oriented SMEs in their growth and internationalisation phases. Also other actions targeting innovative SMEs currently covered by the CIP would in future be supported by Horizon 2020 so that a clear distinction according to beneficiaries will be achieved. With this target group, the new programme would also avoid overlaps with the European Progress Microfinance Facility (Progress Microfinance), as there is no specific microfinance facility in the proposed Financial Instruments. The Progress Microfinance was set up as part of the EU response to the crisis with rising unemployment and social exclusion. Its goal is increasing access to and availability of microfinance for vulnerable groups, especially in the social economy. The same would apply to its successor after 2013, which will be extended to investments in social enterprises.

For the new programme, the responsible Commission services for activities to promote entrepreneurship plan to closely coordinate to establish complementary links between all their actions. Already, unemployed youth benefiting from the microfinance credit for starting an enterprise have the opportunity to also participate in the exchanges programme for entrepreneurs to acquire the necessary entrepreneurial skills. In addition, cooperation has been initiated to integrate all Commission entrepreneurship measures in order to jointly target migrants and senior entrepreneurs and potentially other target groups.

Careful consideration will also be given to the complementarity of the new programme with the proposed Partnership Instrument. It will be essential that the external action of the European Union be complementary to the external dimension of the internal agenda of securing sustainable growth and jobs in Europe.

Finally, the proposed programme would be fully complementary with existing national measures supporting SMEs. For instance, the cross-border and multi-country focus of the proposed financial instruments would avoid undue interference with public support measures which are of a national nature. In particular, the Guarantee Agreements between the EIF and participating financial intermediaries provide that the EU Guarantee will not be used to substitute existing public support, thus ensuring additionality in the unlikely case that the instruments overlap. Finally, if the existence of an EU guarantee scheme encourages the development of national schemes targeting this area or inter-linkages between national schemes in order to mutually support SME cross-border activities it would in fact have achieved its objective of enhancing SME credit access with respect to such activities.

6. POLICY OPTIONS

The scale and nature of the considered options are based on the proposed architecture of the post-2013 MFF as described in the Commission's Communication "A budget for Europe

2020".[73] All the options are consistent with the proposed budgetary allocation. In addition, however, this report also refers to a hypothetical scenario (3a), based on the analysis provided in the external study concluded before June 2011. The budgetary assumptions of this study were not consistent with the Commission's final proposal but the quantitative analysis of the study is still relevant to the considered options.

The different options can be described as business-as-usual, discontinuation and expansion.

- **Option 1 – Business-as-usual (baseline)**, the continuation of current EU support activities on their current scale;

- **Option 2 - Discontinuation**, in which all the measures envisaged under Option 1 would be terminated;

- **Option 3 - Expansion**, in which two sub-options and one hypothetical scenario are analysed:

  - ***Hypothetical Scenario 3a – Significant budgetary expansion for all components:*** *this scenario reflects the 'preferred' sub-option identified by the external study. (Although assuming a budget that exceeds (sometimes significantly) the budget proposed by the Commission on 29 June, this scenario provides most information on (quantitative) impacts, which is relevant for the assessment of the two sub-options below).*

  - **Sub-Option 3b - Modest budgetary expansion for all components:** all components are retained and their scale is adapted to the total budget proposed for the Competitiveness and SME programme in COM(2011)500.[74]

  - **Sub-Option 3c – Budgetary expansion with focus on the two main components**: the budget is the same as in Option 3b but is concentrated on the financial instruments and the Enterprise Europe Network.

Table 2 below provides a synthetic presentation of the distribution of budgetary allocation among different proposed options and corresponding envisaged measures.

Table 2 Summary of Options

	Option #1	**Option #2**	**Option #3**
	Business as Usual	**Discontinuation of EU intervention**	**Expansion of EU intervention**
Measures	€213 million/year	€0 million/year	**Option 3B:** €340 million/year **Option 3C:** €340 million/year
1 – Activities to improve European competitiveness	Improvement of the economic and regulatory environment through	Discontinuation of all current activities	**Option 3B**: Baseline plus launch of a range of complementary actions in new areas (e.g. Corporate Social

[73] COM(2011)500

[74] The options are built upon average yearly budget allocations. In view of the proposed, steeply increasing profile for the new programme, it is expected that all activities would start at a budget level comparable to 2013 and would increase over the life-time of the programme.

	benchmarking, the exchange of best practices and sectoral initiatives (€11 million/year)		Responsibility) (€14 million/year); **Option 3C**: Discontinuation of all current activities
2 – Developing SME policy and promoting SMEs' competitiveness	Implementation of the SBA and its Review at European and national level (e.g. Promotion of the "Think Small First" principle) (€9 million/year)	Discontinuation of all current activities	**Option 3B**: Same as Baseline option **(**€9 million/year); **Option 3C**: Discontinuation of all current activities
3 – New business concepts for sustainable, user-driven design-based consumer goods	Analysis related to design-based consumer goods and support measures in the areas of IPR or e-business (€1 million/year)	Discontinuation of all current activities	**Option 3B**: Use of instruments such as "market replication projects" in areas where SMEs face obstacles to take-up new eco-sustainable technologies and new user-driven business concepts (€ 12 million/year); **Option 3C**: Discontinuation of all current activities
4 – Tourism	Continuation of current initiatives in the field of tourism co-financed under CIP/EIP (e.g. follow-up to preparatory actions for sustainable tourism: EDEN, CALYPSO) (€5 million/year)	Discontinuation of all current activities	**Scenario 3B**: Expand the scope of intervention to new activities related to sustainability and targeting diversification of products and services (€18 million/year); **Option 3C**: Discontinuation of all current activities
5 – Activities to promote Entrepreneurship	Encouraging the development of entrepreneurial skills and attitudes, including exchange programmes for entrepreneurs (€11 million/year)	Discontinuation of all current activities	**Option 3B**: Same as Baseline option plus modest expansion of activities focused on the increase of number of exchanges (€12 million/year); **Option 3C**: Discontinuation of all current activities
6 – Financial instruments	Continuation of support to access to finance, mainly through provision of guarantees to SMEs and Venture Capital funds targeting firms in the growth stages (€113 million/year)	Discontinuation of all direct intervention in financial instruments, with EU action limited to elimination of regulatory barriers to cross border venture capital	**Option 3B**: 80% increase in resources, relative to Baseline, with the same range of instruments funding both debt and equity (€200 million/year); **Option 3C**: Focused expansion of activities, reflecting an increase of risk sharing finance in venture and mezzanine capital (€280 million/year)
7 – Enterprise Europe Network	Maintain the Network's role and scope as it is (€60 million/year)	Discontinuation of all direct financial support to the regional Network consortia	**Option 3B**: Same as Baseline option (€60 million/year); **Option 3C**: Re-orient the Network as an entry point for equity financing (€60 million/year)
8 – SME support abroad	Continuation of current initiatives (i.e. limited financial support to selected initiatives such as China IPR SME Helpdesk) (€2 million/year)	Discontinuation of all forms of direct initiatives	**Option 3B**: Expansion of the range of instruments including: a) coordination and information dissemination activities; b) financial support to existing SME help structures in key third

			markets; c) possible establishment of EU support centres where appropriate (€12 million/year); **Option 3C**: Discontinuation of all forms of direct initiatives
9 – International industrial cooperation	Continuation of current initiatives focused on SME and industrial policy co-operation with third countries in the "Near Europe" aiming to facilitate EU - third country convergence of industrial policy and regulatory frameworks (€1 million/year)	Discontinuation of all current activities	**Option 3B**: Expansion of the range of instruments including: a) industrial and regulatory dialogues with third countries; b) business-to-business dialogues with third countries; c) SME industrial policy co-operation (€3 million/year); **Option 3C**: Discontinuation of all current activities

Option 1 – Baseline

Under this option, the new programme would cover the same competitiveness- and SME-related elements as the EIP is expected to cover in 2013 and would have a budget of about € 213 million per year. It would include the following elements:

- ***Activities to improve European Competitiveness,*** aimed at supporting coherence and consistency in implementation as well as informed policy making at European level, would be allocated a budget of €11 million/year. They would aim to improve the economic and regulatory environment through benchmarking, the exchange of best practices and sectoral initiatives.

- ***Activities to develop SME policy and promote SMEs competitiveness,*** aimed at implementing the SBA and its Review at European and national level, would be allocated €9 million/year. Priorities would be to promote the use of the "Think small first" principle in EU and Member State policy making and to exchange good practices in relation to the implementation of the SBA.

- ***Activities targeting specific sectors:***

  - ***New business concepts for sustainable, user-driven design-based consumer goods,*** aimed at getting new business concepts to the market, would receive a budget of less than €1 million/year to fund analysis related to design-based consumer goods and support measures in the areas of IPR or e-business;

  - ***Tourism***-related initiatives co-financed under the EIP, aimed at promoting competitiveness and sustainable growth in the EU tourism industry, would be maintained (€5 million/year), including measures related to EDEN (European Destinations of Excellence), CALYPSO (social tourism) and sustainable tourism, previously implemented as preparatory actions.

- ***Promotion of entrepreneurship*** aimed at fostering entrepreneurial attitudes, mindsets, skills and capabilities would be allocated €11 million/year to encourage the development of entrepreneurial skills and attitudes, especially among new entrepreneurs, young people and women. An exchange programme for entrepreneurs would be maintained at the current budgetary level.

- Actions in the field of ***Financial Instruments*** aimed at facilitating access to finance for SMEs would be allocated a budget of approximately €113 million/year and would be centred on the provision of guarantees to SMEs and investment in venture capital funds targeting firms in the growth stages, but not excluding others. On average, 55% of the total resources would be allocated to venture capital and mezzanine instruments and 45% to loan guarantees, though flexibility should be maintained between the two instruments. Depending upon market developments and resources available, investments might also be provided to securitization schemes.

- ***Further development of EU level SME support networks:***

  - The ***Enterprise Europe Network*** providing business support services to SMEs on the ground would be kept in place as it is. Budget would be in the order of €60 million/year.

  - ***Support for SME abroad,*** aimed at supporting the internationalisation of European SMEs in third country markets, especially in the fastest-growing economies, would continue through limited financial support to existing initiatives such as the China IPR Helpdesk and the EC-Japan Centre with a budget of €2 million/year.

- ***Support to international industrial cooperation*** with candidate countries and the European Neighbourhood countries aiming to facilitate EU - third country convergence of industrial policy and regulatory frameworks would be continued at a modest level of €1 million/year.

Option 2 – Discontinuation

This option would see a halt to all current financial intervention with a budget saving of about €213 million/year. EU action would be limited to regulatory actions aimed at creating supportive framework conditions (for example, in the case of access to finance, regulatory measures aimed at improving the legal and commercial environment for venture capital operations).

Scenario 3a – Significant budgetary expansion for all components

Under this scenario, which is not considered as a viable policy option and is presented as a hypothetical point of reference, the overall budget would increase considerably (to €883 million/year) and all competitiveness- and SME-related components of the EIP as of 2013 would be expanded to the level considered optimal by the external study.

- An increase in the budget for ***activities to improve European competitiveness*** (to €20 million/year) would allow the launch of new complementary actions needed for the implementation of the Europe 2020 flagship "An Integrated Industrial Policy for the Globalisation Era". This would include implementing new industrial policy actions such as the development of new sustainable product policies, the follow up to High Level

Group on Business Services, and support for the new policy initiative on corporate social responsibility. An important goal of such activities would be to use relatively small EU-level funding to leverage much larger participation by Member States and the private sector.

- An increase in the budget for ***activities to develop SME policy and promote SMEs competitiveness*** (to €10 million/year) would allow new measures to take into account the new political priorities identified by the SBA Review, in particular by enhancing the governance structure and monitoring of SBA implementation through the SME Performance Review, exchange of good practices and communication activities.

- ***Activities targeting specific sectors:***

  - The increase in the budget of the component ***new business concepts for sustainable, user-driven design-based consumer goods*** (to €20 million/year) would allow broadening the range of instruments available. The financing of 20 to 25 pilot and market replication projects would be envisaged each year. Projects would encourage market uptake of competitive business models to achieve multi-functionality of products, intelligent manufacturing and the smart value chain, new design and product life cycle concepts, and increased customisation and personalisation of products. Part of the budget would be devoted to enhancing specialised skills and facilitating multi-sector collaboration.

  - An increase in the budget and scope of the instrument covering ***Tourism***-related measures would encompass the challenges confronting enterprises and public stakeholders in the sector. This would include an expansion of actions addressing the reduction of seasonality, the diversification of transnational tourism products, the enhancement of sustainability and promotion of sustainable and inclusive tourism products, services and destinations, EU-level collection and coordination of socio-economic data and research,, the uptake of ICT and the improvement of skills, professionalization and mobility of personnel. It would also imply an expansion of the scope of intervention to new activities, focusing especially on joint strategies for tourism promotion targeting both the EU and third countries' markets and enhanced international cooperation in tourism. The budget would be €35 million/year.

- An increase in the budget for ***promotion of entrepreneurship*** (to €18 million/year) would accelerate the development and implementation of common European solutions to disseminating best practice. In particular, the increased budget would more developed exchanges of experience between entrepreneurs and to foster entrepreneurial attitudes, skills and capabilities, in particular of women and young people. This would involve the provision of support to Member States and regions willing to launch programmes implementing best practices already tested at EU level.

- A major increase in the budget for ***Financial Instruments*** (to €700 million/year from its baseline level of €113 million/year) would allow for a considerable expansion of activities, providing a much-needed increase of risk sharing finance in particular venture capital and mezzanine capital:

- €300 million/year for several (up to four) "fund-of-funds", which would invest in venture capital funds which subsequently invest in enterprises, in particular in their internationalisation stage , but also in others, and support a structural development bringing an EU-wide venture capital market closer towards the level of comparable economies, such as the USA;

- €150 million/year for investments in venture capital and mezzanine funds which invest in particular in growth-oriented enterprises with a potential to internationalise;

- €250 million/year for a loan guarantee facility, providing direct or other risk-sharing arrangements with financial intermediaries. The facility would generate a high leverage effect and would provide the cross-border and multi-country lending that could not easily be achieved through facilities at national level, and for securitisation of portfolios of SME loans.

The choice of instruments is based on the evaluations, the external study, market analysis and, in particular, in close cooperation with the EIF. Since each financial instrument is market-based, they would receive only tentative initial allocations, in order to allow flexibility in adapting to market conditions that are likely to change during the lifetime of the programme. This applies also to Options 3b and 3c.

- ***Further development of EU-level SME support networks:***

  - An increase in the budget for the ***Enterprise Europe Network*** to €65 million/year would allow opening up the Network to more third countries and put some mechanisms in place to support the internationalisation of SMEs in third countries. Under this scenario, the Network would be able to connect and link to actions developed worldwide by other Commission services (such as SME/business centres, brokerage events programmes, Gateways), and accelerate integration of new Network members from third countries. It would provide support to the forthcoming EU strategy to support the internationalisation of SMEs beyond the EU.

  - A major increase in the budget for ***support for SME abroad*** (to €12 million/year) would allow broadening the range of instruments, including: (i) coordination and information dissemination activities, (ii) strengthening of existing SMEs support structures in key third markets, and (iii) establishment/expansion of EU support structures in key third markets based on mapping of existing services reinforcing European Business Organisations abroad and where appropriate setting up additional EU SME support centres.

- An increase in the budget (to €3 million/year) and the range of instruments for support to ***international industrial cooperation*** would include (i) industrial and regulatory dialogues with third countries (main trading partners), (ii) business-to-business dialogues with third countries, (iii) SME policy and industrial policy co-operation in the "near Europe". It would extend the thematic and geographic scope of the co-operation with third countries and to increase the effectiveness and efficiency of the co-operation.

Option 3b - Modest budgetary expansion for all components: Under this option all envisaged components would be included in the new programme at a level of financing matching the budget envelope foreseen for the Competitiveness and SME instrument in the Commission's proposal for the next MFF (€340 million/year on average). This implies that for some components the budget considered optimal by the external study would not be available and activities would be restricted to the most essential.

- A limited increase in the budget for ***activities to improve European competitiveness*** to € 14 million/year would, compared to Option 3a, result in less budget for all actions foreseen.

- ***Activities to develop SME policy and promote SMEs competitiveness***: same as baseline option (approximately €9 million/year)

- ***Activities targeting specific sectors:***

  - Similarly to Scenario 3a, the proposed increase in the budget (to €12 million/year) of the component ***new business concepts for sustainable, user-driven design-based consumer goods*** would allow broadening the range of instruments to complement previous EU intervention in areas where SMEs face similar obstacles. Projects would encourage market uptake and competitive business models to achieve the objectives outlined in Scenario 3a. Part of the budget would be devoted to enhance specialised skills and facilitate multi-sector collaboration.

  - Under a moderate extension option, EU intervention in the ***tourism*** sector (to €18 million/year) would be focused on a core set of activities offering the highest potential benefits in terms of economies of scale and generation of positive externalities. This would imply the continuation of the measures currently undertaken in the tourism field and their moderate expansion. The focus would therefore be on sustainability and extension of seasonality, the diversification and promotion of transnational high-quality and inclusive tourism products and services, use of ICT, skills and the consolidation of the socio-economic knowledge base in the sector.

- An increase in the budget for ***promotion of entrepreneurship*** (to €12 million/year) would allow accelerating the development and implementation of common European solutions to disseminating best practices. In particular, the best use of this moderately increased budget would be to enhance the number of exchanges of experiences between entrepreneurs.

- ***Financial Instruments***: a budget of €200 million/year would allow both debt and equity instruments to be funded, albeit at a lower level than in Scenario 3a and Option 3c. The budget would be indicatively split as follows:

  - €100 million/year, including the establishment of one fund-of-funds, which would invest in venture capital funds that in turn invest in enterprises with high growth potential in their expansion and internationalisation stages, but also in others, and a limited amount which would be invested directly in venture capital funds;

- €100 million/year for a loan guarantee facility, providing direct or other risk sharing arrangements with financial intermediaries to cover loans for SMEs. The facility would generate a high leverage effect and would provide the cross-border lending or multi-country lending that could not easily be achieved through facilities at national level.

- ***Further development of EU level SME support networks:***

    - The ***Enterprise Europe Network:*** same as baseline option (€60 million/year).

    - ***Support for SME abroad:*** same as Scenario 3a (€12 million/year).

- ***International industrial cooperation:*** same as Scenario 3a (€3 million/year).

Option 3c – Modest budgetary expansion with focus on the main components

Under this option the overall budget of the new programme would increase to €340 million/year (as proposed in the MFF Communication), but these resources would be concentrated on the financial instruments and the Enterprise Europe Network. This option is considered because some stakeholders during the public consultation proposed that limited EU budgetary resources should be devoted to the most successful measures of the current programme.

- An increase in the budget for ***Financial Instruments*** to €280 million/year would allow for a significant expansion of activities.

    - €185 million/year, for the establishment of one or two funds-of-funds, which would invest in venture capital funds that in turn invest in enterprises with high growth and a potential to internationalise, but also in others; in addition there would be investments directly into venture capital funds focussing on growth stages;
    - €95 million/year for a loan guarantee facility, providing direct or other risk sharing arrangements with financial intermediaries to cover loans for SMEs, including securitisation. The facility would generate a high leverage effect and would provide the cross-border lending or multi-country lending that could not easily be achieved through facilities at national level.

- The ***Enterprise Europe Network*** would be kept in place but with a shift in priority in order to become an "entry point" for helping SMEs access to finance, including easing the provision of equity, mapping of financing available for SMEs in their region and investment readiness. Budget would remain in the order of €60 million/year, as this shift of priorities is relatively easy to implement.

- All other activities would be discontinued, limiting EU intervention to the creation of supportive framework conditions through regulation.

7. ANALYSIS OF IMPACTS

This section analyses the impacts that could be achieved under the various options. The following points need to be highlighted:

- First, given the composite nature of the proposed programme, the impact assessment was carried out primarily at the component level. Details of this work are provided in Annex 5 which gives a more exhaustive analysis of each component and Annexes 6 and 10 which focus on tourism and financial instruments, respectively. At the programme level, the analysis mainly consisted in the aggregation of impacts, complemented by consideration of synergies between the proposed activities.

- Second, an effort was made to achieve a quantification of the main socio-economic impacts, in terms of gross national product (GDP), value of lending/investment mobilised, employment creation[75] and number of firms assisted.[76] However, this quantification was not feasible for the measures that envisage the use of indirect instruments, that is, those aimed at creating facilitating conditions through information provision, benchmarking and exchange of good practice, where impact would depend upon the behaviour of market participants and administrations. Therefore, the quantification exercise was limited to the financial instruments, and, to a lesser extent, the Enterprise Europe Network. (It should be underlined, however, that these measures account for the predominant share of the programme in terms of budget under all options.)

An SME test and analysis of impacts on competitiveness were performed for each option and were found to be positive in all cases except discontinuation. A summary report on the SME test is provided in Annex 12.

7.1. Impacts - Option 1

Option 1 would entail no change from what is planned under the current programme. Support to competitiveness and entrepreneurship in Europe would be ensured through the continuation of ongoing activities. The costs of this option are €213 million/year.

Many of the initiatives have already yielded concrete **economic impacts**, which are in line with the anticipated targets for the activities under the current programme.

– Over the next programme period, the <u>financial instruments</u> are expected to result in an increase of GDP (added value) of approximately €660 million per year and to generate about €1.8 billion in additional lending/equity investment. Some progress would be expected in countering the fragmentation of the venture capital industry. The collateral

[75] Analytically, it proved impossible to distinguish between jobs created or safeguarded. Nevertheless, from a social point of view, saved jobs are also important.

[76] The estimates were obtained using a static computational model, primarily based on two sets of parameters: (i) the ratios between the amounts made available under the proposed option and the number of enterprises served or the volumes of lending and venture capital investment mobilised; (ii) unit impact parameters, summarising the effects generated by the proposed option on employment and, indirectly, on value added. The estimates refer to net impacts alone, adjusted downwards to take into account possible modeling errors and the fact that some of the proposed measures may not be fully additional but overlapping.

constraint would be directly and indirectly addressed through loan guarantees.[77] It should be noted, however, that under the current programme, there is substantial excess demand that the EIF is currently unable to meet due to budgetary limitations.

– Concerning indirect support, more than 600 partners of the Enterprise Europe Network provide services all over Europe and beyond to SMEs. It contacts more than 2.5 million SMEs via newsletters every week. Since its launch in 2008, the Network has involved 1,045,567 SMEs in local promotion and information events via 19,115 organised events. More than 376,467 SMEs have been helped with queries on EU matters. About 142,243 expressions of interest on partnership proposals have been registered and 4,320 partnership agreements have been concluded. More than 10,000 SMEs have been consulted on forthcoming legislation, such as the European working time Directive or European contract law. This is well in line with its targets of 5,800 local events per year, 2.34 million of SMEs reached per year, 90,000 SMEs receiving advice after 3 years, 25,000 SMEs participating in promotional events after 3 years, 1700 concluded partnership agreements on average per year[78]. The activities of the Network are expected to generate an increase of €200 million of incremental turnover per year for assisted firms.

  Under Option 1, European business support services provided under the Network (€60 million/year) would continue to ensure that SMEs are aware of European policies and actions. Tools which help to integrate business' concerns into EU policy-making would be maintained, ensuring that the voice of small businesses is heard. The services offered by the Network would improve their cost-effectiveness.

  The Network would not be able to absorb a significant increase in funding without an expansion of its geographical coverage or its activities. Such a change was not widely supported by stakeholders in the public consultation. Many participants underlined that the role and activities of the Network should remain focused and the number of services should not to be extended beyond reasonable limits, in order for the Network to continue to provide high quality services.

– Other activities to be continued under the programme would account for €40 million/year on average and would address SMEs more indirectly by improving the framework conditions under which they operate. The impacts are not quantifiable but would include the following features. The trend towards best practice dissemination and cross-fertilisation would continue. However, the effectiveness of support measures is likely to stay at a low level as the development of a clear policy framework could not be pursued. The deployment and commercialisation of new sustainable consumer goods would remain below potential, as only background analysis would be provided. Support to SMEs abroad would remain limited to key markets and areas and, as regards international industrial cooperation, activities would concentrate on monitoring framework conditions impacting on the external competitiveness of European enterprises. Other actions would remain outside of the scope of the SME and Competitiveness programme, including supporting further SME centres abroad. There is a possibility that these could be carried on through external action programmes, which would still need to have an important European SME and competitiveness policy component.

[77] More detailed information on impacts is provided in Annex 10.
[78] EIP Final Evaluation, April 2011

Moreover, evidence drawn from the interim evaluation of the Erasmus for entrepreneurs programme shows the impact of the exchange programme in relation to several problems that the proposed programme is supposed to tackle[79]:

- Lack of entrepreneurial spirit: the programme helps increase new entrepreneurs confidence to start a business and helps entrepreneurs acquire the skills needed to successfully start and run a business.

- Lack of entrepreneurial skills: the programme helps build entrepreneurial skills through direct coaching of the new entrepreneur by an experienced entrepreneur. Acknowledging the need for future entrepreneurs to have managerial competence, some Member States require a certificate ensuring that new entrepreneurs have such skills before they can start a business.

- Lack of sustainability of nascent businesses: 50% of the companies created in the EU do not survive the first five years. The exchange programme increases the quality of business start-ups and their long-term sustainability.

- Internationalisation: SMEs do not take enough advantage of the internal market and have difficulties accessing international markets. SME founders' international experience appears as one of the main drivers for internationalisation

<u>Positive **social impacts** are expected in different forms.</u>

– As regards the <u>financial instruments</u>, positive social impacts are expected in terms of assisting approximately 26,000 firms, generating and/or safeguarding more than 16,000 jobs per year.

– The activities of the <u>Network</u> are expected to generate and/or safeguard 1,000 jobs as well as develop 900 new products, services or processes per year.

– Other <u>support measures</u> addressing the overall business environment are also expected to yield social impacts, but it is difficult to quantify the number of SMEs directly benefiting from them. For instance, in 2010, the European SME Week consisted of more than 1,504 national, regional and local events that took place in 37 participating countries. According to the EIP final evaluation, it was estimated that about 300,000 SMEs participated in those events.

Environmental impacts are positive due to environmental support for sustainability objectives provided through networking, funding and investing in resource efficient and low-impact solutions through the Enterprise Europe Network. These impacts are striking: for instance, by 2011, Network partners are expected to deliver environment-related services to about 7,500 SMEs and sign cooperation agreements with more than 400 environmental service providers.

In the light of the experiences with the current programme, the baseline scenario is likely to develop modest **synergies** among different components, most prominently between the

[79] http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/erasmus-entrepreneurs/background_en.htm

Financial Instruments and the Enterprise Europe Network. However, as noted by stakeholders during the public consultation, there is lack of clarity of the intervention logic involving other smaller actions, which are not unified by a strategic approach and eventual synergies will be driven by an incremental and piece-meal evolution. For instance, the European Network of Female Entrepreneurship Ambassadors, inspired by Swedish and UK national programmes which provided promotion and support to women wanting or preparing to start up a new enterprise, will be complemented from 2011 on by the European Network of Mentors for Women Entrepreneurs which will provide mentoring services to women entrepreneurs who have recently started an enterprise.

Based on the above considerations, and in line with the findings of the final evaluation of the current programme and the external study, Option 1 would achieve the objectives of the new programme to a certain degree. The EIP final evaluation confirmed, however, that the current scale of the programme is only slightly mitigating the underlying problems of EU competitiveness and entrepreneurship. Option 1 would imply that initiatives that are currently operating below optimal scale would remain under-developed, including in areas where there is a clear need to expand EU action (such as the financial instruments). In the current economic climate, it is likely that the simple continuation of the current programme under more difficult conditions resulting from the economic crisis would help address the problems but it would not be able to alter the likely evolution of the problem considerably.

7.2. Impacts - Option 2

The assessment of the **economic impacts** of Option 2 implies responding to the question: "What would be the budget saved and the foregone benefits of a discontinuation of all initiatives under the current programme?"

The main benefit from Option 2 would be a budget saving of approximately €213 million/year, which corresponds to the budget allocation to the EIP's competitiveness, entrepreneurship and SME-related activities in 2013.

– The foregone benefits, however, would be significant. For example, current activities under the financial instruments, which represent about half of the EIP budget with about € 113 million allocated annually, are estimated to have so far generated about € 1.8 billion per year in additional lending/equity investment facilitated.[80] Fragmentation of the venture capital industry would persist and probably aggravate. SMEs would face more stringent collateral requirements due to Basel III.

– Looking at the other measures in place, the costs of Option 2 clearly outweigh the benefits. For example, terminating the activity of the Network would entail a loss of € 200 million/year of added value in incremental turnover for assisted firms; a loss of 1,000 jobs created and/or safeguarded per year; a loss of 900 newly developed products, services or processes per year compared with the baseline option.[81] These effects would impair access to the Single Market by European SMEs and would slow down the pace of developing cross-border collaboration.

80 External study, Economisti Associati, 2011
81 External study, Economisti Associati, 2011

Furthermore, without financial support from the European level, national business support services would have less incentive to operate and to provide feedback to the Commission. They would thus not be a European focal point for first-hand information about business activities, and the EU would lack an instrument for dissemination of best practices, counselling, feedback and relay functions focussed on SMEs. Spontaneous collaboration between national services is unlikely without European coordination, as national or regional partners are unlikely to see an interest in offering common cross-border services.

– As regards the discontinuation of other activities, Option 2 would deprive national and regional actors of existing opportunities to work together, learn from each other and make quicker progress towards common goals through the exchange of best practice, benchmarking and expert groups in SME and entrepreneurship policy. Successful current activities such as the SME week, the Ambassador scheme for female entrepreneurs, the network of European destinations of Excellence (EDEN) and the China IPR SME Helpdesk would be terminated and their positive impact on European competitiveness would be lost.

As far as impacts on SME's are concerned, Option 2 would mean failing to sustain existing actions as well as failing to deliver on the commitments enshrined in the Review of the Small Business Act and the Industrial Policy Flagship. This would mean leaving the effort of promoting entrepreneurship and the competitiveness of SMEs wholly to the Member States.

Furthermore, discontinuation under Option 2 would not only directly affect SME's but also mean foregoing the positive **social and environmental effects** as described under the baseline option, as well as existing **synergies** among different components of the current programme.

Option 2 would save the resources currently devoted to the EIP but it would negatively impact on the EU's long-term competitive position and further widen the gap with its main competitors. Cost savings would be accompanied by much higher forgone benefits. Based on the above considerations, and in line with the findings of the final evaluation of the current EIP, the external study and feedback from stakeholders during the public consultation, it emerges that Option 2 would fail to contribute to Europe's entrepreneurship and competitiveness objectives on all fronts.

This conclusion is in line with the responses to the CIP public consultation and the conclusions of the public conference. The main message was that any future programme should be carefully designed to build on what has already been achieved.

7.3. Impacts - Scenario 3a

On the cost side, Scenario 3a involves a significant increase in budget to a total of €883 million/year compared to €213 million/year in Option 1. By far the biggest increase would be for financial instruments (from €113 million/year to €700 million/year), which would allow significant scaling-up of the level of intervention and strengthening the range of financial instruments available. This would respond to one of the messages of the public consultation, where the Commission was asked to provide a wider range of financial instruments addressing different needs and responding to future market conditions. For example, it was asked to consider support to mezzanine funds or business angels. These elements would be included in this scenario.

On the benefit side, Scenario 3a would generate substantial **economic impacts**:

– These would be primarily measured in terms of incremental GDP from the financial instruments, estimated at an increase in GDP of approximately €2.3 billion per year. The financial instruments under this scenario are also estimated to generate €7.2 billion in additional lending and equity investment compared to the baseline scenario. These estimated benefits of financial instruments only concern the direct impacts, i.e. impacts on the benefiting enterprises, without consideration of wider impacts. The latter would include indirect impacts on other economic actors, in terms of increased business activity (e.g. an increase in output from the suppliers to the enterprises assisted under the programme), as well as induced impacts, resulting from increased household spending due to the direct and indirect increase in economic activity. While a precise quantification of indirect and induced impacts is not feasible, previous studies on similar financial instruments suggest that they could account for anywhere between 50% and 100% of direct impacts.[82] In particular, substantial indirect impacts are to be expected in the case of intervention in support of venture capital investments, which exert a deep impact on the business process, contributing to the emergence of entirely new lines of businesses.[83]

  All financial instruments will have impacts beyond the programme period, in particular those that help to create new financing markets for SMEs (such as the further development of the securitisation instrument).[84] They will act as a catalyst to accelerate national policy development in the field of access to finance, contribute to the development of new SME financing instruments and increase the supply of development equity for SMEs in their expansion stage ("follow-on" capital in order to bring products/services to market, to continue cross-border activities and to allow further growth). They will increase the supply of debt finance for SMEs that lack the necessary collateral to obtain such loans. They will contribute to capacity-building in countries with banking intermediation that is significantly lower than the EU-average, in partnership with the international financial institutions that provide loans to these countries.

  Regarding the financial instruments, Scenario 3a would constitute a major increase in the level of funding for the EU venture capital market. About two thirds of the total budgetary resources would be allocated to venture capital and more than 40% would be destined to setting up three or four "funds-of-funds" in public-private partnership with institutional and strategic investors. Such actions would need to be finely tuned as to avoid influencing capital allocation processes, create disincentives and crowding-out. Taking these factors into consideration would require a cautious and stepwise approach, which would tend to indicate that a low level of EU funding, combined with legislative measures to reduce the fragmentation of the EU venture capital market might be preferable. These instruments

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82 Hayton K. and others, Evaluation of the Scottish Co-Investment Fund, Report to Scottish Enterprise, May 2008 ; EKOS Limited, Economic Evaluation of South of Scotland Loan Scheme, Final Report for SEBSED Ltd, June 2008.

83 An example is the telecom system Skype, whose early development was actively supported by an equity investment under one of the predecessors of the proposed programme, the ETF facility. Apart from the financial profits generated (Skype was reportedly sold to eBay for about US$2.6 billion in 2005 and later re-sold to Microsoft for US$8.5 billion), the emergence of Skype dramatically altered the landscape in the telecoms sector, bringing about a remarkable decline in the cost of communications, which in turn generated further business opportunities in areas that depend on telecoms (such as call centres and telephone marketing).

84 A detailed discussion about the envisaged instruments is provided in the external study.

would structurally reinforce the venture capital industry and reduce its fragmentation. An improved range of financial instruments would be available. Furthermore, the collateral constraint would be directly addressed through loan guarantees and securitisation.

Similarly to the venture capital measures, the risk-sharing facilities for debt financing in Scenario 3a would have a structural effect, making possible an increase in the credit volume of €5.5 billion per year. This, however, might raise concerns whether such an increase in public sector risk sharing and coverage would result in private guarantee providers withdrawing to some extent from the market ("crowding-out)".

– The increase in budget for the Enterprise Europe Network (from €60 million/year to €65 million/year) would allow opening up the Network to more third countries and put new mechanisms in place to support the internationalisation of SMEs. The change in scale and scope of the Network's activities would, however, be modest and it was not possible to quantify it. Compared to the baseline, positive economic impacts can nevertheless be expected via improved support to SMEs covering new themes and new geographical areas.

– The budget of the remaining activities would also increase considerably under this scenario (from €40 million/year to €118 million/year). Again, quantitative impacts are difficult to measure, but positive impacts could be expected. Activities to improve European competitiveness and entrepreneurship would lead to relevant policies based on best practices being implemented at EU and Member State level. As regards consumer goods, the deployment of market replication projects would be significant, with 40 projects to be supported per year. This would bring forward the commercialisation of such products, with positive effects on sustainability and consumer satisfaction as the number of available user-driven products and services would be increased. Tourism-related actions would further help businesses to save costs, improve their competitiveness, stimulate the regional economy, and improve sustainable and inclusive development and to fulfil the guests' expectations in this respect.[85] As regards SME business support in markets outside the EU, a considerable scaling-up of financial support would lead to increased direct presence of SMEs in key global markets, as they could rely on specialised support. Improved international cooperation would also have positive impacts on business internationalisation.

Several interventions envisaged under Scenario 3a would have positive **social impacts**.

– A major contribution to employment would be expected from the financial instruments, which are estimated to contribute to the generation and/or preservation of more than 50,000 jobs and assisting approximately 65,000 firms more compared to the baseline option.

– The Network would be expected to have an impact of 1750 additional created or safeguarded jobs per year compared to baseline. Quantitative improvements would be accompanied by significant advances in qualitative terms, which would empower SMEs in the development of solutions to common challenges.

[85] As demonstrated by the preparatory actions EDEN and CALYPSO: http://ec.europa.eu/enterprise/sectors/tourism/index_en.htm

Scenario 3a would also bring about **environmental impacts**:

– The expansion of the Network would spread the EU environmental rules to additional third countries, generalising best practices. Increased collaboration with Member States through supporting best practices in relation to support for green businesses would result in improvements in policy co-operation and co-ordination across the EU. The Action Programme on Administrative Burden Reduction that was funded through the EIP is an example of this virtual circle. Moreover, small-budget sectoral studies financed by the EU can be used as the catalyst for major public-private sector initiatives (such as the early development of the project on user-driven consumer goods).

– Environmental impact would also come from the scaling-up of other initiatives in support of eco-sustainable processes and products in traditional industrial sectors and in tourism. First, initiatives in the area of personalised consumer goods would allow companies to match production and demand, contributing to more sustainable consumption patterns. Second, tourism would be more closely linked to the environment, as travel is responsible for a significant share of CO2 emissions and tourists' behaviour can significantly impact on the local territory. Sustainable management both at enterprise and destination level, detailed information and awareness-raising campaigns for visitors and staff, as well as uptake of sustainable products and processes on the ground would considerably help to reduce the environmental impact of tourism.[86]

Based on the above considerations, it emerges that Scenario 3a would achieve the objectives of the new programme to a considerable degree, although at a cost that is not considered by the Commission to be compatible with other demands on the EU budget post-2013.

7.4. Impacts - Option 3b

Option 3b refers to a situation in line with the budgetary allocation foreseen under the Commission's MFF proposal, with an average yearly budget of €340 million.

With this expansion of the budget compared to the baseline, **economic impacts** are expected to be higher than in the baseline scenario, as support to the financial instruments is increased considerably (from €113 million/year to €200 million/year). This can be expected to lead to sustainable effects. Yet this option would assume a more direct and increasing response from private investors but would provide a balanced approach in supporting the development of the European venture capital market. Considering the total resource level in Option 3b and the need to cover both the venture capital and the guarantee segment, the most appropriate strategy would be to split the resources in a similar way to the baseline option.

Regarding the potential crowding out of private guarantee providers, the new facility (at the suggested resource level) is expected to have the opposite effect. The provision of loan guarantees is generally recognised as one of the least distortive public interventions in the credit markets. The proposed facility will also cover cross-border and multi-country lending and guarantee schemes, areas with higher risks where very few private guarantee schemes operate. It is essentially a new market that will strengthen the Single Market and support SME internationalisation. In addition, the proposed facility will offer counter-guarantees and other

86 As demonstrated by the preparatory actions EDEN and CALYPSO, see above.

risk sharing arrangements to guarantee providers thus allowing them to expand their business. So, overall, far from crowding-out existing private schemes in this area it is expected to reinforce them and attract new players by expanding the market segment and providing additional funds. In particular, investment parameters will be set in such a way that specific policy objectives, including the targeting of particular groups of potential beneficiaries, can be achieved while still preserving the market-oriented and demand-driven approach of this instrument.

Concerning provision of venture capital, in the current economic circumstances, private investors are withdrawing from the market at the same time as we see an increasing demand for capital from SMEs. It is a vicious circle with a diminishing market for institutional and other private investors. At the light of the experience accumulated with the current programme, there is a long-standing, widely recognised shortage of venture capital in Europe, which is regularly confirmed by contacts with stakeholders, by studies and by the European Investment Fund, which has an unparalleled overview of the European VC market, since it is invested in almost 350 funds.

– Compared to the baseline, <u>financial instruments</u> are expected to result in an increase of GDP of approximately €500 million above baseline level and to generate about €1.7 billion in additional lending and equity investment. However, under this option, the focus of the financial instruments would be more narrow than Scenario 3a, addressing the financial needs primarily of growth-oriented enterprises, but also including young enterprises to some extent.

  The level of budget envisaged for the financial instruments would mean that it would certainly not be possible to meet all market demands. However, the venture capital schemes would be focussing on cross-border operating funds, which thereby support the development of an EU-wide venture capital market. Investments in funds will be made alongside private investors. For the guarantees schemes the expected leverage of EU budget resources is about 1:30, based on experiences from current and previous programmes. However, the leverage would, at least initially, not increase proportionally to the resources, but the number of beneficiaries would still be more than 275,000 for the programme period, i.e. an almost 50% increase compared to the baseline.

– Compared to the baseline option, no additional impact is expected by the <u>Enterprise Europe Network</u> as the budget is kept at the same level (€60 million/year).

– Under this option, the budgetary allocation for <u>other activities</u> is increased in order to reach a more appropriate scale (from €40 million/year to €80 million/year). A limited increase in the budget for support for European competitiveness to €14 million would make it possible to implement some of the new actions included in the Europe 2020 flagship "An Integrated Industrial Policy for the Globalisation Era" as compared to the baseline option. These new actions would notably relate to monitoring and best practice exchange at the level of Member States, launching initiatives relating to corporate social responsibility as well as new preparatory work for industrial policy initiatives related to sustainability in specific sectors. The corresponding potential for leverage in terms of influencing Member States programmes and expenditures and on private sector activities would present an improvement compared to the baseline. As regards SME policy development, the same budget as under the baseline scenario would be maintained and the same impacts can be expected. With an increased budget in relation to user-driven consumer goods (to €12 million), it would be envisaged to support market replication projects, albeit at a reduced level compared to Scenario 3a. However, it would still be expected to support 20 projects per year with the induced impact on availability and sustainability of products.

– Concerning SME business support in markets outside the EU, a considerable scaling up of financial support would lead to increased direct presence of SMEs in key global markets as they could rely on specialised support. Improved international cooperation would also have positive impacts on business internationalisation.

In stakeholders' views, a future programme should concentrate on creating a favourable business environment, including support to access the internal market, standardisation and better regulation. The need to continue the exchange of best practices and general policy support as well as European added-value of support to specific sectors was also widely recognised. Specific consultations with tourism stakeholders showed strong interest and support in most Member States for transnational cooperation projects and exchange of good practices. The mid-term evaluation of the preparatory action "European Destinations of Excellence" underlined the scope for continuation and extension.[87]

As regards **social impacts**,

– the financial instruments are expected to assist approximately 13,000 firms, generating and/or safeguarding 11,000 jobs more than the baseline option.

– Moreover, an increase in budget support to tourism-related activities (to €18 million) would not only allow for the continuation of current activities, but also for their scaling-up and the addition of new support measures to tackle the issue of seasonality.[88] Putting in place measures meant to tackle seasonality at EU level would counter-balance the negative effects of seasonality by ensuring a wider time-wise spread of touristic/economic activity. This can be done through changing marketing techniques and by creating incentives for different target groups, for example, youth and the elderly, as well as other groups, to visit destinations off-season. Positive externalities would be generated not only in economic but also in social returns.

– In general, the envisaged measures are designed to be open to all groups of economic actors and in this sense non-discriminatory. However, the planned activities to promote entrepreneurship are an exception, as they are designed to also target specific groups. Their aim is to promote and foster entrepreneurship across European societies, including social entrepreneurs, long-term unemployed, elderly workers, migrants, ethnic minorities. For instance activities promoting entrepreneurship are expected to lead to a direct employment effect of 300-400 additional jobs, due to the internationalisation of

[87] http://ec.europa.eu/enterprise/dg/files/evaluation/report_eden_en.pdf

[88] The core of the problem lies in the concentration of tourists in certain destinations for often short periods of time in specific periods of the year. This phenomenon results in the congestion of local facilities and puts a destination's resources under severe strain. Moreover, during the low season, these same destinations have very limited touristic activity, with obvious negative consequences for those employed in the sector and in terms of exploiting existing facilities in an efficient manner throughout the year. Overall, seasonality negatively affects the long-term sustainability of tourism in some areas. Data on the seasonality of tourism in Europe are available at epp.eurostat.ec.europa.eu/statistics_explained/index.php/seasonality_in_tourism_demand

beneficiary entrepreneurs. Awareness campaigns to promote exchanges of female entrepreneurs are planned to start in 2012, in order to improve the 46/54% ration of registered entrepreneurs for this programme. Besides these proposed measures targeting young people and women, it is envisaged to conduct promotion campaigns targeting specific disadvantaged or vulnerable groups through intermediaries of the Enterprise Europe Network.

– The increased budget for the exchange programme for entrepreneurs would allow organising 1300 exchange visits per three-year cycle, compared to 900 today. These mobility exchanges would likely increase the number of business start-ups, their survival rate, and the extent of SME internationalisation. Based on the interim evaluation report and previous estimations, this budget could contribute to the creation of some 200 start-ups, and 850 to 1,500 jobs created or maintained per year (including additionality, displacement and indirect job creation effects).

Environmental impacts are not expected to be significantly higher compared to the baseline, especially as a result of promotion of sustainable processes and products in targeted sectors such as tourism.

Aggregate impact due to **synergies** among the different components of the programme is expected to be important compared to the baseline as the reinforced financing of different measures is expected to enhance cooperation between policy-makers at EU and national level. Strong emphasis would be placed on identifying and disseminating best practices.

– The Network would be the centre-piece connector of different components of the programme, multiplying synergies between measures such as support to SMEs abroad and international industrial cooperation. The major direct benefit would be to increase the Community dimension in the content of national policy as the Network would contribute to avoid duplication of efforts between Member States by disseminating information and know-how of best practices. This development is expected to lead to an increase in the number and quality of specific national and regional policies on SMEs and entrepreneurship.

– Activities to improve European competitiveness, on the one hand, and the activities to develop SME policy and to promote entrepreneurship, on the other, will be mutually reinforcing as all are intended to improve the framework conditions under which European businesses operate.

– Another example of expected synergies is the interplay between the Enterprise Europe Network and other activities under the new programme. The services of the Network will cover the improvement of access to finance for SMEs such as through the financial instruments. The "use" of the Network for the promotion of the financial instruments will, for example, make further promotional activities unnecessary. The Network will also promote the internationalisation of SMEs in close collaboration with the other measures envisaged in that respect (support to SMEs abroad and international industrial cooperation).

– As regards international industrial co-operation, in particular the government-to-government industrial and regulatory dialogue, the objective is to enhance convergence between regulatory and business environments between the EU and third countries. As a consequence, the Network will benefit if there is more convergence because that will make international business deals easier. Likewise, the SME support abroad action will benefit because regulatory dialogues can unlock markets and therefore make them more attractive for SME's to explore.

Based on the above considerations, Option 3b would achieve in a satisfactory way the objectives of the new programme, by striking a balance between them and allocating scarce EU budgetary resources in a proportional way. The overall impact of the proposed programme, however, will depend on the surrounding economic conditions and this would be reflected in a flexible use of available instruments and measures. In any case, compared to the baseline option, impacts would be considerably higher.

7.5. Impacts – Option 3c

Option 3c would also be in line with the budgetary allocation foreseen under the MFF proposal (€340 million/year), but the activities would be limited to the financial instruments and the Enterprise Europe Network.

In this option a priority would be given to venture capital investments so that the additional €80 million compared to Option 3b would be allocated to that segment. Thereby, it will be possible to set up two fund-of-funds rather than one as is the case in Option 3b.

Concerning **economic impacts**,

– the concentration of resources mainly on the <u>financial instruments</u> (€280 million/year) would allow further reduction of the estimated market gaps for SME financing, without being able to eliminate it completely. Since the resource level is less than half of Scenario 3a the structural effects on the venture capital market would clearly be more limited. Compared to the baseline, financial instruments are expected to generate an increase in GDP of approximately €0.3 billion and €1.1 billion in additional lending and equity investment facilitated. Some additional impact is expected from the <u>Network</u> compared to the baseline, due to the shift in priority to become an "entry point" for helping SMEs access to finance in connection with the increased budget for the financial instruments. As, however, the budget for the Network is kept at the baseline level of €60 million/year, this effect is not quantifiable.

– The main economic costs under this option would concern the opportunity costs of not tapping the European added value which could be generated by the <u>other, smaller-scale support activities</u> proposed under the baseline option and Option 3b. It is not possible to quantify their economic impact as they are mostly indirect instruments, i.e. aimed at creating facilitating conditions, whose ultimate impact would depend upon the behaviour of market participants and administrations.

As regards **social impacts** under this option:

– Financial instruments would create an additional 5,300 jobs per year compared to the baseline.

– Nonetheless, this option would have a negative impact in terms of missed opportunities of European added value resulting from the discontinuation of the smaller-scale activities of the baseline scenario. Similar to the discontinuation option, the concentration on only the two main activities of the current programme would mean failing to sustain some important existing actions. The value added of policy coordination at European level would be foregone and established networking structures in areas such as SME policy and tourism would be terminated. Moreover, without activities to support SMEs abroad, it is likely that European SMEs would be less successful in seizing the opportunities in emerging markets that recent studies have highlighted, which would imply negative economic and social impacts from this option.[89] Furthermore, fact-based policy making at the European level would become more difficult without support from EU-level analysis and benchmarking activities.

This option was considered because in the final evaluation of the EIP some Government representatives and business organisations questioned the number of small-scale activities that are supported under the current programme. The suggestion was that there ought to be a greater concentration on a few main areas of activity in order to avoid dispersion.

However, the final evaluation did not endorse this recommendation, commenting that these views do not represent a balanced assessment of small-scale activities such as benchmarking, exchange of best practices or networking carried out under the EIP. These activities suffer from a sub-optimal budgetary allocation, which allows only a minimal level of intervention, even in areas where there is a clear need to expand EU action. Other stakeholders (Member States´ representatives as well as business organisations) expressed strong support for smaller-scale activities such as support to the internationalisation of SMEs, entrepreneurship benchmarks and the dissemination of best practices in entrepreneurship policy and implementation. They urged that measures to promote entrepreneurship, improve the regulatory environment and promote corporate social responsibility should be retained in a future programme. This was also confirmed in the public consultation, where there was widespread support for measures oriented to create a favourable business environment for SMEs.[90]

Environmental impacts are expected to be positive, but not significantly higher compared to the baseline.

Aggregate impact due to **synergies** among different components of the proposed programme under this scenario is deemed to be inferior to the baseline scenario, as only synergies between Financial Instruments and the Network are going to be present.

Based on the above considerations and the recommendations of the EIP final evaluation, Option 3c would partially achieve the objectives, but at the cost of neglecting certain underlying problems of competitiveness and entrepreneurship.

[89] EIM, June 2011

[90] Public consultation on the future EU support to competitiveness and innovation, p. 2 and 33

8. COMPARING THE OPTIONS

8.1. Effectiveness

Based on the above considerations, and in line with the findings of the final evaluation of the current EIP and the external study to inform this impact assessment, the baseline option would achieve some of the programme's general objectives, whereas Option 2, discontinuation of all current European measures, would fail to promote Europe's entrepreneurship and competitiveness capacity on all fronts. Option 3c would leave many of the underlying problems untreated, so that Option 3b would represent the best response to the identified objectives as well as being in line with budgetary reality.

The externalisation of implementation tasks for the future programme to the successor of the Executive Agency for Competitiveness and Innovation will be confirmed and strengthened, as the performance audit of the current programme conducted by the IAS highlighted the scope for more outsourcing in order to improve the effective use of staff resources. The IAS recommended to analyse the cost-effectiveness of managing diverse one-off actions with a view to standardising their management, better segregating policy-related work and budget implementation, and concentrating the funds on fewer types of financial operations under the next Multiannual Financial Framework. Therefore, the future programme would be outsourced significantly more to EACI. A summary of the expected impacts is provided in Annex 13.In reply to the recommendations made by the Court of Auditors concerning the effectiveness of the SMEG, any future programme will implement improvements to the management of the Financial Instruments:

– signing agreements with intermediaries as soon as the programming period has legally begun;

– any future fiduciary and management agreement (FAM) between the Commission and the EIF will specify a scoring system to be used by EIF in its selection of intermediaries;

– in order to reduce the relative number of enterprises that have used a loan guarantee without actually needing it, it is envisaged that the future FAM will require that Guarantee Agreements signed by the EIF and the intermediaries reflect the undertakings in terms of EU added value. The EIF will be contractually required to check in their monitoring the system of decision making by the financial intermediaries to ensure that only enterprises that are in need of the instruments are using them.

– the programme's objectives will be translated into clearly defined eligibility criteria.

A summary of the Court of Auditors' special report recommendations and the Commission's reaction is provided in Annex 11.

8.2. Efficiency

In order to assess the efficiency of proposed options, the quantitative analysis covered three aspects: (i) the cost-effectiveness of the proposed measures, measured in terms of cost ratios linking budgetary outlays to the expected impacts[91], (ii) administrative expenses for the EU[92], and (iii) administrative expenses for beneficiaries[93].

8.2.1. Cost-effectiveness

As indicated above, it was not possible to arrive at a quantitative estimate of impacts for all the proposed measures. Nonetheless, the available data for financial instruments can provide useful indications of the level of cost-effectiveness under the different options, as they would account for the largest share in terms of budget of the programme under all options.

Typical cost-effectiveness indicators include the average budget allocation per enterprise assisted and net incremental value added per budget costs. The cost-effectiveness of the various options was analysed compared to the initial budgetary cost. However, it is important to note that in the case of financial instruments, budgetary allocations do not correspond to the final cost to the EU budget, as resources allocated to some instruments, such as venture capital funds, are largely recovered, sometimes with profit, in the longer term. The relevant parameters for the financial instruments are presented in the table below.

Table 3 - Comparison of cost-effectiveness for financial instruments[94]

	Option 1 - Baseline	**Option 3b - Modest expansion**	**Option 3c - Focused expansion**
Number of firms assisted/Budget cost of assistance (firms per €1 million)	611	523	280
Net incremental employment/Budget cost (jobs per €1 million)	366	354	228
Net incremental value added/Budget cost (€ million per €1 million)	15	15	10
Budget cost per firm assisted (€)	1637	1913	3574
Budget cost per net incremental job (€)	2735	2824	4385

The differences between the three options reflect the allocation of budget between venture capital instruments and guarantee instruments. Cost-effectiveness is estimated to be comparable for Options 1 and 3b reflecting the fact that both entail a relatively high share of the resources being spent on guarantee instruments. The latter reach a high number of enterprises and thereby generate a substantial employment effect. The budgetary cost per enterprise and job are therefore relatively low. Investments via venture capital funds reach fewer enterprises, but would in the longer term generate substantial economic effects as well as jobs.

The outcome of each of the two expansion options is sensitive to the composition of the measures. Option 3b has a larger part of guarantees than 3c. In the former, the guarantee instrument, due to the much higher leverage, benefits many more enterprises and generates more employment which leads to higher value added (GDP) per unit of budgetary resources. In the latter, venture capital investments based on new product and service concepts in a

91 In terms of marginal job cost and incremental impact to budget cost
92 Measured by the ratio of administrative personnel costs to the overall budget
93 Based on the survey on administrative costs
94 External study, Economisti Associati, 2011

longer perspective can generate higher value added and growth. EU venture capital spending can also contribute to the development of the equity market and strengthen the entrepreneurial eco-system.

Additionally, an estimate of the cost-effectiveness for the Enterprise Europe Network can be provided under Option 1. This is based on a Client Satisfaction Survey undertaken in 2009 among beneficiary SMEs, collecting impact data for partnership building services, which are the most important category of services provided by the Network.[95] The average impact per firm was € 220,000 of increased turnover per year and 0.6 jobs created or safeguarded per firm per year. This baseline cost-effectiveness is estimated to remain stable under all options, as the budgetary allocation does not change significantly.

8.2.2. Administrative Costs

The analysis of administrative costs for the different options is based on two factors: (i) estimates provided by the EIP final evaluation and (ii) information on expected staffing levels.

The estimates of administrative costs for grants under the baseline are in line with comparable schemes (6.3%). However, as a large part of the budget is implemented via financial instruments, which exhibit a much more favourable cost/budget ratio of less than 1%, the overall performance of the programme is favourable.

The share of staff costs would improve for Options 3b and 3c as compared to the baseline, due to significant economies of scale for financial instruments, the main measure under both options in budgetary terms. These outweigh the impact of the additional resource-intensive small-scale activities envisaged under Option 3b.

Details on the analysis of administrative costs are provided in Annex 14.

8.2.3. Administrative costs for beneficiaries: survey results

A survey was conducted in June 2011 on the administrative costs incurred by entities that received support under the EIP. The survey covered the financial instruments, the Enterprise Europe Network and other EIP grants and provides evidence on the time spent and expenses incurred in the various steps of the procedure. For grant schemes the time needed on average is 160-180 staff days. In the case of financial instruments, it varies from 240 days for guarantees to 70 days for venture capital investment. The ratio of costs to budgetary allocation varies from 0.5 % for financial instruments to 10.9 % for the Network. For other EIP grants it is 8.3 %. Recurrent activities like reporting are most time-consuming, followed by the preparation of applications for support.

Beneficiaries made the following recommendations:

– the use of lump sums and flat rates and the elimination of nominative indications of staff employed on the project, which would simplify the preparation of financial proposals as well as financial reporting and auditing;

[95] Enterprise Europe Network Client Satisfaction Survey, Annex 9

– the reduction and/or simplification of administrative documents to be submitted at the application and/or at the contracting stage;

– the elimination of the need for private sector beneficiaries to provide a bank guarantee; and

– the simplification of periodic reporting and the adoption of on-line reporting.

In reply to these recommendations, any new programme will contribute to the reduction of administrative burden by:

– applying the rules of the revised Financial Regulation;

– further simplifying reporting and documents, and striking a balance with the requirements for sound financial management of the EU budget;

– providing for on-line reporting.

8.3. Coherence

The success of some of the envisaged initiatives in this programme significantly depends on factors external to the programme, as well as to internal factors that are conducive to better performance.

The main external factor for the success of potential future EU intervention in the area of competitiveness will be the progress of overall economic recovery. Any intervention at EU level can only be of limited scale compared to the overall forces impacting on the economy. At the same time, the limited size of the programme requires a high degree of flexibility in the implementation stage in order to reap maximum benefits from the use of available resources.

In addition, as underlined by the Europe 2020 strategy, European competitiveness can only be achieved through action taken in several fields and at different levels. Internally, it would be crucial to ensure that as many factors impacting on competitiveness as possible are addressed by the future programme. Therefore, Options 2 and 3c would score badly compared to the baseline scenario in terms of coherence. Under Option 3b broadly the same range of activities is envisaged as under the baseline, its performance in terms of coherence would be comparable to the baseline. However, as with more budgetary resources more activities could be sustained over time, Option 3b can be regarded as superior, as it is informed by the strategic approach outlined in the SBA review of February 2011, which is unifying the different measures on competitiveness and entrepreneurship of the proposed programme. This also provides a link to the promotion of the specific needs of SMEs across all EU policies and funding programmes. The mainstreaming of SMEs concerns is a key element to complement the provision of dedicated support and services reflecting the particular needs of the SMEs community at European level.

Moreover, the dissemination of information on legislative initiatives and policies of the Commission relating to industrial and business activities provided by the Network is going to reinforce the link between any proposed programme and other elements of enterprise policies. For instance, SMEs encounter a series of problems with respect to standards and standardisation due to the amount of money and expertise necessary to follow highly technical matters and to adapt accordingly. Modern competitiveness, SME and entrepreneurship policies will build on a balance between regulatory work and financial support. For example under the current programme, a promotion campaign was supported to raise awareness on CE marking (mandatory conformity mark for products placed on the European market) and its advantages among SMEs.

Moreover, it will be important to ensure effective coordination between EU and Member State initiatives, on the one hand, and between different EU initiatives in related fields, on the other hand. All expansion options assume close co-ordination between EU level measures and those carried out by Member States, thereby focussing on EU added value and minimizing overlaps. For example, specific EU actions to support SME abroad will have to be fully coordinated with the services provided by Member States and the Enterprise Europe Network. The China IPR SME Helpdesk, funded by the current programme, provides a "best practice" example of such coordination. Care was taken not to duplicate services normally offered by law firms or patents agents at the national level. As a consequence, this free-of-charge service provider was well received by Member States as an additional common instrument to protect IPR.

8.4. Comparing the options according to the three dimensions

The following table assesses the options against the criteria of effectiveness (How far would the options achieve the objectives defined in chapter 5?), efficiency (How cost-effectively would the objectives be achieved?) and coherence (How far would each option be internally coherent?). To facilitate comparison, a scorecard methodology has been used to evaluate the performance of the options. Based on the intensity of impacts, options have been ranked using a scale from (+) to (+++) for positive impacts and from (-) to (---) for negative ones. Table 4 summarises the comparison of options across the three dimensions.

Table 4 - Comparison of options

	Budget	Effectiveness	Efficiency	Coherence
Option 1 (baseline)	€213 million/year	0	0	0
Option 2	€0 million/year	---	-	---
Option 3b - moderate expansion	€340 million/year	++	0	++
Option 3c - focused expansion	€340 million/year	-	+	--

Legend: (---) very negative, (--) negative, (-) slightly negative, (0) no change, (+) slightly positive, (++) positive, (+++) very positive

Table 5 summarises the comparison of the impacts of different options, taking the baseline option as the benchmark in relation to which other options are compared, in terms of impacts.

Table 5 - Comparison of impacts

	Budget	Economic	Social	Environmental
Option 1 (baseline)	€213 million/year	€660 million per year increase to GDP €1.8 billion in lending/equity investment €200 million incremental turnover per year	26,000 firms assisted 17,000 jobs created and/or safeguarded 900 new products, services or processes created per year	By 2011, involvement of at least 7,500 SMEs in more than 400 cooperation agreements signed with environmental service providers.
Option 2	€0 million/year	0	0	0
Option 3b - moderate expansion	€340 million/year	€500 million additional increase of GDP €1.7 billion in additional lending and equity investment	13,000 additional firms assisted 12,500 additional jobs created and/or safeguarded 200 additional start-up companies created	No change relative to baseline
Option 3c - focused expansion	€340 million/year	€300 million additional increase of GDP €1.1 billion in additional lending and equity investment	5,300 additional jobs created and/or safeguarded	No change relative to baseline

Option 2 clearly fails to address the problems of competitiveness and entrepreneurship; discontinuation of the programme would remove the EU contribution to coping with the effects of the economic crisis on the competitiveness of small business in the European economy.

Option 1, although already proved to be useful, does not ensure the same economic and social impacts as Options 3b and 3c. The only realistic choice, other than maintaining the status quo of Option 1, is between Options 3b and 3c. Whereas Option 3c concentrates the budget on two measures only, Option 3b attempts to strike a balance between different initiatives, in order to maximise the potential for added value of EU-level intervention across a wider field of activity. It also entails a relative balance between the different financial instruments. Option 3b, therefore, performs better in terms of achieving the programme's objectives and of providing a coherent set of European support activities. Competitiveness means many things, and only concentrating resources on financial instruments and the Network would not do the job. However, a wider range of activities does not come without a price. It implies higher staffing levels and therefore higher administrative costs. Moreover, the statistics and reports from the public consultation[96] show support for all envisaged activities from well above 80% of respondents.

As it offers the most comprehensive solution, and is widely supported by relevant stakeholders, Option 3b is the preferred option.

9. MONITORING AND EVALUATION

Due to the diversity of actions within the new programme, it will be crucial to develop a sound monitoring and evaluation system to check that implementation of the future programme is on track and to record progress towards the achievement of its objectives. Defining clear objectives and measurable indicators is a key requirement for all expenditure programmes and has to be set out in the ex-ante evaluation. This section

– summarises the lessons learnt from implementing the EIP and highlights shortcomings that need attention in the future programme;

– provides an outline of monitoring and evaluation arrangements for the new programme;

– identifies principles for the proposed set of indicators which are developed and illustrated in Annex 15.

9.1. Lessons learnt

The definition of indicators, monitoring and evaluation arrangements for the proposed new programme relies on two studies: (i) the final evaluation of the EIP, and (ii) the evaluation of the EIP indicators (hereinafter referred to as the "study on EIP indicators")[97].

The final evaluation of the EIP found that considerable progress has been made in the development of a sound monitoring and evaluation system offering a valuable contribution to assessing the performance on an on-going basis. It formulated three recommendations: (i) the monitoring system should be further developed in some areas; (ii) data should be provided on a regular basis in an easily accessible and standard format, notably in the implementation reports; and (iii) data should be presented more consistently.

The study on EIP indicators stated that the system in place allows for a well-founded assessment of the policy implementation against core evaluation criteria and for clear communication of the policy's effects. Despite this overall positive assessment, the study highlighted the following weaknesses: (i) indicators are too output-oriented and result/impact indicators are scarcely used; (ii) data are sometimes redundant and insufficiently coordinated; (iii) little consideration is given to the time dimension or context evolution over time; (iv) data is sometimes presented in a haphazard way in the implementation reports; and (v) there is widespread perception that monitoring provisions are complex.

[96] Available under HTTP://EC.EUROPA.EU/CIP/PUBLIC_CONSULTATION/INDEX_EN.HTM
[97] http://ec.europa.eu/cip/files/docs/eip_indicators_evaluation_finalreport_february2010_en.pdf

The structure of the EIP monitoring and evaluation system is judged to be largely viable. Taking account of the above studies, it will be further improved as outlined below.

9.2. The new monitoring and evaluation system

Monitoring of the future programme's implementation will be ensured by the European Commission on a continual basis, directly by Commission services and indirectly by intermediaries such as EIF and EACI. The Commission will draw up an annual monitoring report examining the efficiency and effectiveness of supported activities in terms of financial implementation, results and, where possible, impacts and to allow for any necessary adjustments of the policy and funding priorities. Performance measurement will be subject to a consistent set of indicators. In addition, periodic stakeholders' surveys at appropriate moments of the implementation cycle are envisaged.

The monitoring and evaluation system would largely rely on that of the current programme, but the following improvements would be made to the data collection and analysis system, as well as to the evaluation and monitoring approach (following the recommendations from the evaluations of the current programme):

– ***formulation of a new set of specific indicators and monitoring arrangements***;

– ***cross-reference to Europe 2020 flagship indicators*** to steer the programme management process and to provide additional input to the Europe 2020 monitoring process;

– ***utilisation of counter-factual methodologies***, comparing samples of beneficiaries with a similar set of non-beneficiaries, if relevant, and in order to distinguish the impact of the programme on the proposed indicators from the effect of changing economic circumstances.

– ***recourse to thematic evaluations*** across the various components of the future programme, where relevant.

The monitoring system and the indicators used to assess the current programme have already been the subject of a specific external study and of the EIP final evaluation. The recommendations from these sources have been used to improve the monitoring of the current programme which will run until 2013. Moreover, the recommendations of a recent IAS Performance Audit of the EIP will also be taken into account in the implementation of the current programme and in the design of the monitoring system and of the indicators for the next programme. To this end, a Performance Report of the current programme is currently being conducted.

The new programme will be subject to an interim and to an ex-post evaluation to assess progress towards the objectives and the results. The interim evaluation will be completed by end-2017 to feed into the preparation of a successor instrument to the programme. The ex-post evaluation will be undertaken within two years of completion of the programme.

In the case of the Financial Instruments, the future monitoring and evaluation system will be based both on regular information about the beneficiaries collected by the financial intermediaries and intermittent sample-based surveys that will cover some elements in more detail. Additional analyses will be carried out in the context of evaluations of the programme.

In particular, such evaluations will compare the development of the beneficiaries with groups of enterprises not using the instruments provided. The latter will require a detailed analysis, since there are of course a number of factors that influence the development of an individual enterprise which need to be distinguished from the impact of the programme. The most important aspects to be assessed in such an exercise are actually the growth and employment foregone because a guarantee was denied or a venture capital application turned down. The scope of the evaluations will also be extended by considering impacts on the internationalisation of enterprises. Data required for this purpose will be collected by means of surveys, on a sample basis, rather than through regular reporting, in order to avoid imposing a disproportionate burden on intermediaries and final beneficiaries.

9.3. Indicators

The monitoring and evaluation system of the future programme will build upon a robust hierarchy of objectives, with a corresponding set of indicators. The proposed list of indicators, both qualitative and quantitative, is relatively complex as indicators vary according to the action (see Annex 15). It should be noted that while some indicators are progressive to show the evolution of the programme, others are meant to be used only for an *ex-post* evaluation.

Given the indirect nature of many of the proposed actions including the Network, it will be difficult to develop appropriate indicators to fully capture their impact. Extensive discussions with Member States are ongoing to tackle this inherent design problem and particular attention will be given to the deployment of indicators which could disentangle the impact of the programme activities from the general economic development.