

# The role of Craft and SMEs for regional development and access of SMEs to European Funds and financial programmes

Discussion Paper for the UEAPME Administrative Council

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UEAPME Secretariat

## 1. The role of SMEs in the region / in regional policy

Crafts and small and medium sized enterprises represent 99.8% of enterprises in Europe and count for 2/3 of all jobs and close to 60% of added value in the private sector. The overwhelming majority of these enterprises act at local or regional level as service providers, as suppliers to larger companies and as providers for local tailor-made products.

Therefore, Crafts and SMEs play a crucial role for economic stability at local and regional level, and are at the centre of the so-called European Social Model. Owner-managers of these enterprises are, in general, more interested in the long-term development of their local economy, while shareholders and management are primarily concerned with short-term profit and boosting turnover. In general, SMEs are more responsible towards their employees and more integrated into local society. They play an important role in stabilising society and have a bridge-building function between workers and capital/equity owners.

- The current crisis has demonstrated once again that SMEs act as an important buffer in economic downturns and are much more reluctant to dismiss employees in difficult times. At the beginning of 2009, the number of large enterprises that reported a decrease in employment was twice as high than for small enterprises and three times higher than for micro enterprises, which makes SMEs an important stabiliser throughout business cycles.
- Craft and SMEs play a central role in providing vocational education and training on the job. Furthermore, SMEs are crucial for the integration of migrants into the official labour market, who start often as independents, as small entrepreneurs or as employees in SMEs.
- SMEs also play a key role as driver of innovation in Europe's economy, although most SMEs are not exercising R&D activities as officially defined. Innovation in SMEs relies to a large extent on qualified entrepreneurs and employees and on cooperation with suppliers and customers. The economic success of these enterprises in a competitive environment depends on their capability to improve their products, services and distribution models.
- Therefore, it is clear that SMEs are the key to a successful implementation of the EU 2020 Strategy, including aspects of paramount importance such as economic recovery, job creation, greening the economy and innovation. This is particularly true for the role they play for the economic development and social stability at regional and local level.

Despite this, many SMEs and SME associations complain that politicians are not aware of this role, do not involve SMEs and their representatives sufficiently in the design of policies and do not recognise and respect the needs of SMEs when policy decisions are made. This seems especially true for regional policies related to European programmes and policies using European Structural Funds, where more and more SME associations have stopped presenting projects, frustrated by high administrative barriers and lack of support from regional authorities.

In order to target regional policies better to the needs of SMEs in the regions, UEAPME proposes:

- to apply the “Think Small First” principles (consultation, SME test, only once) also at regional level, by making them a guiding principle for the next generation of regional programmes;
- to open all funds with a regional dimension (ERDF, ESF, EAFRD) to all types of SMEs including crafts and micro enterprises;
- to simplify the administration and financial regulations, especially for smaller projects, to make these funds also accessible for SMEs and their intermediaries;
- to evaluate by an independent study the impact that structural funds had in the past on Crafts and SMEs at regional level;
- to motivate / force potential beneficiaries of European Funds to integrate their specific programmes in an overall strategy, carefully elaborated by involving all relevant stakeholders including representative craft and SME associations. Furthermore, such strategies should also define the responsibilities at different levels and ensure coherence between different levels.

## **2. The next Financial Perspectives for the European Union must serve the EU 2020 goals**

The next Financial Perspectives for the European Union (2014 – 2020) have to be targeted to the priorities of the new EU 2020 Strategy, which are smart growth, sustainable growth and inclusive growth. Therefore, they have to support the seven flagship initiatives. From a Craft and SME point of view, this means the support of innovation, qualification, ICT uptake, efficient use of resources and the improvement of business environment.

In order to achieve these goals, the next Financial Perspectives:

- should focus on investments in the future (R&D, Innovation, qualification, energy efficiency, more rational and innovative forms of energy production, modern infrastructure, financing of risk, etc.);
- need financial instruments that are more coherent between different areas (such as FP for R&D and CIP for innovation) and different territorial levels (such as CIP and JEREMIE as regards SME finance);
- need a stronger investment focus on cohesion policy, which means investment in competitiveness (infrastructure, qualification, innovation and access to finance) instead of income compensation;

- should motivate / force all beneficiaries to build their programmes on future oriented strategies in line with the EU 2020 and elaborated together with all relevant stakeholders including Craft and SME representatives;
- have to ensure coherency between the action at different territorial levels (multi-level governance) and should improve the technical cooperation with representative stakeholders;
- need simplified administrative procedures and financial management rules, which are currently especially burdensome for SMEs and intermediaries. UEAPME has already presented a comprehensive [package](#) with 105 proposals for simplification and needed clarifications for Structural Funds Regulations<sup>1</sup>, which should be evaluated at technical level together with UEAPME experts;
- have to include training programmes for potential project leaders and administrative authorities, the provision of guides of good practices in different areas, a single point for declarations and data collections (only once) at regional level and a litigations settlement system as regards interpretation of regulations, applications and payment delays;
- have to be communicated better and more targeted towards potential beneficiaries and their intermediaries to ensure the envisaged uptake.

### 3. First concrete proposals to meet better the needs of Crafts and SMEs by the different financial instruments

#### a. Structural Funds (ERDF)

The ERDF (European Regional Development Fund) can play an important role to help Crafts and SMEs at local and regional level to improve their business environment and to support sustainable growth and job creation through innovation. This is the case for all regions and not only for cohesion regions. In order to exploit this potential, the ERDF must be open to all types of companies and for all relevant forms of support measures. This is also true for the European Agricultural Fund for Regional Development (EAFRD).

The Structural Funds will only be able to play their role as complementary source for financing policies if their programmes are coherent with specific EU programmes targeting the same policy areas, such as for instance CIP for innovation and SME finance or the Framework Programme for R&D.

Therefore, UEAPME proposes:

- to include all areas relevant for innovation in SMEs into the list of eligible measures, including access to existing technologies (patents and licences), access to risk-carrying financial instruments for SMEs, access to standards, investment in energy efficiency and modern forms of energy production, innovation support services, specific training measures and support for networks and clusters (see also the UEAPME discussion paper on the [Innovation policy at regional level](#)<sup>2</sup>);

<sup>1</sup> [http://www.ueapme.com/IMG/pdf/100316\\_pp\\_simpl\\_admin\\_en.pdf](http://www.ueapme.com/IMG/pdf/100316_pp_simpl_admin_en.pdf)

<sup>2</sup> [http://www.ueapme.com/IMG/pdf/100603\\_SME\\_Innovation\\_RegionalPolicy\\_UEAPME.pdf](http://www.ueapme.com/IMG/pdf/100603_SME_Innovation_RegionalPolicy_UEAPME.pdf)

- a strong focus on innovation support instruments, especially for non-cohesion regions;
- to allow the use of Structural Funds to build up and support revolving funds aiming to support access to finance for SMEs by providing loan guarantees and different form of risk financing (mezzanine instruments).

#### **b. Structural Funds (ESF)**

The EFS (European Social Fund) is an important tool to support the Integrated Guidelines (especially Employment Guidelines) and the social inclusion policy within the Framework of Europe 2020 as regards both the financial dimension (volume and scope of financial support) and the policy dimension (tool to shape policy change and agenda setting).

Therefore, UEAPME proposes:

- to fully align the future ESF with the objectives and the priorities of Europe 2020 targeting employment, training and education, active inclusion and equal opportunities;
- to support institutional capacity building, recognising the strong institutions are an essential precondition for structural reforms and growth;
- to differentiate the intensity of ESF support in accordance with the relative socio-economic situation of regions;
- to ensure tangible impact and critical mass by setting a limited number of priorities at operational level in line with the national and regional needs.

#### **c. Framework Programme on R&D (FP8)**

The Framework Programme for R&D plays an important role to foster R&D activities in the SME sector and contributes to close the existing R&D spending gap to the target (3%) set by the Lisbon and again by the EU 2020 Strategy. In contrast with the importance of this programme, we see in the current FP7 a reduction in the share dedicated to enterprise research in general and a misallocation between SME resources for thematic programmes and SME specific programmes. Please see the UEAPME document "[Towards FP8<sup>3</sup>](#)" for more details.

Therefore, UEAPME proposes for FP8:

- to increase the budget for enterprises and competitiveness from 25% to 40%;
- to earmark 15% of the overall budget for enterprises for SMEs (not only 15% of thematic programmes);
- to better balance the budget for SME specific measures and thematic programmes (50%-50% instead of the current 20%-80%).

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<sup>3</sup> [http://www.ueapme.com/IMG/pdf/100610\\_towards\\_FP8\\_paper.pdf](http://www.ueapme.com/IMG/pdf/100610_towards_FP8_paper.pdf)

#### **d. Competition and Innovation Programme (CIP)**

The most important part of the current Competitiveness and Innovation Programme (CIP) are the support measures for SME finance (loan guarantees, micro finance, equity finance and securitisation of SME loans). Due to the limited volume of the programme (about 1 Billion for SME finance in total for 7 years) the programme finances pilot projects rather than programmes which can reach the majority of SMEs.

Loan guarantees have proved to be a successful instrument to secure access to classic loans for SMEs, while other instruments, which are better able to carry risks related to projects like start-ups, innovation or business transfers, are less successful and need to be developed.

Therefore, UEAPME proposes for the next programme generation:

- a stronger focus on risk carrying financial instruments, such as “mezzanine” products;
- the use of guarantees and other risk-sharing instruments also in the area of equity finance beyond the current pari-passu investments into venture capital funds;
- a better coordination and more coherence between the CIP successor and the structural funds, to allow a complementary use of structural funds for similar instruments at national or regional level.

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