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EUROPÄISCHE UNION DES HANDWERKS UND DER KLEIN- UND MITTELBETRIEBE  
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## **UEAPME response to the European Commission's consultation "Growing regions, growing Europe"**

### **Introduction**

UEAPME welcomes the 4th Cohesion report adopted by the European Commission in May 2007, and considers it an excellent document. It analyses in fact the progresses made in order to reach economic and social cohesion and describes in detail the economic, social and territorial situation in the 268 regions that compose the European Union.

In the following document UEAPME will provide some general remarks on different topics that affect regions and SMEs according to its members' contributions. In fact, UEAPME does not dispose of information on the state of play of the Operative Programmes in all the European regions. However, the National Strategic References Frameworks as well as the Operatives Programmes seen by UEAPME seem to share some common SME policy goals:

- keeping qualified employment within the regions,
- developing endogenous potential and local economies,
- supporting cooperation between enterprises,
- setting-up of one-stop-agencies and the cut of administrative burdens.

UEAPME believes that these priorities are appropriate and can help in setting up a new and more SME-focused cohesion policy in the European Union. Before elaborating on the questions put forward by the consultation, UEAPME would like to make some general comments concerning the linkage between cohesion policy and SMEs.

First of all, UEAPME would like to stress the importance of the presence of SMEs in the different regions of Europe. Most of Europe's SMEs are mainly active at local level. Therefore, they are not only economic actors providing goods and services to the local community, but they also play a key role in fostering territorial, economic and social cohesion. SMEs have in fact the characteristic to propose a wide range of products and services of high quality to consumers and enterprises. Thanks to the variety of their activities, they concur to economic dynamism and create growth and employment. SMEs participate to the sustainable local development since they are constantly present in all kind of territories and societies. They contribute to improve our quality of life and are points of attraction for citizens.

Secondly, UEAPME would like to take the opportunity of this consultation to insist once again on the importance of representative SMEs associations. Representative SME organisations are of crucial importance for the local economic social tissue, since they can:

- support the development of enterprises (creation and transmission of enterprise, innovation, access to ICT and environmental rules);
- organise training courses for employers and employees;
- reinforce the institutional capacities and their representative organisations..

Finally, UEAPME would like to point out that the Structural Funds evolve around 4 principles, among which the partnership principle is crucial. UEAPME believes that the consultative role of business organisations is very important and should be improved both at national and regional level. In particular, UEAPME underlines the difficulty to react in time to some requests made by the European Commission due to strict deadlines. However, UEAPME believes that the involvement of partners in the development of the Operatives Programs is increasing positively after a difficult start. It wishes that in the future the involvement of the partners will start at an early stage and that they can participate in the whole discussion process.

**1. What lessons can be drawn from the experience of preparing the 2007-2013 programmes? In this context and in the light of the analysis provided by this report, how far is cohesion policy adapted to the new challenges European regions will face in the coming years?**

UEAPME ascertains that the implementation of structural policy demonstrated successes especially in economically less developed EU member states. However, the extension of the cohesion policy along with increasingly more complex programs should be critically reviewed. As a matter of fact in regards of the extension of the margin of application of the cohesion policy, UEAPME is of the opinion that cohesion policy should offer the implementation of general political goals. Cohesion policy should not be overloaded with additional horizontal issues, which go beyond the issues of structural and regional policy.

**1.1. How can the regions react to restructuring pressures from dynamic competitors in low and medium tech sectors?**

UEAPME is aware of the existing restructuring pressures from competition from third country companies, which hits particularly hard in low and medium tech sectors. The restructuring plans put in place so far, however, typically fail to pay attention to the large number of small firms and their employees that are affected by industrial change. UEAPME is therefore concerned about the tendency of public authorities to focus exclusively on the large firms affected in periods of industrial change, while smaller sub-contractors, suppliers and service providers in the local economy, which are also affected by any restructuring, are generally forgotten. Smaller firms are often harder hit by the knock-on effects of restructuring, with serious implications for their survival and jobs in the affected region.

Restructuring is clearly an area that is best addressed by local and regional policy. Any action at EU level should be confined to ensuring financial support for managing the social consequences of restructuring and economic development in the affected regions, as well as ensuring the refocused Lisbon Strategy is implemented without delay. The role that EU policy has to play in the field of restructuring is limited, although it can be important. National and local authorities are better placed to anticipate and respond to industrial change. UEAPME calls on the EU to make Structural Funds available to SMEs for activities such as training, retraining and redeployment for the workforce in affected regions. In addition, the new state aid rules must facilitate aid for small firms affected by restructuring.

Moreover, Structural Funds must be employed not only for supporting infrastructure and innovation processes, but also to contribute to adapt regional processes through the collaboration with research institutions. SME technology transfers as well as the availability of applicable results are important elements in a regional context. In many Operative Programmes seen by UEAPME, a broad notion of innovation is used, which does not only include necessarily high-tech and leaves room to innovation in skilled crafts. UEAPME believes that the Lisbon Agenda, as well as the CIP (competitiveness and Innovation programme) and the 7<sup>th</sup> RDF (research and development programme) are very important documents that can actively contribute to develop crafts and SMEs. However UEAPME wishes that the Lisbon Agenda could include in the future other political aspects such as the territorial dimension, by encouraging cross-border co-operation activities, with a particular support to diverse kinds of activities. Technological innovation for example should not be circumscribed to high level activities since the reuse or adaptation of the existing technologies could be considered 'innovation' activity as well.

### **1.2. Given wide differences in birth rates, death rates and migratory flows at regional level, what is the role of cohesion policy in responding to demographic change?**

Demographic change is one of the major challenges facing Europe and deserves special attention. UEAPME therefore welcomes all the initiatives proposed by the European Commission in this respect. Demographic change is based on two simultaneous phenomena: the increase of life expectancy and the decrease of birth rates, which together have multiple impacts on various policy areas. It is not possible to avoid facing demographic change, since it affects all European countries to varying degrees. Moreover, no member state has exactly the same combination of challenges as another. This calls for tailor-made solutions raising awareness for the problems connected with demographic change, which affects various policy areas and themes such as active ageing, training, pensions, healthcare, gender equality, immigration social inclusion, non-discrimination, mobility transport and infrastructure, environment, housing, tourism.

SMEs will particularly suffer from demographic change because it increases the shortage of young qualified workers and SMEs are very dependent of the local labour market. SMEs tend to have a more open attitude towards maintaining older workers in the job, recognising their added value as tutor for the younger employees. This transfer of knowledge within the company from one generation of workers to another is a crucial part of the informal and non-formal training provided in SMEs and represents an important part of training provided in SMEs.

UEAPME believes that a first necessary step for an integrated approach towards demographic change would be a closer coordination between employment and social protection policies in order to modernise and adapt social protection systems and labour markets to the challenges. It also believes that it would be very helpful if the EU's financial instruments, such as the Structural Funds, would support projects by enterprises, (such as SMEs) addressing the demographic change.

### **1.3. To what extent is climate change a challenge for cohesion policy?**

Climate change is a very important topic that affects the SME world. It seems that the most severe impact on Europe's natural environment will be droughts in Southern Europe and higher rainfall and warmer climate in Northern Europe. This will have profound impact on the economies of the European countries but also on the health and life of both humans and animals as well as on tourism. As a matter of fact most economic sectors will suffer due to a higher increase of natural disasters, higher prices of energy and water, likely reduction of raw materials and worsening of health conditions.

UEAPME believes that private actors will respond to climate change with autonomous adaptation initiatives to a much higher degree than what is the case with measures aimed at mitigation. Cohesion policy should therefore aim at encouraging such initiatives in order to face the challenge of climate change. Moreover, European standards in some sectors likely to be affected (for instance the building sector) should be adapted as well, in order to allow a better reaction to changing climate conditions. Finally, the EU should express its solidarity with regions suffering most heavily from the consequences of climate change through financial assistance and provision of expertise, best practices and know-how.

## **2. How can cohesion policy further develop an integrated and more flexible approach to development/growth and jobs in this new context?**

UEAPME considers the Lisbon Agenda the cornerstone that guides Member States and Regions to increase employment and develop growth. UEAPME fully supports the initiative to promote entrepreneurship starting at school, as stated in the revision of the Lisbon Agenda in 2005 and in particular in the Commission's Communication on Implementing the Community Lisbon Programme: 'fostering entrepreneurial mindsets through education and learning' published in 2006. In UEAPME's opinion an essential element to fostering entrepreneurial mindsets and releasing Europe's entrepreneurial potential culture is through appropriate education and learning, but this is not sufficient. Developing an entrepreneurial culture and an entrepreneurship spirit should be extended to the whole lifecycle and in particular should be not limited to the sole creation of businesses. Entrepreneurial mindset in general is essential to have a more pro-active attitude at work, to bring more innovation and to foster creativity. Moreover the current cultural image that is given of entrepreneurs, when they are represented, in the school manuals is rarely positive and often caricatured. This should be changed in the future.

The European economy is facing multiple challenges. European companies have to adapt quickly in order to remain competitive in a globalised world. Modernising labour markets by combining flexibility and security in a mutually reinforcing way is the main challenge ahead.

Flexicurity is vital for economic development but stakeholders must take a broad approach to meet the security needs of workers. It should be conceived as a political strategy able to address the need to improve the competitiveness of the European economy while at the same to preserve its social dimension.

Flexicurity strategies should be developed in full respect of the subsidiarity principle. Whereas the European level is the best place for defining broad common principles and facilitating the exchange of good practices, the right policy must be found at national, regional or branch level according to the circumstances. Cohesion policy can therefore be an added value in this respect.

### **2.1. How can cohesion policy better promote harmonious, balanced and sustainable development taking into account the diversity of EU territories, such as least favoured areas, islands, rural and coastal areas but also cities, declining industrial regions, other areas with particular geographic characteristics?**

UEAPME agrees with the European Commission's aim to build up a cohesion policy based on an integrated approach dealing with the diversity of EU territories. SMEs can play a key role in this respect, since their flexibility allows them to adapt and modify their development in accordance with the territory where they are located. In rural territories, for instance, SMEs can contribute to the diversification of economic activities and the development of the tourism sector. SMEs present in suburban areas, on the other hand, are usually able to maintain a certain productivity level in

place and to keep alive some kinds of jobs that would be in decline otherwise. In urban areas, SMES participate to the social and economic life and concur to develop cities and attract citizens through their economic activities. In mountain and coastal areas, SMEs maintain economic traditional activities and guarantee those activities that allow surviving during all year long.

Promoting SMEs and entrepreneurship in these different areas would therefore ensure in itself a sustainable local development.

## **2.2. What are the impacts of the challenges identified in the report for key elements of social cohesion such as inclusion, integration and opportunity for all? Are further efforts needed to anticipate and counteract these impacts?**

Social cohesion is one of the fundamental principles of the EU. Although the first role of a company is to act economically, SMEs are also well recognised social actors deeply rooted in the local community. Nevertheless it should not be the sole responsibility of employers to deal with the integration of disadvantaged group. A successful integration or reintegration process into the labour markets requires a gradual process of integration in a company, with a strong support of social actors, at local level, and in a spirit of a close partnership.

In accordance with the European Commission UEAPME believes that the ‘so-called’ group of disadvantaged people far from the labour market is very heterogenic with dissimilar needs, various reasons for inclusion and vary different levels of integration or reintegration potential. Therefore there is no one-size fits for all approach but the need for individual solutions which are based on adequate social protection, education and training, employment and economic policies. As a general rule, it seems that the low level of education and lack of skills are the main reasons for their exclusion. By ensuring that people have a set of key competencies when entering the labour market, the vicious circle of unemployment and exclusion from the labour market can be disrupted even before starting.

Creating a political and an economic environment which encourages business environment and job creation or combating the high number of early school leavers are striking examples through which the exclusion from the labour market can be largely prevented.

## **2.3. What are the key future skills that are essential for our citizens in facing new challenges? 2.4. What are the critical competencies that should be developed at the regional level to make regions globally competitive?**

UEAPME believes that a very useful list of key future skills has been already identified by the European Commission in its 2006 recommendation on key competences for lifelong learning. Identifying and defining such competences is crucial to reach the European Union’s aim of fostering a knowledge society and increasing employability.

The European Commission set out eight key competences:

- 1) Communication in the mother tongue;
- 2) Communication in foreign languages;
- 3) Mathematical competence and basic competences in science and technology;
- 4) Digital competence;
- 5) Learning to learn;
- 6) Social and civic competences;
- 7) Sense of initiative and entrepreneurship; and
- 8) Cultural awareness and expression.

These objectives include developing skills for the knowledge society and specific objectives for promoting language learning and the overall need to enhance the European dimension in education. UEAPME would like to point out that ‘entrepreneurship’ has been already defined as one of the key competences as proposed by the European Commission.

SMEs are predominantly involved in various forms of formal and non formal training which are rarely recognised such as apprenticeship and on the job learning. Regarding formal continuous training, SMEs need tailor-made training offers, adapted programmes, efficient guidance systems as well as diverse forms of financial incentives to further support their investment efforts.

UEAPME believes that in order to strengthen regions and human capital, Europe has to support education offered at local level, since they emphasize the peculiar competences of local citizens. The existence of institutions that support education is vital. Cohesion policy, through the use of the ESF provides an important contribution to education. Nowadays there is a sort of mobility of the vocational education competencies taken/ learned in skilled crafts for the benefit of the regions.

### **3. Following the appraisal of the previous questions, what is the assessment of the policy management system for the period 2007-2013?**

It is important to underline that the 4<sup>th</sup> Cohesion report does not mention features specifically about enterprises and sector of activities in which they operate. It does not indicate the reasons of the increase of employment and competitiveness. Indicators should be able to measure the contribution of crafts and SMEs in the cohesion policy of the Union. For this reason UEAPME asks the Commission to provide in the future a report on the role of SMEs, very small enterprises for the development of the European economy.

The administrative system of the structural funds is still being perceived as very bureaucratic by UEAPME’s member organisations. The existence of equivalent European and national programs and rules is a structural problem of structural funds. The mechanisms of support become more and more complex.

The setting up of a territorial integrated policy has to take into account all kind of SMEs. Because of the peculiarities of them, the setting up of the cohesion policy needs the constant support to the structures that aim at accompanying their development (branch organisations, intermediary associations).

#### **3.1. Given the need for efficient management of cohesion policy programmes, what is the optimum allocation of responsibility between the Community, national and regional levels within a multi-level governance system?**

A possible extension of the European regulatory competencies must be considered in a critical way. Subsidiarity and better regulation call for more flexibility for the regions. In the future it should be discussed how procedures could be simplified in order to obtain the necessary permissions to use Structural Funds especially for those states who are “net contributor” for the European cohesion policy.

The Subsidiarity principle is essential to respect the diversity of territories and sustain efficient governance at different levels. A revised cohesion policy must give opportunities to SMEs to improve the financing system, reduce red-tape and underline the ‘think small first’ principle.

### **3.2 How can cohesion policy become more effective in supporting public policies in Member States and regions? What mechanisms of delivery could make the policy more performance-based and more user-friendly?**

In UEAPME's opinion cohesion policy can solve only partly problems linked to regional development regarding in particular economic, social growth and labour market issues. Although a broad economic framework concerning Regional Policy is important, it is more than necessary to leave regions a wide margin of action in order to find solutions suited to the local requirements.

#### **Conclusions**

Through the different questions listed in the 4<sup>th</sup> Cohesion report, the Commission depicted the new challenges that SMEs have to face in the future, such as the lack of workforce, increase of energy price, eco innovation, demographic and climate changes. However, UEAPME would like to stress that other important issues for SMEs must also be considered, such as: fiscal policy, access to finance, educational training and research, use of new technologies and transports.

UEAPME believes that cohesion policy will become more useful is if it will be able to identify and respond to the needs of both the territories and of the actors that are based in said territory, such as small enterprises and service providers. For this reason UEAPME asks the Commission to build up a future cohesion policy through the support of a permanent partnership, which should include SMEs organisations from the first consultation steps until the final evolution and evaluation.

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