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REPORT

on the report from the Commission to the European Parliament and the Council: Growth and Employment Initiative - Measures on financial assistance for innovative and job creating Small- and Medium Sized Enterprises (SMEs) - As at 31 December 1999
(COM(2000) 266 – C5-0507/2000 – 2000/2245(COS))

Committee on Employment and Social Affairs

Rapporteur: Philip Rodway Bushill-Matthews

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PROCEDURAL PAGE

By letter of 12 May 2000, the Commission forwarded to Parliament its report entitled 'Growth and Employment Initiative - Measures on financial assistance for innovative and job creating Small- and Medium Sized Enterprises (SMEs) - As at 31 December 1999' (COM(2000) 266 – 2000/2245(COS)).

At the sitting of 23 October 2000 the President of Parliament announced that she had referred the report to the Committee on Employment and Social Affairs as the committee responsible and the Committee on Industry, External Trade, Research and Energy for its opinion (C5-0507/2000).

The Committee on Employment and Social Affairs had appointed Philip Rodway Bushill-Matthews rapporteur at its meeting of 21 June 2000.

It considered the Commission report and the draft report at its meetings of 19 October and 6/7 November 2000.

At the latter meeting it adopted the motion for a resolution by 41 votes to 1, with 0 abstentions.

The following were present for the vote: Winfried Menrad acting chairman; Marie-Thérèse Hermange and José Ribeiro e Castro vice-chairmen; Philip Rodway Bushill-Matthews, rapporteur; Sylviane H. Ainardi, Jan Andersson, Elspeth Attwooll (for Luciano Emilio Caveri), María Antonia Avilés Perea, Regina Bastos, Gunilla Carlsson (for Rodi Kratsa-Tsagaropoulou), Chantal Cauquil (for Arlette Laguiller), Alejandro Cercas Alonso, Luigi Cocilovo, Proinsias De Rossa, Jillian Evans, Carlo Fatuzzo, Ilda Figueiredo, Fiorella Ghilardotti, Anne-Karin Glase, Roger Helmer (for Raffaele Lombardo), Richard Howitt (for Elisa Maria Damião), Ian Stewart Hudghton, Stephen Hughes, Anne Elisabet Jensen (for Daniel G.L.E.G. Ducarme), Karin Jöns, Ioannis Koukiadis, Jean Lambert, Elizabeth Lynne, Thomas Mann, Riitta Myller (for Harald Ettl), Mauro Nobile, Ria G.H.C. Oomen-Ruijten (for Mario Mantovani), Manuel Pérez Álvarez, Bartho Pronk, Ulla Margrethe Sandbæk (for Jean-Louis Bernié), Gerhard Schmid, Miet Smet, Ilkka Suominen, Helle Thorning-Schmidt, Ieke van den Burg, Barbara Weiler and Teresa Zabell Lucas (for Guido Podestà).

The opinion of the Committee on Industry, External Trade, Research and Energy is attached.

The report was tabled on 16 November 2000.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the report from the Commission to the European Parliament and the Council: Growth and Employment Initiative - Measures on financial assistance for innovative and job creating Small- and Medium Sized Enterprises (SMEs) - As at 31 December 1999 (COM(2000) 266 – C5-0507/2000 – 2000/2245(COS))

The European Parliament,

- having regard to the Commission report (COM(2000) 266 – C5-0507/2000¹),
 - having regard to the Commission communication (COM (2000) 376) on the Fifth report of the Commission on the implementation of the Decision on the provision of Community interest subsidies on loans for small and medium-sized enterprises extended by the European Investment Bank under its temporary lending facility (the SME Facility),
 - having regard to the Council Decision (Decision 98/347/EC) on the Growth and Employment Initiative,²
 - having regard to the Council Decision (Decision 94/217/EC) on the provision of Community interest subsidies on loans for small and medium-sized enterprises (the SME Facility),³
 - having regard to the final report on the Third Round Table of Bankers and SMEs⁴ published by the European Commission, DG Enterprise,
 - having regard to Rule 47(1) of its Rules of Procedure,
 - having regard to the report of the Committee on Employment and Social Affairs and the opinion of the Committee on Industry, External Trade, Research and Energy (A5-0335/2000),
- A. whereas the crucial importance of encouraging the promotion of SMEs in particular and a regulatory climate conducive to investment, innovation and entrepreneurship in general, throughout the EU and candidate countries, was confirmed as a priority at the Lisbon Summit and in the Employment Guidelines 2001,
- B. whereas the Growth and Employment Initiative was set up in 1998 as a multi-annual programme, stimulated by the decision of the European Parliament to allocate EUR 450 m for the purpose of this programme,

¹ Not yet published in OJ.

² OJ L 155, 29.5.98, p. 43.

³ OJ L 107, 28.4.94, p. 57.

⁴ Adopted on 19 June 2000.

- C. whereas it is necessary for the EIB to calculate job creation effects not only on a macroeconomic input-output model but also on empirically based monitoring processes of real effects;
- D. whereas 1999 represents the first full year of the programme, and therefore by definition the start-up phase,
- E. Whereas this report on the year 1999 took the first five months of 2000 to reach Parliament's Employment Committee,
- F. whereas this report stated that formal feedback information from SMEs benefiting from this initiative would be available in August but as at mid-September 2000 such information had not been received,
- G. whereas it is therefore too early to make any detailed recommendations for alterations to the programme for future years or any comments on its success to date,
- H. whereas the initial take-up of the ETF Start-up Facility and the SME Guarantee Facility would both appear to show promise at this early stage in contrast to the JEV Facility, which has struggled,
- I. whereas the European Investment Bank (EIB) has now taken a controlling interest in the European Investment Fund (EIF),
- J. whereas the EIB is not directly accountable to EU institutions,
- K. whereas Parliament needs to ensure that it can exercise its powers of control over the forms in which its funds are used and estimate the value of the projects funded,
 1. Welcomes the launch of the Growth and Employment Initiative as a positive step to increasing and improving employment prospects throughout the EU;
 2. Deplores the time taken for the first annual report to reach the European Parliament's Employment Committee;
 3. Requests that future annual reports should be sent to Parliament much earlier than May, ideally by no later than the end of March each year, so that Parliament can have a meaningful input in time to shape the following year's programme;
 4. Considers that the basic process of report preparation should be streamlined and sharpened for the future;
 5. Requests that such future reports should include research feedback provided by users of such funds, specifically in terms of the quality and sustainability of jobs created but also on the transparency of procedures, accessibility, costs and bureaucracy attached to such funds;
 6. Calls on the Commission and the EIB to implement an effective ongoing monitoring process for all instruments of the Growth and Employment Initiative in order to provide realistic data about the job creation effects (gender of new employees, quality and

- sustainability of jobs, average per capita EU spending for newly created jobs);
7. Suggests that research from non-users would also be helpful to examine what changes might improve take-up of such funds, together with an analysis of reasons for the differential take-up by country;
 8. Asks for the European Parliament to be involved in contributing to the design of such research, and to be kept informed of progress on an ongoing basis;
 9. Congratulates the EIB on the so far highly successful results - which should nonetheless be verified on a more detailed basis as soon as possible - of the provision of Community interest subsidies on loans for SMEs under its temporary lending facility;
 10. Notes the expertise of the EIB in the area of venture capital, while registering concern about the absorption of the EIF; calls for clear reassurance from the EIB about its commitment to the Growth and Employment Initiative and its willingness to be accountable to EU institutions for its development and success;
 11. Recommends the EIB to produce similar evaluation reports regarding the impact on growth and employment of the EIB's and EIF's activities in general;
 12. Seeks confirmation from the EIB that available funds will not be confined exclusively to those SMEs involved in high technology and knowledge-based industries, but that small craft, trade, tourism and other services enterprises, including the third sector, may also have full opportunity to benefit;
 13. Expresses its concern about the excessively narrow concept of providing risk capital and global loans mainly to SMEs engaging in life sciences, biotechnology, ITC and multimedia; calls on the Commission, the Council and the EIB to open up the facilities of the Growth and Employment Initiative also to sustainable high-tech sectors, e.g. fuel cell technologies, photovoltaics, solar heating, solar-hydrogen technology, bionics, combined heat and electricity generation, etc.;
 14. Calls on the Court of Auditors to include the ETF Start-up Facility and the Joint European Venture Facility in the early work programme for full audit, alongside the SME Guarantee Facility audit already planned, so that the conclusions can be published in the next annual report and can be duly considered by Parliament;
 15. Calls on the Member States to review bilateral agreements to remove double taxation as being one obstacle to the successful roll-out of the JEV programme; to recognise that other changes in national taxation may also be desirable; and, more generally, urges Member States to reach early agreement on the European Company Statute;
 16. Calls on the Commission and the EIB to promote the message to finance intermediaries and business support providers more clearly that raising female participation rates is an important part of the European employment strategy also in the field of supporting start-ups and SMEs;
 17. Calls on the Commission and the EIB to create more transparency for SME end-users and

trade unions regarding the specific purpose and eligibility criteria of the instruments of the Amsterdam Special Action Programme (Growth and Employment Initiative, Growth and Environment Scheme, EIF Innovation Facility, etc) and to streamline these initiatives to generate synergy effects;

18. Calls on the Commission for the same reason to consider seriously the proposal already submitted by the European Venture Capital Association, 'to encourage each Member State to adopt tax and business organisation laws permitting funds to be created in their country based on the principle of transparency and that they would recognise as transparent funds established in a similar way in other Member States; and/or create a single European structure for venture capital and private equity investment funds based on the principle of transparency which could be chosen instead of any national structure';
19. Instructs its President to forward this resolution to the Commission and the Council.

EXPLANATORY STATEMENT

A) Reporting to Parliament

When the EU funds projects, of whatever nature, Parliament has the responsibility to comment on how those funds are being spent. It can congratulate, criticise, and comment as appropriate.

It can only fulfil this responsibility if it is supplied with good information in good time.

It is accepted that the report to Parliament represents only the first and start-up year of a multi-annual programme, and that such a report cannot be as thorough as should reasonably be expected in future years.

But this particular report is notably slim, anodyne in its commentary, and remarkably unforthcoming in terms of information. It also took too long to emerge (see Annex 1). The Commission can do better than this. At this stage, the rapporteur is not wishing to blow this issue out of proportion, given that it is a first-year report. But a marker is clearly being put down for the next annual report. Fuller and earlier information is not just requested: it is required.

If the timing is, as suspected, an inevitable consequence of a generally flawed process, that too many units are involved in the preparation of such reports over too long a period, then it is suggested that the whole process be reviewed.

B) Lack of information

There is a very wide variation in uptake by country of both the ETF Start-up Facility and the SME Guarantee Facility. The possible reasons for this are not explored.

Information feedback from SMEs does not yet appear to be available, despite being promised by August in the original report. There is also no indication of what this feedback might comprise. Whereas the primary benefit would be to confirm more precisely the prospects for real and sustainable job creation, it is considered by the rapporteur that it would be highly useful to highlight both the strengths and the weaknesses of the current schemes. Research amongst SMEs and funds that have chosen not to take advantage of these schemes is therefore as important as those that have become involved. It is important that such research questionnaires are simple and relevant, and are genuinely designed to seek ideas for improvement rather than just comments of congratulation.

C) The European Investment Bank

The European Commission has now become the majority shareholder of the European Investment Fund with a 60.8% stake, after purchasing unallocated shares and buying additional shares from existing financial institution shareholders. The EIF has retained its

existing shareholding at 30%, with financial institution shareholders now reduced to 9.2%. The tripartite structure remains, but the original concept of no party having the controlling interest has been completely transformed.

At the general meeting on 19 June, the shareholders of the EIF also approved a change in the statutes with a view to turning the EIF into the EIB's group risk capital and SME guarantees arm. A new board of directors has been appointed, with the EIB now having four out of the seven members and therefore a majority for the first time.

In the past, the EIF has been a crucial tool to implement EU policies for SMEs. Whereas the EIB was not directly involved in such programmes, the EIF has carried out the European Growth and Employment Initiative.

As of now, the influence of the European Commission over the business policy of the EIF has been substantially diluted, despite retaining two members on the new board. It can no longer use the EIF directly as a tool for SME finance. Since the EIB is independent of the European Commission in terms of budget, although the European Court of Auditors still has full access to the details of the operations carried out by the EIF under the mandates given by the Commission, other European institutions cannot directly affect the policy of the EIB either. Thus there is genuine concern about how the EIF will continue its SME policy under the auspices of the EIB, and how the European Parliament can ensure that its own views are taken on board. These concerns need to be addressed.

D) A possible European structure for SMEs

It is noted that of the three prongs to the Growth and Employment Initiative the Joint European Venture Facility has had the weakest take-up. There may be a number of reasons for this. Given the importance of improving take-up in this area there should be a look at any fresh ideas which might unlock greater interest.

One such idea has been put forward by the European Venture Capital Association, suggesting that the incidence of transnational investments could be increased by the introduction of a mutually acceptable European structure for private equity and venture capital funds alongside existing national structures.

Standardised taxation will not be the answer. The EVCA Tax and Legal Committee is therefore encouraging the adoption and mutual recognition by each EU country of structures based on the principle of transparency so that each investor in such a structure would be treated as if it had invested directly in each underlying investee company.

Some European countries already have tax-transparent structures, but often they are either hedged around with restrictions and/or their transparency is not recognised in other countries. In addition there will always be other suitable structures in particular countries, such as the Dutch BV, the UK investment trust and the French SCR, which provide exemption from tax rather than transparency from tax and which will continue to play a role in increasing the pool of available private equity alongside the basic transparent model.

For transparent structures to work effectively, it is essential that European structures be

mutually recognised as fully transparent in each European country. At the same time, EVCA suggests that countries not having a structure meeting this requirement should be encouraged to adopt one.

It would be helpful if the Commission could comment on this suggestion, particularly as to whether it might help a better take-up of the JEV Facility.

E) The Commission report COM(2000) 376

This is the fifth report on the implementation of the Decision on the provision of Community interest subsidies on loans for SMEs.

In summary, the disbursement of ECU 93.2 million was slightly lower than the amount reserved, ECU 100 million, but the actual job creation was declared at 54 000 new jobs compared to the 33 333 anticipated. This is very encouraging, but will need to be verified by the time of the final report in 12 to 18 months' time, given that the numbers were 'self-certified' by the SMEs themselves.

ANNEX

Re: Key dates of the preparation and transmission of the document COM (2000) 266 ('Growth and Employment Initiative')

1) DATES REGARDING THE PREPARATION OF THE DOCUMENT BY THE COMMISSION SERVICES

first draft presented by DG ECFIN to other services of the Commission, interservice meeting in the Commission	end of 1999
deadline for contributions from the other services to the report to be included by DG ECFIN	January 2000
DG ECFIN writes second draft - including contributions from other Commission services. Waiting period for the 1999 figures to be updated by the EIF.	February/March 2000
The Director-General of DG ECFIN, Mr Ravasio, signs the report (to be adopted by the College of Commissioners in the form of a written procedure)	31 March 2000
Agreement of the Cabinets of Mr Solbes and Mr Liikanen on the text of the written procedure	4 April 2000 (Solbes) and 7 April 2000 (Liikanen)
General Secretariat of the Commission confirms arrival of the text and asks for some modifications of the text regarding format etc.	17 April 2000
Modified version submitted to General Secretariat, translated and transmitted to all Cabinets	26 April 2000
Text adopted in written procedure and sent to the European Parliament	12 May 2000

2) DATES REGARDING THE INTERNAL TRANSMISSION IN THE EUROPEAN PARLIAMENT

Document received at DG 1 (Presidency)	19 May 2000
Document sent from DG 1 to DG 2 (Committees and Delegations)	23 May 2000
Document sent from the Coordination Unit of DG 2 to the Committee on Employment	25 May 2000
Document submitted at the coordinators' meeting (coordinators of the Committee on Employment) for a decision on a report; EPP Group asks for a 'reflection period' on the document, decision postponed	6 June 2000
Document submitted for a second time to the coordinators; EPP Group requests a report on the document	22 June 2000

6 November 2000

OPINION OF THE COMMITTEE ON INDUSTRY, EXTERNAL TRADE, RESEARCH AND ENERGY

for the Committee on Employment and Social Affairs

on the report from the Commission to the European Parliament and the Council on 'Growth and Employment Initiative. Measures on financial assistance for innovative and job creating small and medium-sized enterprises (SMEs) - As at 31 December 1999' (COM(2000) 266 – C5-0507/2000 – 2000/2245 (COS))

Draftsman: Colette Flesch

PROCEDURE

At its meeting of 13 September 2000 the Committee on Industry, External Trade, Research and Energy appointed Colette Flesch draftsman.

It considered the draft opinion at its meetings of 12 October 2000 and 6 November 2000.

At the latter meeting it adopted the following conclusions unanimously.

The following were present for the vote: Carlos Westendorp y Cabeza, chairman; Peter Michael Mombaur, vice-chairman; Gordon J. Adam (for Glyn Ford), Maria del Pilar Ayuso González (for Concepció Ferrer), Giles Bryan Chichester, Nicholas Clegg, Dorette Corbey (for Claude J.-M.J. Desama), Francesco Fiori (for Renato Brunetta), Christos Folias, Jacqueline Foster (for Malcolm Harbour), Norbert Glante, Lisbeth Grönfeldt Bergman (for Anders Wijkman), Michel Hansenne, Philippe A.R. Herzog, Dimitrios Koulourianos (for Konstantinos Alyssandrakis), Wolfgang Kreissl-Dörfler (for François Zimeray pursuant to Rule 153(2)), Werner Langen, Rolf Linkohr, Eryl Margaret McNally, Erika Mann, Elizabeth Montfort, Angelika Niebler, Hervé Novelli (for Dominique Vlasto), Reino Kalervo Paasilinna, Samuli Pohjamo (for Willy C.E.H. De Clercq), Imelda Mary Read, Paul Rübig, Ilka Schröder, Astrid Thors, Antonios Trakatellis (for Umberto Scapagnini), Jaime Valdivielso de Cué, W.G. van Velzen, Alejo Vidal-Quadras Roca and Myrsini Zorba.

CONCLUSIONS

The Committee on Industry, External Trade, Research and Energy calls on the Committee on Employment and Social Affairs, as the committee responsible, to incorporate the following conclusions in the motion for a resolution which it adopts:

- A. whereas in Lisbon the European Council set the EU the goal of becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion,
- B. whereas the Santa Maria de Feira European Council reiterated the importance of small enterprises for growth, competitiveness and employment in the European Union, and the need to make it easier for them to access the initiatives to be adopted within the framework of a knowledge-based economy; and whereas it adopted the European Charter for small enterprises;
- C. whereas job creation must be encouraged by promoting SMEs and consolidating the enterprise culture in general throughout the European Union and in the applicant countries,
- D. whereas small and medium-sized enterprises (SMEs), micro-enterprises and the craft sector make a significant contribution in terms of competitiveness, research and innovation,
- E. whereas they also represent the main source of job-creation both in terms of quantity and quality and therefore, regardless of their diversity, play a crucial role in strengthening social cohesion and land use planning, and this is particularly true of enterprises in the non-profit-making sector; this is why it seems urgent to remove the numerous obstacles to their development,
- F. whereas it is also important to promote the spirit of enterprise in the European Union and the countries applying for membership,
- G. whereas it is important to open up the three schemes (ETF Start-up Facility, Joint European Venture and the Guarantee Facility) to micro-enterprises and the craft sector,
- H. whereas with a view to attaining their goal of enabling fast-growing SMEs - particularly those in hi-tech sectors - to realise their potential for job creation, the programmes (ETF Start-up Facility, Joint European Venture and the SME Guarantee Facility) seek to facilitate the establishment and growth of innovative companies by making it easier for them to raise funds for their investment projects, and thereby to boost job creation,
- I. whereas there are 4.7 million commercial enterprises in the European Union, of which 95% are SMEs with fewer than 10 employees; whereas the need to improve the working environment should be stressed;

1. Reiterates the importance of enhancing the competitiveness of SMEs in an economic environment that has to face the challenge of economic globalisation;
2. Points out that SMEs are one of the keys to local development;
3. Notes that there is a variation between the Member States in the use made of the three schemes mentioned above and regrets the overall underutilisation of the facilities on offer; calls on the Commission to identify the reasons for this and submit a report to Parliament on the subject;
4. Notes that Europe is lagging far behind the United States in terms of the amount of risk capital deployed (EUR 7 million as against EUR 12 million in 1998);
5. Deplores the fact that the European financial system does not provide adequate access to capital and that the 'risk culture' is still too far removed from the everyday practice of banks, which, on the contrary, demand a great deal in the way of guarantees;
6. Calls for implementation of the programmes not to give first priority to undertakings in the hi-tech sectors but to be opened up more widely to undertakings in traditional sectors that are seeking to innovate;
7. Urges the Member States *whose enterprises* have not yet made use of the three programmes to ***promote the programmes and encourage financial institutions and SME organisations to use them*** in the interests of job creation; ***and*** to make the administrative, legal, and official environment more favourable and accessible to small undertakings and innovation, ***by means of simplified procedures which are similar in the various Member States***;
8. Calls on the Member States to transpose Directive EC/35/2000 on late payment in commercial transactions as soon as possible; it is recognised that delays of this kind have a serious adverse effect on the development of SMEs;
9. Stresses the fact that problems concerning cross-border payments and double taxation are significantly slowing down the implementation of the JEV scheme and demands that the Member States take appropriate measures to put an end to this;
10. Recommends that the Member States make use of the tax concessions system to encourage the development of SMEs that invest in innovation and create new jobs;
11. Draws attention in particular to the need to make it easier for SMEs to gain access to modern information resources, *inter alia* through the development of NICTs (new information and communication technologies);
12. Notes the need to develop partnerships between enterprises with a view to creating synergies that will facilitate greater competitiveness;
13. Urges that, while the criteria laid down for each financial programme must continue to be adhered to, appropriate care be taken to ensure that there is proper geographical

representation across the European Union;

14. Calls for action to ensure that access may be gained to an effective risk capital system – which is vital to the competitiveness of European undertakings, particularly SMEs – not just in major financial centres but also at regional level and that arrangements are made for coordination with the Structural Funds and the Cohesion Fund, and that the system for access to credit, which often constitutes an obstacle to development for SMEs, is made easier and simpler;
15. Calls on the Commission to ensure that the resources to be allocated by the financial intermediaries are transmitted to the SME beneficiaries without unnecessary delays;
16. Calls for the SMEs receiving assistance from the Fifth Research and Technological Development Framework Programme to be better informed of the existence of the three programmes in order to ensure a link between research programmes and implementation of their results, since implementation often necessitates collaboration between enterprises (JEV) and creates a need for funding (ETF Start-up and Guarantee Facility) within the European research area;
17. Calls for implementation of the three programmes to be coordinated with that of the Fourth Multiannual Programme for Enterprise and Entrepreneurship, which will come into force in 2001, and all other action taken by the Commission that is likely to make it easier for the objectives of the programmes to be met.