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THE COMMISSION'S GREEN PAPER: ENTREPRENEURSHIP IN EUROPE

WITH EVIDENCE

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NOTE: Pages of the Report and Appendices are numbered in **bold** type; pages of evidence are numbered in ordinary type. References in the text of the Report are as follows:

Q refers to a question in the oral evidence;

page refers to a page in the oral or written evidence;

paragraph(s) refers to a page in the Report (unless otherwise stated).

THIRTY-FOURTH REPORT

8 JULY 2003

By the Select Committee appointed to consider European Union documents and other matters relating to the European Union.

ORDERED TO REPORT

EM5765/03 COM(03) 27 – European Commission Green Paper: Entrepreneurship in Europe

THE COMMISSION'S GREEN PAPER: ENTREPRENEURSHIP IN EUROPE

ABSTRACT

> "Entrepreneurship is the mindset and process by which an individual or group identifies and successfully exploits a new idea or opportunity"[1].

The Commission's Green Paper is the most recent of a series of Reports from the European Commission designed to encourage entrepreneurship[2]. In the United Kingdom, the latest of a series of similar papers was that produced by HM Treasury and the Department of Trade and Industry's (DTI) Small Business Service (SBS) in November 2002[3].

The Green Paper argues that enterprise is important because it contributes to job creation, economic growth and competitiveness. Both the European Community and the United Kingdom devote considerable funds each year spread over an extensive range of programmes in support of enterprise—in the region of 13 billion euros at Community level and just under 8 billion pounds in the United Kingdom (counting receipts from the Common Agricultural Policy).
In this Report, we focus on:

- the importance of setting clear objectives, and monitoring and establishing effective evaluation for such schemes for enterprise support, whether at UK or EU level;
- the relationship between schemes at European Community level and those at Member State level.

We conclude that:

- any action plan based on the Green Paper must be preceded by a thorough analysis of the evaluations currently being carried out by the European Commission;
- all policies proposed should have clear objectives specified in measurable form before the policy is launched
- all schemes should have both monitoring and evaluation information collection defined and built into the programme design.

The list of Recommendations is given in Chapter 4 on page 16.

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1 HM Treasury/SPS "*Enterprise Britain: a modern approach to meeting the enterprise challenge*" HMSO London, November 2002.

2 Report from the Commission to the Council and the European Parliament on the implementation of the European Charter for Small Enterprises COM(2003), 21 Final; Thinking Small in an enlarging Britain, 5748/02 COM(2003) 26 Final; Report on the implementation of the European Charter for Small Enterprises in the candidate countries: accession to the EU ADD1 SEC(2003) 57; Creating an entrepreneurial Europe: the activities of the European for Small and Medium Sized Enterprises (SMEs) ADD2 SEC(2003) 58; the SME Envoy: an active interface between the Commission and the SME Community ADD3 SEC(2003) 60.

3 "Enterprise Britain: a modern approach to meeting the enterprise challenge". HSMO London November 2002.

BACKGROUND AND TERMS OF REFERENCE

1. The Commission's *Green Paper*: *Entrepreneurship in Europe*[4] is very wide ranging in its approach to entrepreneurship and entrepreneurship policy. The Commission defines entrepreneurship as the "mindset and process to create and develop economic activity by blending risk–taking, creativity and/or innovation with sound management, within a new or an existing organisation[5]".

2. The Green Paper suggests that entrepreneurship is relevant…

> "…for all sectors, technological or traditional, for small and large firms and for different ownership structures, such as family businesses, firms quoted on the stock exchange, social economy enterprises or non–profit driven organisations…[6]"

3. Entrepreneurship contributes to job creation and economic growth and competitiveness, unlocks personal potential and provides a focal point for many local communities. The Member States of the European Union (EU) lag behind the United States of America (USA) in terms of indicators of entrepreneurship such as the desire for self employment and involvement in new start ups. Businesses within the EU appear to grow more slowly after start up than those in the USA.

4. The Green Paper argues that the challenge for the EU is to identify

> "the key factors for building a climate in which entrepreneurial initiative and business activity can thrive. Policy measures should seek to boost the Union's level of entrepreneurship, adopting the most appropriate approach for producing more entrepreneurs and for getting more firms to grow[7]".

But it might also be argued that it is in Member States where enterprise and entrepreneurship flourish or not, at the moment, and in the near term.

5. The Commission[8] identifies three key areas of concern for the EU in relation to meeting these challenges and developing an effective policy toward entrepreneurship. These are:

- bringing down barriers to business growth and development by:
    - improving access to skilled labour;
    - improving access to finance;
    - reducing regulatory burdens;
    - fostering networks.
- Balancing the risks and rewards of entrepreneurship by:
    - tax breaks;
    - removing the stigma of bankruptcy;
    - making intrapreneurship and spin–offs more attractive for larger businesses, and takeovers of existing businesses more attractive for small firms.
- Promoting a society that values entrepreneurship by:
    - changed educational curricula;
    - establishing role models.

6. The Green Paper identifies two central issues in addressing these concerns:

- the need to adopt a coordinated approach to entrepreneurship policy; and
- the need to learn from best practice in the policy arena[9].

THE COMMITTEE'S APPROACH TO THE GREEN PAPER

7. In view of the breadth of the Green Paper's definition of entrepreneurship and the scope of the key concerns identified, the Committee decided to adopt a selective and focussed approach.

Technology–based Firms

8. We decided to emphasise entrepreneurship in the technology–based sectors. This is in keeping with the key role attributed to technology–based firms in promoting the attainment of the

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4 (CEC 2003f)

5 (CEC 2003f p.6)

6 (CEC 2003f p.6)

7 (CEC 2003f p.9)

8 Green Paper (pp 22ff)

9 A fuller summary of the Green Paper's main arguments and conclusions on the way forward for EU policy is presented in Appendix 4 to this report.

EU Lisbon Council objective of making the Union the leading knowledge–based economy in the world[10], and the similar emphasis in UK government policy (HM Treasury/SBS 2002, DTI/HM Treasury /DFES 2002).

Productivity

9. The Committee chose to investigate policy issues relevant to the barriers to growth in existing firms and the link with productivity growth rather than policy towards start–up issues. This is in keeping with the outcome of recent work by the Organisation for Economic Cooperation and Development (OECD) on the respective contribution to overall productivity growth and competitiveness of start up, exit and productivity growth in existing firms[11]. This recent programme of comparative international research (OECD 2003) covers the largest OECD economies for the periods 1987-92 and 1992-97.

10. Productivity growth in any period for the total number of firms in a state can be broken down into:

- productivity growth within firms that survive;
- reallocation of output between high and low productivity firms that survive;
- the impact of new entry through business formation; and
- the impact of exit through failure and acquisition.

11. The OECD research shows that these components vary across countries and industries but that the dominant component in labour productivity growth in both manufacturing and services is that driven by businesses which survive. Thus, the share of overall productivity growth accounted for by such businesses ranged between 55% and 95% in the 1980s and 1990s. This component was most dominant in France, Germany and the USA. Industries with high exit rates tend also to have high entry rates. Exiting firms are usually low productivity firms so there is a positive 'batting average' effect caused by their departure, average productivity rises because the worst firms drop out. Entering firms in contrast have the opposite effect. They are also typically below average in productivity performance so adding them to the business population lowers average productivity. The net effect of these two forces in practice is to raise productivity. That is to say, the effect of exits dominates the effect of entry. This net effect, sometimes called the 'churning' effect, accounts for 20%-40% of labour productivity growth in the OECD samples. This rate of churning is similar across the USA and the European countries. Reallocation of activity amongst existing firms is usually less important than the other three forces[12].

New Entrants and Survival Rates

12. New entrants come and go with much less impact on productivity than improvements in surviving firms[13]. Most strikingly the new entry component for the United States is large and negative because they have relatively low productivity, and the new entrants are smaller relative to the mean size of existing firms. Moreover, their survival rates appear to be lower. On the other hand those that survive grow faster in the USA than in Europe.

13. This analysis implies that it is not new start up and entry *per se* but the subsequent survival and competitive expansion of new entrants that is important for economic growth. A focus on barriers to growth in businesses after they have entered the market is, therefore, as important, or more important, than the generation of more new entrants. The Committee sought to focus on the growth of firms in the market including what is known as 'intrapreneurship' in established firms rather than on new entrants or on small and medium size firms (SME)s in particular. However, in

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[10] (CEC 2003b)

[11] The next section draws upon Hughes (2003) and OECD (2003)

[12] The Committee's emphasis upon productivity impacts and upon impacts arising from different aspects of the competitive process was echoed in oral and supplementary written evidence to the Committee by the DTI. This evidence emphasised the extent to which productivity would play a key role in future support policy objectives and also referred to the importance of considering the relative roles played by exit entry and growth of productivity in survivors. (DTI Oral evidence (Q205), DTI Supplementary written evidence pages 63-65)

[13] On average in the OECD sample about 20% of firms in any year are new but only 40-50% survive for 7 years. Moreover, entry frequently has a *negative* direct effect. The negative effect of entry arises essentially from the low productivity performance of new firms compared with incumbents. A positive new entry impact is unusual with Netherlands and Italy notable in this respect. New entry plays a more positive role in high tech sectors and over longer periods. The prospects for innovative new entry may therefore be sector/technology specific and be stronger the longer the period they have to work themselves out (OECD 2003).

written evidence to the Committee, the Parliamentary Under–Secretary of State for Small Business and Export Control commented that

> "although intrapreneurship exists in the UK, most examples of it occur within companies and so go unrecorded and unobserved……. There are no specific government support measures or policies to promote intrapreneurship[14]".

Barriers to Growth

14. In considering barriers to growth in existing firms, the Committee noted the emphasis in the Green Paper upon both human and financial capital barriers. It also noted the growing evidence emphasising barriers arising from skill shortages in management and in the labour force, particularly in relation to innovation, and in technology–based sectors[15]. In view of the emphasis frequently placed on financial constraints, the Committee was surprised to learn from the evidence it received from Government, academic research and industry witnesses that (in general terms) this factor appeared to be decreasing in significance[16]. We therefore sought to investigate both the financial and human capital barriers to enterprise.

Co–ordination and Evaluation

15. The Committee accepted as a premiss to its inquiry the two central concerns raised in the Green Paper: the need to adopt a coordinated approach to entrepreneurship policy; and the need to learn from best practice. We found it helpful to focus on these two concerns. In particular, in attempting to ascertain best practice, we have been concerned to understand the evaluation methods used to identify those policies which met their objectives and those which did not.

This Report

16. Chapter 2 examines small business policy in the EU and in the UK. Chapter 3 focuses on co–ordination and evaluation of existing support for entrepreneurship and examines the evidence of witnesses. Chapter 4 presents the Committee's recommendations.

17. This report is based on an inquiry conducted by Sub–Committee B (Energy, Industry and Transport). The membership of the Sub–Committee is given in Appendix 1. The Call for Evidence is set out in Appendix 2. Appendix 4 contains a summary of the main features of the Commission's Green Paper.

18. We are grateful to the witnesses who submitted written evidence and for those who gave oral evidence. The list of witnesses is given in Appendix 3, the names of those giving oral evidence are marked by an asterisk. We also thank our Specialist Adviser, Professor Alan Hughes of the Centre for Business Research, University of Cambridge, for his counsel and help in drafting this report.

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14 Written Evidence E/02-03/B177 9th April 2003 para 21. But see also QQ 48-54 and Q195.

15 The EU–wide results from the 2nd Harmonised EU Community Innovation Survey reported that SMEs' experiencing constraints were more likely than large innovative enterprises to cite high innovation costs, difficulties of access to finance and the cost of compliance with regulation as the principal factors holding back innovation projects. Moreover, over 2/3 of EU SMEs cited skill shortages as an innovation problem (Cosh and Hughes (2001)). In the EU innovation barometer survey firms in all countries except the Netherlands cited human resources as the main unsatisfied need for innovation (EU (2002). Similar patterns emerge from the regular panel survey of the UK SME sector carried out by the Centre for Business Research (CBR) in Cambridge covering the period 1991 to 2002. In the UK case hi–tech firms and innovators were generally more likely than conventional and non–innovating firms to feel constrained by a lack of management, marketing, and sales skills. The effect was especially noticeable in high–tech and innovative service firms. (Cosh and Hughes 2002, 2003)

16 See for example HM Treasury/Small Business Service (2003) p 7ff. But see also Q104 and Q123, CBI's written evidence, para 8, (page 97) and One Northeast's written evidence (page 100).

CHAPTER 2: SMALL BUSINESS POLICY IN THE EU AND THE UK

EU POLICY: THINKING SMALL IN AN ENLARGING EUROPE

19. The publication in January 2003 of the Green Paper was associated with the release of a number of other communications and reports which set the background to the Green Paper. For example, the European Commission published a communication to the Council and the European Parliament entitled *'Thinking Small in an Enlarging Europe'*[17]. This document rehearses the objective set at the Lisbon European Council in 2000 to make Europe the leading knowledge based economy in the world by 2010. It also reasserts the 'think small first principle', affirmed at the Feira European Council in 2001, as one important way to meet the Lisbon objective by building on the contribution of smaller[18] firms to investment, innovation, jobs and growth.

20. The 'Thinking Small' communication emphasises:

- the need for Member States to promote effective communication with smaller businesses;
- the benefits of exchanging good practice between Member States in supporting the small enterprise sector;
- the potential for increasing the propensity to entrepreneurial business formation through education and training;
- the promotion of an 'entrepreneurial' culture in candidate countries;
- the need to put Small and Medium Enterprises (SMEs) 'at the forefront' of all Community policies.

21. The 'Thinking Small' communication has three substantial addenda dealing, respectively, with the implementation of the European Charter for Small Enterprises in the candidate countries[19]; an overview of EU activities in support of small and medium sized enterprises[20]; and an analysis of the role of the SME Envoy in developing a watchdog role in monitoring policy development affecting smaller enterprises and in providing effective information about, and access to, EU programmes[21].

THE EUROPEAN CHARTER FOR SMALL ENTERPRISES

22. The Charter for Small Enterprises was adopted by the Feira Council in June 2001. It calls upon Member States to take a range of actions to support small enterprises under ten broad headings:

- education and training for entrepreneurship;
- cheaper and faster start–up facilities;
- better legislation and regulation;
- availability of skills;
- improving on–line access;
- improving e–business capability;
- increasing access to benefits of the internal market;
- improving access to finance;
- improving technological capacity;
- improving small business support policy;
- improving the representation of small business opinion.

The Charter also provides for the monitoring and evaluation of progress on Charter issues. The latest of these progress reports was published in January 2003[22].

23. This report claims progress under most of the headings. It notes that the European Parliament has stated that

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17 (CEC 2003b)

18 Commission Recommendation 96/280/EC of 3 April 1996 defines a small and medium sized enterprise as a business with fewer than 250 employees and an annual turnover of less than 40 million euros, or a total balance sheet value of less than 27 million euros. Within that group *micro* enterprises are defined as those with fewer than 10 employees, and *small* enterprises as those with fewer than 50 employees, and fewer than 7 million euros of turnover or 5 million euros of total balance sheet value. The remainder are classified as *medium* sized enterprises. The medium and small sized groups must also have no more than 25% of their voting rights held by non–SMEs. These definitions are currently under review (CEC 2003d p.14).

19 (CEC 2003c)

20 (CEC 2003d)

21 (CEC 2003e)

22 *Report on the Implementation of the European Charter for Small Enterprises* (CEC (2003a)).

"responsibility for implementing nearly all the action points in the Charter lies with the Member States";

that the Commission's most important role under the Charter is:

"to work in close co–operation with the Member States to help them improve the business environment for small businesses. For this purpose, the Commission has a range of policy measures including the Multi–annual Programme for Enterprise and entrepreneurship (MAP) and its financial instruments which are very closely linked to the Charter objective*"*;

and that

"……building on the results of these efforts a wider debate is being launched by the Commission Green Paper on Entrepreneurship."[23]

THE EXISTING EU FRAMEWORK OF SUPPORT FOR SMALLER ENTERPRISES

24. It is clear from the summaries of policy support outlined in the batch of documents published in January 2003 that the Green Paper proposals would build on a wide policy framework which encompasses a very broad spectrum of issues. This is reflected in Appendix 5 of this Report.

25. The support policy is grouped in six broad areas:

- financial instruments (principally loans and loan guarantees);
- the structural funds programme;
- research and development expenditure;
- vocational training;
- international cooperation and export promotion;
- environmental issues.

26. For each area, the table in Appendix 5 shows the amount in euros allocated to SME support, the number of SMEs estimated to be involved in the relevant scheme, the proportion of the scheme involving SME participation and their estimated share of the total budget.

Financial Support

27. The data reveal that overall sums involved are very large[24]. For instance, total European Investment Bank (EIB) indirect lending under the global loans programme amounted to 22.5 billion euros over the period 1997-2001 and rose from 6 billion euros in 1997 to 10.5 billion euros per annum in 2001. The amounts budgeted for loan guarantees totalled around 435 million euros over a variety of budgetary periods, and are estimated to be running at around 50 million euros per annum in 2001-5. In addition SMEs received around 1.7 billion euros of support under the structural funds, and a further 1 billion euros were committed in the period 1998-2002, or will be committed in the period 2002-6 under Research and Development.

28. The Green Paper is a document for discussion and therefore does not contain any indication of whether these substantial commitments would increase as a result of its suggestions. Budgetary implications will only emerge when an action plan is produced following the consultation period. However, Mr Heinz Zourek, the Deputy Director General of Enterprise at the European Commission stated in his oral evidence that even allowing for the accession of the candidate countries:

"We do not suggest a marked increase in the amount of money to be spent. We found that the financial instruments were taken up very well and they seem to be very helpful. We try to continue that but we have no intention of asking for an incredible amount of money, because we have learned our lesson, that protection from the Commission is not at all appropriate in this area. These are Member States' activities. What we should like to do is go for savings by reducing complexity in the support networks"[25].

[23] (CEC (2003a p.5)

[24] Full details of the schemes and levels of support are contained in CEC 2003d.

[25] Q236

THE ROLE OF THE EUROPEAN COMMUNITY IN SUPPORT OF ENTREPRENEURSHIP

29. We agree with the sentiments expressed by Mr Zourek and we are pleased that the Commission recognises that support for entrepreneurship is primarily a responsibility of Member States. We started from the position of asking why there should be Community level support for entrepreneurship at all when enterprise and entrepreneurship appear to develop, or not, largely at the level of Member States. This was a view echoed by another witness—Mr van der Horst of the Brussels based SME Observatory and EIM Business and Policy Research[26]. However, Mr Zourek argued that there was a case for some support at Community level because there were big differences in Member States. Not all had access to sophisticated financial institutions or had the same extent of entrepreneurial activity. The Commission believed that in order to support entrepreneurship across the European Union, it was necessary for the Community to operate union–wide support schemes. **However, the Committee believes that the Government should pay special attention to the views of the Commission noting in particular its view that the support of entrepreneurship is primarily a Member State activity. The Government should also support the Commission in its desire "to go for savings by reducing complexity in the support of networks".**

UK ENTREPRENEURSHIP POLICY: THE ENTERPRISE CHALLENGE

30. In the UK a recent major report on enterprise policy defines entrepreneurship in much the same way as the Green Paper on Entrepreneurship:

> "Entrepreneurship is the mindset and process by which an individual or group identifies and successfully exploits a new idea or opportunity. It requires creativity, ambition, independence and the willingness to bear the inevitable risks involved. Enterprising behaviour may be found in organisations of all sizes in both private and public sectors; indeed it is critical to the task of modernising public services"[27].

31. The report then goes on to emphasise two particular forms of enterprise. These are the creation of new businesses, and enterprising behaviour within existing small and medium sized firms (SMEs)[28]. These are seen as central to Government strategy to improve UK economic performance because of their role in the competitive process through new entry and innovative growth, and their potential for promoting diversity and employment opportunities at local community level (HM Treasury/SBS (2000b) p.1-2).

THE BUSINESS ENVIRONMENT AND MARKET FAILURES

32. In the UK, enterprise policy to promote new business formation and growth is defined by HM Treasury as having two principal components and we agree with this approach. The first component is creating the right environment for business. It consists of policies to promote a positive attitude to enterprise in schools; policies to produce a stable macroeconomic environment and (through competition policy) an open competitive system; policies to adjust the risk/reward balance in the returns to enterprise by tax changes, and by changes in insolvency procedures to reduce the cost and stigma of 'honest failure'; and finally policies designed to reduce the regulatory burden on smaller businesses.

33. The second component is aimed at tackling specific problems caused when the normal operation of market forces does not produce the most efficient outcome, that is to say, where market failures occur. Market failures can arise from many sources. In the capital market, for instance, it is well known that there may be problems for banks in assessing the riskiness of individual small firms. A market failure can arise here because if banks use the 'average' riskiness of small firms in deciding the interest to charge they will discourage 'good' firms who will believe that their below average riskiness should get a below average interest rate. If those firms withdraw from the loans market, the average riskiness of those remaining goes up, so banks will have to raise interest rates again, and so on. The market will not work and instead banks may resort to seeking collateral to protect against risk instead of using the interest rate. However, that will ration lending only to those with collateral and not necessarily to those with the best opportunities. Problems of risk and uncertainty are thought to apply particularly strongly to funding for innovation and R&D. Market failures are also said to arise because of fixed costs or access to, or lack of awareness of, business information and advice in general, and the benefits of training in particular. In the latter case, firms

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26 Q145

27 HM Treasury/SBS (2000b) p.11

28 SMEs are defined in the Treasury report, following EU convention, as businesses with fewer than 250 employees, and either annual turnover not exceeding $40 million, or a balance sheet below $27 million.

will be unlikely to invest as much as they should in training because of the threat of "poaching" by non–trainers. Finally, market failures are thought to apply in the areas of the commercialization of science which inhibit the rate of "spin–out" activity, i.e. commercial applications of scientific research. Specific policies are therefore targeted at these areas of market failure.[29]

THE DEPARTMENTAL RANGE AND COST OF ENTERPRISE POLICY

34. The breadth of these concerns means that enterprise policy spans the activities of the Treasury, the DTI, the DFES, DEFRA[30], the Inland Revenue and other Departments, with substantial enterprise–related resources at the disposal of the Regional Development Agencies as well as the devolved authorities in Scotland, Wales, and Northern Ireland. The role of the Small Business Service (SBS) has been enhanced to become a centre of expertise for Government on small business issues, to develop the quality of business support services and to measure service progress against market outcomes at regional local and national levels (HM Treasury/SBS (2000b) p.2).

35. The range of policies to support enterprise on the grounds set out above (para 32 and 33) spans the entire range of business experience from starting a business, through the trading and planning environment, investment activity, employment and training, and growth of the enterprise. The estimated total cost of this support within the UK was just under £8 billion in 2002. Appendix 6 provides a broad breakdown of this sum by Department. A detailed listing of this support by programme and administering department is set out in Appendix 7, whilst Appendix 8 provides a breakdown by the purpose of the programmes in terms, for instance of start–up, growth, the trading environment and access to finance.

36. Appendix 6 reveals the full range of departmental involvement. The total annual sum of just under £8 billion includes around £2.6 billion of tax relief associated with the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme and the range of tax changes associated with setting lower rates of small firm corporation tax, and changes in capital gains tax. Around £3 billion is shown as agricultural support activities which derive from the receipts under the Common Agricultural Policy (CAP). This money goes to support farming activity and therefore ranges from small holdings to large corporate firms. It is not focussed on either SMEs or entrepreneurship as such but does constitute financial support for companies (farms). It is worth noting that the UK obtains less than £250 million a year in EU non–agricultural support funding.

[29] (HM Treasury/SBS (2000b) pp.4-5).

[30] Principally through the administration of EU related agricultural schemes.

CHAPTER 3: POLICY CO–ORDINATION, BEST PRACTICE, AND EVALUATION

THE NATURE OF THE CHALLENGE

37. The plethora of schemes to support enterprise at EU and national level raises two key issues. The first of these is coordination between policies and departments within Member States such as the UK or within the EU; and coordination between Member States' policy and those of the EU. The second key issue is how to know which schemes to adopt in support of entrepreneurship, and how to identify good practice schemes already in place as exemplars for policy development. Identification of good practice implies the existence of appropriate evaluation tools to measure actual outcomes against intended outcomes, and to assess value for money.

COORDINATION OF EU AND MEMBER STATES POLICY

38. Mr Zourek explained that the purpose of EU level policy was to complement that of Member States. The EU therefore concentrated on comparing Member States' activities and highlighting differences and sharing good practice. This role for the EU was endorsed by Mr Van der Horst in his oral evidence (Q145). The introduction of the 'Open method of co–ordination' in 2000[31] and the formation of the Competitiveness Council had led to the joint identification between Member States and the Commission of best practice in selected areas. Mr Zourek stated (Q229) however, that this did not mean that the purpose of policy was to coordinate Member States' policies and that

> "we do not really have a comprehensive overview of everything that is going on that would merit better co–ordination"; and "we do not evaluate whether there is a lack of co–ordination in general*"*

39. The Committee is not, however, convinced that there was clarity either in the Commission or at Member State level over which aspects of EU policy are complementary and which appear to be aimed at carrying out activities best left to individual Member States. This was particularly the case in relation to Financial Instruments and the role of the European Investment Fund. Here Mr Van der Horst told the Committee that

> "There is this huge budget of the European Investment Fund. They provide money to banks in all the countries and those banks provide credit to small enterprises. If you look at the average sum of these loans it is 200,000 euros; that is not for the average SMEs, it is for the top SMEs. I really wonder if that should be – I have to be a little cautious – a role for the European Union. It is the money of the Member States. It is going to Luxembourg, and then, again, it is going back and everybody likes to have a *juste retour."*(Q145)

The Committee recommend that in any action plan to be based on the Green Paper close attention should be paid both by the Commission and by Member States to the arguments justifying EU action as opposed to actions properly left to individual Member States.

UK AND EU COORDINATION

40. As for policy coordination between the UK and the EU, each group and agency of the DTI has an international team which monitors EU and domestic policy in that area. In addition, following the recent DTI review of business support, all proposals for new schemes are checked to ensure that they complement existing UK and EU policy. The UK has been successful in securing European funding via the European Investment Fund (EIF) to invest in the Regional Venture Capital Fund and the Enterprise Technology Fund (ETF) Start–Up facility although the latter was marginal in relation to the total UK flow of venture capital[32].

41. Notwithstanding these links, in written evidence from the Regional Development Agency for the North East, it was argued that the current EU state aid regulation, which imposed an upper limit of 750,000 euros of venture capital investment in a joint public–private funded SME, was too restrictive and based on outdated evidence[33].

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[31] Presidency Conclusions, Lisbon European Council 23-24 March 2000

[32] ETF start up facility funds of £15.4million went to 11 UK SMEs by year end 2001, compared to total British Venture Capital Association investment in high–tech companies that year of £1658million – DTI Supplementary evidence June 23rd paras 1.9-1.10 (page 64).

[33] Ref. page 100.

COORDINATION OF POLICY IN THE UK

42. The DTI pointed out that the co–ordination of enterprise policy across departments within the UK was assisted by a cross–Whitehall group jointly chaired by the Small Business Service and the Treasury. This was intended to co–ordinate policy between DFES, DEFRA, Inland Revenue and other departments. The Committee was interested to learn from the DTI that following the cross–cutting review of small business support policy[34], the DTI was in the process of reducing its current list of over 150 schemes of support to fewer than 20 which should go some way towards reducing coordination problems and making schemes more accessible to potential users. This was welcomed both by HSBC[35] and the Institute of Directors[36] as was the new on–line directory of support services. As the Institute of Directors pointed out however, complexity of institutions still abounded. In addition to the SBS there were still 45 Business Links (BL) in the BL network and 47 subsidiary local Learning and Skills Councils, alongside the nine Regional Development Agencies and the Government Offices for the Regions.

The Committee welcomes the proposed rationalisation of DTI support schemes and recommends that more be done to clarify and rationalise the structure of administering agencies delivering enterprise policy.

BEST PRACTICE POLICIES

43. The Committee was provided with several examples of good practice policies in the EU and the UK.

Small Firms Loan Guarantee Scheme (SFLGS)

44. In the UK, in the area of financial support, HSBC, the IOD, and the CBI all provided evidence supporting the activities of the Small Firms Loan Guarantee Scheme (SFLGS)[37]. The DTI also told us that the scheme had been the subject of several broadly positive formal evaluations. Loan Guarantee Schemes in the Netherlands and those more generally facilitated by EU policy received support from Mr Van der Horst[38] and Mr Zourek[39], respectively. These schemes have a well developed history, have been revised from time to time, and meet a recognised market failure. This failure arises from an inability on the part of banks to assess risk in SMEs and the inability of small firms to provide the necessary collateral to guarantee their loans.

Small firms merit award for research and technology (SMART)

45. Another UK scheme which was recognised as representing good practice by HSBC in the private sector and by the DTI was the evolving set of programmes collectively known as SMART (Small Firms Merit Award for Research and Technology). SMART is directed at SMEs and is designed to increase their capacity to grow through innovation by providing grants for product and process development and prototyping. (See Box 1).

46. This is a scheme addressing an established market failure in providing finance for high risk firms with little track record and low collateral. It is also a tightly defined scheme with specific objectives and has been the subject of a favourable formal evaluation.

[34] Treasury/SBS 2000a.

[35] HSBC's written evidence, para 6(b), page 27

[36] IOD's written evidence, para 11, page 99

[37] The SFLGS provides a guarantee to banks making loans to eligible companies which reduces the risk they face in lending in this sector.

[38] Q138

[39] Q231 and Q232.

Box 1

Small Firms Merit Award for Research and Technology (SMART)

SMART is a Small Business Service (SBS) initiative that provides grants to help individuals and small and medium–sized businesses to make better use of technology and to develop technologically innovative products and processes.

Up to June 2003 it consisted of;

- *Technology Reviews (*Grants of up to £2,500 for individuals and small and medium–sized firms (fewer than 250 employees) towards the costs of expert reviews against best practice);
- *Technology Studies* (Grants of up to £5,000 for individuals and small and medium–sized firms (fewer than 250 employees) to help identify technological opportunities leading to innovative products and processes);
- *Micro Projects* (Grants of up to £10,000 to help individuals and micro–firms (fewer than 10 employees) with the development of low cost prototypes of products and processes involving technical advances and/or novelty);
- *Feasibility Studies* (Grants of up to £45,000 for individuals and small firms (fewer than 50 employees) undertaking feasibility studies into innovative technologies), and;
- *Development Projects* (Grants of up to £150,000 for small and medium–sized firms (fewer than 250 employees) undertaking development projects.

A small number of *exceptional* high–cost projects could attract grants of up to £450,000.

From June 1st 2003 SMART research and development (R&D) project grants were replaced by a new R&D grant product. The important differences are:

- *Research projects* (previously called Feasibility studies) – 60% of eligible project costs up to a maximum grant of £75,000,
- *Development projects* – 35% of eligible project costs up to a maximum grant of £200,000;
- *Exceptional development projects* – 35% of eligible project costs up to a maximum negotiable grant of £500,000, and;
- *Micro projects* – 50% of eligible project costs up to a maximum grant of £20,000.

Financial barriers to Small Firm growth

47. It has been suggested that financial barriers to small firm growth are in general terms decreasing in significance. The IOD pointed out that:

> "In broad terms, access to finance for businesses in general in the UK is probably not a problem at the present time*"*

and argued instead that greater attention should be paid to basic general educational standards[40].

Teaching Company Scheme (TCS)

48. In view of this, and given that the Government was in the middle of a major consultation on financial support schemes (HM Treasury/SBS 2003), the Committee was concerned to identify good practice in schemes supporting human capital development. In general, the evidence provided by DFES was less well based on formal evaluations than schemes provided elsewhere. It was clear however that the Teaching Company Scheme (TCS) was highly regarded by HSBC in the private sector, as well as by the Association for University Research and Industry Links (AURIL) in the public sector. The scheme provides for long term research projects linking university and business partners. It has also been the subject of favourable formal evaluation. AURIL expressed some concern that the scheme was not properly promoted by Business Link, whilst HSBC also expressed the view that it was not as well known as it should be, and could be re–launched to raise its profile. (See Box 2).

49. The Committee was struck by the emphasis placed by Professor Roos of the Massachusetts Institute of Technology (MIT) on the key role of Universities as providers of skilled and well educated graduates, and on the interaction available at MIT and elsewhere in the United States between industry and academia. In view of this, and the generally favourable view of its role, **the Committee recommends that greater attention should be paid to the exploitation of the**

[40] IOD; written evidence para 14, page100.

potential of the Teaching Company Scheme and to continued support for schemes that work well such as SMART.

Box 2

The Teaching Company Scheme (TCS)

The Teaching Company Scheme (TCS) is designed to promote industry/academic collaboration to improve product design, efficiency, manufacturing processes, skills, training and R&D, market access and process quality.

It provides grants to Higher Education Institutes (HEIs) to pay part of the staff and project–related costs of one or more graduate Teaching Company Associate(s) (TCA) who are placed with a company to work on a collaborative project linking the company and the HEI.

The company pays part of the total costs—typically £16-18000 per TCA per year for a company with fewer than 250 employees, or £24-27000 per TCA per year for bigger companies. About 10% of awards go to firms with fewer than 10 employees.

With effect from June 2003, the TCS was replaced by Knowledge Transfer Partnerships which are managed under contract for the DTI. The essence of the scheme remains the same.

Failed Schemes

50. The Committee also sought evidence of bad practice. Mr Zourek provided evidence of a failed scheme. The Joint European Venture was aimed at promoting joint ventures between SMEs in two Member States to locate activity in a candidate country. It failed because there was no demand for it and, perhaps not co–incidentally, the administration of the scheme was extremely cumbersome. More generally, Mr Zourek argued that in his experience schemes were more likely to succeed where they addressed clear market failures and had clearly specified objectives. This was reinforced by Mr Rees, Head of the DTI Evaluation Unit, who also pointed out, as did representatives of the Treasury and the DTI, the importance of including both a monitoring system and an information system capable of supporting evaluation against agreed and clearly specified programme objectives (Q182).

51. The Committee formed the view that there was a great deal to be learned from the examination of past successes and failures and that the availability of formal evaluations would greatly assist in that process. **We approve of the newly established practice in the UK of publishing evaluations on appropriate Departmental web–sites and of the proposed integration of monitoring and evaluation information systems into project and programme design.**

Evaluation of Fiscal Measures designed to support Entrepreneurship

52. The Committee also formed the view that the evaluation process was better established in some Departments in the UK than in others. They noted the lack of evaluation by the Treasury of the impact on entrepreneurship of general taxation changes (e.g. to capital gains tax) as opposed to tax breaks associated with particular schemes (e.g. Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT)). The sums involved are extremely large with overall tax breaks amounting to over £2 billion in 2001/2. **The Committee recommends that HMG pay attention to devising methods to assess the impact of general tax changes on entrepreneurial activity in the UK.**

53. The evidence the Committee received on the EU from Mr Van der Horst and Mr Zourek suggested that there was less formal evaluation in other Member States than in the UK. This made it difficult properly to assess the impact of EU policy. Mr Zourek told the Committee that a major strategic evaluation of EU enterprise policy, especially in relation to financial instruments, was under way (Q242). **The Committee recommends that no action plan based on the Green Paper should be agreed before the lessons have been drawn from the Commission's ongoing evaluation programme of EU enterprise policy. It also recommends that where new EU schemes are proposed, no action plan should be agreed before a clear framework is established setting objectives and a system is in place for monitoring and evaluating such schemes. The Committee further recommends that in disseminating best practice, the**

Commission stress the importance for Member States to set clear objectives and to establish a system for monitoring and evaluating national schemes to promote entrepreneurship.

CHAPTER 4: RECOMMENDATIONS

EU LEVEL

54. The Committee recommends that in any action plan based on the Commission's Green Paper close attention should be paid by both the Commission and the Member States to the arguments justifying EU action as opposed to actions properly left to individual Member States.

55. The Government should pay special attention to the views of the Commission, in particular, the view that the support of entrepreneurship is primarily a Member State activity. The Government should also support the Commission in its desire "to go for savings by reducing complexity in the support of networks".

56. The Committee recommends that no action plan based on the Green Paper should be agreed before the lessons have been drawn from the strategic evaluation of the EU's enterprise support programme which is currently being undertaken by the Commission. It also recommends that where new EU schemes are proposed, no action plan should be agreed before a clear framework is established setting objectives, and a system is in place for monitoring and evaluating such schemes. The Committee further recommends that in disseminating best practice, the Commission stress the importance for Member States to set clear objectives and to establish a system for monitoring and evaluating national schemes to promote entrepreneurship.

57. The Committee recommends that any EU scheme to support entrepreneurship which is included in the action plan based on the Green Paper should:

- address a clearly identified need at EU level and have a clearly specified objective or set of objectives;
- have an agreed set of quantifiable outcomes against which monitoring and evaluation can take place;
- have a built–in costing, information and reporting system designed to provide the necessary material on which to base monitoring and evaluation.

UK LEVEL

58. The Committee recommends that the Government clarify and rationalise further the structure of administering agencies delivering or involved in enterprise policy at local and regional level.

59. The Committee recommends that the Government encourage the fuller exploitation of the potential of the Teaching Company Scheme in the UK and continue to support schemes that work well, such as SMART.

60. The Committee recommends that the Government give attention to devising methods to assess the impact of general tax changes on entrepreneurial activity in the UK.

61. The Committee recommends that, in the UK, any proposed scheme to support entrepreneurship which seeks to implement the action plan based on the Commission's Green Paper should:

- address a clearly identified market failure and have a clearly specified objective or set of objectives;
- have an agreed set of quantifiable outcomes against which monitoring and evaluation can take place;
- have a built–in costing, information and reporting system designed to provide the necessary material on which to base monitoring and evaluation.

RECOMMENDATION TO THE HOUSE

62. The Committee considers that the European Commission's Green Paper: Entrepreneurship in Europe raises important questions to which the attention of the House should be drawn and makes this Report to the House for information.

APPENDIX 1

Membership of Sub–Committee B

The Members of Sub–Committee B who conducted this inquiry were:

Lord Cavendish of Furness

Lord Chadlington

Baroness Cohen of Pimlico

Lord Faulkner of Worcester

Lord Fearn

Lord Howie of Troon

Lord Shutt of Greetland

Lord Skelmersdale

Lord Woolmer of Leeds (Chairman)

Declaration of Interests

Lord Cavendish of Furness	Director, Holker Holdings Ltd
	Director, Park Healthcare Ltd (Private Nursing Home)
	Director, United Kingdom Nirex Ltd
	Director, Burlington Slate Ltd
Lord Chadlington	Chairman, International Public Relations
	Director, Huntsworth plc/Chadlington Consultancy/Oxford Resources Ltd
	Chief Executive, Quiller Consultants
Baroness Cohen of Pimlico	Non Executive Director, BPP Holdings Plc
	Non Executive Director, London Stock Exchange
	Non Executive Director, Informed Sources Ltd
	Non Executive Director, Defence Logistics Org
Lord Faulkner of Worcester	Incepta Group plc
	Advising: Financial Services Authority
	Littlewoods Leisure
	Cardiff County Council
	ITM Graphics Ltd
Lord Fearn	Councillor, Sefton M.B.C.
Lord Howie of Troon	Consultant, George S. Hall Ltd
Lord Shutt of Greenland	Councillor, Metropolitan Borough of Calderdale
Lord Skelmersdale	Director, Broadleigh Nurseries Ltd
Lord Woolmer of Leeds (Chairman)	Partner, Halton Gill Associates
	Non Executive Director, Thornfield Properties Plc
	Non Executive Director, CourtCom Ltd
	Partner, Anderson McGraw
	Chairman, Energy Forum, Yorkshire and Humber Development Association

APPENDIX 2

Call for Evidence

INQUIRY INTO THE EUROPEAN COMMISSION GREEN PAPER ON ENTREPRENEURSHIP IN EUROPE

Sub–Committee B (Energy, Industry & Transport) of the House of Lords Select Committee on the European Union is to conduct an inquiry into the European Commission's Green Paper Entrepreneurship in Europe.

The Green Paper identifies three key areas of concern for the European Union (EU). These are:

bringing down barriers to business development and growth;

balancing the risks and rewards of entrepreneurship; and

promoting a society that values entrepreneurship.

It also identifies two central issues in addressing these concerns:

the need to adopt a coordinated approach to entrepreneurship policy; and

the need to learn from best practice in the policy arena.

The Green Paper is very wide–ranging in its approach and defines entrepreneurship as relevant…

'…for all sectors, technological or traditional, for small and large firms and for different ownership structures, such as family businesses, firms quoted on the Stock Exchange, social economy enterprises or non–profit driven organizations…'

In view of this breadth, and in view of the extensive range of relevant policy initiatives in the UK and the EU, the Committee intends to focus on the for–profit technology based sector and, within that sector, to focus on policies which deal with barriers to business growth and development, including the promotion of "intra–preneurial" behaviour in large firms. The Committee will examine the issues of effective policy coordination and of learning from best practice and will consider evidence and experience from the United States of America (USA) as well as from UK and EU in this area.

The Committee expects that its inquiry will attempt to identify which policies represent best value for money in promoting the translation of entrepreneurship into successful business growth and development, and what policy coordination lessons can be drawn by inquiring into policy practice in this area.

In considering these issues, the Committee wishes to distinguish between two broad areas of public resources and support for entrepreneurship and enterprise aimed at stimulating growth and development of business. These two broad areas:

access to finance and the financial incentives; and

policies to support management and work force skills.

The Committee would, therefore, welcome evidence–based views and analyses of specific UK, US and EU programmes in these areas. The specific questions that we would wish evidence to address are as follows:

For each of the areas referred to above (paragraph 4):

What are the current programmes or schemes in the UK (EU)?

Are the objectives of these programmes well specified?

Do the programmes clearly identify the annual costs and benefits in each case? What are they?

Which, in your view, are the most effective programmes currently? Why is this?

What improvements to existing programmes, or what new programmes of support, do you consider desirable and why?

Are policies across and within each of the above areas (paragraph 4) effectively coordinated by the Government/the European Commission?

How appropriate is the existing balance of support, between each of the broad areas referred to above (paragraph 4)?

APPENDIX 3

List of Witnesses

The following witnesses gave evidence. Those marked * gave oral evidence.

AURIL

Confederation of British Industry

* Mr Robert Coxon
* Department for Education and Skills
* Department of Trade and Industry
* European Commission
* HSBC

Institute of Directors

One NorthEast

* Professor Daniel Roos (Massachusetts Institute of Technology)

Scottish Enterprise

* HM Treasury

UNICE

* Mr Rob van der Horst, EIM Business and Policy Research, Netherlands (oral evidence only)

APPENDIX 4

The EU Green Paper on Entrepreneurship in Europe: Overview

The Green Paper aims at stimulating debate amongst the widest possible audience of stakeholders on the best entrepreneurship policy for the future. It assesses the state of entrepreneurship in Europe, available policy options and asks a number of questions.

The Green Paper considers policy options with regard to two issues for Europe.

Firstly, why do so few people start a business when a relatively large number of individuals express their interest in entrepreneurship? Secondly, why do so few European enterprises grow and why do those that grow so much do so at such a modest rate?

Besides these, it considers the role of society at large in meeting these challenges.

Entrepreneurship is not only a driver for job creation, competitiveness and growth, but can also be a vehicle for a personal development and can help resolve social issues. Entrepreneurship is a mindset, which can occur throughout society at large but the green paper concentrates on creating new value in a business context. Entrepreneurship is about blending risk–taking creativity or innovation with sound management, within a new or an existing organisation and can occur in any sector or type of business. Compared to the US, people's inclination towards entrepreneurship in the European Union could improved. Also, there is less involvement in new entrepreneurial initiatives, less firm growth and more adversity towards risk taking. Europe needs to encourage new entrepreneurial initiative and help unlock the growth potential of the European Union's existing firms, among which there is no lack of ambition; some 30% of Europe's SME's 20 million express a desire for growth.

An individual's decision to start a business or have an ambition, as an entrepreneur, to take risks or expand is conditioned by a multitude of factors, including the existence of opportunity, entry barriers, skills and preferences.

While running a business, entrepreneurs are faced with many obstacles for business development and growth such as complying with administration requirements and lack of finance or skilled labour. To seize new opportunities in the changing markets, business should be encouraged to innovate or expand beyond national borders, or even, particularly larger firms, to allow their own employers to exploit ideas that would other wise be left unexplored.

Building an entrepreneurial society involves everybody. Positive attitudes towards entrepreneurial initiative and failure can help develop entrepreneurial ventures. Further more, entrepreneurship can be applied to achieving social and societal objectives.

The Green paper suggests adopting a co–coordinated approach to entrepreneurship policy, involving all the relevant policy–makers, to provide a coherent and comprehensive response to the needs of entrepreneurs. It asks question sunder three pillars for action:

- Bringing down barriers to business development and growth
- Balancing the risks and rewards of entrepreneurship
- A society that values entrepreneurship

Questions for the European agenda on Entrepreneurship

1 What should be the key objectives for an agenda for entrepreneurship in the European Union and how should these relate to other political ambitions? How can we build a model for entrepreneurship in an enlarged Europe?

2 How can we improve the availability of finance (tax measures, public–private partnerships, stronger balance sheets, guarantees) and what alternatives to bank loans should be promoted (business angel finance, leasing, factoring and micro–loans from non–bank lenders)? How can entrepreneurship be supported in obtaining external finance?

3 Which factors most hinder growth (lack of) mutual recognition and EU rules or their (non–) implementation at national level, tax provisions or the situation on the labour markets)? What actions are best suited to supporting growth and internationalisation (trade missions, market analysis, clustering and networking, information and consultancy services)?

4 To ensure high quality businesses, what training and support should be offered for a business start–up (basic training—compulsory or voluntary, incubators, mentoring) and business development (networks, courses, mentoring, distance learning, e.g. e–learning)? Should there be services tailored to the needs of specific groups (women, ethnic minorities) or businesses (knowledge based activities)? Should the quality of delivery of support services be improved (using ICTs, professional standards)?

5 Are the obstacles and incentives for business development and growth in the European Union similar for entrepreneurs in the Candidate Countries, and does the forthcoming enlargement call for specific measures in Candidate Countries?

6 What can EU Member States do to make the balance between risk and reward more favourable to promoting entrepreneurship (reducing the negative effects of bankruptcy, making more social benefits available for entrepreneurs reducing the tax burden either in terms of administration or rates)?

7 How might more prospective entrepreneurs be encouraged to consider taking over rather than starting a new firm (buyers and sellers databases or market places, special training for family–owned businesses, management or employees buy–outs)?

8 How can spin offs be made more attractive (management buy–outs showcasing, specialist advice, tax or other provisions for employees and their employers whilst starting a business)?

9 How can education support the development of the awareness and skills necessary for developing an entrepreneurial mindset and skills (entrepreneurship training as part of a schools curriculum, getting entrepreneurs into the classroom, apprenticeships for students to work with experienced entrepreneurs, more entrepreneurial training in universities, more MBA programmes, matching entrepreneurial training with public research programmes)?

10What could business organisations, the media and public authorities do to promote entrepreneurship (role models, media campaigns open door days or firms, award schemes for entrepreneurs) and at what level (European, national, regional or local)?

Introduction to Appendix 5

The following table is drawn from *'Creating an entrepreneurial Europe: The Activities of the European Union for SMEs'* CEC Brussels 21.1.2003 SEC (2003) 58 COM(2003) 26 (page 11). It should be noted that the table provides an overview of various types of actions (loans guarantees grants etc) occurring over various periods. It cannot therefore be added up across the various activities to give a global figure per year or common period. In the section on financial guarantees data is given on the amount actually guaranteed (estimated guarantee amount) as well as the budget contribution to the cost of the guarantee and the total estimated loan granted.

The following main acronyms are used in the Table;

EIB European Investment Bank

EIF European Investment Fund

ETF European Technology Facility

RTD Research and Technological Development.

The Leonardo da Vinci scheme supports vocational training and mobility

Full details of these institutions and related programmes and the others shown in the Table can be found in the report from which the Table is drawn.

APPENDIX 5

EU SME Programmes and Budget Allocations

FINANCIAL INSTRUMENTS, COMMUNITY PROGRAMMES AND SMEs				
Community action	**Estimated amount allocated to SMEs in euros**	**Estimated number of SMEs**	**Estimated SME participation in projects overall**	**Estimated SME share of the total budget**
F I N A N C I A L I N S T R U M E N T S				
EIB Global loans (1997-2001)	22.5bn	100 000		
EIF Guarantees (1994-2002)	1 382m			
- of which "Growth and Environment" (1995-2002)				
Estimated loan amount	1 300m	5 500	100%	100%
Estimated guarantee amount	649m			
EC budget contribution	25m			
SME Guarantee Facility (1998-2000)				
Estimated loan amount	9 822m	120 585	100%	100%
Estimated guarantee amount	2 526m			
EC budget contribution	199m			
SME Guarantee Facility (2001-2005)				
Estimated loan amount	8 000m	–	100%	100%
Estimated guarantee amount	2 500m			
EC budget contribution	203m			
EIF Venture capital instruments				
EIF own resources (1997-2002)	150m	700	100%	100%
EIB mandated resources (1997-2002)	Up to 2 000m	1 250	100%	100%
ETF Start-up Facility (1998-2000)	168m	206	100%	100%
EFT Start-up Facility (2001-2005)	92m	–	100%	100%
Seed capital action (2001-2005)	22m			
JEV (1997-2002)	57m	298	100%	100%
S T R U C T U R A L F U N D S (2 0 0 0 - 2 0 0 6)				
Objectives, Community initiatives and Innovative actions (2000-2006)	16bn			11%
R E S E A R C H A N D D E V E L O P M E N T				
5th RTD Framework Programme (1998-2002)	1.463bn*	11 911	38%*	13.5%* of the budget of the priority thematic areas
- of which specific SME measures	544m	7 296	100%	100%
6th RTD Framework Programme (2002-2006)	2.2bn			Min. 15% of the budget of the priority thematic areas
- of which specific SME measures	430m		100%**	100%
V O C A T I O N A L T R A I N I N G				
Leonardo da Vinci *Participation in the first three years (2000-2002) of the 2nd phase of the programme (2000-2006) – Procedures B and C*	25m (SME contracts)		9% SMEs as project promoters 18% overall involvement of SMEs in projects	10.5%
I N T E R N A T I O N A L C O O P E R A T I O N A N D E X P O R T P R O M O T I O N				
Business Support Programme (1998-2001)				
Phare contribution	42.7m			
SME Finance Facility (1999-2002)				
Estimated partners' contribution	1 430m		100%	100%
EC budget contribution	241m			
AL-INVEST (2002-2006)	46m			
Asia-Invest (2002-2005)	35m			
EBAS (1999-2002)	20m			
PROINVEST (2002-2008)	112m			
Gateway to Japan (2002-2005)	3.5m / year***	200-250 / year	SME-oriented (>95%)	
ETP Japan	7m / edition***	35-50 / year	Open to SMEs (+/- 50%)	
E N V I R O N M E N T				
LIFE financial instrument (2002)	28.8m****	141****	38%	42%

Footnotes to the Table

*	Data until 2001 estimated as regards Shared costs projects: definite data as regards specific SME projects
**	Part of the funding used to cover the costs of the research performers for their work, to the benefit of SMEs who own the results
***	No direct grants paid
****	SME being the beneficiary or partner (including federations and research centres as SMEs)

APPENDIX 6

GOVERNMENT SERVICES FOR SMALL BUSINESS

BODY	ESTIMATED COST (01/02)
SBS	£349m
DTI	£160m
DTI Agencies	£115m
BTI	£43.6m
DTLR and Agencies	£107.10
DCMS and Agencies	£332m
DfES and Agencies	£138m
DEFRA and Agencies	£3,210m
DWP	£71m
Customs And Excise	£31m
Inland Revenue	£50m
RDA's	£274m
Local Authorities	£300m
European Commission	£227m[41]
European Investment Bank	£19m[42]
Tax Measures	£2590m
GRAND TOTAL	£7932m

Source: HM Treasury/Small Business Service (2002a)

41 Community funding.

42 Community funding.

APPENDIX 7

An overview of UK Enterprise Support Policy by Programme and Department 2002

Table 2.1 GOVERNMENT SERVICES FOR SMALL BUSINESS

BODY	PROGRAMME	ESTIMATED COST (01/02)
SBS	UK Online for Business	
	Business Link Contact Centre	
	Business Link	
	ERDF Match Funding	
	Contingency Fund for Local Disasters	
	Management Best Practice	
	Service Development	
	Supply Chain Development	
	Business Incubation	
	Phoenix Fund	
	TCS	
	College Business Partnerships	
	STEP	
	Small Firm Loan Guarantee	
	Early Growth Finding	
	SMART	
	Investment Support	
	TOTAL	**£349m**
DTI	Over 100 schemes broadly covering ▪ Innovation ▪ Space ▪ Aerospace, and ▪ Regional Assistance	
	TOTAL	**£160m**

DTI Agencies	Office of Science and Technology	
	Companies House	
	Insolvency Service	
	Patent Office	
	ACAS	
	Employment Tribunal Service	
	Design Council	
	TOTAL	**£115m**

The following table lists all the activities identified by the Cross Cutting Review Team as part of their mapping exercise. Whilst it is believed to be broadly comprehensive of schemes and initiatives at the national level, these are out–numbered by schemes operated at regional or local level, often with RDA/LA support. Nonetheless, work undertaken by Professor Bennett and the experience of RDAs and Departments has been drawn upon to provide a broad estimate of spend at the local and regional level. Inevitably these are indicative figures, as indeed they are for many national and European schemes where detailed disaggregated data does not exist

DTI Agencies	Office of Science and Technology	
	Companies House	
	Insolvency Service	
	Patent Office	
	ACAS	
	Employment Tribunal Service	
	Design Council	
	TOTAL	**£115m**

The following table lists all the activities identified by the Cross Cutting Review Team as part of their mapping exercise. Whilst it is believed to be broadly comprehensive of schemes and initiatives at the national level, these are out–numbered by schemes operated at regional or local level, often with RDA/LA support. Nonetheless, work undertaken by Professor Bennett and the experience of RDAs and Departments has been drawn upon to provide a broad estimate of spend at the local and regional level. Inevitably these are indicative figures, as indeed they are for many national and European schemes where detailed disaggregated data does not exist

	PROGRAMME	ESTIMATED COST (01/02)
BIT	Trade Fairs	
	Gateway	
	Outward Missions	
	Export Leads and Database	
	Passport	
	Export Explorer	
	USA/CANADA	
	BOND	
	New Products	
	Other	
	TOTAL	**£43.6m**
DTLR and Agencies	Neighbourhood Renewal Unit	
	Coalfield Regeneration	
	Urban deprived Post Office Fund	
	English Partnerships	
	Health and Safety Executive	
	TOTAL	**£107.10**
DCMS and Agencies	NESTA	
	Film Council	
	English Tourism Council	
	Regional Tourist Boards	
	English Heritage	
	Arts Council	
	TOTAL	**£332m**

DfES and Agencies	Workforce Development	
	IiP	
	Small Firm Training Loans	
	New Entrepreneur Scholarships	
	Learn Direct	
	Sector Skill Councils	
	Small Firm Development Initiative	
	Employers' Toolkit	
	Higher Education Reach Out	
	TOTAL	**£138m**

BODY	**PROGRAMME**	**ESTIMATED COST (01/02)**
DEFRA and Agencies	Over 120 Schemes Providing:	
	▪ Grants (including EU production subsidies)	
	▪ Advice	
	▪ In–kind support	
	TOTAL	**£3,210m**
DWP	New Deal 18-24	
	New Deal 25+	
	New Deal 50+	
	Work Based Learning for Adults	
	Job Broking Service	
	Prince's Trust	
	TOTAL	**£71m**

Customs And Excise	Business Advice Teams	
	Open Days	
	National Advice Service	
	Special Accounting Schemes	
	E–Business Services	
	VAT Support	
	International Trade Support	
	TOTAL	**£31m**
Inland Revenue	Business Support Teams	
	Enquiry Centre	
	Starting In Business Pack	
	Internet Services	
	E–Business helpdesk	
	Other Local Initiatives	
	TOTAL	**£50m**

APPENDIX 8

AN OVERVIEW OF UK ENTERPRISE SUPPORT POLICY 2002

Table E.1 (continued): Government measures to support enterprise (shaded entries will particularly benefit businesses in the Enterprise Areas)

Event	To provide …	the Government has …	and it will …
Trading (continued)	government regulation that is fair and proportionate, with impacts on small firms fully considered	• put in place systems such as Regulatory Impact Assessments and the Ministerial Panel of Regulatory Accountability (*www.cabinet-office.gov.uk/regulation/scrutiny*) • introduced a package of over 260 deregulatory measures (*www.cabinet-office.gov.uk/regulation/actionplan*) • established the Small Business Service, to ensure small business interests are considered fully in development and delivery of policy (*www.sbs.gov.uk*)	• improve communication and enforcement of regulatory requirements • ensure more effective consultation on new regulations, through small firms impact assessments • consult on common dates for employment law changes
	measures to stamp out unfair competition	• strengthened the competition framework through the Enterprise Act, which gives full independence and new powers to competition authorities and brings in tough new penalties for those who engage in cartels (*www.dti.gov.uk/ccp/topics2/ukcompref.htm*)	
	improved competition in the market for banking services	• accepted in full the findings and recommendations of the independent Competition Commission following its investigation into the supply of banking services to SMEs (*www.competition-commission.org.uk/pressreleases/15-02.htm*)	
	help coping with late payment by creditors	• provided a statutory right for small firms to claim interest for the late payment of commercial debts (*www.sbs.gov.uk/finance/latepayments.php*)	
	fairer results for creditors of insolvent companies	• introduced reforms in the Enterprise Act to ensure that the corporate insolvency process is always handled in the interests of all creditors, to abolish Crown Preference and to provide for full distribution of interest on insolvent estates, providing an extra £110 million a year for creditors (*www.insolvency.gov.uk/reform.htm*)	
Growing	access to high-quality external advice and support	• re-franchised the national Business Links network, leading to strong growth in usage (*www.businesslink.org; www.sbs.gov.uk/partners/#local*) • introduced the £96 million Phoenix Fund, which has already supported 150 projects involving specialist business support organisations in disadvantaged communities (*www.sbs.gov.uk/phoenix*)	• pilot Regional Development Agency led management and coordination of business support, to enhance performance and promote better integration with Regional Economic Strategies • extend the Phoenix Fund with a further £50 million over 2004-05 and 2005-06
	help and advice on expanding into overseas markets	• provided support through British Trade International, which last year helped around 28,000 UK businesses take steps towards export success (*www.tradepartners.gov.uk*)	
	role models for growth firms in disadvantaged communities	• supported the Inner City 100 project (*www.theinnercity100.org*), which aims to publicise entrepreneurial role models in disadvantaged communities, by focusing on the fastest-growing 100 businesses in inner cities around the country	
	increased government recognition of the needs of small businesses in disadvantaged areas	• set a Public Service Agreement target for the DTI to deliver "more enterprise in disadvantaged communities" (*www.hm-treasury.gov.uk/Spending_Review/spend_sr02/psa/spend_sr02_psadti.cfm*), providing a strong incentive to ensure that mainstream services for business – including Business Links – serve deprived areas as effectively as others	

Table E.1 (continued): Government measures to support enterprise (shaded entries will particularly benefit businesses in the Enterprise Areas)

Event	To provide …	the Government has …	and it will …
Investing	improved access to finance	• launched Regional Venture Capital Funds in seven of the English regions, three of which have made their first investments (*www.dti.gov.uk/sbs/ef*)	• ensure that the remaining two Regional Venture Capital Funds are fully operational by April 2003, making available up to £270 million for investment in smaller companies with growth potential
		• provided £20 million cornerstone investment in the £106 million UK High Technology Fund, which has already invested at least £35 million in 69 - technology based businesses (*www.dti.gov.uk/sbs/ef*)	• launch Early Growth Funding programmes across England, working alongside business angel networks
		• provided guarantees under the Small Firms' Loan Guarantee Scheme (*www.sbs.gov.uk/sflgs*), supporting bank loans worth over £250 million and benefiting around 4,200 small businesses a year	• extend eligibility for the Small Firms' Loan Guarantee Scheme from April 2003 to include the retail and catering sectors, which are strongly represented in less prosperous areas
		• launched the Bridges Community Development Venture Fund – a £40 million fund which invests in businesses in the most deprived areas in England (*www.bridgesventures.com*)	
	help developing attractive investment propositions	• established pilot projects to improve 'investment readiness' among small firms seeking external finance (*www.sbs.gov.uk/press/news70.php*)	
	improved incentives for those investing in enterprise	• reformed capital gains tax and introduced a taper relief, cutting the effective rate to just 10 per cent for business assets held for over two years (*www.inlandrevenue.gov.uk/cgt*)	• carry out the first round of accreditation for organisations wanting to use the Community Investment Tax Credit, by the end of the financial year
		• enhanced the Enterprise Investment Scheme and Venture Capital Trust tax incentive schemes to encourage further equity investment (*www.inlandrevenue.gov.uk/news/budgetreleases/revbn1b.doc*)	
		• introduced a new Community Investment Tax Credit to promote enterprise and wealth creation in under-invested communities (*www.sbs.gov.uk/finance/citc.php*)	
	better incentives and support for investment and for business research and development (R&D)	• introduced permanent enhanced capital allowances for plant and machinery for SMEs (*www.inlandrevenue.gov.uk/capital_allowances/investmentschemes.htm*)	• take further steps to promote awareness and understanding of the R&D tax credits amongst businesses, and consider options for legislative change to keep them current and improve their operation
		• introduced R&D tax credits for small and medium-sized companies (in Budget 2000) and for larger companies (in Budget 2002) (*www.inlandrevenue.gov.uk/r&d*)	• increase the science budgets of DTI and DfES by £1 1/4 billion by 2005-06, compared with 2002-03
		• provided grants through the Smart scheme (*www.businesslink.org/smart*), and SPUR in Scotland and Wales, supporting the development of technologically innovative products and processes	• work to strengthen the links between universities and enterprise, to support SME innovation and encourage commercial exploitation of research
		• established the University for Industry, offering flexible and convenient learning opportunities via learndirect (*www.learndirect.co.uk*)	• raise funding for the Higher Education Innovation Fund to £90 million a year by 2005-06
Planning	a simpler planning regime		• introduce legislation for Business Planning Zones, which will provide a more flexible planning regime for businesses located in designated hi-tech clusters or disadvantaged communities
	financial incentives to encourage regeneration	• introduced a package of measures to regenerate high streets, and a tax credit for the costs incurred in clearing up contaminated land (*www.inlandrevenue.gov.uk/budget2001/revbn22.htm*)	• introduce a tax incentive to encourage donations towards the running costs of Urban Regeneration Companies

Table E.1 (continued): Government measures to support enterprise (shaded entries will particularly benefit businesses in the Enterprise Areas)

Event	To provide …	the Government has …	and it will …
Employing	improved skills levels throughout the labour market	• raised standards and announced increased funding across the board for education (*www.hm-treasury.gov.uk/Spending_Review/spend_sr02/report/spend_sr02_repchap06.cfm*) • launched the Skills for Life strategy to help adults improve their basic skills (*www.dfes.gov.uk/readwriteplus*)	• provide Education Maintenance Allowances of up to £1,500 a year for young people from low-income families from September 2004, helping to overcome barriers to learning amongst over-16s • pilot joint working by Regional Development Agencies and Learning and Skills Councils on regional skills, to enhance performance and promote better integration with Regional Economic Strategies
	an education system that prepares young people to enter the world of business	• developed a new approach to 14–19 education, emphasising the importance of vocational qualifications, and created new vocational GCSEs and A levels • expanded and improved the Modern Apprenticeship system (*www.realworkrealpay.co.uk*)	• shortly publish its full response to the Davies review of enterprise and the economy in education • announce ambitious new targets for vocational pathways, including Modern Apprenticeships
	help recruiting and retaining key staff	• improved the work permit system, introduced the Highly Skilled Migrant Programme and made it easier for employers to fill vacancies in shortage occupations through work permits (*www.workpermits.gov.uk*) • established the Enterprise Management Incentive (EMI) scheme, to help smaller companies compete in the job market and motivate key personnel, and doubled the size limit for companies qualifying for EMI (*www.inlandrevenue.gov.uk/shareschemes*)	• continue to improve the service offered by Work Permits UK and the Highly Skilled Migrant Programme • introduce statutory tax deductions for the cost of delivering share options
	advice on employment-related matters	• announced an annual 4.7 per cent real terms funding increase for DTI's employment relations agencies from 2002-03 to 2005-06	• expand the capacity of the ACAS helpline, and increase the volume of face-to-face advice given to small firms by ACAS
	help administering payroll	• announced reforms to reduce the burden of payroll administration, following the recommendations of the Carter Review (*www.ir.gov.uk/pbr2001/carter_review.pdf*), with incentives for small employers to file payroll returns online from 2004-05	• launch and market the online filing programme nationally, in time for the first incentive payments in 2004-05 • deliver a special package of Inland Revenue support for employers in disadvantaged communities, including a higher profile for Business Support Teams
	greater enterprise opportunity for those on the New Deal	• introduced the New Deal self-employment option, which eases the transition from benefits to self-employment (*www.newdeal.gov.uk/english/self_employment*)	• extend access to New Deal support, including for self-employment, in pilots of a more intensive approach to tackling worklessness in the most disadvantaged areas
Training	support to provide training to employees	• established new Employer Training Pilots in six areas across the country, focusing on lower-skilled adults (*www.lsc.gov.uk/news_docs/Employer_Training.pdf*) • launched a Small Firm Development Account pilot (*www.enterpriseforum.co.uk/sfda.asp*) • announced additional funding of £30 million to encourage small organisations to reach the Investors in People standard (*www.iipuk.co.uk*)	• continue to explore policy measures to increase demand for training, and to improve the way in which training is supplied • publish a Skills Strategy next year, setting out how the Government will achieve its target to reduce the number of adults lacking the equivalent of five good GCSEs by 40 per cent by 2010
	improved management skills	• established New Entrepreneur Scholarships, currently supporting 400 scholars in deprived areas (*www.rcu.gov.uk/abi/results/abi_result.asp?searchID=51*)	• work to improve the quality of management and leadership across the UK, building on the report of the Council for Excellence in Management and Leadership

Table E.1 (continued): Government measures to support enterprise (shaded entries will particularly benefit businesses in the Enterprise Areas)

Event	To provide …	the Government has …	and it will …
Trading (continued)	government regulation that is fair and proportionate, with impacts on small firms fully considered	• put in place systems such as Regulatory Impact Assessments and the Ministerial Panel of Regulatory Accountability (*www.cabinet-office.gov.uk/regulation/scrutiny*) • introduced a package of over 260 deregulatory measures (*www.cabinet-office.gov.uk/regulation/actionplan*) • established the Small Business Service, to ensure small business interests are considered fully in development and delivery of policy (*www.sbs.gov.uk*)	• improve communication and enforcement of regulatory requirements • ensure more effective consultation on new regulations, through small firms impact assessments • consult on common dates for employment law changes
	measures to stamp out unfair competition	• strengthened the competition framework through the Enterprise Act, which gives full independence and new powers to competition authorities and brings in tough new penalties for those who engage in cartels (*www.dti.gov.uk/ccp/topics2/ukcompref.htm*)	
	improved competition in the market for banking services	• accepted in full the findings and recommendations of the independent Competition Commission following its investigation into the supply of banking services to SMEs (*www.competition-commission.org.uk/pressreleases/15-02.htm*)	
	help coping with late payment by creditors	• provided a statutory right for small firms to claim interest for the late payment of commercial debts (*www.sbs.gov.uk/finance/latepayments.php*)	
	fairer results for creditors of insolvent companies	• introduced reforms in the Enterprise Act to ensure that the corporate insolvency process is always handled in the interests of all creditors, to abolish Crown Preference and to provide for full distribution of interest on insolvent estates, providing an extra £110 million a year for creditors (*www.insolvency.gov.uk/reform.htm*)	
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APPENDIX 9

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