

Entrepreneurship and SME policies across Europe

Estimating the costs of Entrepreneurship and SME Policy: Tracking the Cash
- Method manual for IPREG subproject 1

The IPREG-2 project: Entrepreneurship and SME policy across Europe aims to map the politics towards entrepreneurship (E) and Small and Medium-sized Enterprises (SME) in Europe. One goal has been to investigate the E/SME policy costs in European countries. This report describes how we proceeded in mapping the Swedish costs for E/SME policies. Costs were estimated for year 2009.

Dnr 2010/31
Swedish Agency For Growth Policy Analysis
Studentplan 3, SE-831 40 Östersund, Sweden
Telephone: +46 (0)10 447 44 00
Fax: +46 (0)10 447 44 01
E-mail info@growthanalysis.se
www.growthanalysis.se

For further information, please contact Peter Vikström
Telephone [+46 \(0\)10 447 44 30](tel:+46(0)104474430)
E-mail peter.vikstrom@tillvaxtanalys.se

Foreword

IPREG is the Innovative Policy Research for Economic Growth. It undertakes research leading to a better understanding of how entrepreneurship, innovation and small business can create sustainable economic growth in Europe and its' constituent regions.

IPREG is a European “network of networks” comprising researchers, policymakers and representatives from business organisations interested in Entrepreneurship and SME policy.

IPREG is currently co-ordinating two collaborative projects in Sweden, Flanders (Belgium), Poland, Spain and Austria:

- Estimating the full cost of Entrepreneurship and SME policy
- Mapping Entrepreneurship and SME Policy expenditure, policy focus and perceived impact

Subsequently IPREG will undertake a third project:

- Linking the input of Entrepreneurship and SME Policy to impact- most notably that of enhancing the entrepreneurial vitality of European countries.

The findings of the two current projects will be summarised in nine reports:

- One synthesis report covering all countries
- Individual country reports for Sweden, Flanders (Belgium), Poland and Austria.
- Two technical manuals for each of the current projects
- Two detailed reports for Sweden

This report contains the method manual for the cost estimation project and contains a description of the main methodology used in the project to obtain comparable cost estimates.

This work has been undertaken by:

Associate Prof. Matthias Fink, Elisabeth Reiner and Stephan Loidl from Austria

Reinout Buysse, Prof. Miguel Meuleman, Prof. Hans Crijns, Els Vermander, Dr Peter Spyns from Flanders (Belgium).

Dr Andrzej Boczkowski, Dr Agnieszka Dziejczak-Foltyn, Dr Paweł Głodek, Dr Janusz Kornecki, Dr Ewa Sadowska-Kowalska, Prof. dr hab. Edward Stawasz and Dr Małgorzata Sikorska from Poland;

Dr. Javier Sánchez Asin from Spain;

Analysts Carina Holmgren, Edgar Iglesias, Anna Kremel, Andreas Kroksgård, and Dr Peter Vikström from Sweden;

Prof. David Storey from Great Britain.

Project manager has been Professor Anders Lundström, Sweden. Coordinating and responsible organisation has been Growth Analysis, Sweden

Östersund, May 2011

Peter Vikström, Director Entrepreneurship and Enterprise

Table of Contents

1	Introduction	5
1.1	The IPREG research cost project.....	5
1.2	The benefits of the project.....	5
1.3	The method manual.....	6
2	Definitions and structure	7
2.1	General definitions.....	7
2.2	Firm age.....	9
2.3	Sector.....	9
2.4	Policy areas.....	10
2.5	Regions.....	11
3	The General approach to estimating costs	12
3.1	Funding scheme.....	13
3.2	Surveys and other additional data collection.....	14
3.3	Units of measurement.....	14
3.4	Treatment of EU funds.....	15
4	Using state-aid reporting as a data source	16
4.1	Sources of data.....	16
4.2	Identification of relevant ministries and agencies.....	16
4.3	R&D procurement contracts.....	17
4.4	Foreign Direct Investment.....	17
4.5	Estimation of aid elements.....	17
	Annex 1 - Generic Survey (preliminary version)	21
	Annex 2 - PPP for currency conversion	23
	Annex 3 - Funding scheme for Sweden	24

1 Introduction

In 2003 the UK government estimated that the total public expenditure on support for entrepreneurship and SME policies was approximately £8 billion annually. This figure has been amended in subsequent reports by, for example, the National Audit Office but the scale of support remains of approximately this scale.

Four important inferences can be drawn from this finding:

- When placed in context, the £8 billion annual figure means the UK taxpayer pays marginally more in supporting SMEs and Entrepreneurs than it does for the Police or Universities.
- The organisation within government responsible for Enterprise policy however only spent about 5% of this money. The remainder of the funding came from a vast range of government departments and organisations that had SMEs and entrepreneurs as only one, of many, stakeholders.
- There was no mechanism within government for co-ordinating this £8 billion annual expenditure. In this respect SME and Entrepreneurship policy differed fundamentally from, for example, Police or Universities which were the responsibility of a single government department.
- Although the UK government was able to calculate the total expenditure from all public organisations it did not disaggregate this total figure into, for example, different policy areas.

1.1 The IPREG research cost project

The IPREG research project aims to repeat the UK research for other countries, but to also develop the final bullet point above. So, in addition to calculating the total expenditure on Entrepreneurship and SME policy, it also sought answers to the following three questions. One, however, proved partly intractable:

- Of the total expenditure, how much is spent on encouraging and enabling individuals to start a business (here defined as Entrepreneurship policy) and how much is spent on existing small business (here defined as SME policy)?
- Of the total expenditure, how much is spent on supporting high-tech businesses, and how much is spent on all other forms of enterprise?
- Of the total expenditure, how much is spent on different policy sub-areas such as financing, counselling and information, rule simplification, target groups, promotion activities, entrepreneurship education, policy-relevant research, training, networking activities and innovative entrepreneurship

1.2 The benefits of the project

This project has the following benefits:

- It enables, for the first time, policy makers and taxpayers in IPREG countries to comprehend the scale of support provided from public funds to entrepreneurs and small firms

- It enables national policy makers to have a “big picture” of expenditure, and then to make an informed judgement about whether this corresponds with their political priorities. For example total expenditure on pre-start support may be less -or more - than their expectation of priorities. This means the data become the basis for an informed political debate on policies within that country.
- Since the IPREG exercise is being undertaken in several EU countries, differences both in the scale of support and its “distribution” across programmes is another source of political debate. So, if in country X the bulk of its expenditure is on Entrepreneurship policy, whereas in country Y expenditure is concentrated on SME policy, this is informative - especially if one of the countries is viewed as more “entrepreneurial” than the other. However, the small number of countries means they are better viewed as case studies.
- Costs data on policy areas can be compared with programme activity. This is undertaken in the IPREG 2 project.
- Finally it must be emphasised that this project only measures the “inputs” to SME and Entrepreneurship policy. At this time it is not able to estimate or determine whether this expenditure provides good “value for money” for the taxpayer. This issue will be addressed in the IPREG 3 project.

1.3 The method manual

This document contains methodological guidelines for the completion of Project 1 of the IPREG-2 project by developing a common methodological base for the cost estimations, so enabling countries to validly compare policy expenditure and hence policy priorities.

When the guidelines in this manual are turned into concrete estimates of costs for a specific country, that work should be documented in an implementation report. The implementation report should contain all the details and decisions that have been made when obtaining the cost estimates. This includes sources and estimation methods but also if it to any extent was necessary to depart from any of the guidelines in the method manual due to limitations in source data etc.

The document is in two parts. In the first part (section 2), definitions and the general structure of the cost estimations are described. The second part (section 3 and 4) describes the general methodological approach for estimating costs.

2 Definitions and structure

2.1 General definitions

Entrepreneurship policy is defined as:

Policy measures aimed at individuals who are interested to start a business and still in a starting phase procedure meaning activities during the first three years

SME policy is defined as:

Publicly funded measures aimed at existing firms with up to 249 employees.

2.1a) **Entrepreneurship, SME and Total Policy Costs:** The first task of the research is to aggregate the total cost of public funds devoted to **BOTH** Entrepreneurship and SME policy. We therefore specify those policies that are eligible for inclusion and those that are not.

The central consideration is that only those policies which have, as one of their objectives, enhancing the likelihood of an individual starting a for-profit business (entrepreneurship policy) or which seeks to enhance the performance of an existing SME (SME policy) are to be included. This therefore excludes policies seeking to promote the establishment or development of not-for profit enterprises and organisations.

Entrepreneurship and SME policies can be divided into:

1. Policies that, entirely or partially, are aimed at fostering entrepreneurship and SMEs. These comprise the **narrow** definition of entrepreneurship and SME policies and include, for example, policies aimed at increasing the formation of new firms or measures aimed at financing SMEs.
2. Policies that are not explicitly aimed at fostering entrepreneurship or SMEs, but include measures that lead to funds being distributed to these groups. These are included within the **broad** definition of entrepreneurship and SME policies. This requires an estimation of the proportion of total costs that are allocated to SMEs.

One example might be tax exemptions applying to all firms regardless of size, but where a proportion is taken up by SMEs. Only the SMEs “take up” is attributed to SME policy. A second example is financial support for agriculture. Here only funding for SME farms is included, recognising that in some programmes all funding goes to SME farms.

However, investments in infrastructure such as roads, railways and land development are not included in the cost estimates, even if SMEs benefit from these investments because such benefits are thought to be too indirect to justify.

Total costs are the sum of both narrow and broad definitions of cost. We will however continue to make the distinction between all two groupings because they may diverge over time.

2.1b) Disaggregating the Costs: Total costs are disaggregated as follow:

- Firm age: A distinction is made between expenditure on pre-start activities and after-start activities. For the pre-start phase the costs are classified as entrepreneurship policy, whereas funding of established firms is classified as SME policy..
- Sector: Expenditure is disaggregated between high tech and low tech sectors.
- Policy areas: Expenditure is disaggregated between policy relevant research (optional), target groups (women, unemployed, young, elderly people and immigrants), counselling, financing, administrative burdens (optional), entrepreneurship education, promotion activities, training, innovative entrepreneurship (optional), and networking activities (optional).
- Regions: The precise regional/spatial distribution of expenditure will vary between countries, but there should be at least one regional description of costs.

Table 1 shows feasible combinations between the different kinds of disaggregation and the areas of entrepreneurship and SME policy.

Table 1: Feasible combinations

	Entrepreneurship Policy	SME Policy
Age of Enterprise	Include <3 years	include
Technology Sector	Include	Include
Policy Areas	Include	Include
Regions	Include	Include

Table 2 illustrates in more detail how the costs will be allocated according to sub-areas

Table 2: Cost allocation to sub-areas and different phases.

	Pre start phase	After start up phase	Total costs distributed
Policy-relevant research (optional)	Hi-tech	Hi-tech	Hi-tech
	Low-tech	Low-tech	Low-tech
Target groups (women entrepreneurs, immigrants, young entrepreneurs, unemployed and elderly people)			
Counselling and information			
Financing			
Administrative burden (optional)			
Entrepreneurship education			
Promotion activities			
Training			
Innovative entrepreneurship (optional)			
Networking activities (optional)			
Total costs			

Each cell should also, as far as possible, be divided into two categories; hi-tech and low-tech firms.

In essence, the estimating task can be summarised as completing the cells of table 2 in as detailed and as accurate a manner as possible. Table 2 emphasises that the data for some policy areas may be difficult to obtain, but Sweden has made estimates for all areas. It also has emphasised that there inevitably will be some over- and some under-estimation of total policy costs, but that this will be appropriately highlighted.

2.2 Firm age

Expenditure should be disaggregated between activities aimed at activities before the firm is started (pre-start phase) and activities after the start up (after start-up phase).

2.3 Sector

Our purpose is to quantify public expenditure on Entrepreneurship and SME Policy, disaggregated between the high-tech and all other sectors. The high-tech sector is defined to comprise the following industries (NACE rev2):

- 21: Manufacture of basic pharmaceutical products and pharmaceutical preparations
- 26: Manufacture of computer, electronic and optical products
- 30.3: Manufacture of air and spacecraft and related machinery
- 59 to 63: Motion picture, video and television programme production, sound recording and music publishing activities, Programming and broadcasting activities, Telecommunications, Computer programming, consultancy and related activities, Information service activities
- 72: Scientific research and development

All other sectors are classified as low-tech.

2.4 Policy areas

Ten distinct policy areas are defined:

- **Policy relevant research** (optional) – Research aimed at creating knowledge mainly to be used by policy makers or representatives of business organisations or organisations working in the area of entrepreneurship or SME policy.
- **Target groups** – Measures taken to enhance the number of women entrepreneurs, immigrant entrepreneurs, young entrepreneurs, unemployed and elderly in the area of entrepreneurship or SME policy. The project will limit the number of target groups to these five categories. Young entrepreneurs are defined as individuals up to 30 years old. To avoid double or triple counting, policies targeting women and immigrant entrepreneurs are only included if the client group is over 30 years old. However any expenditure on young (<30 year old) women or immigrants is noted. Elderly people are defined as individuals of at least 55 years of age.
- **Counselling and information** – Assistance is provided by publicly financed service providers to business owners and prospective owners. Workforce and Management training is separately quantified as explained below.
- **Finance** – Public financing initiatives for entrepreneurship and SME policies are costed and documented. The public cost of guarantee systems, risk capital financing including public equity capital and public loans are the losses in these programmes and their cost of administration. It is NOT the value of the funds under guarantee.
- **Administrative burden** (optional) – The activities undertaken by government in implementing programmes to achieve rule simplifications in Entrepreneurship and SME policy are included here. The costs include the direct, as well as the administrative costs, of these activities. It does NOT estimate the costs imposed upon entrepreneurs and SMEs by such “red tape”¹.
- **Entrepreneurship education** – This covers programmes delivered within the public education system from elementary school to university level. It includes

¹ Where such estimates exist they may be included as a relevant footnote.

enhancing awareness of the entrepreneurial option to teaching business management skills. It is primarily entrepreneurship policy.

- **Promotion activities** – This includes activities seeking to promote entrepreneurship and innovation supported from public funds. Examples include support for participation in trade fairs, for marketing role models, awards to entrepreneurs or SMEs and media articles in newspapers or TV.
- **Training activities** – This includes primarily the training of SME employees in publicly funded courses, but also public funding of management training of owners and managers in small firms. Also included is training courses for potential entrepreneurs.
- **Innovative entrepreneurship** (optional) – This includes the public costs related to measures taken to stimulate “innovative entrepreneurship” or to enhance product development in existing firms. Examples include programmes to stimulate spin offs from incubators and universities, as well as the costs of cluster creation and innovation systems.
- **Networking activities** (optional) – This includes activities aimed at establishing and developing contacts and networks between entrepreneurs and other actors. As an example the 25% of the costs of Triple Helix projects are placed in this category and 75% classified as innovative entrepreneurship. There are also projects which aim to create networks and knowledge exchange between public financed service organisations.

The issue of potential “double counting” is addressed by either placing the project in its “main” category or allocating shares of the total cost for a measure to different categories, depending on the nature of the measure and the data available. As an example, a finance programme targeting women entrepreneurs is classified as being in the women, rather than the finance, category. Other measure could be more suitable to allocate to more than one category by using cost shares, for instance a measure containing both training and counselling activities.

2.5 Regions

Cost estimates should be provided at the national level. However, exceptionally (e.g a very regionalised economy), estimations could also be provided for one or more major regions within a country.

In addition to the national level, estimations could also be undertaken for one region or municipality, in order to be able to compare national with regional priorities. Our suggestion is that a comparison between the capital region and the rest of the country would be helpful.

3 The General approach to estimating costs

The following procedures are suggested as a general approach for cost estimation:

1. Identify relevant ministries and publicly funded agencies by scanning policy documents, budget bills and other regulatory documents
2. For the relevant ministries all available written documentation and publicly available accounts are collected and categorised
3. From the information collected in (1) and (2), a funding scheme is created (see section 3.1 for details)
4. From the information collected in (1) to (3), relevant programmes are identified and classified. Where possible, data from public documents such as yearly financial statements are used for estimating costs for different programmes.
5. Data contained within the national state-aid reporting is scanned and used when costing the identified programmes (see section 4)
6. Based on Steps (1)-(5) an informed decision is made about the need for any supplementary data collection through interviews and surveys.
7. Any additional data collection can then be conducted.

Steps (1) to (6) should provide the data necessary to complete Table 1, but if Step 7 is needed, the generic design of such a survey is provided in Section 3.2.

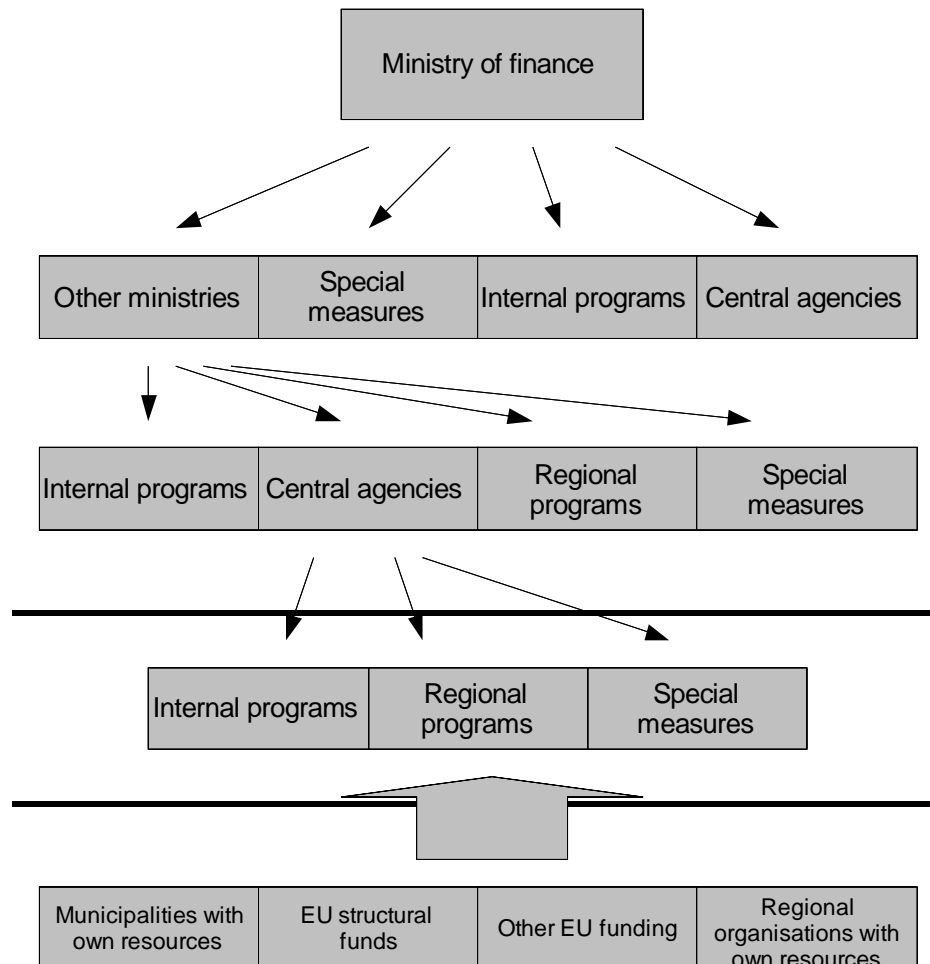
The main methodological approach can be summarised as first identifying relevant programmes and the costs associated with them using public documents and financial statements from ministries and agencies. If the data contained in the public documents are not sufficient to fill in the matrix in table 1, then additional data collection using surveys and interviews should be used. In section 3.2, a generic design of such a survey is described.

In the process of indentifying relevant programs, it is useful if there is information available to classify the programme according to the definitions and categories in chapter 2.

3.1 Funding scheme

Figure 1 shows a generic funding scheme for Entrepreneurship and SME Policy.²

Figure 1: Funding Scheme



At the apex is the Ministry of Finance which, we assume, distributes all national funds. These are then allocated to other ministries, central agencies belonging to the Ministry of Finance, to internal programmes or to funds that can be used directly in special measures.

At the next level, other ministries distribute funds to central agencies belonging to their ministries, internal programmes, regional programmes and to special measures.

Finally, at the third level, central agencies use funds for internal programmes, regional programmes and direct measures. The third level constitutes the “end level”, where all funds are used for Entrepreneurship and SME measures and no further distribution occurs to other public bodies within the governmental/political system.

However matters are in practice even more complicated than this because SME and Entrepreneurship policy can also be funded from the sources identified in the bottom row

² Annex 3 provides a specific example of a funding scheme for Sweden.

of Figure 1. For example, municipalities and regions can have their own policies within the entrepreneurship and SME policy areas, using funds raised from local taxation. If municipalities use funds given to them as a result of a transfer from the national level, then these should not be counted at this level, since this would result in double counting. However the funding coming from local sources should be included.

A similar logic applies to EU-funds which are discussed further in section 5.1.

After identifying all funding schemes, the flows between the entities in the funding scheme are tracked. The funding flows to be identified depend on the level [as defined in Figure 1] and on data availability. The key concern here is to track all funding sources but to also avoid double counting, so that flows measured on one level do not include funds from another level.

Where the available data are unclear it is necessary to identify the key actors in the system controlling these funds and seek additional information via interviews or questionnaires. This supplementary data collection procedure is now documented.

3.2 Surveys and other additional data collection

This section provides the generic design for a survey of key actors, but it will require modification in different circumstances.³ We assume the survey is directed at ministries and/or agencies, depending on where relevant information on each specific programme can be found.

The survey design presented here contains only the core questions needed to gather the cost data required to complete the project. Other questions could be added by the country teams if regarded as desirable.

The generic design of the survey is presented as Annex 1 and is composed of two parts. The first part poses general questions about the department/agency's work within the area of entrepreneurship and SME policy. The second part seeks detailed information on the costs for specific programmes and consists of four sections (A-D):

- Section (A) seeks the total costs for each programme, together with data on administration costs and the existence of matched funding.
- Section (B), collects information on the target population for the programmes according to the categories provided in Sections 2.1 and 2.2 above.
- Section (C) collects information on sectoral composition.
- Section (D) collects information on the regional distribution of programme costs.

The survey is accompanied by a covering letter and detailed instructions on how it is to be completed. Ideally it should be an electronic questionnaire, as an Excel workbook, where the respondents can fill in the data directly. An example of such an electronic questionnaire is available from Swedish project team.

3.3 Units of measurement

Costs should be collected in the national currency. Direct comparisons between countries must be based on a common currency, which means that costs in the national currency

³ *The generic design of the survey is based on the design of the SBS survey used by the UK National Audit Office (NAO)*

must be transformed using a suitable exchange rate or purchasing power parity (PPP). It is recommended that the OECD PPP are used and that exchange rates should be avoided as much as possible.

Since it would not be appropriate to use a PPP for GDP, a sectoral PPP must be used. A PPP for government services is to be used when converting cost estimates to a common currency. In annex 2, the PPPs for government services are listed.

3.4 Treatment of EU funds

The main EU funds relevant for the present project are the so called EU Community Funds and Instruments. Table 5 summarizes the main funds incorporating support for EP and SMEs of the Member States that contain measure that could be included in the cost estimates.

Table 3. Community funds, Instruments and Programmes

Community Instruments
EAGGF Guarantee-Agriculture
EAGGF Guidance-Agriculture
EAGGF-Guarantee-Fisheries
FIFG
Social Fund
Regional Fund (ERDF)
Cohesion Fund
EC R&TD Framework Programme
European Investment Bank*
European Investment Fund**

* Financing provided within the EU; **Guarantees approved.

EU funds that are used in individual countries should included in the cost estimates if they contain measures within SME and Entrepreneurship policy. In many cases, national policy programmes use both national and EU funding. In the cost estimates, both national and EU funding should be included in the total costs.

Ideally, the costs originating from EU-funds should be separated from national funding. This makes it easier to assess the importance of EU-policies for the national capacity to support entrepreneurship and SMEs.

EU funds can also be in the form of grants, loans, guarantees and other type of State aid. They should be treated like the other types of State aid which is also explained the next section. In the treatment of the EU-funds double counting must be avoided – especially where the use of EU-funds involves transfers from the central government to the local communities.

4 Using state-aid reporting as a data source

The national state-aid reports to the EC-Commission, Directorate General for Competition are an important data source for identifying funds for Entrepreneurship and SME Policy

Each country has an agency or governmental body responsible for collecting and reporting state aid. This section describes from the Swedish experience how state-aid funds are incorporated in this project.

The state-aid reports show the extent of aid given to the industry and service sectors in a given year. Both the EU and the WTO have special regulations that limit the scope of national aid and impose requirements for openness and ongoing reporting of the aid granted. State aid is used both within the industrial, but also other policy areas.

An important advantage of using state-aid data, where appropriate, is that it is collected within a common methodological framework. This is especially helpful in the area of financing, where it is vital to have a consistent approach to loan funds and to guarantee schemes. This issue is addressed specifically in section 4.5

4.1 Sources of data

As a general rule, the figures have been expressed in terms of actual expenditure (or actual revenue losses (forgone) in the case of tax expenditure)⁴. Where this was not possible, budget appropriations or the amounts that were provided in planning programmes were used after consultation with the Member States concerned. Where figures were not available, figures from previous years have, unless otherwise stated, been used as estimates.

4.2 Identification of relevant ministries and agencies

Each project country should undertake the following tasks:

- Identify and contact all government departments and agencies that administered aid to entrepreneurs and SMEs.
- Identify the key contact persons for each department/agency or the responsible person who can collect the information required.
- Our purpose is to collect data on actual expenditure (outcomes) for the year 2008-9. Only where this is not available should budgeted figures be used,
- All areas of double counting across other departments and agencies should be identified.

⁴ It has to be stressed that the yearly expenditures (commitments) are not necessarily identical to the yearly budgetary appropriations for an aid scheme.

Box 1. The Sweden Experience

- Having completed the above procedures, in Sweden an annual mail, (with an excel questionnaire attached) is sent to the officer responsible asking them to report the net cost of their programme. The mail is also accompanied with a legal regulation written by the Swedish Agency for Growth Policy analysis (Growth Analysis). The departments/agency informants collect their information from their accounting annual reports, their administrative registers or from other sources.
- The Swedish report to the EU-DG for Competition identified 22 departments and agencies responsible for administering state aid directed to the private enterprises within the industrial and service sector. The information collected for the SME sector does not cover the total governmental expenditures for that sector. We only report costs for the specific programmes requested by the DG for Competition.

4.3 R&D procurement contracts

Data on research and development procurement contracts should not be included, since the aid element can, at present, not be quantified. Furthermore, the sources of information do not permit research and development contracts intended specifically for military purposes to be isolated, nor for the impact on the market of such contracts to be evaluated.

4.4 Foreign Direct Investment

Government support measures to Foreign Direct Investment may constitute State aid. Nevertheless they may also be compatible with the common interest if they promote the competitiveness of European Industry, e.g. by assisting the development of SME's, or contribute to other Community objectives such as the adjustment of the economies in transition or economic development in the Third World. Since 1993 a small number of schemes have been proposed by Member States specifically for this objective and subsequently approved by the Commission. A gradually developing body of information is being provided by Member States, and for the first time a provisional overview of EU-wide State aid devoted to this theme is now presented.

The programmes concerned are only available to SME's. However their geographical coverage is world-wide thus responding to a need not only to reinforce support to the major sources of employment in the Union but also to facilitate the widening of their horizons.

Whilst more refined information will be presented in future Surveys, the gradually increasing use of guarantees in this area is noted. State aid in this area can be given as grants, loans or guarantees.

4.5 Estimation of aid elements

Within the framework of reporting state-aid, the following method is used for estimating the aid element (net costs):

Group A - where A1A represents grants and interest rate subsidies; A2A, relief from taxes and social charges, etc.

No calculation of the aid element is necessary, as the amount of aid is equal to the grant or its equivalent.

Group B - equity (including debt conversion).

In line with established Commission policy, such interventions constitute aid when a private investor operating under normal market conditions would not have undertaken such an investment. See Commission communication “Application of Articles 87 and 88 of the EEC Treaty and of Article 5 of Commission Directive 80/723/EEC to public undertakings in the manufacturing sector”, OJ No C 307 of 13.11.1993, p3. This method is based on calculating the benefit of the intervention to the recipient.

Group C - where C1 represents soft loans and C2, tax deferrals.

The aid elements (C1A/C2A) in this category are much lower than the capital values of the aid. From 1995, where a Member State fails to provide data on the aid element, 15% of the total amount lent by the government is taken as a proxy, compared with 33% for previous years. This downward adjustment is explained by the generally lower level of the aid element that results from lower rates of interest in the Member States when compared with periods covered by previous surveys.

In the case of reimbursable advances, where a Member State does not indicate the reimbursement ratio, the aid element is taken to be 90% on all advances as the re-payment ratio has been shown to be very low on average.

Group D – guarantees

The aid element (D1A) is much lower than the capital value guaranteed. Where information on the exact amount of the aid element is unavailable, the losses to the Government are taken as an approximation. Where Member State data only contain figures on the capital value guaranteed, then the aid element is taken to be 10% of this figure.

For each type of aid, payments are summed according to the method called net cost method. This is calculated as follows:

- Grant: No calculation of the aid element is necessary, as the amount of aid is equal to the grant or its equivalent.
- Loan: Capital cost based on the State return rate (Government borrowing rate) plus loan losses minus interest incomes.
- Guarantees: Redeemed guarantees minus recovered guarantees minus guarantee fees.
- Tax reductions: losses in tax income for the State.
- Equity capital: capital cost based on State return rate (Government borrowing rate) minus dividends.
- Capital against Royalty: Capital cost based on State return rate (Government borrowing rate) plus written off royalty contract (deal) minus paid royalty.

If the net cost of a programme is either negative - the costs are less than incomes- or zero, then it should be reported as zero. Sometimes it has been reported large repayments from

aid recipients, or some aid recipients have paid high interest rates or guarantee fees. If the data for the year chosen for the estimates indicates large repayments, then data for a more “normal” year can be chosen, provided this is clearly stated.

To estimate the net cost of aid, or the aid element of the different programs, the following formulas are used:

- Net loan = $\text{sum}(\text{int rate} \cdot 0,5 \cdot \text{sum}(\text{loan at initial year, loan at the end year}), \text{Written-off loans}, -1 \cdot \text{loan repayments})$.
- Net guarantees = $\text{sum}(\text{redeemed guarantees}, -1 \cdot \text{Recovered guarantees}, -1 \cdot \text{guarantees charges paid})$.
- Net Own capital = $\text{sum}(\text{int rate} \cdot 0,5 \cdot \text{sum}(\text{own cap initial year, own cap end year}), -1 \cdot \text{dividends})$.
- Net royalty = $\text{sum}(\text{int rate} \cdot 0,5 \cdot \text{sum}(\text{cap against royalty initial year, cap against royalty end year}), -1 \cdot \text{paid royalty, discontinued royalty deal})$.

The interest rate used is the Government borrowing interest rate of the year. This information is provided by The Swedish National Debt Office, (Riksgälden).

Table 4 provides an overview of the use of the different aid instruments.

Table 4: State aid to the SMEs by type of aid⁵

	TYPE OF AID						
	Group A		Group B	Group C		Group D	
Member State	Grants	Tax exemptions	Equity Participation	Soft loans	Tax deferrals	Guarantees	TOTAL

In 2005 direct grants accounted for over 50 per cent of total aid to the manufacturing and services sectors. Grants and tax exemptions, which have been classified in this Survey as group A forms of intervention, are still by far the most frequently used form of aid in the Community. Within this group, direct grants are more often employed than tax exemptions.

Aid in the form of state equity participation, classified under group B, represents 4% of all aid to the manufacturing sector granted in the European Union. However in one Member State, France, equity participation is relatively important.

Aid classified as group C, i.e. loans at reduced interest rates and tax deferrals, is an important form of aid in Germany. Tax deferral, mainly accelerated depreciation and the constitution of tax free reserves, is the form that is least used in the Community.

The use of guarantees, group D, continues to be relatively limited in all Member States.

⁵ See for example seventh and ninth survey on state aid in the European Union.

Budgetary expenditure, comprising grants, equity participation, soft loans, and guarantees, is the preferred way of financing aid in the European Union. This is particularly characteristic of Spain and Austria, where all aid is financed through the budget, and Finland, Luxembourg and the United Kingdom, where more than 90% is financed in this way. In contrast, tax expenditure, i.e. tax rebates and tax deferrals, is extensively used in Portugal but also in Belgium, France, Ireland and Italy.

Annex 1 - Generic Survey (preliminary version)

Contact details

Department or agency: _____

Contact person :

Tel: _____ E-mail: _____

Section 1 – General information on costs

Q1: What is your department/agency's total budget or funding allocation for measures aimed at supporting entrepreneurship or SMEs?

(Other questions can be added by the country teams to suit specific purposes)

Section 2 - Information on costs for specific programmes

A. General information on programmes and costs				
Programme name	Purpose	Total costs	Administration costs (amount or percent of total costs)	Matched funding (amount or percent of total costs and source of funding)
(1)				
(2)				
(3)				
(4)				
(5)				

B. Target population for programmes (tick where appropriate)				
Programme	Pre-start	After-start	Hi-tech	Low-tech
(1)				
(2)				
(3)				
(4)				
(5)				

C. Purpose with the programmes (amount or percent of total costs)									
Programme	Policy relevant research	Target groups	Counseling	Finance	Administrative burden	Education	Promotion	Training	Innovative entrepreneurship
(1)									
(2)									
(3)									
(4)									
(5)									

Note: For target groups, also state which group the programme is targeted at. For finance, also state if the programme consists of a grant, loan, guarantee or equity.

D. Regional distribution (amount or percent of total costs)				
Programme	(Regional division of country)			
(1)				
(2)				
(3)				
(4)				
(5)				

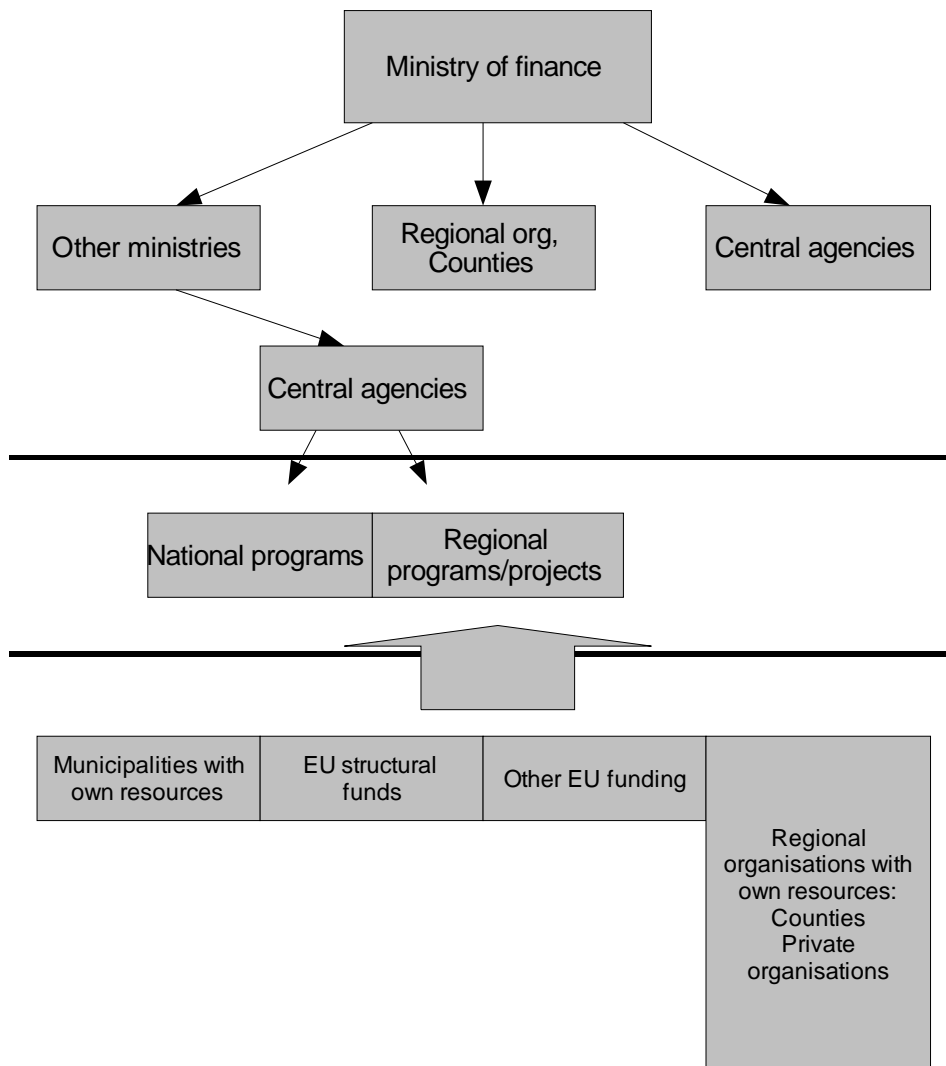
Annex 2 - PPP for currency conversion

Purchasing power parities for government services in national currencies per US dollar (OECD = 1.00)

Country	Government Services	Country	Government Services
Australia	1.270	OECD - Total	1.000
Austria	0.855	Slovenia	0.541
Belgium	0.933	Euro area	0.856
Canada	1.220	Bulgaria	0.291
Czech Republic	9.940	Cyprus	0.394
Denmark	8.570	Estonia	4.530
Finland	0.933	Latvia	0.158
France	0.903	Lithuania	0.817
Germany	0.901	Malta	0.188
Greece	0.557	Romania	0.758
Hungary	89.100	European Union	0.785
Iceland	89.000	Albania	19.500
Ireland	0.980	Bosnia and Herzegovina	0.476
Italy	0.923	Croatia	2.710
Japan	106.000	Macedonia	10.600
Korea	658.000	Montenegro	0.190
Luxembourg	1.150	Serbia	15.100
Mexico	4.650	Western Balkan countries	0.243
Netherlands	0.859	Israel	3.150
New Zealand	1.280	Russian Federation	7.290
Norway	9.080	Armenia	73.500
Poland	1.190	Azerbaijan	699.000
Portugal	0.683	Belarus	470.000
Slovak Republic	10.200	Georgia	0.380
Spain	0.660	Kazakhstan	26.300
Sweden	8.550	Kyrgyzstan	4.140
Switzerland	1.850	Moldova	1.890
Turkey	0.507	Tajikistan	0.183
United Kingdom	0.614	Ukraine	0.925
United States	1.140		

Source: OECD, Statistical database

Annex 3 - Funding scheme for Sweden



The funding scheme reveals that funding for national and regional programs are channelled through central agencies (funding from above). On the regional level, the funding from central agencies are matched with funding from EU, counties, other regional organisations, and municipalities. Some projects are funded exclusively from regional and local authorities.

The nature of the Swedish funding scheme means that data needs to be collected from the central agencies involved and the regional authorities and organisations that fund Entrepreneurship and SME programs (with or without EU-funding).

The Swedish Agency for Growth Policy Analysis (Growth Analysis) is a cross-border organisation with 60 employees. The main office is located in Östersund, Sweden, but activities are also conducted in Stockholm, Brussels, New Delhi, Beijing, Brasilia, Tokyo and Washington, D.C.

Growth Analysis is responsible for growth policy evaluations and analyses and thereby contributes to:

- stronger Swedish competitiveness and the establishment of conditions for job creation in more and growing companies
- development capacity throughout Sweden with stronger local and regional competitiveness, sustainable growth and sustainable regional development.

The premise is to form a policy where growth and sustainable development go hand in hand. The primary mission is specified in the Government directives and appropriations documents. These state that the Agency shall:

- work with market awareness and policy intelligence and spread knowledge regarding trends and growth policy
- conduct analyses and evaluations that contribute to removing barriers to growth
- conduct system evaluations that facilitate prioritisation and efficiency enhancement of the emphasis and design of growth policy
- be responsible for the production, development and distribution of official statistics, facts from databases and accessibility analyses.

About the Working paper/Memorandum series:

Some examples of publications in the series are method reasoning, interim reports and evidential reports.

Other series:

Report series – Growth Analysis' main channels for publications.

Statistics series – continuous statistical production.

Svar Direkt [Direct Response] – assignments that are to be presented on short notice.