

EN
ANNEX

"4.4 Priority 2: Enterprise Growth

Rationale and aim

A thriving research and innovation system in a region can only add to regional competitiveness if it is linked to an active and replenishing supply of new enterprises – and consequently, entrepreneurs willing to set up new enterprises – able to sustain the enterprise community's capacity to develop innovative new products and services. As seen in the socio-economic analysis, Lowlands & Uplands Scotland has experienced persistently low new firm formation rates. The roots of the problem are varied, including the lack of sufficient access to resources for enterprise formation and growth and the overall supply of entrepreneurs in the economy. A co-ordinated set of initiatives is required to tackle the problem, involving improvements in the provision of risk capital in Scotland, a strong support environment for new and developing enterprises and measures to assist the cultural shift in the region towards greater entrepreneurialism.

To achieve this, the priority will address the Programme's second Objective:

to improve enterprise formation and growth rates by enhancing the enterprise support environment, particularly with regards to access to finance, entrepreneurship, e-commerce and resource efficiency

There are three areas where the Programme can make a significant difference: access to finance; support for entrepreneurs; and business processes.

Access to Finance

Development finance has been a key market failure for new and existing enterprises seeking to grow. In past programmes, ERDF-supported funds helped the development of new and ground-breaking businesses in Scotland. The 2000-06 programmes have shown the way to the emergence of sustainable funds, whose returns – both capital and revenue – can be retained within the fund for reinvestment in new companies. Some ERDF-supported venture capital funds have also added value by enhancing the provision of finance with the provision of advice and mentoring services, and sometimes the offer of a non-executive director to help steer the company through a period of rapid growth. The provision of risk capital has shown itself to be a sustainable financial instrument for supporting the creation and growth of the SME base in Scotland and thereby for building and maintaining the regional economy. With the associated business mentoring and non-executive director role of the investor, increased growth and higher business survival rates are delivered in a more sustainable way than with direct grant aid. Availability of risk capital as part of an effective investment market available for all stages of a company's growth is a way of meeting these needs and forms a key component of a sustainable Scottish economy.

Support should be available to target clearly-identified market failures and a clear economic rationale in each case. It will target development funding for enterprises seeking to expand, particularly for small firms growing into sustainable medium-sized enterprises. There is scope for providing a range of different enterprise finance instruments, addressing gaps at different stages in enterprise formation and development across the region.

Support for Start-Ups

For entrepreneurs and new firms, Programme resources could be most effective by supporting more pre-start events to stimulate action, provide the necessary skills, role models and informal networks; and by mobilising ‘successful’ entrepreneurs to provide more informal enterprise advice to complement the existing public sector system. The Programme can also usefully support promotional events in different parts of the region, targeted campaigns to address fears and lack of knowledge and initiatives to improve the networks between potential entrepreneurs and key sources of support, advice and finance. Special attention should be given to groups which may face particular barriers to developing new enterprises, such as women and minority ethnic entrepreneurs.

Enterprise Business Processes

Two other areas where the Programme can make significant contributions with limited funding are in addressing specific issues about the use of existing technologies to improve business processes.

First, e-business can continue to be improved throughout the region, taking advantage of the infrastructure investments in recent years in broadband. Such support can take the form of familiarising enterprises with the potential of the technologies, investing in their capacity to incorporate e-commerce into their businesses and addressing particular bottlenecks in their e-commerce potential.

Second, in keeping with the region’s sustainable development aspirations and in line with the recommendations of the Strategic Environmental Assessment included in the Annex, the Programme should also support activities that contribute to an increased embedding of environmental sustainability within those activities directly contributing to the Lisbon Growth and Jobs Agenda. Encouraging greater resource and energy efficiency will improve the competitiveness of enterprises as well as meet the sustainable development aspiration of the Programme. Consequently, EU funding can provide added value through supporting activities that provide greater application of renewables technologies within business processes and initiatives that will improve the environmental sustainability of enterprises by tackling their resource efficiency.

Structural Funds value added

As with Priority 1, Scottish and Lisbon policy goals are strongly complementary – consequently, there is widespread support for enterprise growth and competitiveness in the region. Whilst it is not the role of Structural Funds to duplicate such support there is added value in directing Structural Funds towards additional business support services to ensure business growth and employment opportunities can be achieved.

Above all, the Funds will have a major catalytic impact in the areas of access to finance. This will build on the experience of the Scottish Co-Investment.

Fund and other ERDF-supported schemes in past programmes and take full account of the market failures identified in the socio-economic analysis. The Funds will help to support an integrated, comprehensive approach to addressing finance gap issues for the region’s enterprises.

Eligible activities

€122.186 million of EU funding has been allocated to the priority, or 33% of the Programme. Under this priority, three groups of eligible activities will be funded.

Access to finance

- Investor readiness programmes
- Support for risk capital funding for the region as a whole, where such schemes can demonstrate market gaps and build on the experience of past schemes
- Investment funding for early stage and start-up of new enterprises
- Targeted services for sign-posting enterprises to potential funding sources
- Initiatives that raise the capacity, skills and readiness of enterprises to assess their funding needs, manage new funding and general investor readiness

Entrepreneurship and Business Support

- Addressing gaps in pre- and post-start up provision of advice
- Promotional events for would-be entrepreneurs, particularly in more remote or deprived parts of the region
- Projects that promote start-ups from groups with relatively low rates of entrepreneurship, such as ethnic minorities and women
- Projects that encourage the greater conversion of would-be entrepreneurs to start-ups
- Supporting early stage business growth activity
- Advisory support to established SMEs to assist them to maximise their growth potential.
- The provision of financial support to assist SMEs (start-up, early stage and existing) to implement innovation and growth plans.
- The provision of HR support to micro businesses and SMEs which is clearly linked to strategic business growth projects which create employment opportunities for young people.
- Graduate placement programmes which contribute to clearly identified SME growth and productivity projects.

Business processes

- Projects that encourage the take-up of e-business among enterprises
- Support for the development of e-commerce strategies by enterprises
- Development and implementation of environmental and carbon-use/footprinting audits by enterprises
- Introduction of more environmentally-sustainable production systems and business processes, including more efficient use of resources and energy
- Small-scale adaptation of businesses to renewable energy technologies

In addition, there is the flexibility facility, which can allow up to 10% of the funding in this priority to be used for related ESF-type expenditure. Where required, the facility will be limited and likely to be only used in supporting small-scale training activities associated with the entrepreneurship, e-commerce and business/resource efficiency. The flexibility could be applied in cases where the supported activity would not warrant a full-scale application to the ESF Programme as the support to

be provided would be limited. It is anticipated that this flexibility will not be used extensively, but only to support limited project activity. The use of the facility will be exceptional and will only represent a small share of any single project's costs. Projects would need to provide clear justification for the need to include ESF-type expenditure.

Indicators and targets

As shown in the table below, the selected indicators reflect the priority's focus on two sub-groups of activities. For activities to support access to finance:

- for output indicator, the number of enterprises receiving any form of financial support; and
- for result indicator, the increase in turnover in those enterprises.

For activities to support entrepreneurship, the following output and result indicators have been set:

- for output indicator, the number of individuals and new firms receiving advice or business consultancy; and
- for the result indicator, the number of new enterprises that result.

For activities to support business processes, the following output and result indicators have been set:

- in support for development of e-commerce skills, the output indicator is the number of enterprises supported to develop their e-commerce capacity and the result indicators are the number of e-commerce strategies and plans introduced; and
- in support for resource and energy efficiency in businesses, the output indicator is the number of enterprises supported in energy and resource efficiency projects and the result indicator is the number of environmental audits and energy/resource efficiency business processes/systems introduced as a result.

For the priority as a whole, there are several indicators to be assessed:

- number of gross jobs created;
- the number of net new jobs created; and
- gross value added in supported enterprises.

Targets have been set with reference to previous programme experience. The data for the majority of these indicators will be collected from individual participant data on a quarterly basis, as described in more detail in Chapter 9.

However, there are a number of indicators which will be measured through a specially-commissioned data-gathering exercise. These include changes in turnover and gross value added in supported enterprises and the number of net new jobs created. These will be assessed through a specifically-commissioned evaluation to be conducted in the latter half of the programming period – this will allow for a suitable period of time for the results of actions to become manifest.

Indicator	Type	Target
<i>Access to finance</i>		
Number of enterprises receiving financial support	Output	250
Increase in turnover in supported enterprises (£mn)	Result	140
<i>Entrepreneurship support</i>		

Number of individuals/enterprises receiving advice/consultancy	Output	14,600
Number of new business starts	Result	6,200

Business processes

Number of enterprises receiving support for ecommerce	Output	5,700
Number of enterprises receiving support for energy-saving and resource-efficiency	Output	5,700
Number of e-commerce strategies developed	Result	4,100
Number of enterprises implementing environmental audits and energy-saving/resource-efficiency systems	Result	4,100

Priority as a whole

Number of gross jobs created	Result	15,000
Number of net new jobs created	Impact	
Gross value added in supported enterprises	Impact	

In addition, the Managing Authority will be reporting on a number of other indicators that will not have targets set for them. These will include the following:

- number of new business starts by women
- number of new business starts by ethnic minorities

The Managing Authority will also report on the size of enterprises receiving financial support and support on start-up advice/consultancy and e-commerce and energy-saving and resource-efficiency activity in line with Article 66 of the General Regulation. This will include a breakdown by micro, small and medium-sized enterprises, which will be defined as part of guidance to be made available in advance of each programming round. Targets will not be set for these indicators either.

Guidance on definitions of indicators will be provided by the Managing Authority to all potential applicants in advance of programming rounds.

Baselines to measure the priority's impact are set in Chapter 9, which also discusses in more detail how the data will be used for evaluation and reporting purposes. With respect to the individual indicators listed for this priority, the relevant baselines are as follows:

- number of enterprises in the region – 111,500 in 2002 (NOMIS);
- GDP for the region – £74.298 million in 2003 (Scottish Economic Statistics);
- number of new enterprises in Scotland each year – 11,850 in 2004 (NOMIS); and
- employment for the region – 2.38 million economically-active 15-64 year olds in 2005 (Eurostat)."