Position paper

of the German Confederation of Skilled Crafts and Small Businesses (ZDH) on the post-2020 Multiannual Financial Framework

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I. Presentation of the ZDH

The German Confederation of Skilled Crafts (ZDH), an umbrella organisation covering 53 chambers of skilled crafts and 48 confederations of guilds, as well as skilled craft business and research institutions in Germany, represents the interests of some one million skilled craft companies in Germany. These in turn employ more than 5.4 million people, have some 360,000 apprentices and have an annual turnover of EUR 562 billion.

II. Introduction

The next Multiannual Financial Framework (MFF) is currently being drafted, setting the agenda for EU support policy in the coming 5 to 10 years. Commission and Parliament would be well advised to progress in parallel, involving large sections of the business community and civil society.

Decision-makers are faced with the difficult task of overcoming the budget deficit caused by Brexit, while at the same time funding new tasks in the fields of security, migration and competitiveness. A total of some EUR 20 billion needs to be funded through savings, the reassignment of funds and possibly through new sources of revenues.

III. Programmes

In preparation of the next MFF, all EU programmes are being critically assessed in view of the major budget constraints. According to the Commission, savings are possible through focusing funding on efficient programmes bringing added value to the EU. In the view of SMEs, it would make sense in this context to reduce red tape costs and enhance usability, for instance through introducing a harmonised set of rules for EU support programmes.

In the following sections, we will be taking a closer look at three programmes, COSME, Erasmus Plus, Horizon 2020, and at the Structural and Cohesion Funds, answering the following three questions:

- How is the programme used by the German skilled craft sector?
- What is the programme’s added value for the EU?
- How can the programme be made more efficient?
**COSME**

**Use:** The COSME programme is being funded to the tune of EUR 2.3 billion, whereby the lion’s share goes to financial instruments with a leverage effect. Our member companies take part in COSME in different ways. While some make use of advisory services in the context of the Enterprise Europe Network (EEN), others are supported by loan guarantees backed by COSME funds. These guarantees allow credit risks to be spread and the financing terms for SMEs to be improved. In some cases, they even open the door to financing. Start-ups are provided with financial assistance via start-up loans issued by the KfW and backed by COSME guarantees (“ERP-Gründerkredit”). Through participating in Erasmus for Young Entrepreneurs, entrepreneurs are given the chance to exchange best practices, to network and to expand their horizons.

**EU value added:** Small and medium-sized enterprises constitute the backbone of the European economy, contributing to the stability, diversification and innovativeness of the European economic area. Due to their size, however, they often find themselves at a disadvantage vis-à-vis large companies. To overcome these size-related disadvantages, a strong EU-wide instrument for promoting SMEs is required. The COSME programme is the sole EU programme consolidating measures aimed at promoting SMEs. It should therefore remain a cornerstone of EU SME policy.

**Potential for improvement:** The programme could be made more effective through designing the financial instruments in a way enabling loan guarantee terms to run for 15 years instead of the current 10 years, and through doubling the sector-independent guarantee ceiling from its current EUR 150,000 to EUR 300,000. Furthermore, efficiency could be enhanced by reducing the administrative effort needed to take part in the EEN and through making the EEN better known. A further idea would be to establish “exchanges” to broker business contacts in other EU countries. In the Erasmus for Young Entrepreneurs context, additional incentives are needed to increase participation in CVET measures.

**Erasmus Plus**

**Use:** The current Erasmus+ programme (2014-2020) with its total budget of some EUR 14 billion supports learning mobility, *inter alia* through stays in other EU countries. Target groups are apprentices and other people in IVET and CVET as well as training staff and the aim is to improve Europe’s competitiveness and the skill development of EU citizens in all career phases. The programme is being increasingly used by skilled craft companies and SMEs. Of particular importance is Key Action 1 of the programme, supporting learning mobility among students, trainees, apprentices, young people and training staff. Some 5% of apprentices in Germany now complete a stay abroad, a figure up from just 2% in 2009.

**EU value added:** More and more German businesses operate internationally, while at the same time the cultural diversity of customers and employees is steadily increasing. This is an interesting development in business and everyday life, with a lasting impact on what is required of staff, whether at management or operational level. Such
international experience, whether obtained through traineeships in other countries during or after an apprenticeship, short stays in companies abroad, or educational travel, provides apprentices and skilled workers with intercultural skills. This is a basis for coping with occupational, business and social challenges in an anticipatory and sustainable manner.

**Potential for improvement:** Erasmus+ is a complex programme, involving large amounts of red tape for participants, in particular with regard to application documents and agreements which have to be concluded with both the national agency and each individual participant, as well as the many documentation requirements. This unfortunately results in Erasmus+ not being used to the desirable extent by companies. Through recognition of the role of intermediary organisations as the skilled craft chambers, more SMEs could be involved in the programme. We would like to see the Erasmus+ successor programme being given a “lean” application procedure, especially for SMEs, and all documentation being made available in all official EU languages, not just in English. As part of its future vocational education programme, the Commission is planning the introduction of Erasmus PRO, intended to fund the long-term mobility of apprentices and trainees. In the view of ZDH, supporting the mobility of young workers and increasing vocational education and training (VET) visibility are important goals.

**Horizon 2020**

**Use:** The current EU Research and Innovation programme, Horizon 2020, with a total budget of EUR 70.2 billion for 2014-2020 has a specific SME instrument – with a budget of EUR 1.6 billion for 2018-2020 – specifically designed to increase the involvement of innovative SMEs in the programme. SMEs can receive financial support both for studies related to the technical and commercial feasibility of an innovative project and for innovative projects themselves. Furthermore, support is available for accessing funding and capital markets as well as for the use of advisory services. Horizon 2020 funding is mainly accessed by research institutes and universities (ca. 65%), while about one third is taken up by the private sector, of which SMEs have a 16% share. Measures aimed at simplifying procedures have led to an increase in the programme’s uptake by first-time users from the business world.

**EU value added:** Horizon 2020 is a programme clearly designed as an investment in Europe’s long-term competitiveness. Combining research and innovation funding at European level makes sense, as the funded projects contribute to technological progress and the international competitiveness of European business. Above all, the EU-wide strengthening of innovative SMEs contributes greatly to the diversity of the European economy.

**Potential for improvement:** The SME programmes described above have addressed key business demands for instruments specifically supporting SMEs, faster and simpler procedures and more application-oriented innovation projects. The results obtained so far must now be consolidated and further developed. The planned simplification and merging of programmes must specifically target a greater uptake by SMEs and be backed by corresponding funding. Synergies between EU structural Funds and the
Research Framework Programme 9 (FP9) and more efficient use of funding must neither lead to a watering-down of the differing targets of the various support instruments nor to competition between the various instruments for the same funding. Funding in the form of lump sums can, in comparison to the reimbursement of actual costs, lead to a noticeable simplification of project administration and greatly reduce the burden on the recipients of the funding. The lump sum funding currently available under Horizon 2020 must be taken over by FP9, as must the lessons learned and experiences from the corresponding pilot schemes. The continuation of a task-oriented approach in the context of FP9 is basically supported, but not the focus on a handful of technology fields. The supranational and cross-industry character of the future societal challenges requires a wide variety of solutions and not a standardised approach and in turn requires that the future FP9 funding should be open to all technologies.

**Structural and Cohesion Funds**

**Use**: EU cohesion policy is very important in the view of the German skilled craft sector. Over the period 2014-2020, Germany will be receiving a total of EUR 19.2 billion from the Cohesion Fund. For many years, the German skilled craft organisations have been very much involved in preparing and implementing European support activities and making these known to businesses. Many Cohesion Fund instruments have proved their worth in activating and stabilising SMEs in the regions. For the skilled craft sector, the ERDF and ESF instruments for improving the framework conditions of local SMEs are important, *inter alia* helping VET centres to provide a high standard of technical facilities in which workers receive high-quality IVET and CVET, ensuring that SMEs have a steady supply of skilled workers (i.a. with matching skills), and supporting inter-company apprenticeship schemes. Similarly, through its specific support for individual companies, along with its support for advisory services and integration measures, cohesion policy plays an important role in stabilising regional economies.

**EU value added**: The German Confederation of Skilled Crafts and Small Businesses views European structural policy as an important instrument for unleashing regional economic potential throughout Europe and for stabilising local infrastructures. One of structural policy’s main aims is to strengthen economic and social cohesion in the EU and to reduce the development deficits of structurally weak regions vis-à-vis the EU average. Moreover, it is intended to boost the investment activity of SMEs, especially through infrastructure projects and skill development projects for the unemployed. Cohesion policy is one of the decisive policy fields through which the EU becomes directly and positively visible for EU citizens, wherever they live in the EU. Especially in times of growing Euroscepticism, cohesion policy, as a success story, can play a positive role. For this reason, it is important to continue this support EU-wide and not just concentrated on the poorest regions. In Germany, cohesion policy also has a specifically European added value, as it helps to alleviate differences in support levels in border regions, to maintain the radiating effect of regions with stronger economies on neighbouring regions in the long term, and to overcome the EU-wide challenges of integration, the transition to green energy and demographic change. Structural policy
can support but not replace the national reform policies of Members States and their respective regional policy approaches.

**Potential for improvement**: A *sine qua non* for the successful development of cohesion policy is a massive reduction in red tape and the simplification of aid-granting processes, thereby allowing SMEs to unleash their potential. In this context, the introduction of a harmonised set of rules for EU support programmes is to be welcomed, as this has the potential to reduce red tape costs in SMEs. The bundling of regional support programmes with other programmes organised at central level is to be rejected as being SME-unfriendly. Greater account of the potential of SME intermediaries with regard to their ability to directly involve local businesses needs to be taken in the future.

In all EU structural policy measures, the principle of subsidiarity must be strictly upheld.

In the view of the ZDH, EU structural policy should in the future focus on its key task of promoting self-supporting regional economic growth.

**IV. General remarks and conclusions**

**Expenditure**

In the future, the EU will have to earmark higher budget for security, migration and competitiveness. In these areas, the bundling of activities (protection of the EU’s external border, a defence union, etc.) can help economies of scale to be achieved. In this case, the German skilled craft sector would be in support of the EU taking over these tasks. In reaction to the reduced budget, the Commission is planning to cut current EU spending. The German skilled craft sector calls on decision-makers to decide wisely, cutting expenditure in the right places and unleashing the potential for synergies. Forward-looking programmes with a clear added value for the EU and contributing to the stability of the European economy should be exempted from such cuts. In the view of the ZDH, such programmes include strong support for SMEs under the umbrella of an integrating SME programme, support for young workers under Erasmus Plus, support for ensuring the supply of skilled workers, as well as inter-company apprenticeship schemes and the associated VET centres, the Horizon 2020 training and research offensive and regional aid in the context of cohesion policy.

The German skilled craft sector is critical of the stabilisation function proposed by the Commission as part of the EU budget, as well as the introduction of a “rainy-day fund” with a borrowing capability. Such projects cut the link between decision-making responsibility and liability for one’s decisions, thereby leading to a moral risk. The Member States must also bear primary responsibility for overcoming macroeconomic instability.
Revenues

The Commission is calling for the budget deficit to be at least partially closed by new sources of income. Alongside demanding higher national contributions to the EU budget, the Commission is looking at the possibility of introducing new taxes at EU level. In the view of the skilled craft sector, EU taxes – for example a tax of plastics or on financial transactions – remain a “no go”. In a confederation of states the competence to levy taxes lies solely with the Member States and their parliaments. Instead of looking at higher budget contributions, the EU should conduct a critical review of its tasks and expenditure, taking account of the principle of subsidiarity and making sure that only programmes bringing concrete added value for the EU are conducted at EU level.

MFF term

Still under discussion is the proposal to align the term of the MFF with the legislative term of the EU Parliament. ZDH is in favour of such a move. However, to further ensure long-term planning certainty, a double MFF (2 x 5 years) with an obligatory mid-term assessment should be adopted.

Final remark

The preparation of the next Multiannual Financial Framework is a difficult task in times of budget constraints and in a Europe characterised by diverging interests. It is therefore all the more important for decision-makers to invest their efforts in achieving efficiency gains and in consistently focusing expenditure on measures compatible with the principle of subsidiarity.

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