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From:	General Secretariat of the Council
To:	Permanent Representatives Committee (Part 2)/Council
No. prev. doc.:	11485/15, 11486/15
Subject:	Draft Council conclusions on the European Auditors' Special Report No 8/2015 "Is EU financial support adequately addressing the needs of micro-entrepreneurs?" - Adoption

1. On 15 July 2015, the General Secretariat of the Council received Special Report No 8/2015 "Is EU financial support adequately addressing the needs of micro-entrepreneurs?", adopted by the Court of Auditors at its meeting on 10 June 2015.
2. Pursuant to the rules laid down in the Council conclusions on improving the examination of special reports drawn up by the Court of Auditors¹, the Permanent Representatives Committee (Part II), at its meeting on 2 September 2015, instructed the Working Party on Structural Measures to examine this report according to the rules laid down in the above-mentioned conclusions.

¹ Doc. 7515/00 FIN 127 + COR 1.

3. The Working Party on Structural Measures examined the Special Report on 28 September and 6 October 2015 and an agreement on draft Council conclusions was reached on 15 October 2015 following a silence procedure.
 4. The Permanent Representatives Committee is therefore invited to recommend to the Council to adopt, as an "A" item, these draft Council conclusions as set out in the Annex to this document.
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Draft Council conclusions on Special Report No 08/2015

by the European Court of Auditors:

"Is EU financial support adequately addressing the needs of micro-entrepreneurs?"

THE COUNCIL OF THE EUROPEAN UNION:

- (1) WELCOMES the special report from the European Court of Auditors (hereinafter referred to as "the Court") and TAKES NOTE of its observations;
- (2) NOTES that the audit results are based notably on the examination of an illustrative sample of 27 projects providing financial support to micro-entrepreneurs and representing a total of approximately EUR 1.6 billion committed in five Member States (Germany, Greece, Italy, Poland and Romania) and a survey of 18 managing authorities in 14 Member States;
- (3) HIGHLIGHTS that the EU's intervention is justified by the fact that micro-entrepreneurs are experiencing problems throughout the Internal Market gaining access to the conventional credit markets, which hampers the creation of new micro-enterprises and self-employment, and undermines the EU's economic growth;
- (4) CONCURS with the Court that the EU's financial support to micro-entrepreneurs during the 2007-2013 programming period was, in most Member States, mainly provided through grants and financial instruments from the European Social Fund (ESF) and, since 2010, financial instruments from the European Progress Microfinance Facility (EPMF), including loans and guarantees;

- (5) REGRETS however that the financial instruments for Small and Medium Sized Enterprises (SMEs) falling under European Regional Development Fund (ERDF) operational programmes and in particular the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative were not part of the Court's audit scope, despite their substantial focus on micro-enterprises in several Member States, thereby preventing from getting a full picture;
- (6) RECALLS, with regard to loans managed by the European Investment Bank (EIB) under the Competitiveness and Innovation Programme (CIP), that in accordance with Article 287(3) of the Treaty on the Functioning of the EU (TFEU), the Court can audit loan operations under the mandate conferred by the EU on the Bank as well as the operations managed by the Bank that are guaranteed by the general EU budget and therefore equally regrets that these were not included in the audit scope;
- (7) TAKES NOTES of the Court's finding that no investment strategy had been developed in three out of the six ESF financial instruments audited, no portfolio-at-risk in five out of the six, no winding up provisions in three out of the six, that only one of the six attracted additional private funding, and information on whether the recipients were part of a vulnerable group was not available for 11 out of 17 ESF operational programmes examined, as well as of the Court's conclusion that there were weaknesses in the programming and design of the EU support that may have had a negative impact on its effectiveness;
- (8) UNDERLINES that the EU Structural and Investment Funds Regulations have improved the design, evaluation and implementation of the programmes in the current programming period;
- (9) CONCURS with the Court that the elaboration of an investment strategy is essential to properly address the needs of the micro-entrepreneurs;
- (10) WELCOMES the Court's finding that individual financial support measures were of a size which could be considered commensurate with the needs of a micro-entrepreneur, that micro-entrepreneurs who had previously been unemployed were targeted in a majority of ESF and EPMF projects examined, and that most of the micro-enterprises supported by the EPMF were start-ups;

- (11) Considering the Court's recommendations, ENCOURAGES the Member States, where appropriate, to perform proper needs assessments, enhance the efficiency of risk management and operational systems, and define eligibility criteria that aim at reaching the relevant target groups, including - in the case of the ESF - the unemployed and vulnerable persons, when designing funding instruments and preparing operational programmes that include EU financial support for micro-entrepreneurs;
- (12) CONCURS with the Commission that carrying out a full comparative analysis of the implementation costs of ESF grants, ESF financial instruments and Employment and Social Innovation (EaSI) programme² financial instruments with a view to establishing their actual levels would be difficult, but NOTES that there is an obligation since 2011 for the Member States to provide data about the management costs and fees related to the implementation of financial instruments, and ENCOURAGES the Commission to nevertheless provide a better comparative analysis of the implementation costs and effectiveness of both EU and national financial instruments;
- (13) RECOGNISES the potential effectiveness of using financial instruments to increase the impact and leverage of European Structural and Investment (ESI) Funds, underpinned by an ex-ante assessment as well as by specific objectives defined in operational programmes, and additional to and coordinated with already existing regional, national and EU level financial instruments, both public and private, and REITERATES its invitation to Member States to continue exploring how to further enhance and widen their use, but RECALLS at the same time that grants within cohesion policy are an effective form of support for many types of projects and programmes on their own and in combination with financial instruments;
- (14) STRESSES that conditionalities are defined in the funds' regulatory framework and that the Commission can in no case go beyond the scope of the legal provisions agreed by the co-legislators by creating additional obligations;

² which incorporates the EPMF as from 2014.

- (15) UNDERLINES nevertheless that several of the Court's recommendations are already addressed in the new 2014-2020 regulatory framework, notably through the requirement to perform ex ante assessments for financial instruments (article 37(2) of Regulation No 1303/2013), which shall identify market failures or suboptimal investment situations, as well as investment needs;
- (16) WELCOMES in this respect the Commission's commitment to give advice on the ex ante assessment, in particular in the context of monitoring committee meetings, and provide guidance on the implementation of financial instruments to the Member States;
- (17) REITERATES its call on the Commission to provide guidance on the use of financial instruments and on the synergies between different instruments in a timely, coherent, consistent and clear manner and to explore all opportunities to provide more clarity;
- (18) REGRETS finally that the Court was not able to provide a clear response to its audit question as to whether EU financial support is adequately addressing the needs of micro-entrepreneurs and WOULD WELCOME an economic analysis of the latter.
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