SHARING EXPERTISE IN TRAINING

ETF SUPPORT AND SERVICES TO EU MEMBER STATES

Background

Contributing to the co-ordination of assistance provided by the Community, its Member States and partner countries is one of the ETF's objectives as defined in Article 2 of its Council Regulation (1990R1360). Article 3 goes on to stipulate that the agency's functions include providing the Community, its Member States and third countries with a framework through which offers of assistance can be channelled. ETF is asked to examine the scope for joint ventures and for identifying operations, which could be co-financed. The Article mandates the ETF to fund the design and preparation of projects which may be implemented with the financial support from one or several countries. The Council Regulation also gives the Governing Board the responsibility for approving the ETF work programme, and for agreeing with the Commission any other tasks that the ETF should undertake within the general framework of the regulation.

AT the ETF Governing Board meeting of November 2000, Member States expressed an interest in drawing on the services of the ETF. In that meeting, it was agreed that ETF could provide such services, however *individual Member States would have to contribute financially for special and additional services carried out by the ETF on their behalf.*

This principle has been confirmed in the ETF Financial Regulation, which foresees contributions by the EU Member States to the Foundation's activities. Article 19 specifies that such contributions shall cover 'all direct or indirect expenditure incurred by the activity or purpose in question'. Article 20 states that Governing Board approval is necessary before the ETF can accept any donations which incur a financial cost. The Financial Regulation now also requires that such contributions should be systematically entered into the ETF budget. In the light of this provision, the ETF now intends to use 'Title IV' systematically to record all contributions from external sources such as Member States or other external sources beyond the regular budget from the Commission.

The ETF welcomes the encouragement provided by its Council Regulation, and the principles established in the Governing Board and Financial Regulation to deliver support and services to EU Member States in the framework of its contribution to the Community's external relations priorities and programmes. Indeed, this approach is consistent with the emphasis put on the coordination of the respective Commission and EU Member State assistance programmes in the proposals for the New External Relations Instruments adopted by the Commission on 29 September 2004. The aim is to increase effectiveness and efficiency in the delivery of aid. Reinforcing cooperation between Member States provides a '*win-win-win-win*' opportunity:

- Firstly, it can help to ensure a common and constant focus between Commission and Member State external relations programmes, and therefore enhance the overall impact of Community assistance to partner countries. As the Commission is responsible for the overall co-ordination of the Community external relations programmes, all such agreements will need to be communicated and agreed with the relevant Commission services.

- Secondly, it can integrate Member State foreign aid interventions, even on a relatively small scale, in the framework of more substantial EU investment. It can provide Member States with specific knowledge and or expertise to reach their objectives. It can also offer cost-effective implementation mechanisms in the field within a European dimension. Moreover, it offers a mechanism for joint work and the exchange of experience with other donors in the field while maintaining a sense of ownership and recognition for the investment made by each Member State.

- Thirdly, by facilitating concerted effort among Member States and the EU institutions, it can increase the benefits for partner countries in terms of coherent reform.

- Finally, it can help consolidate the overall capacity of ETF, to the mutual longer-term benefit of the Community, its Member States and the partner countries.

However, this mechanism has been used relatively little, and by few Member States in recent years. The ETF would like to raise awareness and interest among Member States of this opportunity, with a view to encouraging Member States to contribute to the work of the ETF. In addition, this approach could also be applied by non-Member States and/or other relevant organisations that take part, or would like to take part in the reform process.

Possible options

Three different mechanisms have evolved through which ETF has provided support and services to EU Member States. These could be seen as model approaches for other EU Member States and indeed for co-operation with other organisations:

1. **EU Member States provide direct financial contribution to ETF activities.**

   The most significant example is the Italian Trust Fund 2003-2005. The Italian Government makes €500,000 available per year to support ETF priorities and projects in an agreement cleared with the Board in 2002. Confirmation of the value and benefits seen by the different stakeholders came in September 2004 when the Italian Government made available an exceptional additional contribution of €300,000 through the Trust Fund to co-fund Labour Market surveys in the Western Balkans, which had been keenly requested by DG RELEX and DG EMPL, the Italian authorities, and the ETF and were welcomed by the partner countries. Other organisations have also occasionally contributed to ETF activities in a similar way such as the Swiss Development Agency and the World Bank.

   Each year, after consultation with the Italian Authorities, the ETF indicates in the Work Programme which ETF projects will be reinforced thanks to Italian support, thereby ensuring the appropriate recognition of the donation made by the Member State. As such contributions are used to extend projects within the ETF Work Programme, they also respect EU and ETF priorities by default.

   This approach is particularly suitable in cases where the EU Member State has priorities and programmes that are in line with EU external relations priorities and ETF Work Programme activities. It is also appropriate in cases where EU Member States wish to integrate their foreign aid programmes, even at a small scale, in a EU dimension. It may also be suitable in cases where the EU Member State has identified a key priority, but is lacking the required HRD expertise or capacity in the field to reach their objective. This mechanism also has the potential of increasing the return on investment from aid as pooling resources can reduce the incidence of fixed overhead costs. As such it might be suitable for EU Member States that are looking for cost-effective implementation mechanisms within a European dimension.

   The ETF does not levy a management fee in that the Trust Fund is a direct contribution to ETF projects already defined in the Work Programme and agreed with the Governing Board. There is therefore no financial charge arising from the contribution as defined in Article 20 of the ETF Financial Regulation. However, in agreement with the 'donor', the funds may be used to cover some administrative costs related to the projects - such as missions - or to employ temporary staff to help implement and administer the projects. It should be understood that funds that enter the ETF budget must be managed according to the ETF Financial Regulation and procurement rules. The Member State is, however, provided with regular monitoring reports on the activities it funds and a financial statement outlining how the funds have been used. As the activities form part of the ETF Work Programme, they are subject to the ETF annual evaluation plan and may also be audited.

   ETF would take this opportunity to encourage other EU Member States to enter into similar agreements with the ETF. In this case:

- The ETF, in consultation with the Member State and the Commission would undertake a first assessment of the proposal to ensure coherence with the ETF's mandate and regulatory environment and to develop a proposal for submission to the Board.
- The resulting agreement should be approved by the Governing Board in line with the current Financial Regulation
- ETF projects supported under such agreements should be clearly indicated in the ETF Work Programme
- The budgets should be accounted under the ETF's Title IV budget, and subject to the approval of the Governing Board and budgetary authority.

2. EU Member States ask the ETF to provide services for their own projects.

The most significant example is the Italian Government, although a similar approach has been used on a reduced scale by other countries such as France, Switzerland and organisations like the World Bank.

The first Co-operation Agreement with the Italian Foreign Affair Ministry was signed in 2000. The agreement was renewed in 2003. Under the first agreement, the Italian Foreign Affairs Ministry (DGCS) asked the ETF to implement an HRD project in the field of SME development in Albania on their behalf during the period 2001-03. Following a positive evaluation of the first project, the Italian Ministry has recently asked the ETF to help design and implement a follow-up project. The budget for the second project has a value of €2,147,000 and is expected to run for the period 2005-07. Further detail on this second proposal is included in annex 1.

For this service, in view of the Financial Regulation and the Governing Board decision of 2000, the ETF will charge a fee to cover all additional indirect and direct costs associated with the project. The activity based budget criteria in the ETF's budget represent the starting point for discussing the terms of the fee. According to current criteria, the charges would amount to:

- about 10% of project budget to cover administrative and management overheads[1]. This should also include all monitoring and reporting requirements agreed with the Member State;
- all direct costs (for example, missions, ETF expert staff time, evaluation and audit)

However, the terms for each agreement will be negotiated on a case-by-case basis according to the nature of the project, and the costs and benefits which may result from the ETF's expected role in the project.

This charge ensures that the ETF can guarantee respect for the priorities agreed with the Governing Board and in particular the Commission, while also providing a quality service to its Member States. As in option 1, it should be understood that any funds which enter the ETF budget must be handled according to the ETF's financial and procurement rules.

This approach is suitable in cases where the EU Member State has programmes that complement both EU external relations priorities and the mandate of the ETF. It is also appropriate where EU Member States see the benefit of linking their foreign aid programmes under the umbrella of an EU or international organisation. It may also be suitable where the EU Member State has identified a key objective, but is lacking the required expertise and field resources to design and implement measures to reach their objective.

The ETF would like to take this opportunity to encourage other EU Member States to request such services where they have projects that are consistent with the ETF's objectives and functions. In this case, the following procedure should be followed:

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[1] The ETF estimates that 2.2 FTE administrative support staff (costing circa €90,000 under Title I) are needed to handle all procedures and ensure compliance with EU management standards for each 1,000,000 of operational funds from Title III or Title IV. In addition, each additional staff member costs some €10,000 euro for equipment and premises from Title II.

- The ETF, in consultation with the Member State and the Commission would undertake a first assessment of the proposal to ensure coherence with EU external relations priorities, the ETF's mandate and regulatory environment and to develop a proposal for submission to the Board.
- The Governing Board should approve the project and implementation conditions.
- The Governing Board should adopt the revised budget in line with the current Financial Regulation
- The Funds should be accounted under the ETF's Title IV budget, and subject to the approval of the Governing Board and the budgetary authority
- The activity, budget and source of funding is included in the ETF Work Programme

3. EU Member States implement own projects in parallel with ETF activities.

The ETF has had several parallel-funding projects with EU Member States. This approach enables Member States with common priorities to link their national development projects with an established ETF priority or project. ETF can play a coordination role which enhances co-ordination among the different projects and seeks to raise the overall impact of the efforts of the individual Member States. The most significant example has been the North West Russia project 1996-2000 in which eight Member States and the ILO took part (see annex 2).

As funds do not pass through ETF budget for this mechanism, there is no financial charge. However, ETF could include the project and relative costs of co-ordination in its Work Programme which is submitted to the Governing Board for approval.

This approach is particularly suitable in cases where the EU Member State has priorities and programmes that are in synergy with EU external relations priorities and ETF Work Programme activities. It is also appropriate in cases where EU Member States wish to maintain control over the implementation of their individual projects, while at the same time linking them cost-effectively to the efforts of other donors and Member States to improve impact. As above, the contributions of individual Member States are recognised in the ETF Work Programme. It may also be suitable in cases where the EU Member State has identified a key priority, but has limited financial resources and/or field structures to reach their objective.

In this case, the ETF proposes the following procedure:

- The ETF, in consultation with the Member State(s) and Commission would undertake a first assessment of the proposal and develop a project for submission to the Board
- The ETF and the EU Member States in consultation with the Commission should develop a co-operation agreement to ensure synergy between parallel projects of the Member State and the ETF
- The co-operation agreement is submitted to ETF Governing Board for information and the Member State's contribution is indicated in the Work Programme.

Proposals to the Governing Board

- The ETF asks the Governing Board to adopt the above policy and procedures to regulate contributions from EU Member States (or other organisations) to the work of the ETF.
- The ETF asks GB members to raise awareness in their own countries on the opportunities and added value of joint action with the ETF and facilitate links with their external aid counterparts.
- ETF asks the Governing Board to approve the request from the Italian Government for ETF to provide technical assistance to the SME project (see annex 1) on the understanding that no financial cost will be incurred within the ETF's basic budget.

Brussels, 9 November 2004

Nikolaus G. van der Pas
Chairman

SUPPORT PROGRAMME FOR SME'S IN ALBANIA

Target beneficiaries: Ministries and/or Local Authorities, Regional Development Agencies, SMEs

Target countries: Albania

Background:

In 2000, with the aim of supporting SME development in Albania, the Italian Foreign Affairs Ministry (DGCS) asked the ETF to prepare and implement a project within the existing Cooperation Framework Agreement.

This project started in 2001 and ended in June 2003 and was followed by an external evaluation carried out by independent experts. The external evaluators were particularly positive about the achievements and suggested further consolidation to broaden and strengthen the results to ensure sustainability.

The Italian Government accepted these recommendations and has suggested that the ETF should carry out a new, extended programme, financed within the framework of the bilateral co-operation agreement 2002-2004 between Albania and Italy signed in Tirana on 9 April 2002.

As a result the Italian and Albanian Governments recently agreed a financial assistance programme for approx. €30 million to support the SME sector through: (a) the establishment of an SME Credit Line to be disbursed by the Albanian banking system for approx. €25 million, and (b) the establishment of a Loan Guarantee Scheme (€2.5 million) and (c) technical assistance components for €2.5 million.

The SME Sector in Albania faces constraints in the following fields:

a) Legal/Regulatory

- Lack of transparency in enforcement of laws/regulations; too many changes in legislation, making long-term strategic decision-making difficult and discouraging compliance by entrepreneurs.
- While relatively slow, the courts are a viable means to settle dispute. Weaknesses lie in the bailiff's office and the incentives for the enforcement of court decisions.
- While business registration is relatively well-functioning, a non-transparent and unpredictable application of regulations (inspections, permits, licenses, especially in tax and customs) impedes business operations. This encourages activity in the grey market and promotes a sense of random discrimination and lack of fairness for SMEs operating in the market.

b) Government Capacity and Public-Private Dialogue

- Weak government capacity to ensure a secure environment, e.g. for the protection of business goods and property. Lack of respect for the rule of law. Political instability, poor government management and corruption continue to act as disincentives for investment.
- Local governments lack the financial and institutional capacity to provide the required services in their areas.
- Businesses are wary of government. The existing governmental advisory bodies (Business Advisory Council and Chamber of Commerce), are not seen as providing business representation or as a true representation of Albanian SMEs.

c) Financial Sector Environment

- The financial sector is characterised by excess liquidity, as banks prefer investing in treasury bills or offering other services rather than extending credit, which is not an efficient allocation of resources.
- Banks do not yet play a central role in SME financing because:

  Demand for Loans: Underdeveloped credit culture inhibits growth of sector, as many entrepreneurs are unfamiliar with banks or banking requirements. Unpredictable policy environment discourages investment by SMEs.

  Supply of Loans: Commercial banks are not interested in lending to SMEs. Reluctance of commercial banks to lend is linked to the poor legal and regulatory environment, especially contract enforcement, collection of collateral, and dispute resolution. Additionally, commercial banks focus on large loans, which have lower fixed disbursement and monitoring costs than small or micro loans. The legacy of bad loan portfolio from state-owned banks also discourages banks from lending.
- Mismatch of terms and conditions with needs of the SME community (tenor, rates, collateral requirements, and size).
- Micro finance sector is robust, but there is still excess demand for small loans and access to savings.
- Loan Guarantee Funds programme has been established, but does not yet affect the market. Unlikely to be sufficient (and possibly inappropriate) to stimulate lending in the micro/small enterprise sector.
- There are no provisions for leasing in Albanian legislation.

d) Business Development Services

- Low awareness of SMEs about the benefits of using business support services.
- Business development services exist, but are largely donor-subsidized, and are not demand-driven.

e) SME Training and Consulting

- Mismatch between courses offered (accounting and finance) and the needs of entrepreneurs (strategic planning, management, and marketing). Inconsistent levels of training quality.
- Lack of coordination among donors regarding the division of training services offered. Poor advertising of courses to the public.
- Consulting on private sector issues is new to Albanian businesses. Demand for these services is low, and practice is only just starting to develop.

f) Information on Foreign and Domestic Markets and on Production and Technology

- Difficult for SMEs to obtain information on potential export-import markets, and related issues such as tariffs and standards, transportation, or market demand.
- Sources of information remain limited to foreign embassies and chambers of commerce, or private contacts. Lack of opportunity for SMEs to participate in trade fairs, because trade fairs are not well promoted by Chambers, associations, etc.
- Low financial capacity to conduct or exploit market research.
- Low level of knowledge and awareness of Internet technology, combined with highly limited and costly access for potential users.

Some of the above weaknesses can be addressed by this project, namely through:

- Institution building for the main stakeholders working in the field
- Technical assistance for the implementation of the credit line
- Technical assistance for the implementation of the Loan Guarantee Fund

- Training for the main stakeholders on programme implementation
- Training of business advisors to support SMEs
- Assistance for a structured information system
- - Awareness raising campaign

Project objective	The overall objective is to create a positive business development climate enabling rapid and sustainable SME development in Albania. The specific objective is to contribute to the development of SMEs in Albania by supporting the Albanian government's SME strategy
Expected results	Result 1: Improved capacity building of Albanian stakeholders in the field of SMEs Result 2: Development of a credit system for SMEs Result 3: A Loan Guarantee Fund system established and operational Result 4: An information system on SMEs
Main components	1. Institutional building for the main stakeholders working in the field 2. Technical assistance for the implementation of the credit line 3. Technical assistance for the implementation of the Loan Guarantee Fund 4. Assistance for a structured information system 5. Awareness raising campaign
ETF Operational Budget:	**€0**
Other fund sources:	€750,000 Italian Government
Timeframe:	from 01/01/2005 to 31/12/2005
Conditions:	8% management fee plus all direct costs[2]

[2] These terms have been negotiated on the basis that this iniative will make use of capacity already built up under the first phase of the SME project 2001-2003.

PILOT PROJECT IN NORTH WEST RUSSIA 1996-2003

The objective of this pilot project was to contribute to the reform of vocational education and training in four sectors crucial for the economy of north-west Russia: telecommunications, tourism, transport and wood production and processing, on the basis of a needs analysis of vocational qualifications and through linking EU and Russian institutes. It took place in the north-west region of the Russian Federation, i.e. St. Petersburg City, the oblasts of Leningrad and Novgorod and the Republic of Karelia

The project was launched through a joint initiative of the Russian Ministers for Education and Labour and the Foundation and took place over six years, in two phases.

This project started in April 1996 was supported by Austria, Belgium, Finland, Germany and the Netherlands in its first phase. The second phase (1999-2001) was supported by Austria, Belgium, Finland, Sweden, the Netherlands and the ILO.