



**European Committee
of the Regions**

Entrepreneurship on islands and other peripheral regions

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List of abbreviations

Abbreviation	Full term
AEBR	Association of European Border Regions
CBC	Cross-border cooperation
CEF	Connecting Europe Facility
CIVEX	Commission of Citizenship, Governance, Institutional and External Affairs of the Committee of the Regions
CLLD	Community-led Local Development
CoR	European Committee of the Regions
COTER	Commission of Territorial Cohesion Policy of the European Committee of the Regions
CPMR	Conference of Peripheral Maritime Regions
DEAR	Development Education and Awareness Raising
EAFRD	European Agricultural Fund for Rural Development
ECON	Commission for Economic Policy of the European Committee of the Regions
ECOS	Commission of Economic and Social Policy of the European Committee of the Regions
EFSD	European Fund for Strategic Investments
EIB	European Investment Bank
ENVE	Commission of Environment, Climate Change and Energy of the European Committee of the Regions
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ETC	European Territorial Cooperation
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
JAP	Joint Action Plan
MS	Member State
NAT	Commission for Natural Resources of the European Committee of the Regions
NUTS	Classification of Territorial Units for Statistics
OP	Operational Programme (of ESIF)
SBA	Small Business Act for Europe
SEDEC	Commission for Social Policy, Education, Employment, Research and Culture of the European Committee of the Regions
SME	Small and Medium-sized Enterprises
SPF	Small Project Fund
TFEU	Treaty on the Functioning of the European Union
TO	Thematic Objective
RIS3	Research and Innovation Strategies for Smart Specialisation

List of Member States

Abbreviation	Full term
AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LV	Latvia
LT	Lithuania
LU	Luxemburg
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

Summary

The **aim of this study** is to analyse the particular challenges and obstacles faced by entrepreneurs and Small and Medium-sized Enterprises (SMEs) on islands and in other peripheral areas, including inner peripheries, when starting up and running a business. It identifies and analyses good practices to foster resilience and to stimulate innovative and sustainable entrepreneurial development in these areas.

The **analysis** shows that many economies in peripheral regions suffer from remoteness, low population density, small size and fragmentation of markets (including labour markets), and economic dependence on a few economic sectors and niches ('monocultural economies') with less representation of manufacturing sectors. The predominance of small firms and the lack of large companies make these economies even more dependent on SMEs and entrepreneurial initiatives than in other regions. Framework conditions for SME and entrepreneurship development on islands and in peripheral areas are less favourable than for other EU territorial areas. Therefore, areas with territorial specificities, as are islands, peripheral regions, sparsely populated areas, mountains and outermost regions, face a number of common challenges, which are connected to their geographic characteristics. However, not all peripheral areas have to cope to an equal extent with all challenges.

Challenges cover territorial difficulties that are beyond the reach of economic policy (e.g. isolation and physical constraints, natural disasters) and challenges partly in the reach of public policy (e.g. remoteness, geopolitical situation, exposure to climate change effects). However, most challenges for SME and entrepreneurship development in peripheral regions can be tackled by adequate public support policies. They include: the small size of internal markets in peripheral areas and islands, a reduced supply capacity and a reduced choice for goods and services, low economies of scale, higher production and modernisation costs compared to more central regions, low attractiveness for investments, low density of population/companies and reduced number (and quality) of services, less and outdated digital infrastructures and services, reduced internal competition, brain drain and migration of young people and skilled workers, reduced opportunities for life-long learning, reduced availability of qualified workforce, low centrality and attractiveness for (high-potential) entrepreneurs, low density of research, development and innovation, technology and skills gaps, high intraregional disparities and, sometimes, additional administrative and legal challenges for border areas.

Despite the numerous challenges, also **opportunities** can be identified that are linked mostly to the territorial specificities and to the endogenous potential of these areas. In particular, specific local assets and niches for economic development might be exploited by companies and entrepreneurial initiatives, e.g. related to natural resources, agro-food value chains, blue economy, tourism, sports and leisure, culture and creative economy, ICT, digital services and products as well as geostrategic assets.

Six **case studies** have been analysed to show the different socio-economic, geographical and institutional situations of peripheral areas in Europe. For each case, relevant SME and entrepreneurship policies and programmes as well as good practice examples are included to demonstrate the diversity of approaches to overcoming the challenges associated with entrepreneurship and innovation in specific territories.

Policy Recommendations to Regional/National Authorities

The results of the analysed case studies confirm the conclusion of previous analysis that islands and peripheral areas should develop place-based and tailor-made strategies with a focus on exploiting their comparative advantages and promoting a more efficient use of their existing natural, cultural and geostrategic assets. The complexity of the challenges for islands and peripheral areas requires thinking in wider contexts to overcome specific challenges.

To promote SMEs and entrepreneurship related to local assets coordination with other policies is needed (e.g. with transport infrastructure, tourism, education, human capital, rural development).

Approaches to entrepreneurship development in the potential growth fields have to consider the constraints of traditional business models. Entrepreneurs should adopt business models that are built on quality, environmental values, distinctiveness, recognition of quality and/or territorial labels and cultural references.

Innovation is an important factor in promoting SME development and growth in peripheral areas. The importance of primary and service activities requires support for innovation in service sectors (tourism, retail) as well as in agricultural and agro-food sectors. Clusters along the specific value chains and niche products of the given territory can help to stimulate collaboration and knowledge transfer.

Universities and science/technology parks are important stakeholders when it comes to knowledge and technology based entrepreneurship and the promotion of enterprises in high-growth sectors. Approaches to entrepreneurship should integrate these stakeholders.

Networking and collaboration should be an important tool to overcome the effects of isolation. Networks of entrepreneurs, networks with business angels and venture capital investors and networks of professional business services can bring together business ideas with partners, suppliers, access to capital and advice. Networks of regions and cities with the same interests can help to shorten the learning curve for the involved stakeholders and help to test new policy approaches and support schemes more efficiently.

Policy recommendations at EU level

Islands and peripheral areas have specific territorial features that hamper socio-economic development, including SME development and entrepreneurship. In the common statistics that are used to depict regional disparities in the EU (e.g. GDP at NUTS2 level), these territorial challenges are difficult to observe. Specific indicators, e.g. on accessibility, business structure or regional competitiveness, are therefore necessary (at NUTS 3 or LAU-2 level) to make the territorial challenges of islands and peripheral areas visible.

Some challenges that might hamper SME development and entrepreneurship on islands and peripheral areas can be compensated for by specific on-going support as it is offered by ESIF. However, to allow for an effective and efficient use of ESIF in peripheral regions, post-2020 cohesion policy should consider islands and peripheral regions as territories that will continue to require regional aid to overcome their structural and territorial challenges with adequate support policies.

Some EU programmes to support SME development and entrepreneurship (e.g. EFSI, COSME, InnovFin, H2020) are less adequate for islands and peripheral areas that have predominantly small and very small companies. To benefit from these programmes, the integration of a territorial dimension would be needed, e.g. in the form of specific calls for beneficiaries from islands and peripheral areas.

Looking for a transfer of knowledge and good practices between Member States, regions and local authorities, the EU might support specific knowledge transfer and management processes with regard to economic development on islands and peripheral areas (e.g. similar to the European Network for Rural Development).

Cross-border and territorial cooperation projects and instruments (INTERREG, EGTC), but also more specialised innovation networks (e.g. JPI, EIP, KIC, Era-NETs) are important means to exploit new areas of SME growth. However, peripheral areas usually have limited resources and capacities to participate in relevant network activities. Here, a specific support for capacity-building measures and support for participation in events (e.g. travel grants) can help to stimulate the participation of peripheral areas in these networks and partnerships.

1 Introduction

The aim of this study is to analyse the particular challenges and obstacles faced by entrepreneurs and Small and Medium-sized Enterprises (SMEs) on islands and in other peripheral areas of the EU, including inner peripheries, when starting up and running a business. It identifies and analyses good practices to foster resilience and to stimulate innovative and sustainable entrepreneurial development. As acknowledged in the Small Business Act for Europe¹, SMEs are the most important sources of employment in the EU. The ability to create new companies, open up new markets and grow depends to a great extent on the entrepreneurial capacity and spirit of European citizens and existing companies. However, SMEs and, in particular, small companies, self-employed people and entrepreneurs face many challenges and suffer from information asymmetries and market failures. Common challenges for entrepreneurs and SMEs are²:

- administrative barriers in crucial phases of the business lifecycle;
- limited access to finance;
- limited availability of skills and specialist knowledge;
- entrepreneurial education/training to support business creation and growth;
- limited access to knowledge and low innovation and digitalisation capacity;
- difficult access to markets (in particular, international).

These challenges faced by SMEs and entrepreneurs are amplified when they are located in peripheral areas such as islands, sparsely populated or mountainous areas or border areas. Here, additional challenges emerge related to remoteness and lack of accessibility to services and markets, higher costs for transport and professional services, small local markets, lack of qualified human capital and low critical mass for collaborative activities. Even if there are policies and initiatives in place to create a business friendly environment, to promote entrepreneurship and to stimulate regional growth and development in these areas, their specific characteristics also require tailor-made solutions.

This study presents an overview of key indicators and framework conditions for SME and entrepreneurship development in specific territories (chapter 2), territorial characteristics and challenges for entrepreneurship (chapter 3), examples of good practices to support entrepreneurship (chapter 4) as well as policy recommendations to foster sustainable entrepreneurial development in islands and other peripheral areas (chapter 5).

¹ Overarching framework for the EU policy on Small and Medium Enterprises (SME). Communication from the Commission (2008). Think Small First. A “Small Business Act” for Europe. COM(2008) 394 final.

² Communication from the Commission (2012). Entrepreneurship 2020 Action Plan. Reigniting the entrepreneurial spirit in Europe. COM(2012) 795 final.

2 Overview of business and enterprise development on islands and other peripheral areas

2.1 SME development and entrepreneurship on islands and peripheral regions – an introduction

European policies aim to improve the environment for entrepreneurship and business development in support of increasing Europe's competitiveness and creating new jobs. Policies at European, national, regional and local levels promote entrepreneurship, facilitate start-ups and support the development of SMEs, depending on the region-specific demand and needs. In doing so, most policies aim at enhancing local socio-economic and territorial assets, following a so-called place-based approach and/or try to enhance certain economic sectors or value chains that are of importance to the area, for example through smart specialisation.

In particular, SMEs and entrepreneurs are in need of policy support due to the specific market failures that hit them harder than larger companies. According to an EU definition, SMEs are enterprises with up to 250 employees and a maximum turnover of 50 million EUR or a maximum balance sheet total 43 million EUR. In practice many SME and entrepreneurship policies focus particularly on single entrepreneurs and self-employed people, as well as micro (less than 10 people) and small enterprises (10-49 people), as these are more affected by market failure.

At the European level several documents form the main framework for SME policies. The **Small Business Act (SBA)** from 2008 and its review from 2011 set out 10 principles for SME support³. The **Entrepreneurship 2020 Action Plan**⁴ is a major guideline for SME policy-making in the EU. It calls for actions, by the European Commission and by Member States, in the areas of entrepreneurial education at all levels, access to finance (in particular micro-finance), digital/web business, business transfer, second chance, reducing regulatory and administrative burden, migrant entrepreneurs etc. Since 2015, the **Single Market Strategy**⁵ aims at delivering a deeper and fairer Single Market

³ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0078>

⁴ Communication from the Commission (2012). Entrepreneurship 2020 Action Plan. Reigniting the entrepreneurial spirit in Europe. COM(2012) 795 final.

⁵ Communication from the Commission (2015). Upgrading the Single Market: more opportunities for people and business. COM/2015/0550 final.

that will benefit both consumers and businesses. One area within this Strategy is dedicated to helping SMEs, start-ups and young entrepreneurs to grow.

The importance of improving access to finance has also been underlined in more recent policy documents, including the **Investment Plan for Europe**, better known as the Juncker Plan⁶, as well as in the **Start-up and Scale-up Initiative**⁷ that aims at improving the conditions for start-ups and high-growth companies. Overall, the European Union offers different support mechanisms for SME development and for strengthening entrepreneurship. The EU financing instruments for start-ups and SMEs include EFSI and InnovFin (EU Funding for Innovators), which have a strong risk finance aspect for innovation, in part due to their links to Horizon 2020. The SME Initiative – ESIF and Horizon 2020/COSME (EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises) – provides via the European Investment Bank (EIB) Group, uncapped guarantees for loans to SMEs and small midcaps. The European Structural and Investment Funds (ESIF) offer support in particular via Thematic Objective 3 (Enhancing the competitiveness of SMEs). Support is also offered through the Enterprise Europe Network, the EU Programme for Employment and Social Innovation (EaSI), and the ERASMUS+ programme. Cities and regions can also benefit from additional initiatives to support clusters and the creation of regional innovative and entrepreneurial ecosystems, such as the European Innovation Partnerships (EIP)⁸, the Knowledge and Innovation Communities (KIC) promoted by the EIT⁹ or the S3 thematic platforms¹⁰.

Support instruments for SMEs and entrepreneurship may focus on various stages of business development within the business life-cycle from idea generation, seed stage, start-up, through to growth, internationalisation, and potential transfer to other owners. Among SMEs, a particular role for job creation and growth can be attributed to high-growth firms, such as technology-based companies or scale-ups¹¹.

⁶ https://ec.europa.eu/commission/sites/beta-political/files/2-years-on-investment-plan_en_2.pdf

⁷ Communication from the Commission (2016). Europe's next leaders: the Start-up and Scale-up Initiative. COM/2016/0733 final.

⁸ http://ec.europa.eu/research/innovation-union/index_en.cfm?pg=eip

⁹ <https://eit.europa.eu/>

¹⁰ <http://s3platform.jrc.ec.europa.eu/s3-thematic-platforms>

¹¹ Criscuolo, C., P. N. Gal and C. Menon, 'The Dynamics of Employment Growth: New Evidence from 18 Countries', OECD Science, Technology and Industry Policy Papers, No. 14, OECD Publishing, 2014.

North and Smallbone distinguish various types of SME and entrepreneurship policies which are directly concerned with building-up the entrepreneurial capacity of rural regions¹². Overall, we can identify at least four types of relevant policies:

- i) Policies that encourage and support entrepreneurship, including policies that build up entrepreneurial capacity and provide opportunities through education and training. This includes policies that target specific types of entrepreneurs such as migrants or women.
- ii) Policies concerned with supporting the process of starting new business ventures, including pre-start-up advice and appraisal of the 'business idea' as well as assistance with the various aspects of setting up a new business.
- iii) Policies concerned with the growth, improvement of competitiveness and viability of existing SMEs. These cover support to SMEs through the provision of advice, easier access to finance and the reduction of administrative burden.
- iv) Policies concerned with providing generic business advice, specialist services and infrastructural amenities which are supportive of enterprise formation and development in rural regions.

According to economic development theory, SME and entrepreneurship are based on certain locational factors and framework conditions. These conditions can differ, depending on the location of the business.

Following classical theory, location, transport costs and market size play a pivotal role for business development. **Related growth models assume that territories with large internal markets, low transport costs and positive agglomeration effects are the most favourable for economic development¹³.**

Moreover, regional growth and institutional theories place factors such as human capital, technology and innovation as well as formal and informal institutions at the heart of business development. The capacity of entrepreneurs to interact in a wide network of other actors through formal and tacit rules and habits, traditions and trust are important determinants of development. Within this context, the access of SMEs and entrepreneurs to knowledge, qualified human capital, professional business services and innovation is key for their survival and growth¹⁴.

¹² North D., Smallbone D., 2006, Developing entrepreneurship and enterprise in Europe's peripheral rural areas: Some issues facing policy-makers, *European Planning Studies*, 14:1, pp. 43-44

¹³ Capello, R. (2007) *Regional Economics*. Oxford: Routledge

¹⁴ Ibid.

New Economic Geography¹⁵ highlights the interaction between geographical centrality and urban agglomeration economies, considering that geographical centrality creates an advantageous effect on a location, generating a local peak of market potential and increased attractiveness around the central location. Thus, a higher concentration implies higher accessibility and attractiveness strength, while a lower concentration of population and businesses implies lower accessibility and attractiveness.

A study for the European Parliament¹⁶ summarises the different factors relevant for SME development. They include:

- density and accessibility of the location;
- labour market – meaning availability of workers and skills;
- infrastructure;
- access/availability of financing;
- consumer demand and purchasing power;
- innovation and technology level; and
- policies and regulation relevant for SMEs.

These factors vary across Europe's territories. Conditions are generally more positive in central and metropolitan regions that are characterised by a more favourable environment for SME development and entrepreneurship. On the other hand, peripheral regions, islands and sparsely populated areas face important challenges for business development, entrepreneurial initiatives and growth. These territories are usually assumed to be more vulnerable from an economic point of view due to their small size, dependence on a smaller portfolio of products and geographic isolation¹⁷. A study on the characterisation of outermost regions confirms¹⁸: *“The extreme economic specialisation, and the dependency on the exterior, has been maintained in all stages of development until today. Inefficiency in markets and public investment is difficult to resolve owing to insularity and territorial size. This makes these areas vulnerable economies, which have registered accentuated cyclic oscillations throughout their history in terms of economic activity, large-scale migrations and an insufficient accumulation of capital.”*

¹⁵ Fujita, M.; Krugman, P. R.; Venables, A. J. (1999). The spatial economy: cities, regions and international trade. The MIT Press.

¹⁶ European Parliament (2011), Impact and Effectiveness of Structural Funds and EU Policies Aimed at SME in the Regions, pp. 31-32.

¹⁷ Baldacchino, G. (2005) “Island Entrepreneurs: Insights from Exceptionally Successful Knowledge-Driven SME from 5 European Island Territories” *Journal of Enterprising Cultures* 13(2)

¹⁸ Mcrit (2006). The Ultraperipheral Regions of the European Union: Indicators for the Characterisation of Ultraperipherality, p. 11.

However, in the view of some experts¹⁹, **many of these aspects do not constitute insuperable obstacles to economic development** and can be overcome with adequate policies, such as **bottom-up strategic plans or ‘asset-based’-strategies** that focus on tailor-made approaches, local assets, effective cooperation among different policies and a diversification of the economy.

The next sections provide evidence regarding specific challenges islands and other peripheral regions encounter with regard to entrepreneurship and SME development.

2.2 Territorial data on entrepreneurship and SME

This section first discusses general business statistics depicting the SME performance of regions and, secondly, the territorial context data depicting obstacles and opportunities for entrepreneurship and SME development. Standardised SME and entrepreneurship statistics are not generally available at a comparable NUTS2 level in Europe. Therefore, the following SME data is presented on the basis of example regions, which correspond to the case study regions presented later in this report. The case study regions include islands such as Crete (EL) and Malta (MT), island outermost regions such as Canary Islands (ES) and La Réunion (FR), as well as the sparsely populated areas such as Highlands and Islands (UK) and Västerbotten (SE).

In addition, average data on island regions (NUTS2-level classified islands)²⁰ and sparsely populated regions²¹, where available, has been calculated and is included in this report.

¹⁹ E.g. Behrens, K. and C. Gaigne (2006) “Developing the ‘outermost regions’ of Europe: Some lessons from economic geography” *Conference paper the outermost regions of Europe* December 15 2006. Glørsen E, Price MF, Dax T, et al. (2016). *Cohesion in Mountainous Regions of the EU*. Brussels: European Parliament - Committee on Regional Development. University of Aegean, Centre for Regional and Tourism Research, Bornholm, University of Malta (2013). *The Development of the Islands – European Islands and Cohesion Policy (EUROISLANDS) Targeted Analysis 2013/2/2 Final Report*. Luxembourg and Geneva: ESPON and University of Aegean. North D., Smallbone D., 2006, *Developing entrepreneurship and enterprise in Europe's peripheral rural areas: Some issues facing policy-makers*, *European Planning Studies*, 14:1.

²⁰ **Island regions** included in the statistical analysis are Cyprus, Ionia Nisia, Voreio Aigaio, Notio Aigaio, Kriti (EL), Iles Balears, Canarias (ES), Corse, Guadeloupe, Martinique, La Réunion, Mayotte (FR), Sicilia, Sardegna (IT), Malta, Açores, Madeira (PT) and Åland (FI). See Chapter 3 for more detail on the definition of areas.

²¹ **Sparsely populated areas** included in the statistical analysis are: the Northern regions of Finland, Sweden, Norway and Scotland as well as the low densely populated areas in central Spain. See Chapter 3 for more detail on the definition of areas.

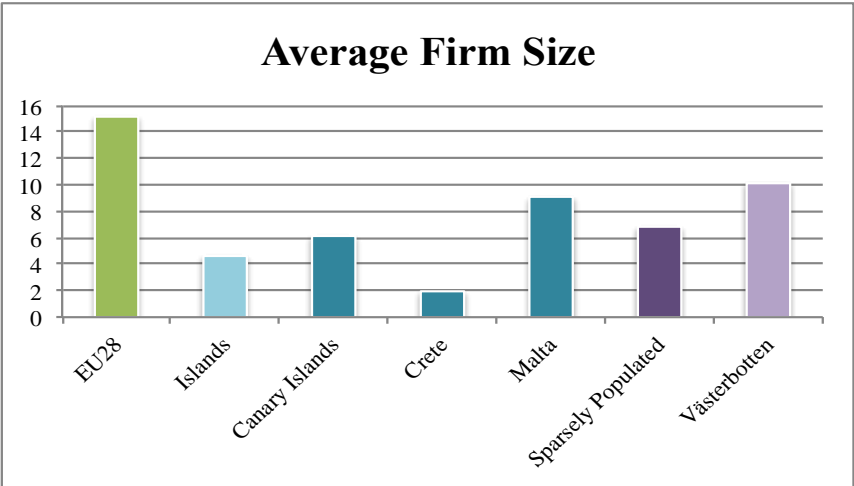
2.2.1 SME and entrepreneurship statistics

The business structure in Europe, expressed in number of firms and employment, is characterised by a relative dominance of micro, small and medium sized enterprises. This is true for all types of territories.

The **average firm size** in European regions is 15 employees. Although small differences exist between the case study regions, the average firm size in island and sparsely populated regions is considerably lower than the European average as shown in Figure 1.

This overall pattern becomes even more evident when differentiating by size classification of SMEs. On average, 61% of the active business population of European regions do not have employees at all (single-person firms) while 35% of the active business population have 1 to 9 employees and only 4% have 10 employees or more²².

Figure 1: Average firm size by employees²³



Source: Eurostat data as used by the JRC IPTS Seville ‘Smart Specialisation Regional Benchmarking’

This general European pattern also applies to island regions, but with large differences between different regions, largely following national variations. For example, the share of active single-person businesses (no employees) seems to be smaller in Cyprus than in France or Malta.

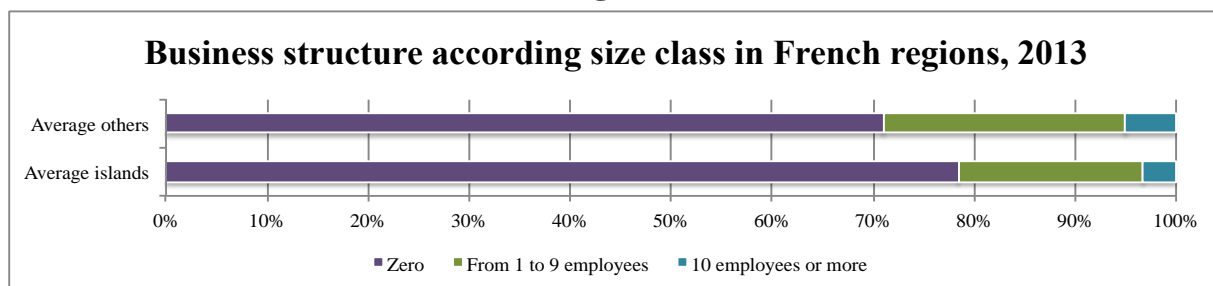
²² Eurostat regional statistics by NUTS classification – Regional business demography: Business demography by size class and NUTS 3 regions 2014 where available otherwise 2013.

²³ Data from Eurostat from the Smart Specialisation Regional Structure Benchmarking available at: <http://s3platform.jrc.ec.europa.eu/regional-benchmarking> No data available for the case study regions La Réunion and Highlands and Islands. The European average is calculated as an average of NUTS2 regions where data available.

As we will see later with more detail, Malta is a somewhat untypical case for an island territory. First, it is a Member State and not only a region and, therefore it has much more potential to develop infrastructure and specific policies at the national level. Second, compared to other European island territories (e.g. outermost regions) its location is less remote from the continental mainland. Third, it is not characterised by low population density, but rather has a high density for an island region. Nevertheless, Malta shares some other important characteristics of island regions, which makes it a comparable case study example (small internal market, lack of access to knowledge and professional services, lack of centrality etc.) and can, therefore, be considered a specific case of an island territory.

A clearer difference in business structure can be noted between island regions and other regions, as in the case of Portugal and France. Here, the share of active enterprises in the total population is larger than in other regions (see for example Figure 2).

Figure 2: Business structure according to size class in French NUTS 2 regions



Source: Eurostat regional statistics by NUTS classification – Regional structural business statistics: SBS data by NUTS 2 regions and NACE rev. 2

Trends over time also highlight other differences apart from insularity²⁴. The share of enterprises without employees has grown in most regions, but large regional differences remain evident.

The **survival rate of active enterprises** also shows large regional differences²⁵ and is not unique for islands and peripheral territories. For example, 64% of the active enterprises on the Finish Åland islands are still in business three years after inception. This is considerably higher than on the Canary Islands (ES) where only 47% of the enterprises are still ‘alive’ after three years. The survival

²⁴ Eurostat regional statistics by NUTS classification – Regional business demography: Business demography and high growth enterprise by NACE rev. 2 and NUTS 3 regions. Net population growth depict the different between new ‘born’ enterprises and enterprises’ death.

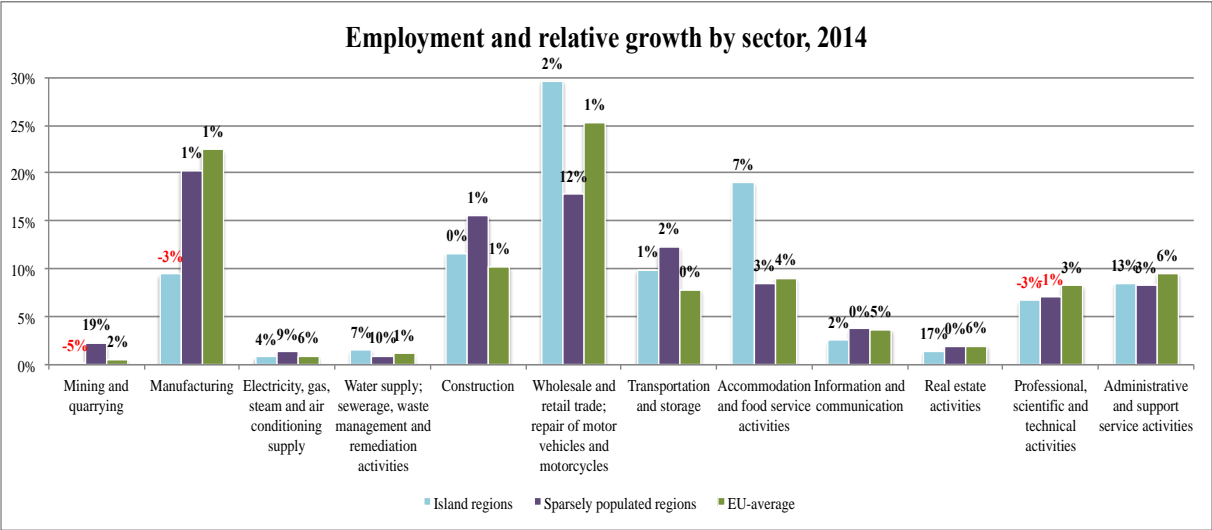
²⁵ Eurostat regional statistics by NUTS classification – Regional business demography: Business demography and high growth enterprise by NACE rev. 2 and NUTS 3 regions data from 2014 and 2013 for Malta.

rates of these island regions are comparable to national averages. Therefore, this indicator seems to be less influenced by specific territorial conditions.

Other differences apart from insularity or low population density seem to play bigger roles in the **share of self-employed persons** in the population. On average the share of self-employed persons is higher on islands compared to the European average. This is mainly due to high shares of self-employed persons in island regions in Greece and Italy, which in turn do not differ significantly from their national averages. At the same time, sparsely populated areas have on average lower shares of self-employed persons. This, however, is mainly due to low shares in Norwegian regions which are in fact comparable to Norwegian averages.

The **sectoral business structure** of island and sparsely populated regions is somewhat different to average European regions²⁶. Figure 3 shows the shares of the business sectors by employment for islands, sparsely populated regions and the EU average in the different bars and the growth rate of employment in those sectors and region in the labels.

Figure 3: Business structure by NACE by number of persons employed and the growth rate of employment



Source: Eurostat regional statistics by NUTS classification – Regional structural business statistics: SBS data by NUTS 2 regions and NACE rev. 2

The data shows that the economic structure of **islands**, compared to the EU average, has a larger share of **wholesale and retail** as well as **tourism activities** (accommodation and food service activities), with important growth rates in the latter as well as in **real estate activities**. **Construction and**

²⁶ Eurostat regional statistics by NUTS classification – Regional structural business statistics: SBS data by NUTS 2 regions and NACE rev. 2 data from 2014.

transportation/storage activities are also more important than for the EU-wide average. On the contrary, manufacturing activities, information and communication as well as professional, scientific and technical activities – all known as motors of economic development – are less prevalent when compared to the average EU region. The picture in the **sparsely populated territories** is different. In these areas, only **mining, construction and transportation activities** are relatively more important than for average EU regions. Sparsely populated territories also have slightly more activities, relatively, in the fields of **information and communication and in real estate activities**. All other sectors are less developed. The lack of manufacturing activities and the reduced size of the economies in these regions make it difficult to develop growth trends. However, considerable growth can be identified in relation to **energy/electricity and gas activities** as well as to **wholesale and retail** activities.

Overall, mining and quarrying are relatively more important in sparsely populated regions, compared to other regions. A relative overrepresentation of mining and quarrying activities in sparsely populated regions is even more pronounced due to the large growth rate of the sector in terms of employment in 2014. Norwegian regions, in particular, contribute to this pattern. Businesses in retail and accommodations are in turn more prevalent in island regions. This may be due to the importance of tourism in these regions. In addition, this may explain the relative high growth rate of the real estate sector in these regions as they may be considered attractive regions for second residences or holiday homes. Wholesale and retail is considerably less pronounced in sparsely populated areas. This may be because these sectors rely on large agglomeration sizes and a large market. Therefore, the high growth rates are surprising. These may suggest different developments that counterbalance the main disadvantages of sparsely populated regions, for example, the more intense use of e-commerce or certain market opportunities present in these regions.

Other studies confirm that many islands or peripheral areas are characterised by so-called ‘monocultural economies’ with considerable dependence on only few sectors (trade, tourism, agriculture/forestry) and a lack of diversification²⁷. Markets tend to be fragmented or niche markets. The limited number (or total lack of) larger companies may hamper knowledge transfer processes and spill-over effects²⁸.

²⁷ Haskins, J. (2012). Building resilience in small island economies: from vulnerabilities to opportunities. CTA policy brief. Technical Centre for Agricultural and Rural Cooperation (ACP-EU).

²⁸ OECD (2014). Innovation and Modernising the Rural Economy, OECD Publishing, Paris.

2.2.2 Territorial framework statistics

Territorial statistics can depict relevant framework conditions, and thus, potentials or obstacles for entrepreneurship and SME development. DG Regio (European Commission) publishes the **Regional Competitiveness Index (RCI)**²⁹ as a composite index reflecting the framework conditions for business development and competitiveness in the European territory. This index measures different dimensions of competitiveness and allows for comparisons to be drawn across European regions. The RCI calculates scores per region compared to a European average in three different sub-groups covering various indicators:

- the basic sub-group includes indicators on institutions, macroeconomic stability, infrastructure, health and basic education;
- the efficiency sub-group includes indicators on higher education, labour market efficiency and market size;
- the innovation sub-group includes indicators on technological readiness, innovation and business sophistication (measuring the degree to which SME are involved in innovation cooperation).

Comparing the scores for island regions to average EU territories shows large differences in some areas, but also similarities. The scores for **island regions** are lower for infrastructure, labour market efficiency (except for Åland) and for business sophistication (except for Malta). However, island regions on average score better on health (except for the outermost regions).

Looking in more detail at single indicators of relevant **framework conditions** for SME and business development, similar patterns emerge regarding the differences between islands and other peripheral regions and European averages.

The following sections provide a summary of the statistical analysis of different indicators for business development based on data availability in Eurostat, ESPON or through the Joint Research Centre from the European Commission. The indicators discussed below are only a small fraction of the different factors that could be reflective of the potential for business development in a territory, and have been selected to highlight important differences between islands and peripheral areas against the backdrop of average European NUTS2 regions.

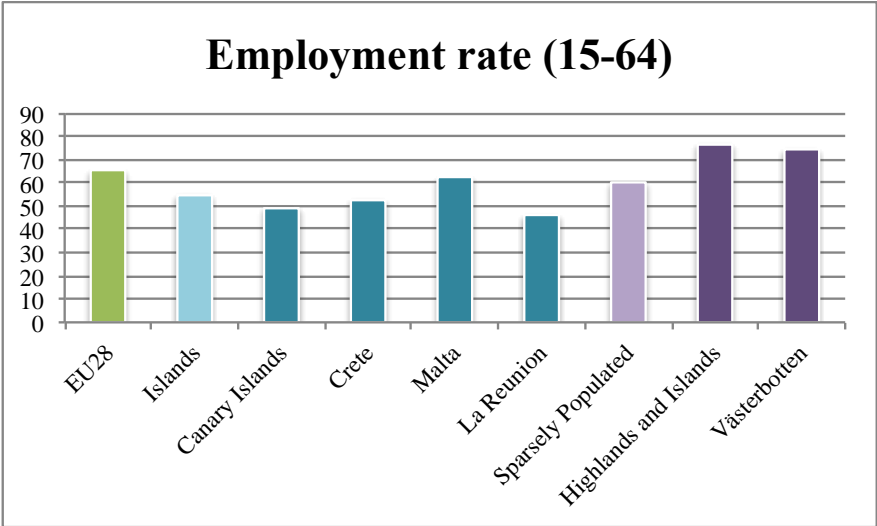
The **market size** of islands and other peripheral regions is on average smaller than in most European regions based on **population density** and **purchasing power per inhabitant**. However, the variation within the groups of regions is large. The population density of Malta is for example six times higher than

²⁹ http://ec.europa.eu/regional_policy/sources/docgener/work/201701_regional_competitiveness2016.pdf

average island regions. Accordingly, the market size is higher and this might suggest less challenging conditions for SME development in Malta. In areas with a high population density and high levels of purchasing power per inhabitant the market is bigger and thus has a potentially bigger demand for the enterprises' products or services.

The **labour markets** of island and sparsely populated areas are generally challenging for business development, due to their low size and the scarcity of specialised human capital. Although the peripheral and island regions have on average less persons aged 65 or more in their total population – and therefore a relatively younger population-, large parts of the younger population leave these areas and migrate to other regions, in particular during education and training. On average, island regions have larger out-migration than immigration. This is mainly due to large emigration from the outermost regions. The Spanish Canary Islands are among one of the most attractive regions in Europe regarding migration. The **net migration** of sparsely populated regions is, at 1,552 persons, considerably lower than for average European regions (4,246 persons). This is paired with slightly lower **employment rates** for islands and sparsely populated regions, as shown in Figure 4. Islands, in particular, have lower employment rates compared to average European regions. Some authors argue that this is due to the smaller size of the market, which also means that labour markets can be even more dynamic as persons take on more jobs or create more than one firm³⁰.

Figure 4: Employment rate of persons aged 15-64 (2014)



Source: Eurostat regional statistics by NUTS classification – Regional labour market statistics – employment by sex and age and NUTS 2 regions

³⁰ North D., Smallbone D., 2006, Developing entrepreneurship and enterprise in Europe's peripheral rural areas: Some issues facing policy-makers, European Planning Studies, 14:1, p. 55.

Highly qualified human capital and **innovation activities** in islands regions are slightly below European averages, whereas they are above the European average for sparsely populated regions – based on **tertiary education attainment** and private and government **R&D investment (GERD)**. It seems that sparsely populated areas, in particular in Northern Europe, benefit from large investments from the national level with regard to education and innovation. For example, Sweden had for many years a policy to enhance education in all regions and supported opening tertiary education centres in all Swedish regions, including the sparsely populated northern regions. Island regions often lack a critical mass for universities and students often prefer to go to other regions to study and continue their academic careers.

However, there is also evidence that **innovative activity among businesses** in remote areas can also be high, indicating that the challenge of peripherality is overcome by wider and more effective business networks³¹. In particular, this is the case in regions and countries with high indicators on social capital and with a tradition of cooperation and collaboration among firms, e.g. in cooperatives or clusters.

Share of **exports** in relation to total GDP is relatively low in islands and sparsely populated regions. The importance of international trade to the overall economy of islands and sparsely populated regions is only marginal. This is probably a consequence of remoteness, higher transportation costs and a relatively weak manufacturing sector in peripheral areas. Among the case study regions, only Malta has a similar export rate as average European regions³². This is linked to the fact that Malta is a Member State and not a region within a larger country.

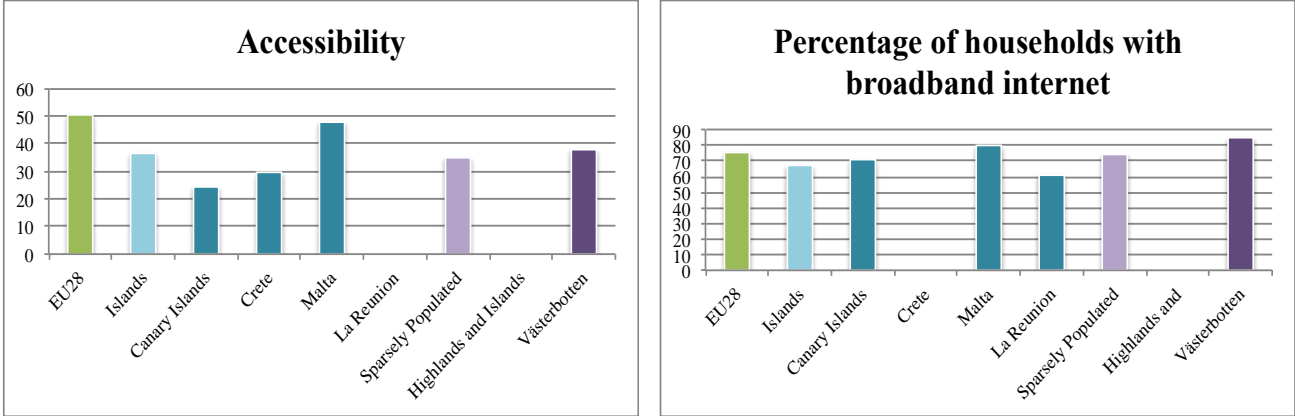
The **accessibility** of islands and sparsely populated regions is considerably lower than for other European regions. ICT can become an important instrument to create networks (with suppliers, customers, professional services, and others) and to overcome some of the obstacles related to low accessibility. This is confirmed by the fact that the **percentage of households with broadband internet** is only slightly lower, or in some cases even higher in these types of regions. Figure 5 shows the accessibility and percentage of households with broadband internet access for the average European NUTS 2 region, for islands, for sparsely populated regions, and for the case study regions. Previous research alerts to the fact that observed inequalities should not be attributed only to

³¹ Labrianidis, L. (2006). Fostering entrepreneurship as a means to overcome barriers to development of rural peripheral areas in Europe, *European Planning Studies*, 14:1, p. 6.

³² Data from Fraunhofer ISI and Orkestra from the Smart Specialisation Regional Structure Benchmarking available at: <http://s3platform.jrc.ec.europa.eu/regional-benchmarking> No data available for the case study regions La Réunion and Highlands and Islands. The European averages is calculated as an average of NUTS2 regions where data available.

differences in the physical infrastructure endowments, but are also the result of regional differences in the use and demand for ICT services³³.

Figure 5: Accessibility and the availability of broadband (2014)



Source: Accessibility as collected from the ESPON database and available through the Joint Research Centre for their Smart Specialisation Regional Benchmarking. Broadband internet Eurostat regional statistics by NUTS classification – Regional digital economy and society – households with broadband access. Data not available for Crete (broadband internet connection of households).

2.3 Conclusions

Indicators related to economic development and business structure on islands and other peripheral areas differ noticeably from the average figures for all EU-28 regions.

The analysis shows that many economies in peripheral regions suffer from **remoteness, low population density, small size and fragmentation of markets** (including labour markets), and **economic dependence** on few economic sectors and niches (‘monocultural economies’) with less representation of manufacturing sectors. Growth can be observed in some sectors, but in general, it is lower than in the EU average. The share of exports is usually low, transport costs are higher and the fabric of innovation, knowledge and higher education centres is not as dense as in more central regions. The predominance of small firms and the lack of large companies make these economies even more dependent on SME and entrepreneurial initiatives than in other regions. As a final point, the share of self-employment is higher than the EU average, further indicating the importance of entrepreneurial initiatives for the overall economic development.

³³ Labrianidis, L. (2006). Fostering entrepreneurship as a means to overcome barriers to development of rural peripheral areas in Europe, European Planning Studies, 14:1, p. 6.

However, weaknesses do not apply equally to all peripheral areas. Important variations can be observed between different islands and peripheral areas, e.g. between southern and northern European territories, but also between outermost regions, island regions or island countries.

Framework conditions for SME and entrepreneurship development on islands and in peripheral areas are less favourable than for other EU territorial areas:

- Population density is usually low (with some exceptions).
- Market size of the local economy is reduced.
- The labour market is limited; however sometimes unemployment is also low because of low population density and more flexible employment (one person – many jobs).
- Net migration is less favourable than the EU average, with in particular the young population leaving the region. On the contrary, regions with external EU borders might suffer from inward migration that extends the absorption capacity of these territories.
- Highly qualified human capital and innovation activities are below European averages, with the exception of northern European sparsely populated areas due to their national support frameworks and effective networking.
- Accessibility is lower than the EU average, but there are differences between regions and types of territories.
- Broadband connections are only slightly lower, or even higher in some cases, than the EU average, even if there is important variation among countries and territories due to differences in the use of and demand for ICT services.

It can be derived from the analysis that islands and peripheral areas do not suffer *per se* from their geographical position. Even if these territories have in many fields less favourable framework conditions, differences in natural and fossil resources endowment, cooperation culture, entrepreneurial spirit, social capital and also differences in national support frameworks can increase or reduce the negative effects of peripherality, remoteness and sparseness.

Therefore, as confirmed by previous studies, many of the aspects that hamper SME and entrepreneurship development on islands and peripheral areas can be overcome with adequate policies, mainly bottom-up or ‘asset-based’-strategies that focus on tailor-made approaches, local assets, an effective cooperation of different policies and a diversification of the economy.

3 Key challenges for islands and other peripheral areas from the perspective of entrepreneurship

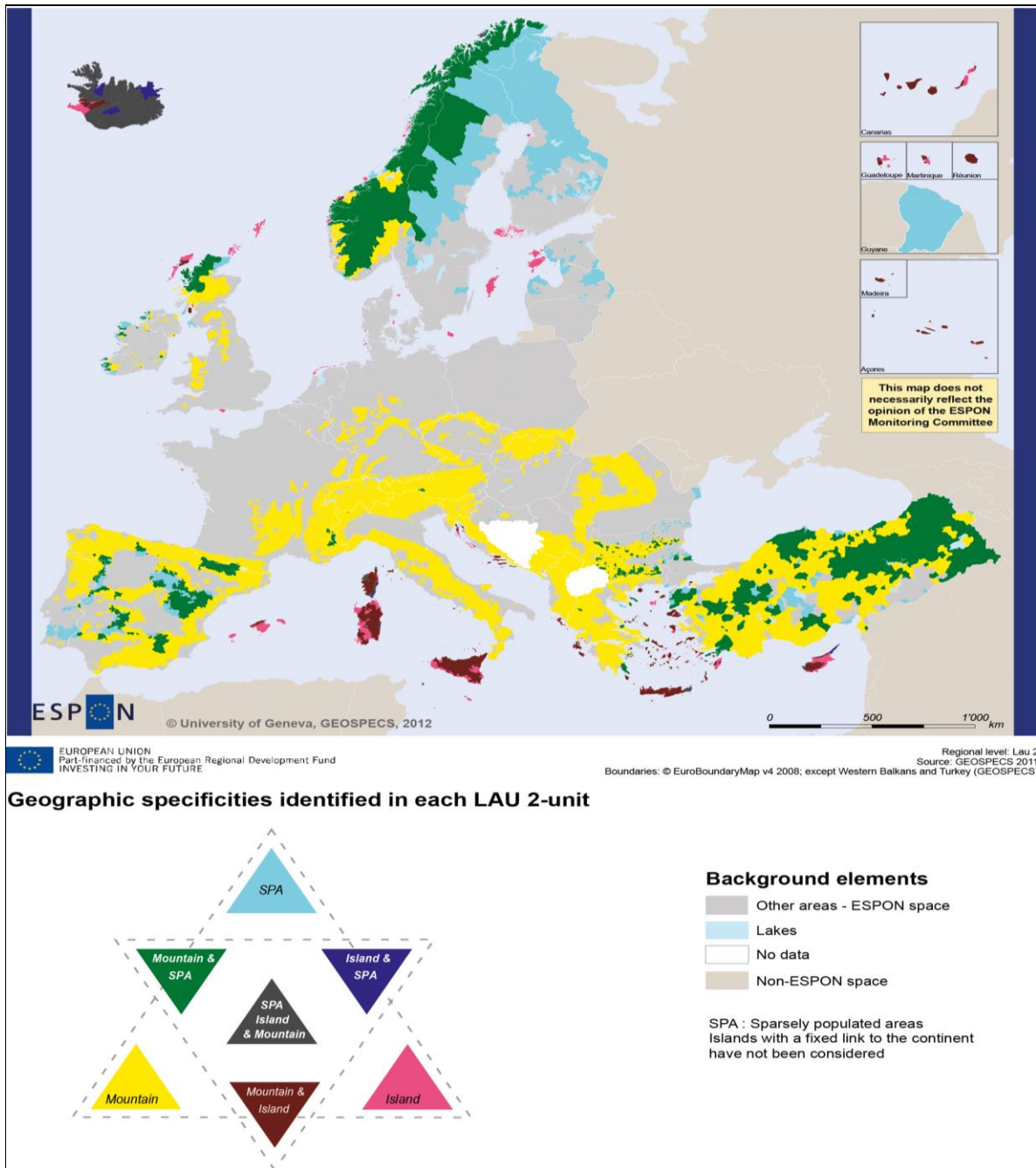
This section introduces the main concepts and traits of areas with territorial specificities. It presents some of their key characteristics and how specific challenges and opportunities can affect SME and entrepreneurship development.

3.1 Islands and peripheral areas in Europe

Regions with specific territorial features are discussed in the Article 174 of the Treaty of the Functioning of the European Union (TFEU)³⁴: “[...] *particular attention shall be paid to [...] regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions.*”

³⁴ Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union – Consolidated version of the Treaty on the Functioning of the European Union – Protocols – Annexes – Declarations annexed to the Final Act of the Intergovernmental Conference which adopted the Treaty of Lisbon, signed on 13 December 2007, Art. 174.

Figure 6: Islands and peripheral areas in Europe



Source: ESPON GEOSPECS 2012

This has been followed up by the Green Paper on territorial cohesion in 2008³⁵, which identifies three types of “*regions with specific geographic features, mountain regions, island regions and sparsely populated regions*”.

³⁵ Communication from the Commission to the Council, the European Parliament, the Committee of the Regions and the European Economic and Social Committee, 2008, Green Paper on Territorial Cohesion. Turning territorial diversity into strength, COM (2008) 616 final.

It has also been taken further by the Sixth Report on economic, social and territorial cohesion, which recognises “*differentiated state aid possibilities for islands, sparsely populated areas and other regions categorised by geographical isolation*”³⁶.

According to the ESPON GEOSPECS study³⁷, areas with geographic specificities include insular, border, mountainous, outermost regions, sparsely populated areas, but also coastal and border regions.

It turns out that territorial specificities are only partially visible at the larger territorial level (NUTS 2). Even at a lower (NUTS 3) level, many territories are not considered as peripheral, even if they have certain territorial characteristics. To understand the concept of peripherality it is therefore important to apply a unit of analysis that adequately takes into consideration geographic specificities. Figure 6 shows the territorial specificities in Europe per LAU-2 unit³⁸, as defined in the ESPON GEOSPECS study.

There are different associations in support of areas with territorial specificities. Examples are the Conference of Peripheral Maritime Regions of Europe (CPMR)³⁹, the European Association of Mountain Areas (EUROMONTANA)⁴⁰, the Association of European Border Regions (AEBR)⁴¹ and the Northern Sparsely Populated Areas Network⁴².

3.2 Characteristics of islands and peripheral areas

Regions with specific territorial features are similar in some of the natural and economic challenges they face. Yet, they have different basal characteristics and can have a diverse set of needs, handicaps and opportunities.

Islands. Since 2010, islands are defined in the European Union as territories having a minimum surface area, a minimum distance between the island and the mainland, a minimum resident population and no fixed link between the island

³⁶ European Commission, 2014, Investment for jobs and growth. Promoting development and good governance in EU regions and cities. Sixth report on economic, social and territorial cohesion, Brussels, p.157.

³⁷ University of Geneva et al. (2012). ESPON GEOSPECS Final Report, p. I.

³⁸ LAU = local administrative unit is a low level administrative division of a country, ranked below a province, region, or state. LAU-2 was previously called NUTS 5 level and corresponds in most Member States to ‘municipalities’.

³⁹ <http://cpmr.org/>

⁴⁰ <http://www.euromontana.org/>

⁴¹ <http://www.aebr.eu/en/index.php>

⁴² <http://www.nspa-network.eu/>

and the mainland⁴³. There are many islands and insular territories (e.g. archipelagos) in the European Union. Some of them are world famous tourist destinations with considerable natural and cultural wealth. Islands face considerable territorial challenges. Some islands are small and/or mountainous and usually characterised by a situation of isolation and relative inaccessibility being surrounded by sea⁴⁴. The environment on islands is often fragile and challenged by externalities of human settlements and economic activities, including mass tourism. Islands can be sovereign states, regions with a degree of autonomy, municipalities, or groups of municipalities, and this influences their ability to react to their specific socio-spatial challenges. Their size may vary, they can be densely populated (like Malta) or have low population levels (like the Scottish Islands). Examples of islands in the EU are Cyprus and Malta (as Member States), Sicily, Corse, Crete (as NUTS2 regions), smaller islands (NUTS3 level), as well as most of the outermost regions (except for French Guiana). Among islands, **archipelagos** are groups of islands which form a larger administration group⁴⁵. Usually, smaller areas in an archipelago suffer a double insularity with regard to the mainland and with regard to the regional capital and the other islands. Hence, outward and inner accessibility are specific challenges. This can have consequences for the integration of the local market and the provision of education and other general services. Archipelago examples are the Outer Hebrides in the UK, Canary Islands (ES) or the Azores (PT).

Islands can have different degrees of infrastructure endowment and economic performance, based on their different and dynamic economic specialisations⁴⁶. With regard to SME development and entrepreneurship, the **distance of the islands to the mainland plays an important role**, as some islands can be close to their mainland and well connected (e.g. through ferries), while others are not. Many islands are important tourist attractions. In these cases, this sector is an important driver of economic development. On the other hand, in many cases, carrying capacity and provision of resources and services (water, waste management, etc.) to tourists is a challenge, and furthermore the environment and ecology of islands are vulnerable and might be at stake in mass tourism models. Many islands are located on the periphery of a Member State, or constitute border regions, placing considerable limitations on their potential for economic growth. Other factors, such as energy provision or services availability might be negative, even if this is not the case for all islands. Access

⁴³ Dijkstra, L. and H. Poelman (2011). Regional typologies: a compilation. Regional Focus 01/2011. DG REGIO. European Commission.

⁴⁴ University of Aegean et al. (2013). The Development of the Islands – European Islands and Cohesion Policy (EUROISLANDS) Targeted Analysis 2013/2/2 Final Report. ESPON and University of Aegean.

⁴⁵ ESPON 2012, GEOSPECS – European perspective on specific types of territories, Scientific report, Luxembourg, p. 184.

⁴⁶ University of Aegean et al. (2013). The Development of the Islands – European Islands and Cohesion Policy (EUROISLANDS) Targeted Analysis 2013/2/2 Final Report. ESPON and University of Aegean.

to services of general interest including education might be limited, of low quality or relatively expensive. Islands are **usually too small to allow economies of scale or agglomeration effects**. Such characteristics challenge SME development and entrepreneurship, as islands might be isolated from larger markets, or have difficulties being in reach of services or resources for education, training or innovation. Therefore, networks with peers and partners from within the region or from other territories become even more important for business development on islands.

Mountain regions are territories with constraints linked to topography, i.e. generally high altitudes and rough terrain⁴⁷. As regards low altitudes, the terrain needs to be particularly rough for an area to be considered mountainous (e.g. fjord landscapes, Mediterranean dry mountains ending as sea cliffs); regarding high altitudes (above 2,500 m), all areas are considered mountainous⁴⁸. Many areas in the EU are characterised as mountainous to different extents; among the most prominent examples are the Alps, the Tatra mountains, or the Carpathians. Mountains are sources of significant resources, e.g. water, energy, forests and leisure areas, which have historically favoured development in surrounding lowland areas. There can also be conflicts between mountain areas and surrounding lowlands, e.g. with regard to ownership and use of resources (e.g. water) and nature protection vs. exploitation. Furthermore, mountain areas often function as borders between states and regions. In these cases, cross-border coordination may be needed for their management⁴⁹.

Sparsely populated areas. Sparsity was introduced as a European geographic specificity as part of the EU accession negotiations of Finland and Sweden, as these countries had traditionally considered their northern peripheries as sparsely populated⁵⁰. Since then, other territories, notably in Spain, have also been identified as sparsely populated. Sparsely populated areas are defined as NUTS 2 regions with fewer than 8 inhabitants per km² and NUTS 3 regions with fewer than 12.5 inhabitants per km²⁵¹. The majority of sparsely populated areas are located in the Nordic countries. The main challenge for the sparsely populated areas does not predominantly lie in their low population levels themselves, but rather in the distribution of the population within a certain mobility distance. This impacts the availability and cost of accessible services, as well as the market size for local businesses. Nevertheless, sparsely populated areas are often tourist attractions, due to their untouched environment and nature, which offers

⁴⁷ Gløersen E, Price MF, Dax T, et al. (2016). Cohesion in Mountainous Regions of the EU. Brussels: European Parliament - Committee on Regional Development.

⁴⁸ *ibid.*

⁴⁹ ESPON, 2017 (upcoming), Policy brief on specific types of territories, p. 6.

⁵⁰ University of Geneva et al. (2012). ESPON GEOSPECS Final Report, Luxembourg and Geneva.

⁵¹ Dijkstra, L. and H. Poelman (2011). Regional typologies: a compilation. Regional Focus 01/2011. DG REGIO. European Commission.

opportunities for their population. In addition, many of these regions are home to natural resources such as forests and ores, or have access to fishing areas, which offer a significant economic potential⁵².

Outermost regions⁵³ are regions which face a number of territorial specificities. Outermost regions are part of an EU Member State's territory but are located in areas remote from Europe. In total there are nine outermost regions: five French overseas departments (Martinique, Mayotte, Guadeloupe, French Guyana and Réunion), one French overseas community (Saint-Martin), two Portuguese autonomous regions (Madeira and Azores) and one Spanish autonomous community (the Canary islands). Article 349 of the TFEU⁵⁴ recognises their special characteristics and status in the EU with regard to customs and trade policies, fiscal policy, free zones, agriculture and fisheries policies, conditions for supply of raw materials and essential consumer goods, State aids and conditions of access to structural funds and to horizontal Union programmes. All EU policies apply to the outermost regions, which benefit from ESIF and participate in transregional cooperation programmes⁵⁵. These areas share some of the characteristics discussed for the other areas with geographic specificities and face similar challenges, with regard to their insularity, distance, topography or climate⁵⁶. Almost all outermost regions are islands. Different characteristics can sometimes coincide. For instance, the archipelagos of Canary Islands and Azores have densely populated capitals, contrary to their other sparsely populated islands, while some outermost regions can also be mountainous⁵⁷. The European Commission which adopted a specific delegated regulation for outermost regions acknowledges this. The EC delegated regulation (1046/2014) introduces measures to compensate for the related additional costs in certain sectors for these territories due to remoteness, insularity, small size, difficult topography, economic dependence on a few products and climate conditions.

Inner peripheries. Although areas with territorial specificities are rather bound to their topography and geography as described above, other types of territorial specificities can be found in Europe, in which certain socio-economic specificities prevail. This is a relatively new concept, which has been identified as 'inner peripheries'. According to the ESPON GEOSPECTS project, inner

⁵² ESPON 2012, GEOSPECS – European perspective on specific types of territories, Scientific report, Luxembourg.

⁵³ Regions with territorial specificities, among which EU Outermost Regions, are not to be confused with EU's Overseas Countries and Territories, which are not part of the single market: http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_5.1.7.html

⁵⁴ Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union – TFEU, Art. 349.

⁵⁵ European Commission, 2012, Outermost Regions: European regions of assets and opportunities, Luxembourg.

⁵⁶ http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_5.1.7.html

⁵⁷ University of Geneva et al. (2012). ESPON GEOSPECS Final Report, Luxembourg and Geneva, pp. 233 and 245.

peripheries can be identified based on two overall principles: i) *“they are a result of significant spatial-temporal socio-economic developments, which usually receive political responses and ii) they can be described as being ‘in the shadow’ of neighbouring metropolitan areas. The inner peripheries change over time based on socioeconomic situations”*⁵⁸. Inner peripheries face socio-economic, political and geophysical challenges. These can be demographic decline, decline in Services of General Interest, lack of economic diversity, closing down of economic activities, political borders between countries or within countries, and natural barriers⁵⁹.

A specific type of territory, one that can overlap with the previous ones, are **border areas**, as they are not defined by territorial characteristics but rather politically and legally. However, border regions might also suffer from specific geopolitical and territorial challenges. Two main types of border regions can be distinguished: internal border regions located on borders between EU Member States and/or European Free Trade Area (EFTA) countries as well as external border regions. Moreover, land border areas show a different dynamics than maritime border regions. The specificity of border areas is mainly constituted by *“(1) the multidimensional nature of European borders, (2) the existence of a variety of associated border effects which are interrelated in a complex way and create different ranges of mobility and interaction between neighbouring border areas and (3) a degree of territorial non-integration which exists between areas located along a common border with respect to the overall socio-economic and socio-cultural conditions”*⁶⁰. EU external border areas can be particularly affected by migration and refugee movements, as recent examples in South and Eastern European border regions have shown.

Some areas can have several of the above mentioned characteristics, e.g. they can be islands but also mountainous, as for example Corsica (FR)⁶¹, or they can be islands and border areas such as Malta (MT). In these cases, challenges might be multiplied. However, the effects of challenges may vary, depending on size, population and other geographical and socio-political factors.

⁵⁸ ESPON, 2013, GEOSPECS – Inner Peripheries: a socio-economic territorial specificity, Final report, Luxembourg, p. II.

⁵⁹ ESPON 2013, GEOSPECS – Inner Peripheries: a socio-economic territorial specificity, Final report, Luxembourg, p. 13.

⁶⁰ University of Geneva et al. (2012). ESPON GEOSPECS Final Report, Luxembourg and Geneva, p. 132.

⁶¹ ADE (2012). Study on the relevance and the effectiveness of ERDF and Cohesion Fund support to Regions with Specific Geographical Features – Islands, Mountainous and Sparsely Populated areas. Final Report: Volume 1. Report prepared by ADE at the request of the European Commission, p. 7.

3.3 Challenges and opportunities

Areas with territorial specificities, as are islands, peripheral regions, sparsely populated areas, mountains and outermost regions, face a number of common challenges, which are connected to their geographic characteristics. These challenges usually have an effect on the SME and business environment and on the demands for SME and entrepreneurship policies. Not all peripheral areas have to cope to an equal extent with all of the challenges that are presented below. Drawing on previous research⁶², the challenges for peripheral areas can be grouped in three main areas:

1. Challenges beyond the reach of economic policy and human design

- **Isolation and physical constraints** such as topography, small size, poor soil quality, etc.
- **Climate conditions and natural disasters.** Islands and peripheral areas might suffer more from extreme weather conditions and natural disasters.

2. Challenges partly in the reach of economic policy and human design

- **Geopolitical situation.** Islands and border areas may be in the centre of diverse geopolitical interests and may suffer more than other areas from conflicts, migration and refugee movements.
- **Remoteness.** Peripheral areas are usually distant from the mainland or from metropolitan areas, i.e. from larger markets with services and agglomerations. This leads to high installation and operating costs for companies, households and public administration. Transport costs are higher by definition, and accessibility is limited. However, these challenges can partially be overcome when adequate transport systems, service policies, networks and compensation schemes are in place.
- **Fragile environments and endangered biodiversity.** Due to isolation peripheral areas usually have fragile environments and a biodiversity with

⁶² ADE (2012). Study on the relevance and the effectiveness of ERDF and Cohesion Fund support to Regions with Specific Geographical Features – Islands, Mountainous and Sparsely Populated areas. Final Report: Volume 1. Behrens K., Gaigné C. (2006). Developing the ‘outermost regions’ of Europe: Some lessons from economic geography, Preliminary and incomplete first draft, Paper prepared for the conference on “The outermost regions of Europe”, Brussels, December 15, 2006, p. 4. ESPON and University of Aegean. ESPON (2013). GEOSPECS – Inner Peripheries: a socio-economic territorial specificity, Final report, Luxembourg, p. 44. Manera, C. and Garau, J. (2005). Los costes de la insularidad en el desarrollo económico. Un contraste en el mediterráneo occidental (1987-2002). University of Aegean et al. (2013). The Development of the Islands – European Islands and Cohesion Policy (EUROISLANDS) Targeted Analysis 2013/2/2 Final Report.

endemic species. The environment has usually a low carrying capacity when it comes to the effects of human activity, including mass tourism. Natural resources, such as water or good quality soil are limited.

- **Exposure to climate change effects.** Islands and peripheral coastal areas are particularly vulnerable to global climate change, climate variability and sea level rise. Climate-related changes and environmental degradation may have a significant impact on agricultural production and/or tourism. While vulnerability is inherent, strategies can be put in place to mitigate the risk caused by external shocks through increasing their resilience.

3. Challenges that can be overcome by economic policy and human design

- **Small market size.** The small size of the internal market hampers growth and increases dependency on exports (not only international but also to the mainland or to neighbouring territories) if companies want to grow. However, exports have to face the challenge of higher transportation costs and a larger distance to the consumer.
- **Reduced supply capacity.** There is an increased dependence on imports to supply the local population and industry with goods and services, sometimes even with basic supplies like food and water. This goes in line with higher consumer prices and with a higher cost of living. In addition, modernisation of public and business infrastructure has a higher cost than in other areas.
- **Low economies of scale.** The limited market size, low density of companies and the fragmentation of the economy lead to low economies of scale. Companies have to work with higher unit costs and cannot easily achieve a competitive advantage based on price and mass production, but rather need to focus on other competitive factors (quality, niche products, availability of local supplies, knowledge).
- **Higher cost of production and modernisation.** Limiting factors lead to a lack of modernisation and limited investments in business infrastructure, facilities, equipment and skills – in particular in smaller SMEs – which might lead to a potential decline of traditional economic sectors and an increasing loss of competitiveness of the overall economy.
- **Low attractiveness for investments** (including foreign direct investment) and the risk of losing existing companies to territories with lower production costs.

- **Monocultural economies.** The previous factors cause a concentration on a limited number of economic sectors and niche activities, sometimes associated with high internal inequalities in terms of development within a given peripheral territory, as business activities tend to concentrate in the more central areas (capitals or coastal areas in the case of islands) of the territory.
- **Low density of population/companies and reduced number (and quality) of services.** The small size of the market and the low density of population and companies make the establishment of services of general interest (energy, ICT, education, health etc.) and of professional business services unattractive, inefficient and less profitable. This usually leads to a reduced number and quality of existing services and to limited choices for the population, employees and companies.
- **Less and outdated digital infrastructures and services.** The low density and the reduced number of potential clients lead to a low profitability for ICT infrastructure investments and operators. The lack of broadband connections and of modern digital infrastructure may hamper SME development and entrepreneurial activity even more than in other regions, as these areas already face the cost of remoteness and depend more on IT services and communication.
- **Reduced internal competition.** Low density of companies goes together with a reduced internal competition, monopolies or oligarchic structures and, therefore, less pressure for companies to stay competitive. This may reduce efforts in investments, customer services, and innovation.
- **Brain drain:** The limited education and training infrastructure and the reduced number of companies can lead to a deterioration of the educational and qualification structure of the population and to the migration of young people, skilled workers and entrepreneurs to larger agglomeration centres within the same country or to other countries.
- **Reduced opportunities for life-long learning** coupled with increased exterior mobility lead to a risk of non-return of young people that move outside the boundaries of the territory to study or work, then remain in these new territories.
- **Reduced availability of qualified workforce.** Brain drain and the effects of an ageing population, together with a weak education and training offering, may affect the availability of skilled labour in some peripheral regions.

- **Low attractiveness for (high-potential) entrepreneurs.** A major obstacle for entrepreneurs is that in peripheral areas the full range of services required to establish a new company is not always easily available, e.g. public registers or tax experts. Also for certain types of entrepreneurs, peripheral areas can be less attractive, as they lack the advantages of highly developed entrepreneurial ecosystems (risk capital, business angels, expert advice, mentors, incubators etc.).
- **Low density of research, development and innovation.** The lack of or reduced number of universities, research centres and large companies with private R&D departments usually leads to limited spill-over effects and a structural disadvantage with regard to traditional innovation activities in industries (even if innovation in services and in primary sectors might be higher than in other territories). Also, business creation out of universities (spin-offs) tends to be lower than in mainland or metropolitan areas.
- **Technology and skills gap.** Companies in the peripheral territory face important hurdles in keeping in track with the newest developments in technology and training as, among other factors, they receive less knowledge transfer within their territory. This affects overall competitiveness of the economy.
- **High intraregional disparities** in terms of business activity and entrepreneurship rate with a dominance of the relevant urban centres.
- **Specific border challenges.** SMEs and entrepreneurs in border areas face additional obstacles due to the presence of legal/administrative frameworks belonging to at least two nation states. This can hamper the implementation of procedures by companies and employees and access to services on the other side of the border. Other obstacles might be related to difficulty in getting recognition of qualifications and a lack of information about labour and business opportunities in the cross-border area.

In general, challenges related to geography, topography and territorial specificities influence the overall business environment and entrepreneurial activities. Nevertheless, a number of opportunities for business creation and entrepreneurship can turn these challenges into potential areas for growth and business development.

Opportunities for business creation and entrepreneurship

Despite the numerous challenges, previous research⁶³ identifies opportunities in peripheral areas that are linked mostly to the territorial specificities and endogenous potential of these areas. In particular, specific local assets and niches for economic development might be exploited by companies and entrepreneurial initiatives.

Natural resources. Areas with geographic specificities are usually areas with an abundance of natural resources, the exploitation of which can contribute to their economic activity. The interest in promoting a bioeconomy can play in favour of peripheral regions that usually have important pristine natural resources and endemic species. Resource exploitation for biopharmaceuticals, bio-energy and renewable energy are examples. Hydropower is an important sector for mountain areas, offshore wind, wave and tidal energy can be exploited in islands, while energy from biomass can be offered from sparsely populated areas and solar power can be sourced from outermost regions⁶⁴. In addition, environmental pressure in peripheral areas may stimulate initiatives to make the use of resources more efficient (energy, water, waste management, transport) and to adopt a circular and life-cycle approach within the economy.

Agro-food value chains. Many peripheral areas have well-developed value chains in agro-food, fisheries and aquaculture or forestry sectors. Even if they face obstacles to promoting research and innovation in these sectors, the offer available presents important potential for growth with regard to the organisation of emergent value chains that are based on biological resources, new products, more efficient processes or improved labelling, marketing and distribution of local products.

Blue Economy. With regard to islands and coastal peripheral regions, the increased promotion of the blue economy offers an important potential in relation to the exploitation of marine resources for food, nutrition and health products, the management and protection of marine and coastal areas, maritime transport, shipbuilding and the naval industry and services, as a base for off-shore activities, as well as marine renewable energy⁶⁵.

⁶³ ESPON, 2013, GEOSPECS – Inner Peripheries: a socio-economic territorial specificity, Final report, Luxembourg, p. 44. Gløersen E, Price MF, Dax T, et al. (2016). Cohesion in Mountainous Regions of the EU. Brussels: European Parliament - Committee on Regional Development. OECD (2014). Innovation and Modernising the Rural Economy. OECD (2017). Northern Sparsely Populated Areas, OECD Territorial Reviews. University of Aegean et al. (2013). The Development of the Islands – European Islands and Cohesion Policy (EUROISLANDS) Targeted Analysis 2013/2/2 Final Report. ESPON and University of Aegean. University of Geneva et al. (2012). ESPON GEOSPECS Final Report, Luxembourg and Geneva.

⁶⁴ University of Geneva et al. (2012). ESPON GEOSPECS Final Report, Luxembourg and Geneva.

⁶⁵ Communication from the Commission (2012). Blue Growth - opportunities for marine and maritime sustainable growth. COM(2012) 494 final.

Tourism. Due to the wealth of natural and cultural assets of most peripheral areas, tourism is already one of the most important economic sectors in many of these regions. However, in some regions, income and growth is based particularly on mass tourism. There is a huge potential to establish more sustainable types of tourism that are more in line with the specific environmental needs of these territories. Potential to grow and create new ventures exists in relation to new and specific tourism products and niches, such as agro-tourism, ecotourism, cultural tourism, whale or bird watching tourism, culinary or heritage tourism⁶⁶. Also traditional tourism activities show an important potential to be modernised and become new areas for investment as well as to support the generation of companies and jobs through innovation in tourism⁶⁷.

Sports and leisure. In some peripheral areas, there exist niche potentials in relation to typical sports and leisure activities (e.g. skiing, surfing, hiking, scuba diving). These activities are linked to tourism, but can also offer potential for niche manufacturing activities in relation to sports equipment, garments, souvenirs or related products.

Culture and creative economy. The existence of distinctive heritage and cultural assets (e.g. art, feasts, languages, food, beverages, textiles, handicraft) in some peripheral regions offers a potential for entrepreneurship and SME development based on the exploitation of the cultural assets available, for example in relation to a niche cultural or culinary tourism. Together with the opportunities that e-commerce offers, 'typical' local products can be sold not only to tourists, but also all around the world. In addition, innovation and collaboration can add value to existing traditional artisanal activities. Creative industries offer the advantage that they can rely on global professional and digital networks. If these industries can be stimulated, they offer another potential growth area.

ICT, digital services and products. ICT is often perceived as the tool to overcome the main disadvantage of the areas with territorial specificities that are remote from economic or services centres⁶⁸. A number of opportunities can be offered through the use of ICT which can be a partial solution to the challenges that these areas face. ICT may also be used to enhance coverage and quality of services of general interest such as health, education.

⁶⁶ University of Geneva et al. (2012). ESPON GEOSPECS Final Report, Luxembourg and Geneva, p. 36.

⁶⁷ Decelle, X. (2004). A Conceptual and Dynamic Approach to Innovation in Tourism. Presented at the OECD Conference 'Innovation and Growth in Tourism', Lugano 18-19 September 2003.

⁶⁸ University of Geneva et al. (2012). ESPON GEOSPECS Final Report, Luxembourg and Geneva, Luxembourg, p. 34

Geostrategic assets. In particular, outermost regions can build on their geographical position as an additional potential for ecological, scientific and technological activities as they offer highly attractive climate conditions, clean air and different natural/cultural assets that might not be available on the European continent. At the same time – being part of the EU – they offer a secure and stable business environment compared to their neighbouring countries. In addition, they might attract business hub activities for companies and entrepreneurs that want to operate in Africa or Latin America and the Caribbean⁶⁹.

Overall, areas with geographic specificities should focus on exploiting their comparative advantages and promote a more efficient use of their assets. Relevant strategies can put a focus on the territorial dimension of innovation, where regions pick up those assets that best highlight their potentials.

⁶⁹ Mcrit, 2006, The Ultraperipheral Regions of the European Union: Indicators for the Characterisation of Ultraperipherality, p. 12.

4 Analysis of policy approaches to enterprise creation and expansion in islands and other peripheral areas

4.1 Existing policy approaches at EU and national level for enterprise creation and expansion in peripheral areas

EU and national policies can contribute to addressing the different challenges of areas with geographic specificities. In support to territorial cohesion, a number of programmes and policies have been put in place to improve the challenging situation of these areas. In the European Union and for the 2014-2020 funding period, there are several EU and national policies that support entrepreneurship and SME. These policies can assist regions with specificities in improving their economic development and entrepreneurship and increasing their employment and labour market or their production.

Investments to overcome cohesion and development challenges

A number of ESIF Thematic Objectives (TO) supported by the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) are dedicated to the development of entrepreneurship and SME support.

- TO 1 Strengthening research, technological development and innovation, supported by ERDF, aims at increasing innovation in the regions.
- TO 3 Enhancing the competitiveness of small and medium-sized enterprises (SME). This TO is also supported by ERDF.
- The EAFRD is responsible for supporting SMEs in the agricultural sector under this TO, while the EMFF exists for those in the fisheries and aquaculture sector⁷⁰.

Building entrepreneurial capacity

Knowledge transfer and information actions through vocational training and skills acquisition activities – such as training courses, workshops and coaching – corresponds to TO 3 of the ERDF and to measure 1 of the European Agricultural Fund for Rural Development (EAFRD)⁷¹. The measure has been taken up by a number of Rural Development Programmes (RDPs), for example in Cyprus, Spain, United Kingdom, Portugal and others.

⁷⁰ http://ec.europa.eu/regional_policy/en/policy/what/glossary/t/thematic-objectives

⁷¹ Common Provisions Regulation on ESIF (including EAFRD) 1303/2013

Support for labour market, employment and skills

EU policies support entrepreneurship of different social groups, such as women, migrants, socially excluded citizens. The European Social Fund (ESF) in supporting labour markets contributes to actions on employment and labour mobility, through TO 8 Promoting sustainable and quality employment and supporting labour mobility. Furthermore, the EAFRD Regulation 1303/2013 (Annex IV) foresees also measures to support women in rural areas. The European Maritime and Fisheries Fund (EMFF) supports employment in coastal regions, as indicated in Art 6 (4), “*providing support to employability and labour mobility in coastal and inland communities which depend on fishing and aquaculture, including the diversification of activities within fisheries and into other sectors of maritime economy*”.

Support for diversification of business in rural and coastal areas

The EAFRD supports measures for entrepreneurship in areas with territorial specificities through the Rural Development Programmes. According to Regulation 1305/2013⁷², there are six priorities for EU rural development. Priority 2 (a) aims at “*improving the economic performance of all farms and facilitating farm restructuring and modernisation*”. In addition, Priority 6 (a) focuses on “*facilitating diversification, creation and development of small enterprises, as well as job creation*”. Under the EMFF, priorities 1 and 2 focus on promoting environmental sustainable, resource efficient, innovative, competitive and knowledge based fisheries and aquaculture⁷³. Both aim at supporting fishing communities to improve their situation and diversify their business models. Finally, priority 5, on fostering marketing and processing, helps with the capitalisation of relevant products⁷⁴.

In addition to the above, there exist groups of specific measures for agriculture in favour of the EU outermost regions and the smaller Aegean islands in Greece. The POSEI (Programmes of Options Specifically Relating to Remoteness and Insularity⁷⁵) programmes support the European Outermost Regions which face specific challenges due to their remoteness, topography, climate change vulnerability etc.

⁷² Regulation (EU) No 1305/2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (Rural Development Regulation).

⁷³ Regulation (EU) No 508/2014 of the European Parliament and of the Council of 15 May 2014 on the European maritime and Fisheries Fund and repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No 791/2007 and Regulation (EU) No 1255/2011 of the European Parliament and of the Council, Art 6 (1), (2).

⁷⁴ Ibid, Art. 6 (5).

⁷⁵ The term originally comes from French: Programme d'Options Spécifiques à l'Éloignement et l'Insularité.

Cross-border and transnational programmes

Cross-border and transnational programmes of areas with territorial specificities are also designed to help alleviate territorial challenges. These include the Alpine Space OP for instance, whose territorial focus is the Alpine Space, the Interreg VA Greece-Cyprus, the Interreg Sweden-Finland-Norway (Botnia Atlantica and Nord), the Macronesian Interreg Programme (Madeira-Azores-Canary Islands), Caribbean Area, the Northern Periphery and Arctic, the Mayotte-Comores-Madagascar OP and others.

At European Union level, there exist further policy areas that can have an influence on SME development and entrepreneurship on islands and peripheral areas, namely **State Aid and competition** rules, **public procurement** legislation and **tax policy**. As the specific challenges of peripheral areas hamper the functioning of the market in many areas, the European Union has the possibility to approve exemptions in general state aid regulation for specific aid schemes for strategic investments. Some islands and peripheral regions currently benefit from specific tax incentives or reduced tax rates. There is also potential to adapt public procurement rules to the specific situation of peripheral areas, where there are usually fewer providers of services and goods.

National policies

National policies and support schemes can also be driving forces to support the areas with specificities. In most Member States, national policies for supporting SME development and entrepreneurship are aligned with the ESIF programmes and with the programmes offered by the EIB and the Enterprise Europe Network. In some cases, agencies and support schemes, such as Scottish Enterprise or the German Common Task ‘Improving the regional economic structure’ (Gemeinschaftsaufgabe ‘Verbesserung der regionalen Wirtschaftsstruktur’ – GRW) offer support to SME and entrepreneurs in peripheral or disadvantaged areas. However, most initiatives for supporting SME and entrepreneurship development in peripheral areas are promoted by local and regional authorities, as they are better aware of the specific needs and opportunities of these territories. As mentioned before, national policies can also support peripheral areas through specific tax incentives or schemes, and through free trade zones.

Representative cases of islands and peripheral regions have been analysed to present the regional approaches in more detail and to identify good practices in fostering business development and stimulating entrepreneurial activities. They are presented in the following sections.

4.2 Introduction to case studies

Throughout the European Union there are many and diverse approaches for supporting SME development and entrepreneurship in peripheral areas such as islands, mountainous areas, border regions or sparsely populated territories.

Six case studies have been selected to show the different socio-economic, geographical and institutional situations of peripheral areas in Europe. For each case, relevant SME and entrepreneurship policies and programmes have been identified. Good practice examples are presented to demonstrate the diversity of approaches available to overcoming the challenges associated with entrepreneurship and innovation in specific territories.

The methodology for elaborating the case study examples is based on desk-research of existing documents, reports, studies and websites, as well as written consultation and/or phone interviews with key local stakeholders (1-2 per case).

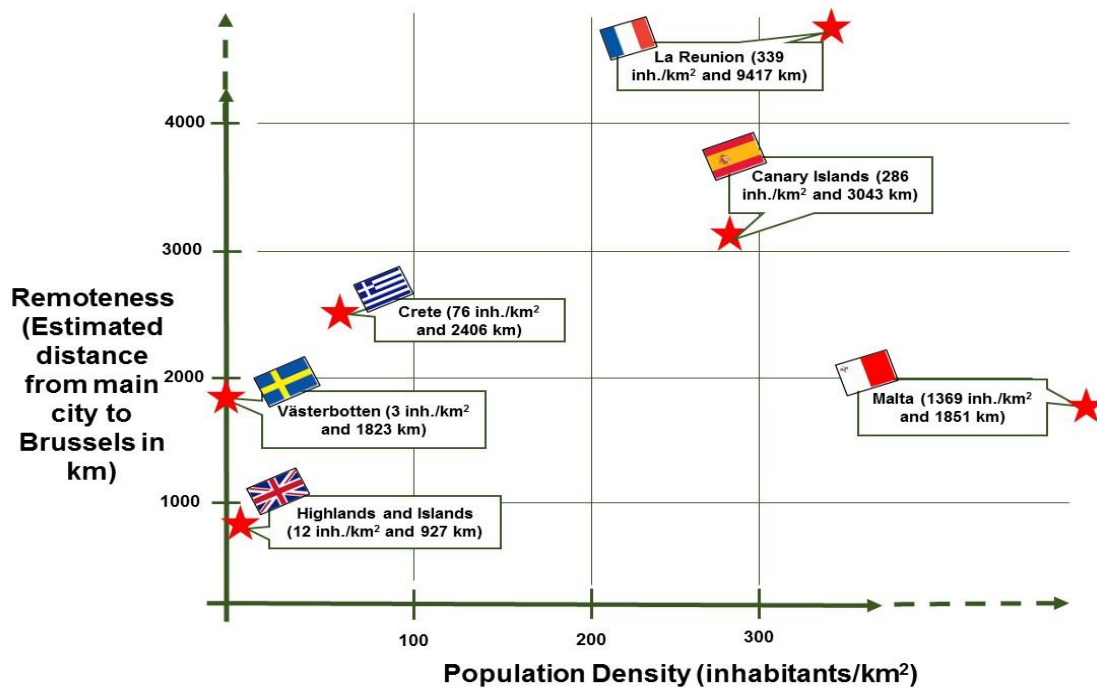
As can be observed in Figure 7, the six case study areas represent different challenges of islands and peripheral regions.

La Réunion (FR) and Canary Islands (E) – although in different intensities – face the challenge of remoteness and lack of accessibility to continental Europe and large European markets. Västerbotten (SE) and Highlands and Islands (UK) are characterised by their low population density, in addition to a certain remoteness from Europe's central territories. Crete (EL) and Malta (MT) as Mediterranean Islands have to deal with the distance to European mainland but have different starting points.

Malta has a high population density but, being a Member State, can put in place national policies to foster SME development and entrepreneurship. Crete as one of the regional island territories in the Mediterranean is neither remote nor has it an extreme population density. However, it represents a traditional island economy with an important activity in the primary sector (agro-food, fisheries) and a relatively strong tourism sector that struggles to find other and diverse approaches to SME development and entrepreneurship.

The figure below shows the situation of the case study areas in relation to the main challenges of peripheral areas, namely remoteness and low population density.

Figure 7: Remoteness and Low Population Density of Case Study Regions



Source: Own elaboration.

Note: The remoteness of La Réunion and the population density of Malta can be reflected only approximately in this figure

4.3 Canary Islands (ES)

Regional Context

The Canary Islands are one of the 17 Spanish regions (Autonomous Communities). They form an archipelago of 7 islands and cover two provinces. Two of them are larger islands where the regional and provincial authorities and many public services are located (Tenerife and Gran Canaria); five islands are smaller (Fuerteventura, Lanzarote, La Palma, Gomera and El Hierro). In addition, there are a number of islets without inhabitants.

The Canary Islands are located in Northern Africa, close to the southern part of Morocco and Western Sahara. They are considered an Outermost Region in the context of the Article 349 (TFEU).

The total population in 2016 was 2.1 million people, with a population density of 286 inhabitants per km². The Canarian economy is dominated by tourism-related business activities. The main sectors for employment are rental services,

construction, entertainment and sports, real estate, trade and retail. Agro-food is also an important sector⁷⁶.

The Canary Islands, as many other regions in Spain, suffer from high unemployment rates, in particular among young people. Migration of young people, especially of the highly skilled population, to other regions (brain drain) is a threat for regional development.

Specific Challenges and Opportunities

The seven Canary Islands are scattered in the Atlantic Ocean which makes it difficult to create economies of scale in the region and, in fact, results in seven small markets instead of one. This already mentioned phenomenon is known as ‘double insularity’. Transport among the islands and to the external world is expensive. As a result of all of this, the average size of companies tends to be small. In addition, labour costs are higher in the Canary Islands than in the rest of Spain⁷⁷, and the access to land is usually a challenge for companies as space is limited⁷⁸.

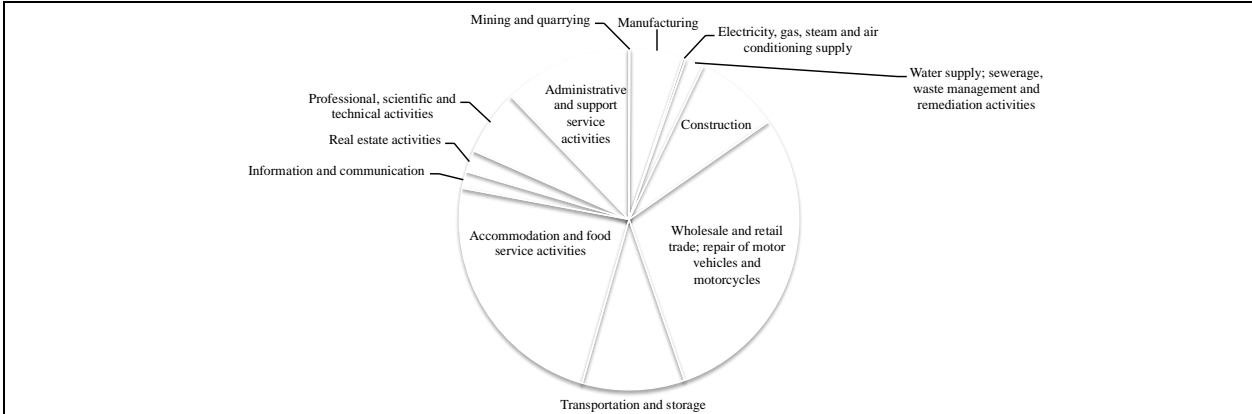
The Canary Islands are located far from the European continent and closer to Africa. This distance leads to important disadvantages when it comes to accessibility and transport costs for goods to be imported or exported to and from the islands.

Case Study Profile Canary Islands				
Business structure and SME data				
High-growth enterprises (growth of 10 % or more)	470			
Average firm size	6 employees			
Micro enterprises in the non-financial business economy	Total	0 employees	1-9 employees	10+ employees
Number of active enterprises	144,214	80,575	58,200	5,439
Growth rates of no. of firms	0.87	3.09	-2.35	4.30
Firm survival rate 3 years (%)	47	44.16	56.40	76.53

⁷⁶ Source: Gobierno de Canarias, data updated on September 2016: http://www3.gobiernodecanarias.org/empleo/portal/web/observatorio/obecan/tematica/estadisticas/empleadores/empleadores_informes

⁷⁷ ‘Los costes de ultraperiferia de la economía canaria: resumen ejecutivo’, Centro de Estudios Económicos, Fundación Tomillo, 2002, p.11

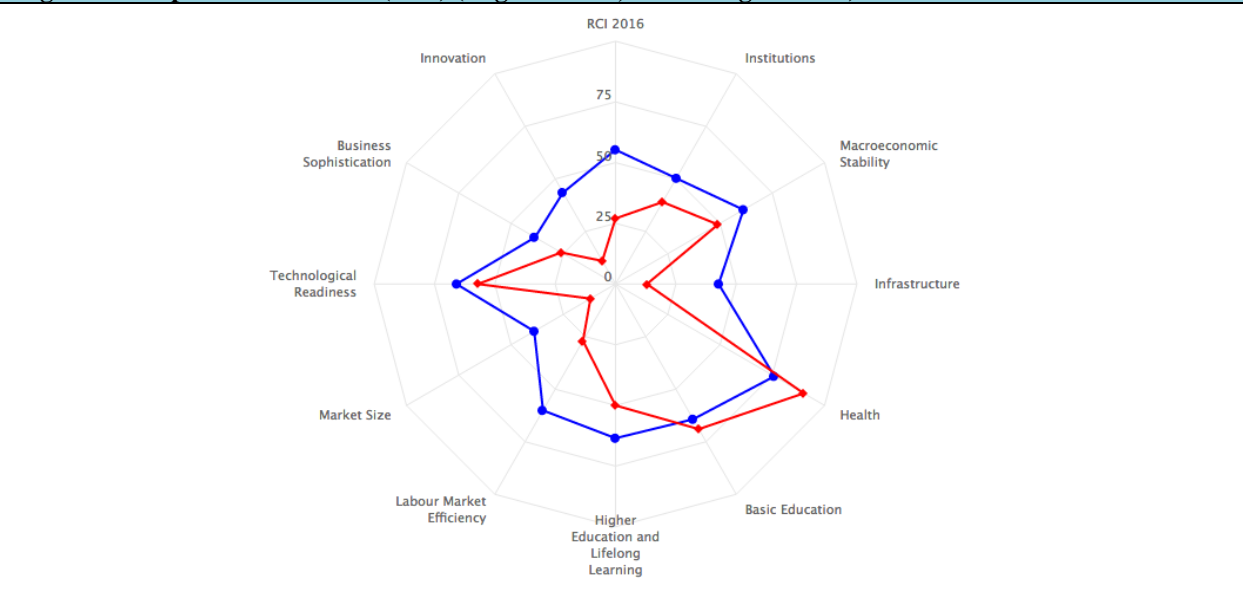
⁷⁸ Batista Canino and Moreno Perdigón, ‘Entorno y actividad empresarial en Canarias’



SME environment and Framework conditions

	Regional	National
GDP PPP (EUR)	21,500	25,000
Population density (Inh /km ²)	284.9	92.5
Net migration (persons)	9,232	-94,976
Distance from national capital in km	2,000	-
Accessibility (index 0-100)	24.318	43.52
Employment rate (%)	49.0	56.0
Tertiary education (%)	27.0	34.7
Broadband (%)	71	73

Regional Competitiveness Index (RCI) (Region in red, EU average in blue)



In addition, the two ‘capital’ islands have clear advantages in comparison to the five smaller ones which leads to important intraregional disparities.

With regard to the economic structure, the region has an important tourism sector, an important share of public employment and a strong retail sector, but only a low share of manufacturing activities. There is a lack of diversification toward other sectors. The naval industry and port activity is important but dominated by the public sector and few larger companies.

On the other hand, both the mild climate and geographical features have allowed important agro-food and fisheries activities to develop. The wealth of natural resources also offers opportunities to develop new business activities related to the bioeconomy and renewable energy sources⁷⁹. In general, the level of competitiveness of Canarian companies is rather low and innovation capacities are low compared to the national or EU-28 average.

Over the last decade, the Canary Islands have been promoting new opportunities and diversification of the economy with important support to clusters in order to promote innovation and modernisation in relevant sectors and to support the creation of companies in new emerging fields such as biotechnology, water management, ICT, design or renewable energies. Regional and also island strategies to promote research and innovation have been presented, and infrastructures such as bioincubators and technology parks try to exploit the value of local assets and new technologies.

Policy framework to support SME and entrepreneurship

Support in the Canaries is offered from three different sources: a) public promotion of SMEs and entrepreneurship in general, b) promotion with a specific focus on innovation and technology (start-ups and technology-based companies) and c) entrepreneurship promotion led by fully private bodies.

A. The public support to entrepreneurship and SME is very much led by the **Regional Government of Canarias**, which cooperates very closely with the **Chambers of Commerce**, now located on 5 islands. This collaboration has led, for example, to the successful programme ‘Creation of Companies’, which is active since 1996 and has been getting more and more institutions on board (Cabildos, national Government). All public institutions that offer support to SME development and entrepreneurship are organised in the **Red CIDE**, a network composed of a variety of institutions and bodies coordinated by the Institute for Technology Canarias. Its objective is to promote innovation in new and consolidated companies in the Canaries. The participation of Hotel business associations indicates the relevance of the tourism sector in the regional economy. Red CIDE is a key player in the region and offers a range of services to support innovation:

- information on financing sources for R+D+I at all levels;
- information on innovation support programmes for companies;
- information on how to manage innovation in a company;

⁷⁹ Batista Canino and Moreno Perdigón, ‘Entorno y actividad empresarial en Canarias’

- advice to focus innovation projects in companies and support at all levels, including the search for external financing; and
- support for the organisation and structuring of an innovation company idea together with the entrepreneur, including the search for external financing.

B. When it comes to the promotion of innovation and technology for SME and knowledge-based entrepreneurship, specific stakeholders are worth mentioning. The Regional Government of Canarias owns the public company **Institute Technology of Canarias** (ITC), which is member of EBN (European Network of Business and Innovation Centres) and of the Enterprise Europe Network. ITC offers important business incubation and support services to knowledge-based entrepreneurs and start-ups. Together with the Regional and Provincial Governments and with ERDF co-funding, it has created the Red UPE to stimulate start-ups in growth sectors. The **Technology Parks** promote the development of knowledge-based companies and facilitate exchanges between universities, research centres, companies and markets. There are three technology parks, in Fuerteventura, Gran Canaria (Foundation of the University of La Laguna) and Tenerife. As an example, the Technology Park in Tenerife aims to promote efficiently, effectively and sustainably the creation and development of technology-based and innovative companies in the island; to do so, it offers the necessary space, services and infrastructure. The **Astrophysics Institute in Canarias** (IAC) is also promoting public-private collaboration in the creation of technology companies and products of high added value and high marketing potential.

Innovative entrepreneurs may find support in specific incubators such as:

- two innovative spaces promoted by the Red UPE and ITC, one on Tenerife Island and one on Gran Canaria;
- three innovative spaces and one co-working space promoted by the Technology Park in Tenerife (<http://www.pctt.es/infraestructuras/>) offering spaces for entrepreneurs and companies;
- a specific **business incubator on biotechnology (UPE BIO)** created by Red UP on Gran Canaria (<http://www.redupe.es>);
- a virtual **bioincubator platform** (<http://www.bioincubadora.eu>), a web based tool to help entrepreneurs with biotechnology business ideas, as an outcome from the INTERREG MAC Projects Biopharmac and Biotransfer;
- **IATEC** (<http://www.iac.es/iactec.php?op1=141>), a space for technological and entrepreneurial collaboration promoted by the Astrophysics Institute of Canarias.

C. There is also complementary private support, in particular from a number of private foundations that also promote entrepreneurship, for example, from **Fundación Disa**, **Fundación Repsol**, **Fundación Endesa Canarias**, **Fundación Cepsa**.

Apart from the wide array of programmes and schemes to promote SME development and entrepreneurship (mainly advisory and information services, incubators and access to finance), an important instrument for the promotion of SME development in the Canary Islands is the specific Regional Economic and Fiscal framework (Régimen Económico y Fiscal de Canarias, REF). Direct taxes on companies are reduced in comparison to the rest of Spain, as are indirect taxes⁸⁰. This framework aims to encourage economic development and the diversification of production. In addition, this framework has led to the creation of a Free Zone (Zona Especial Canaria) that allows for additional tax benefits to companies established in the region.

Good Practice examples

Apart from national support policies, Interreg projects, e.g. with Morocco or together with Azores and Madeira in the INTERREG MAC Programmes, have been important sources for innovative projects to stimulate business creation, entrepreneurship and start-ups. Some examples are mentioned below:

The Project TRANSCREA (co-financed by Açores-Madeira-Canarias programme 2007-2013) aimed at promoting a network of services to support technology-based companies in the three regions. The objectives were to create a network and coordination of agencies and stakeholders, to generate a larger critical mass for offering specific services (expert advice, venture capital, technology transfer) and to avoid duplication of services and efforts on each of the islands.

The two projects BIOPHARMAC and BIOTRANSFER (follow-up), both financed by the Açores-Madeira-Canarias programme 2007-2013, focused on a better coordination among public institutions, universities, companies and SME support agencies with the aim of stimulating economic development based on biopharmaceutical and biotechnology products. Biotransfer was the follow-up of Biopharmac and it set up a model of biotechnology research in line with the companies' needs, which supports the creation of new companies. Both projects led to the elaboration of strategic plans to stimulate biotechnology start-ups and

⁸⁰ See Fernández Llera and Lago Peñas, 'Ultraperiferia, economía y finanzas públicas de Canarias: una panorámica', September 2010

the creation of a virtual bio incubator platform to help entrepreneurs with biotechnological business ideas.

MACIOBLUE is an on-going project co-financed by the Açores-Madeira-Canarias programme 2014-2020. It focuses on blue growth and promotes the transfer of technology to help companies in the whole area develop new processes in blue biotechnology.

A programme that supports SME creation by young people is the **Youth Guarantee** (Sistema de Garantía Juvenil), in which the Regional Government and the Spanish Ministry of Finance together with the Chambers of Commerce offer benefits to entrepreneurs who employ young workers⁸¹. It is co-financed by the ESF.

There are two additional schemes for SME and entrepreneurs aimed at enabling easier access to venture capital: the **Canarian network of business angels** (RECABA), managed by PROEXCA, and **SOGAPYME** (www.sogapyme.com), which offers guarantees to entrepreneurs under certain conditions.

Approach to support SME development and entrepreneurship

Tourism is still the most important sector and also the main focus of SME and entrepreneurship support. However, the activities supported are not only those in the traditional accommodation or retail sector, but rather in new and innovative tourism-related activities such as energy efficiency solutions, better water and waste management, higher quality tourism, new tourist products in the agro-tourism sector and use of ICT in touristic SME and in the promotion of products and destinations.

However, other sectors are also actively promoted to become sources of new business creation, entrepreneurship and SME growth. Among these, agro-food activities and the bioeconomy is an important business sector being promoted. The huge biodiversity on the islands, the natural resources and the existing agro-food sector offer opportunities for entrepreneurs. The omnipresence of the Atlantic Ocean offers new opportunities related to the blue economy and maritime scientific and business activities. Building on the competitive advantage of clean air and low light pollution, the research centre Astrophysics Institute of Canarias develops its activities and intends to explore technology-spin outs based on optical or precision technologies.

⁸¹ https://www3.gobiernodecanarias.org/empleo/portal/web/sce/contenido_web_estatico/contenidos_web_sce_empleo_garantia_juvenil#usuario%20empresa

Overall, the Canary Islands are making a big effort to diversify the type of companies that are being created. The overall context makes it easier to focus on traditional sectors such as tourism and agriculture, but the main stakeholders in the region are making an effort to exploit the full potential of the region and its resources to focus on more added-value activities, such as knowledge-intensive and technology-based activities.

4.4 Crete (EL)

Regional Context

Crete is the largest and most populous island of Greece, with 631,812 inhabitants (2016) representing 5.8% of the total country's population. Situated in the southern part of the country, it accounts for 5% of the country's GDP (2014).

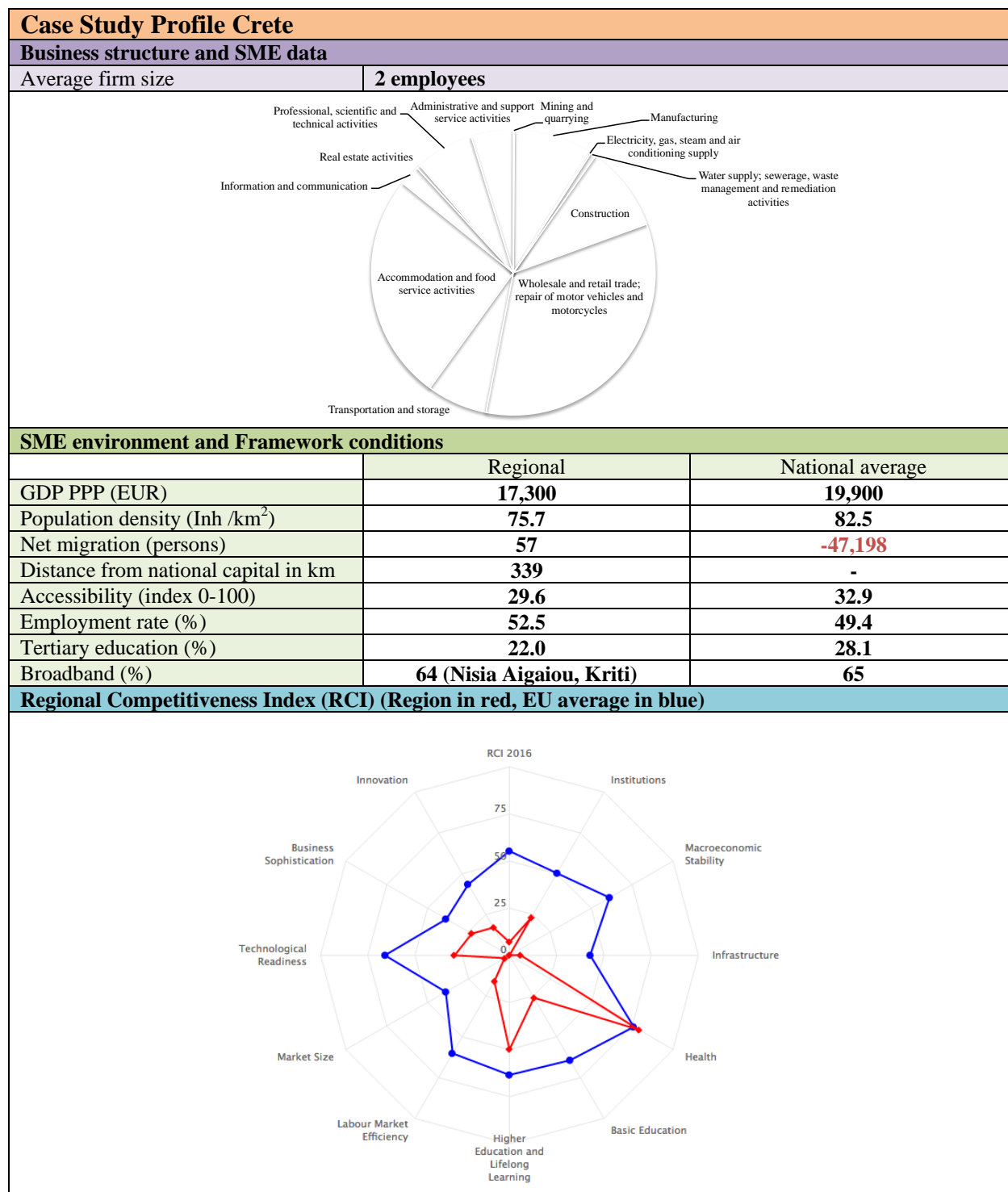
Crete is an important tourism hotspot, and tourism is one of the most dynamic sectors on the island. Being a region with great historical and cultural heritage, cultural tourism is an added incentive to visit the island. However, it is not the only dynamic sector. Agro-food is a very important economic sector on the island, contributing to regional development. According to the regional operational programme of Crete, agriculture accounts for 19.4% of employment, while tourism and trade account for 35.4%. Crete holds a high position in the agricultural sector with the production mainly of olive oil, fruits and vegetables, as well as dairy products. The Cretan locally produced agricultural products have made the Cretan Mediterranean diet famous, which is among the intangible UNESCO heritage icons. The promotion of the Cretan diet and of high quality local products is of great importance for the island, which has already implemented some actions in this direction.

Crete contributes 10% to the GVA of the primary sector at national level. This percentage can be further improved by focusing on standardisation, packaging and promotion of the quality of Cretan agricultural products⁸². In addition, Crete also has a considerable share in manufacturing activities, such as the processing and packaging of agricultural products, food and beverages, non-metallic mineral products, metallic products, plastics and chemicals.

Furthermore, the energy sector, with renewable energy in particular, has the potential to develop further and to become a source of economic growth for the

⁸² <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/base-profile/region-kriti>

region⁸³. Renewable energies and reduction of CO2 emissions is a priority of the Regional OP ERDF 2014-2020 of Crete, especially with regard to the energy efficiency in public buildings, the promotion of actions for energy saving in houses, as well as renewable energies promotion.



⁸³ <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/base-profile/region-kriti>

Specific Challenges and Opportunities

According to the RIS3 of Crete⁸⁴, excluding the hotel sector, entrepreneurship on the island remains at low levels, small in scale and restricted in innovation. More specifically, the challenge is the lack of business growth that results in difficulties developing economies of scale as well as organising of production and the introduction of innovation and product promotion to international markets.

The main challenges for the region in terms of SME development and entrepreneurship can be summarised as follows:

- lack of an adequate banking system to support entrepreneurship;
- the general instability in the country and the capital controls imposed in the country;
- Crete needs to be more competitive in ‘selling’ its comparative advantage, i.e. tourism, compared to neighbouring countries;
- There is hardly any link between the research and innovation community and the enterprises. Although there are research activities and high research potential, this is not connected or transferred to SME and other enterprises.

On the other hand, the areas where opportunities for entrepreneurship can be maximised in the region can be summarised as:

- the already existing enterprises have to be more competitive, especially in regard to tourism and agriculture;
- innovation opportunities need to be exploited and new types of enterprises / SME / start-ups and spin-offs created;
- incentives need to be provided to stimulate economic sectors such as the retail sector, infrastructure and real estate.

Policy framework to support SME and entrepreneurship

A number of stakeholders support entrepreneurship in Crete. Some of them function at national level and cover the full country (thus including Crete), while others are region-centred. Actors come from the public and private sector, as well as from non-governmental organisations.

⁸⁴ Smart Specialisation Strategy RIS3 Crete, p. 27

At regional level, the Regional Innovation Council of Crete⁸⁵ acts as an advisory institution to the region of Crete on topics related to the promotion of innovation and the improvement of competitiveness. Today ten working groups are in place, among which are working groups dealing with entrepreneurship, tourism, the primary sector and development of mountainous areas.

The **Praxi network**⁸⁶ supports technology transfer to SMEs and research centres in Greece so as to enhance the competitiveness of Greek enterprises and research labs by connecting research with production, promotion of innovation and support of entrepreneurship. The Praxi network coordinates the Greek network of the Enterprise Europe Network.

The **Science and Technology Park of Crete**⁸⁷ helps and guides enterprises to unleash their potential through innovation, by securing access to capital and use of intellectual capital, by supporting the interests and needs of enterprises, and transferring technological advancements into innovative products and services. It also functions as incubator for technology-based start-up companies.

The **B.I.C. of Crete (Business and Innovation Centre of Crete) is the agricultural business and innovation centre of Crete**. It offers consulting services to private enterprises, especially SMEs, local authorities, and public sector parties to enhance their competitiveness and efficiency. It supports competitiveness in the region, helps to introduce new technologies and provides SMEs with access to foreign markets. Among its objectives are the scientific technical support of enterprises, the provision of incubator services and the supply of education and training services.

Good Practice examples

A number of programmes, initiatives and projects support SME and entrepreneurship in the region. They are mainly EU-funded projects, as no regional or national funds alone are dedicated to that area.

EIF support – loans for Greek micro-enterprises⁸⁸. Under the EU Programme for Employment and Social Innovation (EaSI), EIF and the Pancretan Cooperative bank signed a microfinance guarantee agreement to support more than 1,000 enterprises in Crete, Athens and Thessaloniki. A total of EUR 15 million will be provided to entrepreneurs having difficulties accessing funding

⁸⁵ http://www.crete.gov.gr/index.php?option=com_content&view=article&id=2688&Itemid=177&lang=el#.WMJ-8BDatTY

⁸⁶ <http://help-forward.gr/el/whoware/id>

⁸⁷ <http://www.stepc.gr/index-gr.php>

⁸⁸ http://www.eif.org/what_we_do/guarantees/news/2016/easi_pancretan.htm

from traditional banking sources. Beneficiaries will have access to reduced interest rate loans without an obligation to provide collateral.

Enterprise+: Innovative Potential Meets Experience⁸⁹ is a project co-funded under Erasmus+ with partners across the EU, including two partners from Crete. It aims at reducing youth unemployment through developing youth entrepreneurship and employment opportunities. It mainly targets youth between 16-25 years old.

Project ΣΥΝΕΡΓΩ – Integrated actions for co-promotion display Cretan Cypriot products and enterprises in Crete and Cyprus⁹⁰. Funded under the Greece-Cyprus cooperation programme in 2007-2013, the project was an initiative of Greek and Cypriot chambers of commerce with the aim of improving entrepreneurship and the internationalisation of local enterprises. The objective was to promote the branding of the name ‘Crete’ and ‘Cyprus’ to buyers and consumers through tailor-made promotional activities.

Approach to support SME development and entrepreneurship

The overall policy approach of the region seems to be a combination of several approaches. It is largely based on supporting the tourism sector, but also on rural entrepreneurship. This entails production of local goods, agriculture, processing, but also agro-tourism, cultural-tourism, agro-food and related services.

Being the biggest and most populous island in Greece, it has a well-developed research base and has a number of universities, research centres, institutions, technological parks and incubators, as well as Chambers of Commerce, which promote start-ups and SME support, to the extent possible. Social entrepreneurship and innovation is still rather unexploited.

The region tries to benefit from concentrating on its comparative advantages. Interviews with regional representatives show that to further stimulate SME development and entrepreneurship, cooperation with universities needs to be enhanced, so that the region can produce more comparative and niche products.

⁸⁹ <http://enterpriseplus.eniochos.com/index.html>

⁹⁰ <http://www.keep.eu/keep/project-ext/11986>

4.5 Malta (MT)

Regional Context

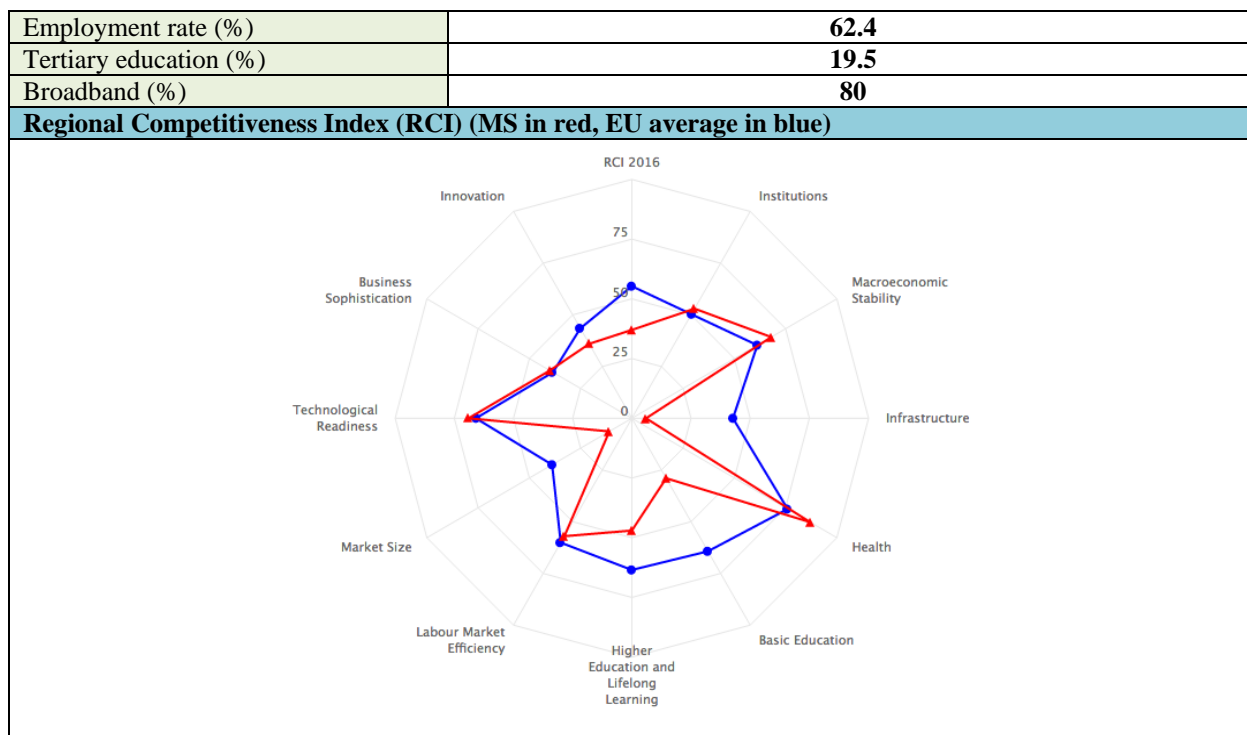
Malta comprises five islands - Malta, the largest, Gozo and Comino are inhabited, while Cominotto and Filfla are not.

This archipelago of islands is located approximately 90 km south of Sicily and 290 km north of Libya. Malta covers 316 km² and has a population of 445,055, according to 2015 statistics, with a population density of 1,410 persons/km²⁹¹ – making it one of the most densely populated countries on earth.

SMEs and entrepreneurship is a cornerstone of the economy in Malta. Only approximately 52 companies in Malta are classified as large, every other company falls within the SME and entrepreneurship category. Accordingly, Malta focuses policy efforts on supporting SME and entrepreneurial development, supporting start-ups and scale-ups, and helping entrepreneurs and companies find sources of funding.

Case Study Profile Malta				
Business structure and SME data				
Average firm size	9 employees			
Micro enterprises in the non-financial business economy	Total	0 employees	1-9 employees	10+ employees
Number of active enterprises	35,474	24,707	8,638	2,129
Growth rates of no. of firms	-4.07	-4.35	-2.33	6.98
SME environment and Framework conditions				
	National			
GDP PPP (EUR)	23,600			
Population density (Inh /km ²)	1,352.4			
Net migration (persons)	3,039			
Distance from national capital in km	-			
Accessibility (index 0-100)	47.701			

⁹¹ National Statistics Office, Malta (2014) Malta in Figures. Available from: https://nso.gov.mt/en/publications/Publications_by_Unit/Documents/D2_External_Cooperation_and_Communication/Malta_in_Figures_2014.pdf



Malta has made a huge effort in implementing the ‘Think Small First’ initiative set by the Small Business Act of Europe. The introduction of the SME test in the legislative cycle should prove to be an effective regulatory reform tool in preventing gold-plating and unnecessary regulatory burdens. On the other hand, Malta has not yet implemented all measures envisaged by the Maltese SBA. This is also in line with the low response rate of the administration in Malta, mostly caused by the complex regulatory environment⁹², thus creating unnecessary costs for enterprises, especially in area of enforcing contracts. In fact, the unfavourable regulatory environment of Malta for businesses is evidenced by the low position of Malta in the Doing Business Index⁹³ where Malta is at position 80 in the ranking, whereas most other EU MS are among the top 50 countries.

According to Deputy Prime Minister Louis Grech, an important share of 2007-2013 ERDF funds were allocated to new investments aimed at benefitting SME, and the improvement of infrastructure. Within this period, financial instruments, for example JEREMIE, had more than 100 million EUR investment, and

⁹² World Economic Forum, Global Competitiveness Index 2015-2016

⁹³ World Bank (2016). Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington, DC:

supported more than 650 SME⁹⁴. In addition, Aid Schemes for enterprises, were introduced that reached over 575 enterprises⁹⁵.

In the period 2014-2020, the Operational Programme under the ‘Investment for Growth and Jobs’ goal, *Stimulating private sector investment for economic growth*⁹⁶, published in March 2015 by the Ministry of Foreign Affairs, is an operational plan for the implementation of the Cohesion Policy of the EU, for the priority axis: Enhancing the competitiveness of SME in Malta. This is a programming document for the priorities, with a significant emphasis on SME and entrepreneurship, to be implemented and financed through ERDF in the 2014-2020 period.

Specific Challenges and Opportunities

The SME and entrepreneurs in Malta face diverse challenges related to access to information, awareness of the available support programmes, access to European markets and internationalisation, administrative complexities, access to funding, and growth in the innovation sector.

One weakness in monitoring the effectiveness of SME and entrepreneurship policies lies in the availability of statistical information. Hence specific features about the effects of policies can be assessed mainly by reviewing Eurostat data. Efforts are being made to overcome this challenge, as it relies on cooperation between business and the national statistics office to ensure that up-to-date and comprehensive information is available.

With regard to opportunities, there are currently many start-ups and a high number of SME in the IT sector, as well as business opportunities in manufacturing. Malta has interesting innovation projects, and ideas that are developing slowly; however, support is required to move these from the ‘idea’ phase to the commercial phase.

The development of good business ideas, and accordingly strong business proposals, was also identified as a challenge in this regard. It is felt that funding sources can be made available; however, the business strategy must be of a high quality, and this is a capacity that is currently underdeveloped in the region. A shortfall of mentoring is also felt to contribute to this challenge.

⁹⁴ Malta Today (2017). Malta’s absorption rate of EU funds at 100%. Online article: <http://www.maltatoday.com.mt/news/national/74993/maltas-absorption-rate-of-eu-funds-at-100-#.WMj4MG8rLIX>

⁹⁵ Malta Today (2017). Malta’s absorption rate of EU funds at 100%. Online article: <http://www.maltatoday.com.mt/news/national/74993/maltas-absorption-rate-of-eu-funds-at-100-#.WMj4MG8rLIX>

⁹⁶ 2014MT16RFSM001

Policy framework to support SME and entrepreneurship

The Ministry for the Economy, Investment and Small Business together with Ministry of Finance, is responsible for facilitating and implementing the regulatory and strategic framework and programme design for the support of SME and entrepreneurship.

Malta Enterprise (ME) is the national economic development agency responsible for promoting and facilitating international investment in the Maltese Islands. ME is also the national contact point for the Enterprise Europe Network (EEN) through which companies based in Malta can develop links with counterparts in other countries.

Other relevant actors in Malta are:

- GRTU (General Retailers and Traders Union) Malta Chamber of SME, which is the national representative organisation of private businesses and has a role in providing support services to its members, such as business cooperation and networking;
- The University of Malta and Malta College of Arts, Science and Technology, which are active in promoting entrepreneurship and as a consultation partner in policy design.

The Small Business Act (SBA)⁹⁷, adopted in 2011 by the Maltese Government, is a comprehensive framework of common principles, legislative plans and policy measures which aims to create an enabling environment for entrepreneurship and SME growth. Having been adopted as a law, it contains obligatory legal provisions. Its adoption and its main principles were influenced by the Small Business Act for Europe⁹⁸, a Communication from the European Commission published on 25 June 2008. SBA provided the basis for the implementation of numerous measures, projects and programmes for entrepreneurship and SME support.

The Family Business Act, adopted in 2016, with the 1st of January 2017 as the date set for all of the provisions to come into force, and preceded by the White paper published in October 2015 by the Ministry for the Economy, Investment and Small Business, is a policy that aims to promote the establishment of new businesses owned by families and to provide support to existing businesses. The policy is focused on re-establishing a supportive regulatory framework.

⁹⁷ Chapter 512 of Maltese Law, ACT XI of 2011, as amended by Acts XVIII of 2015, XXV of 2015 and XXVII of 2016. Available at www.justiceservices.gov.mt

⁹⁸ 1 Small Business Act for Europe COM (2008) 394

The ‘SME test’ procedure was introduced in the legislative process in Malta in January 2015. A total of three ‘SME tests’ were carried out during 2015 and the first quarter of 2016, while more than 25 Legal Notices required the drafting of user guidelines and explanatory notes⁹⁹.

Good Practice examples

The **Business START** (B.Start) is a seed funding programme operated by ME. The target groups are small start-ups with a viable business concept and are in early stages of development. It is an ongoing funding scheme with an opportunity for businesses to apply for funds until the end of October 2020. In order to receive funds, the beneficiary should operate in sectors NACE code C, D, E, H, J, M, N, Q, R, S. The maximum aid that may be provided is a cash grant up to €25,000, whilst the total budget for the programme is €5,000,000 divided equally over 5 years.

TAKEOFF Business Incubator is Malta’s first innovation incubator based at the University of Malta. The TAKEOFF programme delivers a tailored package of benefits and guidance to entrepreneurs from inside and outside of the University of Malta. For these purposes **TAKEOFF Seed Fund**, ZAAR has been established together with the Malta Business Bureau and has a role in providing grants for teams working on innovative business ideas. ZAAR is a crowdfunding platform aimed at providing an alternative access to finance for start-ups, business projects and ideas.

MITA Innovation Hub provides accelerator programmes which are usually bottom-up calls for start-ups that are asked to research, identify and solve a problem through a business idea based on digital technology; or thematic top-down calls for start-ups that are offered the challenge of solving a problem in public administration or wider civil society. Accelerator programmes run twice per year, offering a pre-seed investment of €22,000 and taking in three to six start-ups per intake.

Bank of Valetta (BOV) **JAIME** (Joint Assistance Initiative for Maltese Enterprises) Financing Package is a programme through which the final beneficiaries can receive up to €500,000. It is a follow-up programme of BOV JEREMIE financial package. JEREMIE was implemented in the period 2007-2013 and was funded through European Regional Development Fund, with aid totalling €15 million disseminated to enterprises.

⁹⁹ 2016 SBA Fact Sheet for Malta, European Commission; Ref. Ares(2017)489459 - 30/01/2017

Trade Malta, is a public private partnership set up between the Malta Chamber of Commerce, and the government, for investing more than €900,000 of ERDF funds for the development of a knowledge platform for SME¹⁰⁰. This knowledge platform focuses on assisting SME in planning exports and internationalisation of products¹⁰¹.

The Ministry of Education and Employment is working on a programme that helps incorporate entrepreneurship education in schools from K-12.

A **Microsoft Innovation Centre** was launched in Malta in 2013 in cooperation with the government of Malta and the University of Malta. The centre offers courses and training, for entrepreneurs with a focus on start-ups in the early stages of their development.

Malta Communication Authority is a national agency responsible for regulation of telecommunications, works in digital business, digital inclusion, and in promoting innovation initiatives.

Approach to support SME development and entrepreneurship

Malta being a country can develop its own policies in line with its needs and does not depend on any mainland national authority, as in the case of Crete, Canary Islands or La Réunion. This can be seen in a well-developed SME and entrepreneurship framework.

The overall policy approach to entrepreneurship and enterprise creation and expansion in Malta is twofold. Firstly, Malta is highly dependent on the instruments available via the European Regional Development Fund, as funding allocated by EU Cohesion Policy is regularly distributed to the programmes, projects and measures envisaged in a process with high level of strategic planning and foresight. Additionally, Malta has a strong institutional framework for implementing initiatives that should promote enterprise creation and expansion. The Small Business Act of Malta will be fully implemented by mid-2017, except for a survey compilation by entities servicing SMEs. The Act has in itself enshrined the Think Small First principle, Consultation Council and now the establishment of the College of Regulators.

¹⁰⁰ Times of Malta. (2017) Trade Malta Invests in SME Platform. Online Article <http://www.timesofmalta.com/articles/view/20170312/business-news/Trade-Malta-invests-in-SME-platform.642191>

¹⁰¹ Times of Malta. (2017) Trade Malta Invests in SME Platform. Online Article <http://www.timesofmalta.com/articles/view/20170312/business-news/Trade-Malta-invests-in-SME-platform.642191>

Malta has strong non-public partners active in developing and implementing programmes for entrepreneurship support; it thus has a certain comparative advantage as private entities tend to envisage support schemes that are not dependent on public policies in place, creating opportunities for enterprise creation and start-up support.

Overall, Malta's approach to SME and entrepreneurial policy is manifold and not limited to certain sectors. The approach is based on the following factors:

- Promoting innovation projects, in particular in renewables and bioeconomy, while continuing to support industries that have been showing success such as IT – through funding and enabling access to finance.
- Encouraging start-ups, as well as growth in enterprises already established.
- Improving the process for accessing finance for SME, i.e. making it more easily accessible and making the application process more efficient. Concerns over money laundering and other issues create very long waiting times for financing approval, and constrict SME (for example through rules regarding foreign / domestic ownership etc.).
- Improving the scope and depth of data collection in order to allow more tailor-made policy analyses to help guide regional development
- Continuing to focus reducing administrative and other barriers for enterprises.

4.6 La Réunion (FR)

Regional Context

La Réunion (Reunion Island) is an outermost island with 850,996 (2016) inhabitants located in the South West Indian Ocean, 800 km east of Madagascar. Its administrative capital is Saint-Denis. The island is both an overseas department and an administrative region of France. This particular administrative status is known as DROM, i.e. Départements et Régions d'Outre-Mer¹⁰². Since 1997, La Réunion also has the status of an outermost region¹⁰³, which, inter alia, entitles the territory to receive ESIF support.

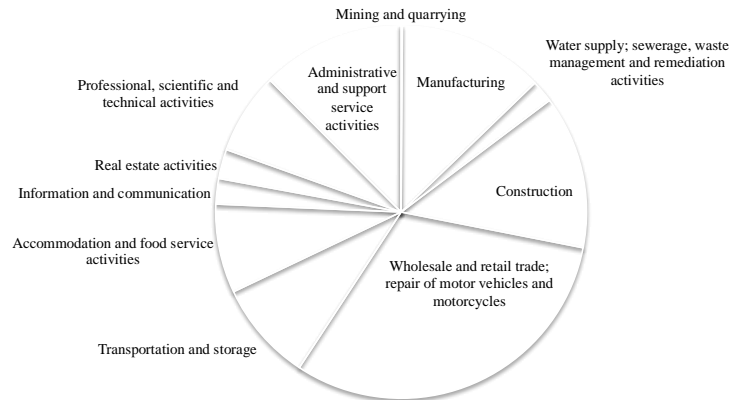
¹⁰² See data from NSEE 2016: <https://www.insee.fr/fr/statistiques/2412290>

¹⁰³ As defined by articles 349 and 355 of the Treaty on the Functioning of the European Union

Case Study Profile La Réunion

Business structure and SME data

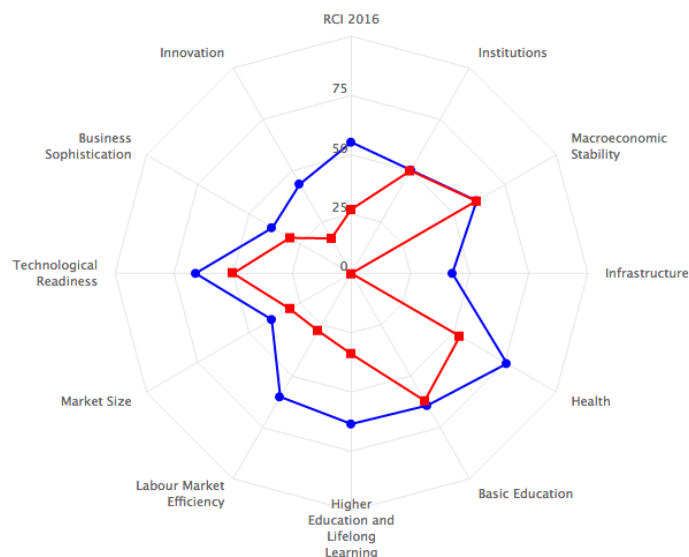
Micro enterprises in the non-financial business economy	Total	0 employees	1-9 employees	10+ employees
Number of active enterprises	50,924	38,858	10,714	2,160
Growth rates of no. of firms	5.25	7.84	-2.00	-0.41



SME environment and Framework conditions

	Regional	National
GDP PPP (EUR)	19,200	29,300
Population density (Inh /km ²)	336.1	104.5
Net migration (persons)	-5,502	59,285
Distance from national capital in km	9,365	-
Accessibility (index 0-100)		59.6
Employment rate (%)	46.1	63.7
Tertiary education (%)	19.6	33.1
Broadband (%)	61	77

Regional Competitiveness Index (RCI) (Region in red, EU average in blue)



As recognised in Article 174 TFEU, the specific nature of island territories such as Reunion Island entails certain economic and social handicaps. Other exogenous factors, (e.g. the financial crisis or the political instability of the closest neighbouring countries like Madagascar) may also have negative self-reinforcing impacts on Reunion Island's economic fabric. Likewise, hurdles

may stem from Reunion Island's historical ties to a well-entrenched economic model, partly derived from postcolonial economic approaches.

The tourism industry represents one of Reunion Island's primary economic drivers (turnover 2014: EUR 846 million; 7,000 direct jobs). Currently it is orienting itself more to sustainability. The aim of Reunion Island's developments in tourism is to become 'the Costa Rica of the region'¹⁰⁴. The main paths of development of the industry involve a closer integration of local providers (e.g. organic farmers, fishermen) to create short-circuits, diversifying the offer of services and extending tourist activity beyond the high season by increasing the visibility of the island's specificities (40% of the island is listed as a UNESCO World Heritage site, since 2010) and accordingly promoting eco-tourism (ecolodges). The objective is to attract one million tourists annually in 2020. However, dependency on tourism activities is also considered as a pitfall due to the industry's seasonality. Thus, the diversification of the offer will contribute to an avoidance of the issues linked to economic monoculture.

Following the EC's attempt to foster a bottom-up and place-based approach to economic and social developments in a wider territorial dynamic, Reunion Island worked out a regional competitiveness strategy called 'Pacte 2014-2020'¹⁰⁵: A Policy to Foster Reunion Island's Job Competitiveness', thereafter referred to as the Pacte.

Specific Challenges and Opportunities

Four main pressing challenges have been identified in the Pacte 2014-2020:

- a demographic challenge;
- an environmental challenge (notably climate change and sea level rise);
- an energy challenge;
- the challenge of globalisation.

If those challenges appear rather general and also impact numerous other regions of the world, Reunion Island, due to its specificities, is particularly affected.

Reunion Island's **demography** presents both positive and negative facets. Over 30% of the population is below the age of 20 (in comparison to 25% in mainland France) and the natality rate is also superior to France's. Population projections even foresee that the population will reach 1 million by 2030. However, the number of jobs and enterprises created does not absorb the number of labour

¹⁰⁴ Interview with a Nexa representative.

¹⁰⁵ http://ec.europa.eu/regional_policy/sources/policy/themes/outermost-regions/pdf/reunion_fr.pdf

market entrants. Only four young people out of ten find a job after finishing their studies (2013), and 43% of the youth is unemployed in the island. Moreover, despite a high quality and diversity in the educational system, 33.7% of young people (between the age of 16 and 29) left school without a diploma in 2013 (in 1999 this was 54.3%). In 2013, 17.7% of young people graduated from University, which represents a significant increase considering that this was 9.9% in 1999¹⁰⁶. Nonetheless, La Reunion remains one of the French regions with the lowest share of University graduates¹⁰⁷. The brain drain of young people, in particular the most qualified, to mainland France is a major problem, notably for local enterprises searching for a skilled workforce.

Population increase is likewise tightly linked with **environmental challenges**, notably an increased pressure on resources use, especially:

- water: territorial and seasonal disequilibrium of rainfall patterns, low aquifer levels;
- land: decreasing land surface for agriculture usage at the expense of urbanised areas (urban sprawl), land speculation, increased need for social housing (a need estimated to be 2 to 3 times superior to any other French region);
- food supply: as of 2014, the island is considered self-sufficient (3/4 of the domestic consumption is covered by locally-sourced productions) but the island is progressively shifting from an agricultural economy to a tertiary economy.

Moreover, issues of waste management (relatively low recycling rate and landfills almost saturated) are already pervasive on the island. These problems are further accentuated by the large (mass) tourism industry.

Energy consumption is expected to follow the demographic trends and tourism prospects. Reunion's island dependency on imported fossil fuels requires a significant and genuine engagement from public authorities toward a low carbon economy. Renewable energies, marine and solar in particular have a bright future in Reunion Island, which plans to be carbon neutral and energy independent by 2030.

In line with the four previously reviewed challenges and opportunities, several non-negligible elements that influence SME and entrepreneurship policy are detailed. For instance, emphasis should be drawn to the well-developed, but ageing and rapidly deteriorating (due to harsh climate conditions and seismic

¹⁰⁶ See data from NSEE 2016: <https://www.insee.fr/fr/statistiques/2412290>

¹⁰⁷ See data from INSEE 2016: <https://www.insee.fr/fr/statistiques/1908447>

risks) **transport systems**. Two airports connect the island with the rest of the world, with a network of motorways ensuring efficient inland circulation. Three **telecommunication** highways (sub-marine cables linking Madagascar, Reunion Island and Mauritius to the rest of the world) also contribute to the strategy for the regional expansion of broadband access.

Policy framework to support SME and entrepreneurship

As an overseas region, Reunion has more powers and broader competences than mainland regions. Nonetheless, France is a member state without legislative powers at the sub-national levels. Consequently, entrepreneurship and SME policies are decided at the national level. Three main institutional authorities share competences for support to entrepreneurship and SME in Reunion Island:

- At the national level, the **Ministry for Overseas Departments and Territories** performs three types of mission, including contributing to the territories' social and economic development, in terms of job creation for instance.
- At the regional level, the **Regional Council**, which is notably in charge of European affairs (ERDF, ESF, Interreg) and of determining, within the national framework, the main policy orientations in the region. Nonetheless, as an overseas territory, the regional authority has a particular status and plays a key role in implementing spatial planning and economic development policies¹⁰⁸
- At the local level, the **Departmental Council** is a bridge between citizens and higher administrations. The Council coordinates the functioning of all public services, decides upon the budget allocation and directs the implementation of selected projects.

The role of several support structures is also essential: **Nexa Agency**¹⁰⁹ is the regional innovation and development agency in investment and innovation and has five main missions: 1) observe and report on the state and needs of Reunion's economy, 2) foster innovation by supporting relevant initiatives and entrepreneurs with high potential, 3) identify forward-thinking initiatives and economic patterns, which may bring solutions to tackle today's and tomorrow's challenges as well as 'success stories', 4) promote the region at the international level and foster its attractiveness, 5) accompany and finance innovative business projects throughout the business creation process. **Innovons La Réunion** is a portal created by Nexa to present the regional strategy and the concrete actions

¹⁰⁸ <http://www.reunion.developpement-durable.gouv.fr/schema-d-amenagement-regional-sar-r76.html>

¹⁰⁹ <http://www.nexa.re/index.php?id=14#content>

that are implemented to foster innovation. The platform also intends to orientate innovative project holders in the management of their initiative.

The Association for the Industrial Development of Reunion (ADIR) promotes local industries, their products and workforce. The association also acts as an intermediary between the industries/enterprises (211 affiliates) represented and public authorities, in order to create a favourable environment for industrial development.

The **Chamber of Commerce and Industry (CCI)** is a public institution, considered by law as the State's intermediary body. The CCI works in close cooperation with **UBIFRANCE** (French Agency for International Business Development). Jointly they create or finance public and/or private vocational institutions. Moreover, the CCI of Reunion is the designated **Enterprise Europe Network's** local contact point. The CCI has also created a **co-working space**, Transfo, which hosts entrepreneurs and start-ups dedicated to new information and communication technologies.

Finally, several key groups are shaping the entrepreneurial ecosystem of the island:

- The **Cluster TEMERGIE** is an innovation award-winning¹¹⁰ cluster of renewable energy projects, they mainly gather SME and micro entrepreneurs, research centres and local communities.
- **Qualitropic** is the competitive cluster of the French overseas departments. It is an independent body which unites various actors (but mostly companies) around one shared topic of interest: 'tropical bioeconomics' in the aim of promoting competitiveness, performance and economic development.
- Two main **science parks**, which count with **incubators for knowledge-based companies**, are also established in Reunion Island, Technor and Techsud.

Good Practice examples

Many public interventions developed in Reunion are tailor-made to the different economic sectors targeted. Considered as best practice examples, SIVEs (Schémas d'interprétation et de valorisation écotouristique, Scheme for the interpretation and promotion of ecotourism) are used by the authorities to develop an integrated approach to territorial development. SIVEs notably allow

¹¹⁰ In the "Strong territorial Anchorage in areas facing specific challenge" category. Competition organised by the French Delegation for Territorial Development and Regional Action (DATAR) in 2009

communes to promote their specific territory (e.g. the volcanic area, ‘Piton de la Fournaise’) and their identity in the midst of a wider economic development framework¹¹¹. To support new entrants to the fishing industry, the region has also created an investment fund (EUR 400,000) so that individual professional fishermen can develop their activities.

ADIE (Association for the right to Economic Initiative), which is based on Professor Muhammad Yunus’ Grameen Bank model, also carries out numerous projects supporting entrepreneurs. Furthermore, ADIE supports social business entrepreneurs and advocates for the improvement of the institutional environment for microcredit. While funding remains a key challenge for entrepreneurs, initial investments are also getting smaller and smaller. In fact, 58% of the enterprises created in 2014 were launched with a capital inferior to EUR 8,000 and 32% with less than EUR 2,000. Along those lines, various micro finance institutions such as Réunion Active-Adie and Créasol have emerged in response to the growing need for very small loans. Both institutions are under the control of the programme (managed by the Regional authority) NACRE (Nouvel Accompagnement pour la Création et la Reprise d’Entreprise: New Support for Business Creations and Takeovers).

PREFACE is an initiative managed by the General Council (Department), which is dedicated to helping people in precarious situations who would like to start their own business activity. A grant is given to selected beneficiaries covering expenses related to project feasibility and the start-up creation itself.

INTERREG V Indian Ocean consists of the cooperation of two outermost regions (Reunion Island and Mayotte) and ten other countries (The Comoros, Madagascar, Seychelles, Mauritius, Tanzania, Mozambique, Kenya, India, Maldives, Australia). The programme contributes to the implementation of the Strategy Europe 2020 and, notably, supports the competitiveness of export-oriented SME and networks of innovators in Reunion. The main priorities of present relevance are the support for raising the skills level in the area and support targeting SME’ capacity to expand at the regional, national and international levels.

Initiative Réunion Entreprendre¹¹² is an association funded by the European Social Fund within the national programme ‘Employment and Inclusion’ (2014-2020). The aim of this association is to create a support platform for entrepreneurs, financing projects and providing guidance. Its two main specificities are the local anchorage (the association is active in the territory since 1992) and its partnership culture. The association’s flagship services to

¹¹¹ http://www.recherche-maconnais.org/tl_files/irvsm/pdf/Colloques/6eRencontresMacon/Germanaz.pdf

¹¹² <http://www.initiative-reunion.fr/nos-prets-d-honneur.html>

entrepreneurs are the different types of zero interest rate ‘honour loans’, for which no collateral is required.

Approach to support SME development and entrepreneurship

The overall policy approach to entrepreneurship and enterprise creation is articulated around three main focus areas, namely:

- **tropical bio-economy;**
- **experiential ecotourism;**
- **territorial agility and positioning.**

Reunion’s approach towards fostering a **tropical bio-economy** intends to renew primary and industrial sector practices in sectors which are facing a structural and endemic crisis. The approach has been selected as a way to prevent or minimise trade-offs between a vulnerable natural ecosystem and attempts to satisfy growing social needs. Reunion Island particularly stands out thanks to its diversified agro-industrial sectors, their dynamism and performance – a relatively rare feature of small and isolated islands. Relevant initiatives include the support of traditional agrarian practices, crops and processed products (sugar, rum, coffee, Bourbon vanilla, fish products), supporting small farmers or producers while making sure that the benefits and added value generated remain on the island. The focus on tropical bio-economy also entails the development of economic sub-sectors that create jobs around actions oriented towards the restoration of the natural environment. The creation or development of enterprises specialised in indigenous or endemic seed production, forestry plantation and maintenance is for example targeted. Furthermore, there is great potential in fostering agro ecology (also extended to the marine environment) and mobilising biodiversity resources as a tool for wealth generation (in the health sector for instance).

The second line of action is **experiential ecotourism** (eco-tourism, e-tourism and emotional travel experiences), that relies on Reunion Island’s remarkable comparative advantage: an outstanding natural heritage, tropical climate and culture. Tourism has an immense growth potential to create diverse jobs and to support the development of other sectors through integrated approaches, such as, inter alia, the development of farming, traditional and industrial production, services, commerce, digital solutions for developing the island’s highlands.

Third, **territorial agility** involves positioning Reunion Island as a tropical European development platform for productive activity ideas, within the realm of a knowledge-based, digital, low-carbon economy. Reunion Island can draw

advantage from its entire human, social, technological and climate-related traits. Innovation and out-of-the-box thinking are the main pillars.

In short, key success factors of an effective policy approach to entrepreneurship and enterprise creation and expansion in La Réunion are¹¹³:

- developing and mobilising local talent;
- giving local ideas and projects a chance, the importance of proximity of businesses, public authorities, and resources, and recognition of the value of very small projects;
- identifying and reinforcing the role of informal networks (e.g. communities of innovators);
- fostering business cooperation as well as developing inclusive and collaborative governance structures and mechanisms;
- streamlining administrative services and creating effective communication streams between institutional actors and non-institutional ones.

4.7 Highlands and Islands (UK)

Regional Context

The Highlands and Islands of Scotland is the northernmost region of Scotland, which, broadly speaking, includes the Scottish Highlands, the Orkney, Shetland and the Western Isles. It covers 51% of the landmass of Scotland, but only accounts for 9% (462,000) of the Scottish population, with an average population density of 11.6 inhabitants per km². Most parts of the Highlands and Islands are classified as predominantly rural. Only Inverness, the region that comprises the largest town and only settlement over 25,000 inhabitants in the area, is classified as intermediate.

In spite of the low population density and peripherality of the region, the Highlands and Islands of Scotland does relatively well both in terms of employment rates and entrepreneurship and innovation — when compared to EU, UK and Scottish averages. Businesses in the Highlands and Islands operate in a diverse range of sectors, from traditional land management or marine-based activities such as agriculture and fisheries, through to tourism, the manufacture of high-tech niche products, and creative services such as photography and web and graphic design.

¹¹³ As described by a Nexa representative in an interview.

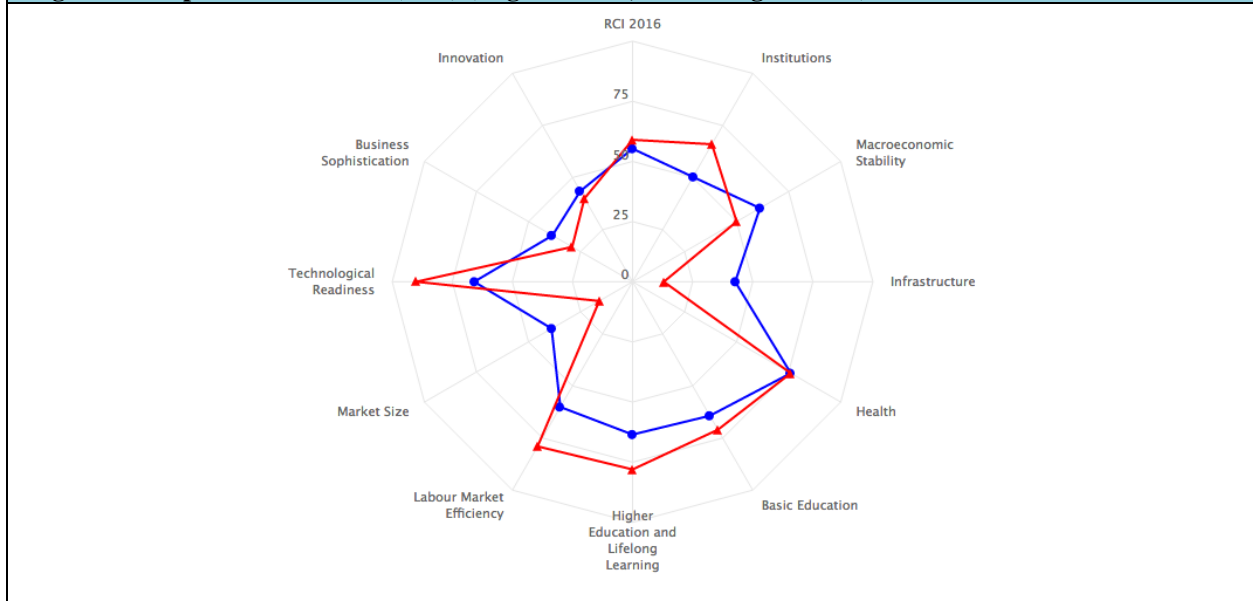
The need for a tailor made policy approach to rural and peripheral regions was realised early on in Scotland. Support to rural areas has evolved continuously since the Sixties, led by various reforms at EU and UK levels. Specific concerns relating to rural businesses have persisted since the 1990s, which recognise the need to diversify and grow rural economies as well as the difficulties faced by rural business, including infrastructure challenges and skills shortages.

While acknowledging the challenges faced and vital role played by rural economies, rural Scotland is no longer set aside as something different; the approach is moving rather away from specific strategies for rural Scotland¹¹⁴. Nevertheless, Scotland has a number of bodies that guard over the interests of rural Scotland such as the Scottish Government-created Rural Development Council, the Scottish Rural Parliament and, following the May 2016 Scottish elections, two Cabinet Secretaries covering rural issues.

Case Study Profile Highlands & Islands				
Business structure and SME data (SME and enterprise data from the Scottish government (2011) in The Highlands and Islands in Numbers (2013) Highlands and Islands Enterprise: Inverness)				
Start-ups per 1,000 populations	3.5 (against 2.8 for Scotland)			
	Total	0 employees	1-9 employees	10+ employees
Number of Business sites	25,525	5,940	15,570	4,015
<p>A pie chart illustrating the distribution of business sites across various economic sectors. The sectors and their approximate proportions are: Accommodation and food service activities (18%), Wholesale and retail trade: repair of motor vehicles and motorcycles (15%), Information and communication (12%), Manufacturing (10%), Construction (8%), Professional, scientific and technical activities (7%), Real estate activities (5%), Administrative and support service activities (4%), Transportation and storage (3%), Mining and quarrying (2%), and Electricity, gas, steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities (1%).</p>				
SME environment and Framework conditions				
	Regional		National average	
GDP PPP (EUR)	25,600		29,900	
Population density (Inh /km ²)	11.6		266.4	
Net migration (persons)	559		316,942	
Distance from national capital in km	914		-	
Accessibility (index 0-100)	59 (Scotland)		67.3	
Employment rate (%)	76.4		71.9	
Tertiary education (%)	41.6		40.6	
Broadband (%)	84 (Scotland)		88	

¹¹⁴ Rural Policy Centre, 2016. Rural Scotland in Focus 2016.

Regional Competitiveness Index (RCI) (Region in red, EU average in blue)



Specific Challenges and Opportunities

Despite a generally strong track record of entrepreneurship and innovation and many entrepreneurial individuals and innovative companies, the Highlands and Islands face a number of challenges. These are in the area of

- attracting and retaining, in particular, skilled workers in the region;
- raising the level of growth ambition of rural firms, which have a rather inward looking attitude;
- building entrepreneurial capabilities;
- surmounting the distance from customers;
- improving access to networks;
- reducing high transport costs;
- improving the still poor IT infrastructure;
- tackling the lack of R&D investment and increasing the number of enterprises participating in R&D and innovation activities.

Concerning the last point, innovation in Scotland, in general, has often been characterised as a conundrum, with a high performing academic sector but lagging business innovation performance in relation to research and development.

The Rural Development Council¹¹⁵, following a wide consultation process on the contribution of rural businesses to Scotland's economic success, identified four steps of necessary change:

¹¹⁵ The Scottish Government, 2011. Our Rural Future: The Scottish Government's response to the Speak Up for Rural Scotland consultation (online at: <http://www.gov.scot/Resource/Doc/344246/0114504.pdf>)

1. developing leadership skills and business ambition;
2. adding greater value to the products and services of all rural businesses (which could be done by businesses acting on their own, or working in collaboration);
3. a requirement for all public bodies to make tendering processes easily accessible and manageable for small businesses to bid for contracts;
4. clarification of roles and responsibilities in relation to business advice and support, especially for social enterprises and small businesses.

Policy framework to support SME and entrepreneurship

A large number of stakeholders support businesses and business innovation in Scotland, involving several layers of support (EU, UK, Scotland, Highlands and Islands, local level), which is why the available support landscape has sometimes been criticised for its fragmentation and duplication of efforts. For the near future, a new Scotland-wide statutory board is therefore planned to co-ordinate the activities of the two Scottish Enterprise Agencies, including Scottish Development International, Skills Development Scotland and the Scottish Funding Council. Alongside nationally available business support services, there are regional and local business support programmes in some parts of Scotland. The most important stakeholders are:

The **Scottish Government**¹¹⁶ has recently launched a new Scottish Growth Scheme focused on “new and early-stage, high growth potential companies, with clear export plans, particularly in technology-intensive firms and businesses in emerging markets such as Fintech”. The scheme includes a number of business-related initiatives such as a new Post-Referendum Business Network to provide information and support to businesses affected by the EU referendum, the commitment to deliver 100% superfast broadband coverage by 2021, funding for SMEs, the offer of one-to-one support to SMEs with growth potential, and an expansion of the Small Business Bonus Scheme. The Government also directly finances business infrastructure projects.

Scotland has two enterprise agencies, **Highlands and Islands Enterprise (HIE)**¹¹⁷ and **Scottish Enterprise**¹¹⁸, for which the Scottish Government sets the strategic direction. The agencies have a statutory duty to undertake economic development, HIE in the Highlands and Islands and Scottish Enterprise in lowland Scotland, but both enterprise agencies also specialise in different nation-wide support offers. HIE offers its clients access to a number of

¹¹⁶ <https://beta.gov.scot/policies/supporting-business>

¹¹⁷ www.hie.co.uk

¹¹⁸ <https://www.scottish-enterprise.com>

entrepreneurship support programmes, training courses and activities aimed at entrepreneurship skills development and providing networking opportunities.

Other important agents that support SME development and entrepreneurship are the Business Improvement Districts Scotland (BIDS) (<https://bids-scotland.com>), Interface Scotland (<http://www.interface-online.org.uk/>), Scotland Rural Development Programme and LEADER Local Action Groups, as well as Chambers of Commerce.

Good Practice examples

There are several good practice examples with regard to promotion of entrepreneurship.

The **entrepreneurship support programme** is delivered jointly by Scotland Enterprise and Highlands and Islands Enterprise and includes a number of initiatives to build the ambition and confidence of entrepreneurs, and teach the skills required to commercialise business ideas and accelerate growth. The main focus is on companies with growth potential. Among others, the following support is offered:

- Access to the MIT Entrepreneurship Development Programme and MIT Industrial Liaison Programme, drawing on HIE's strategic relationship with the Massachusetts Institute of Technology (MIT). It involves a one-week intensive residential executive education course at MIT in Boston and access to MIT's research and knowledge transfer programme.
- An Entrepreneurial Academy offering workshops on key business topics including sales, executing a digital strategy and pitching for investment
- A SCALE summer school on business development from business idea to scaling up for growth.

Entrepreneurial Spark is a pilot accelerator programme offered by HIE in partnership with Entrepreneurial Spark (NGO). It is a free virtual accelerator which enables entrepreneurs in the Highlands and Islands to remotely access advice and support to help them commercialise their business idea. Each participant on the pilot is allocated an 'enabler' as a mentor who helps the entrepreneur assess the strengths and weaknesses of their business idea and carry out research and other tasks to make sure their product or service is fit for purpose and ready for their market. The enabler maintains regular contact with participants by telephone or Skype throughout the duration of the pilot and facilitates access to mentors drawn from Entrepreneurial Spark's partners who provide specialist advice on topics such as cyber security or cash flow as and when required or necessary.

The **CAN DO SCALE programme**¹¹⁹ is designed for Scottish entrepreneurs either looking to start-up or scale-up to a globally successful company. The 2016 programme included intensive teaching sessions, guest lectures, case studies, team building exercises and one-to-one counselling as well as networking opportunities

Developing the Young Workforce is Scotland's new youth employment strategy¹²⁰ contributing to raising youth employment in the region. It also aims to plant the seeds of innovation in school children. The strategy encompasses a number of initiatives including the introduction of the 'Opportunities for All' commitment, an offer of an appropriate place in learning or training to all 16-19 year olds not already in employment, education or training, the Youth Employment Scotland Fund which offers recruitment incentives to help employers employ young people, and Community Jobs Scotland which organises job placement opportunities for young people.

Approach to support SME development and entrepreneurship

The Scottish Government Economic Strategy focuses strongly on growth companies, growth markets and growth sectors (also defined in the region's Smart Specialisation Strategy)¹²¹. The growth sectors are defined as:

- renewable and fossil energy, with renewables being especially important in the Highlands and Islands;
- life Sciences, where the Highlands and Islands of Scotland has seen rapid growth over the last ten years;
- food processing (including beverages), which is already today an important sector in the Highlands and Islands region;
- creative industries, which make an important contribution to the economy and cultural life of the Highlands and Islands;
- (sustainable) tourism;
- financial and business services, where the Highlands and Islands consistently hits levels of performance that outstrip other UK sites;
- higher education sector.

In general, there is an abundance of support available for both start-ups and businesses at a more advanced stage of development. The experience from the Highlands and Islands illustrates that supporting businesses located in rural, peripheral and more sparsely populated areas requires tailored support that

¹¹⁹ <http://www.cando.scot/scale/>

¹²⁰ <http://www.gov.scot/Publications/2014/12/7750/2>

¹²¹ Reid, A., 2012. A smart, sustainable nation? A review of Scottish research and innovation policy in the context of the smart specialisation agenda.

places a greater emphasis on accessing knowledge (on market possibilities, technologies and possible partners) and raising management capabilities and hence levels of ambition. Businesses in very remote parts can now also access support via a virtual accelerator.

Nevertheless, it must also be recognised that in remote-peripheral areas often the reason for supporting companies is not the pursuance of a growth objective but rather the securing of jobs. Also the strong focus in Scotland on only a selected number of (growth) sectors ignores the reality of the situation in rural areas. Remote, peripheral and sparsely populated regions are fragile areas that require a more time, and hence, cost intensive approach than urbanised counterparts which can be justified by the fact that rural businesses are vital to the sustainability of rural communities.

4.8 Västerbotten (SE)

Regional Context

Västerbotten in the North of Sweden is among one of the most sparsely populated and most peripheral areas in Europe. The region has only 263,378 inhabitants and a population density of about 3 inhabitants per km² (2016). In particular the inland areas are sparsely populated compared to the coastal areas which host the major towns of the region. Traditionally the region's economy has been dominated by forestry, energy and mining with larger companies in the towns along the coast and many micro and small enterprises inland. These characteristics challenge economic development due to large regional differences, limited number of economic actors, low levels of agglomeration economies due to large distances between the economic actors and high vulnerability due to sector concentration¹²².

Nevertheless the region of Västerbotten is home to successful SMEs and entrepreneurs. The region aims to further enhance business development and increase entrepreneurship. The region's Regional Development Strategy 2014-20 (RUS)¹²³ and the Regional Innovation Strategy¹²⁴ set out the main objectives for current business and entrepreneurship support. These policies mainly focus on networking between actors in the region and actors outside the region, sector

¹²² Dubois, A. & M. Hedström (2015) "A spatial perspective on Small Firm Networking from a Rural Periphery – the case of Swedish Norrland" in McDonagh (ed) *Globalisation and Europe's Rural regions*. Routledge: London

¹²³ Available through: <http://regionvasterbotten.se/wp-content/uploads/2012/08/V%C3%A4sterbottens-1%C3%A4ns-RUS-2014-2020.pdf>

¹²⁴ Available through: <http://regionvasterbotten.se/wp-content/uploads/2014/03/Innovationsstrategi-2014%E2%80%932020-antagen.pdf>

diversification and inclusive growth allowing all types of inhabitants to benefit from economic development.

One of the six main objectives in the regional development strategy is place-based business development (*platsbaserad näringslivutveckling*). With this approach the region aims, among other things, to:

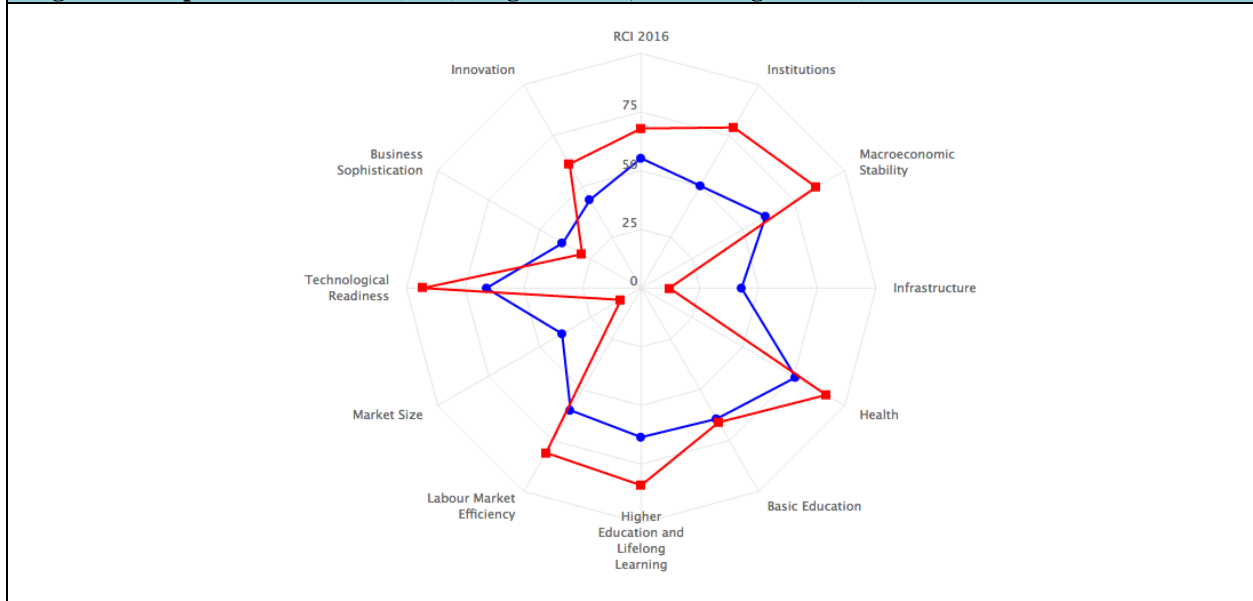
- develop entrepreneurship in the more traditional economic sectors in the region as well as in cultural and creative industries;
- invest in accommodation facilities and increase the accommodation capacity;
- invest in smart and innovative energy infrastructure that enables better use of regional assets and export of renewable energy.

Skellefteå is the second largest town of Västerbotten with around 32,000 inhabitants with a clear strategic development strategy¹²⁵. Much like the regional strategies, this local strategy takes the region's characteristics into account supporting entrepreneurship and SME development with a regional perspective.

Case Study Profile Västerbotten		
Business structure and SME data		
New enterprises by 1,000 population (Regional statistics)	9.0 (against 11.6 in Sweden)	
Average firm size	10 employees	
SME environment and Framework conditions		
	Regional	National
GDP PPP (EUR)	31,300	33,700
Population density (Inh /km ²)	3.4	23.8
Net migration (persons)	1,929	76,560
Distance from national capital in km	771	-
Accessibility (index 0-100)	37.812	51
Employment rate (%)	74.3	74.9
Tertiary education (%)	37	38.7
Broadband (%)	85	87

¹²⁵ Available through: http://skelleftea2030.se/wp-content/uploads/2014/09/2030_Presentation_ENG_webb.pdf

Regional Competitiveness Index (RCI) (Region in red, EU average in blue)



The strategy area ‘knowledge and unique competence’ acknowledges the importance of innovation, creativity and entrepreneurship for future competitiveness. The municipality strengthens therewith its role as the regional education centre and hotspot for interaction between students, entrepreneurs and the growing creative industry in the town. The strategy area ‘globally competitive economy’ focuses on increasing regional and national cooperation as well as strong international relationships between firms, public authorities, academia and non-profit organisations. These large varieties of relations and thus potential interactions make the market less vulnerable to shocks and encourage innovation, development and commercialisation of products and services. To support these interactions and to overcome physical distance Skellefteå focuses therefore also on modern reliable technologies.

Specific Challenges and Opportunities

Neither the region nor Skellefteå perceive low population density and small market size as a challenge for business development. Nevertheless, there seems to be an imbalance between the more densely populated municipalities along the coast and the less densely populated areas towards the Norwegian border. The Västerbotten Innovation strategy acknowledges this challenge: “*The opportunities to take part in the systems and environments promoting innovation, however, is more limited in rural areas and smaller municipalities, which means that efforts must be directed towards developing methods and tools to strengthen innovation in the entire county.*”¹²⁶

¹²⁶ Innovation Strategy Västerbotten 2014-2020 <http://regionvasterbotten.se/wp-content/uploads/2014/03/Innovationsstrategi-2014%E2%80%932020-antagen.pdf>

The regional council of Västerbotten highlights four key challenges with regard to overall business development, innovation and entrepreneurship¹²⁷.

1. Extending the university-industry collaboration to companies outside the university towns.
2. Making sure that a larger part of society benefits from development.
3. Increasing the role of incubators in sparsely populated areas with insufficient critical mass of actors.
4. Strengthening the availability of venture capital in sparsely populated areas.

Regional stakeholders perceive the relative overrepresentation of forestry and mining sectors as both a challenge and opportunity.

Finally, Västerbotten's support system for entrepreneurs and businesses is well-developed, but also consists of a large number of players, which could make it difficult for people with ideas to navigate the system and access resources.

Policy framework to support SME and entrepreneurship

The stakeholder landscape for business development in Västerbotten can be described as strong networks of companies, academia and one supported by public authorities. Especially in the urban nodes of the region these networks or communities are dense¹²⁸.

Most of the businesses in the region are strongly locally or regionally rooted meaning that they have strong local and regional networks or suppliers, clients and advisors. In sparsely populated regions like Västerbotten this implies that the geographical distance may be large, but the actors are close in social terms. The researcher Boschma describes this as social proximity, relationships that are based on trust, kinship and experience¹²⁹. These business relations stretch beyond the region as local business networks are not sufficient to overcome disadvantages of location and size in the Northern regions of Sweden¹³⁰. There is also a need to have strong extra-local links. Well-developed infrastructure, including ICT, support this in Sweden, together with regional and national

¹²⁷ Teräs, J., A. Dubois, J. Sörvik and M. Pertoldi (2015) "Implementing Smart Specialisation in Sparsely Populated Areas". *JRC working paper* 10/2015.

¹²⁸ Västerbotten innovation strategy

¹²⁹ In Dubois, A. & M. Hedström (2015) 'A spatial perspective on Small Firm Networking from a Rural Periphery – the case of Swedish Norrland' in McDonagh (ed) *Globalisation and Europe's Rural regions*. Routledge: London

¹³⁰ Dubois, A. & M. Hedström (2015) 'A spatial perspective on Small Firm Networking from a Rural Periphery – the case of Swedish Norrland' in McDonagh (ed) *Globalisation and Europe's Rural regions*. Routledge: London

policies supporting internationalisation and commercialisation of products and services as well as sharing expertise.

The region of Västerbotten as well as local authorities strongly focus on supporting business networks and the sharing of knowledge and experience in these networks. The role of regional authorities is rather weak in Sweden especially compared to those at national and local levels¹³¹. Nevertheless the region (financially) supports different regional projects through EU and regional funds. EU-funding such as the ERDF is administered by the region of Västerbotten together with Norrland. This fund is among others used to boost start-ups and growth in SMEs¹³². Regional support from the council of Västerbotten consists of co-funding or creating regional development projects with the aim of promoting connections within and outside the region. When applying for co-funding, it is a prerequisite to describe the regional added value and how the projects address the regional development strategy, which clearly states the need to create bridges between the different areas in the region. An example of this is a university based project which has to have a connection to companies or actors in the inland area in order to get regional funding. Another example would be a project initiated by actors in the inland area, which has to have connections to the strong actors, academia or other innovative milieus in the coastal region or other parts of Sweden.

There is a need for networks supporting business development in the region. In a European perspective, there is a lack of private capital and a critical mass of actors. This is most evident in the inland region. In many parts of the region, the municipality has to take a more active role in order to promote the local business climate, since local business networks might be weaker or non-existent. So in addition to facilitating investments and contact with the local authorities, the municipality has to act as a development agency. In many cases, funding from the regional development fund is crucial in order to build the necessary structures and capacity for this, and especially for participating in European cooperation or developing business clusters and networks.

In general, local authorities, such as the municipality of Skellefteå are beneficiaries of regional funds and have their own support mechanisms. The municipality of Skellefteå offers mostly soft support. The municipality of Skellefteå is for example actively supporting coordination and cooperation between different key stakeholders, actively promoting entrepreneurship and facilitating meetings for students and businesses and providing information and

¹³¹ Niklas Gandal, Regional development planner for the region of Västerbotten.

¹³² The Operational Programme 2014-20 for Upper Norrland is available through the website from tillväxtverket: <https://tillvaxtverket.se/download/18.661748141551692c5bea894a/1468397743228/OP%2B%C3%96vre%2BNorrland%2BEN%2Bversion.pdf>

advice on starting a business. In addition to the municipalities, the chamber of commerce, the regional business organisation (Företagarna), the universities and the regional council, and the county council mainly health care and e-health) are other important actors.

Other actors in Skellefteå are for example:

- the chamber of commerce, which focuses mostly on internationalisation and creating national networks for firms;
- the branch of Luleå University in Skellefteå;
- Arctic Business Incubator, supporting entrepreneurs in realising their ideas and setting up a business and partners in an EU-funded project establishing start-up labs aiming at sharpening entrepreneurs' business ideas;
- Almi Nord, a national operating network offering venture capital;
- Companion Nord, a nationally operating network offering information, advice and training in how to start your own business free of charge.

Good Practice examples

There is a large variety of projects in support of SME development and increasing entrepreneurship. The following projects are examples of concrete actions to increase entrepreneurship, support networks and expand markets in sparsely populated areas.

The **Interreg project Creative Edge**, supported by the Northern Periphery programme, aimed at creating and piloting a practical model for sustainable growth of regional creative economy businesses through two main themes addressing the access issues for regional creative enterprises. Firstly, by focusing on access to international markets. Secondly, by developing their emerging creative talent. The region of Västerbotten was involved in this project together with partners from the counties of Down and Armagh in Ireland, south-east Northern Ireland and the sub region Kemi-Tornio in Finnish Lapland. In all these regions, the creative industry has been rapidly growing reaching close to 6,000 creative companies in the areas combined¹³³. The project resulted in seven recommendations regarding the peripheral contexts of which some have been taken forward by other projects in Västerbotten and Skellefteå:

- Increasing awareness of the periphery as a creative place – e.g. through marketing of creative products from peripheral regions.

¹³³ Collins, P., J. Cunningham, A. Murtagh and J. Dagg (2014) The Creative Edge Policy Toolkit. available through: <http://www.creative-edge.eu/>

- Catalysts to support emerging creative industries – e.g. through supporting business hubs and providing work places at low cost in peripheral areas.
- International cooperation between peripheral regions – e.g. through learning from other experiences and strengths.
- Better use of online social networks to enable networking and business collaboration – e.g. through connecting creative businesses in a virtual environment.
- Better market access to overcome the challenges of marginality and market access – e.g. through e-commerce.
- Better understanding of, and policy instruments tailored to, the needs of peripheral regions – e.g. through identifying sub-sectors of the creative industry and testing multiple approaches and instruments suitable to the environment.
- Harnessing the spill-over effects of creative industries – e.g. through exploiting the full potential of synergies between local food and tourism sectors with the creative industry.

A success case of the creative industry in Västerbotten is ‘North Kingdom’ a digital design company founded in 2003 in Skellefteå. Today, the company also has offices in Stockholm and other parts of Sweden, but is largely still operating from Skellefteå, which they do not consider a disadvantage for their business. Through years of innovation and exploration in the digital medium, North Kingdom held on to what they feel is important – creative freedom, quality of work and curiosity. They consider themselves a small, flexible, fast-moving team with big ideas. One of their success factors is a network of friends, colleagues, clients, and partners all over the world to help them make those ideas come alive.

The municipalities of Skellefteå, Pitea and Älvsbyn carry out the **project ‘Smart Growth’** (*Smart Tillväxt*) financed through the ERDF. The project aims at increasing entrepreneurship, increasing the number of innovations brought to the market, increasing growth in existing firms and businesses in new and existing industries. Therefore several events are organised to inspire and inform entrepreneurs and facilitate networking. In addition the project establishes locations to promote the development of ideas, knowledge, exchange and cooperation. The E4 and Idea lab at the Skellefteå campus are examples of these so-called co-working locations. Besides cooperation and networking, these locations allow for testing prototypes¹³⁴.

Krenova is an online platform and resource for information and advice for creative industries in Norrbotten and Västerbotten who want to start or run their

¹³⁴ <http://www.skelleftea.se/kommun/projekt-och-samarbeten/smart-tillvaxt>

own business supported by the ERDF, and with their office in Skellefteå. Krenova's main resources are divided into three parts: an incubator, seminars and an entrepreneurial programme. The incubator offers to the creators an office space, equipment, and in some cases a personal coach. Krenova's seminars are educational venues for creative professionals and businesses. Here contacts are made that create the conditions for new and exciting collaborations. Krenova's entrepreneur programme provides the knowledge needed to start and grow a business.

Approach to support SME development and entrepreneurship

With small internal markets, increasing exports and promoting a digital business model is important for the region. The cooperation between seven municipalities and Skellefteå kraft (large local energy company) to attract companies' server rooms to Västerbotten is an interesting example addressing the challenge of small internal markets. Digitalisation is favourable as Västerbotten and Norrbotten are provisioned with secure and reliable green electricity, a cold climate, and know how. This focus resulted, for example, in the establishment of a large server room for Facebook in Luleå (Norrbotten).

The above description of the main policies in Västerbotten and the examples of projects supporting entrepreneurship and business development show the actions taken to address the challenges in this region. Most of these actions rely on ICT and strong local networks. Many projects aim at diversifying the region's economic structure mainly supporting the creative industry in the region's larger towns. On the other hand, the region emphasises public-private-partnerships supporting the strongest sectors through four Co's: Co-design, Co-creative development, Co-constructive development and Co-innovation¹³⁵.

The place-based approach acknowledges large regional differences and aims at using the natural and cultural assets available to diversify the economic sectors. Therefore it would need to fully exploit the region's assets in terms of knowledge, infrastructure, including ICT, and entrepreneurship. The innovation strategy translates the region's characteristics into strengths. Västerbotten's territorial specificities are according to the strategy a strong breeding ground for innovations in areas such as sustainable community development, testing, service solutions and distance-spanning technology. The innovation strategy focuses, therefore, on enhancing networks inside the region and between actors in the region and other regions.

¹³⁵ Innovation Strategy Västerbotten 2014-2020 <http://regionvasterbotten.se/wp-content/uploads/2014/03/Innovationsstrategi-2014%E2%80%932020-antagen.pdf>

To sum up, Västerbotten and Skellefteå apply a policy approach which is place-based, focused on networks and in which physical distance is not an issue.

- The place-based policy approach favours forestry and mining due to the natural assets of the region and creative industry due to the cultural assets of the region.
- Well-established and emerging networks rely on social proximity to overcome physical distance - this is supported by a well-developed ICT infrastructure.
- Distance is not perceived as a challenge. In fact, interactions take place between a variety of players in particular in the region's urban settlements, despite their small size.

5 Policy recommendations

SME development and entrepreneurship on islands and peripheral areas is conditioned by framework conditions that are less favourable than for other EU territories. Most peripheral economies suffer from remoteness, low population density, small size and fragmentation of markets (including labour markets), and economic dependence on a few economic sectors and niches ('monocultural economies') with less representation of manufacturing sectors. The share of exports is usually lower, transport costs are higher, and the fabric of innovation, knowledge and higher education centres is not as dense as in central regions. At the same time, SME development and entrepreneurship is more relevant in peripheral areas than in other regions because of the lack of larger companies and manufacturing sectors, and the subsequent dependence of future economic development on existing SMEs and new forms of economic activity that are promoted by entrepreneurs.

Islands and other peripheral regions face a number of common challenges, which are connected to their geographic characteristics. Among the challenges that affect SMEs and entrepreneurship development across the EU, islands and peripheral regions face the additional burden of a small market size, reduced access to supplies, low economies of scale, high production and modernisation costs, low attractiveness for investments, concentration on a few sectors and products, reduced number (and quality) of available services, less and outdated digital infrastructure, brain drain and reduced availability of a qualified workforce, low density of research, development and innovation that leads to important technology and skills gaps as well as to high intraregional disparities. Altogether, peripheral areas offer many obstacles that culminate in an unfavourable environment, in particular, for high-growth entrepreneurs.

Despite the numerous challenges, opportunities for business development can also be identified. Areas that offer opportunities are generally linked to the territorial specificities and the endogenous potential of peripheral areas. They cover i) the exploitation of **natural resources**, not only for bio-energy or biopharmaceutical products, but also for a better and more efficient use and management of renewable energy, waste and water and, in general, a more sustainable production within a circular economy approach, ii) potentials with regard to new products, more efficient processes or improved labelling, marketing and distribution of local products in **agro-food, fisheries and forestry sectors**, iii) the potential offered by the **blue economy** in relation to the exploitation of marine resources, the management and protection of marine and coastal areas, maritime transport, shipbuilding and the naval industry and services, as a base for off-shore activities, as well as marine renewable energy,

iv) the potential to establish more **sustainable types of tourism** that are more in line with the specific environmental needs of these territories. New ventures can emerge in relation to **specific tourism products and niches**, such as agrotourism, ecotourism, cultural tourism, whale or bird watching tourism, culinary or heritage tourism. Traditional tourism activities can also be modernised and benefit from innovation in products, processes, organisation and marketing, v) the potential in relation to typical **sports and leisure activities** (e.g. skiing, surfing) that can be exploited not only for tourism activities but also for niche manufacturing, vi) the potential based on the exploitation of **cultural assets**, for example in relation to niche cultural or culinary tourism, and in the **creative industries**, vii) the potential related to **ICT and digital services and products**, viii) additional potential for **ecological, scientific and technological activities** in particular in the outermost non-European territories.

Policy recommendations for regional/national authorities

Policies to support SMEs and entrepreneurship development in peripheral areas should take into account the specific requirements of these areas.

The results of the analysed case studies confirm the conclusion of previous analyses that islands and peripheral areas should develop place-based and tailor-made strategies with a focus on exploiting their comparative advantages and promoting a more efficient use of their existing natural, cultural and geostrategic assets. The complexity of the challenges for islands and peripheral areas calls for thinking in wider contexts to overcome specific challenges. The different inadequacies in peripheral areas demonstrate the need for a more strategic and coordinated approach toward building entrepreneurial capacity. Therefore, to put into value the assets of peripheral regions, SME and entrepreneurship policy needs to go hand-in-hand with other (sectoral) policies¹³⁶. As can be observed from the potential areas of growth, these areas require wider inter-sectoral agreements that go beyond typical industrial or SME support schemes.

To promote SMEs and entrepreneurship related to local assets, coordination with other policies is needed (e.g. with transport infrastructure, tourism, rural development, climate change, environmental protection, innovation capacity). Furthermore, coordination also needs to link to education policies and human capital development to support match-making between professionals and enterprise development, for instance through re-skilling programmes.

Approaches to entrepreneurship development in the potential growth fields have to consider the constraints of traditional business models. Products and services

¹³⁶ OECD (2017). Northern Sparsely Populated Areas, OECD Territorial Reviews. OECD Publishing.

produced in peripheral areas cannot rely on large internal markets, and are forced to face high costs for production and/or distribution. New entrepreneurs should, therefore, adopt business models that build on quality, environmental values, distinctiveness, recognition of quality and/or territorial labels and cultural references.

Innovation is an important factor for promoting SME development and growth in peripheral areas. However, due to the territorial and economic specificities, typical approaches for innovation in manufacturing sectors and in industrial processes are not adequate. On the contrary, the importance of primary and service activities requires support to innovation in service sectors (tourism, retail) as well as in agricultural and agro-food sectors¹³⁷. Therefore, schemes to stimulate innovation as a means of promoting SME growth and business creation have to be specially focused. For innovation in primary sectors, rural innovation ecosystems have to be promoted and links between farmers, fishermen and knowledge suppliers (universities, business services, extension services, biotechnology research) have to be established and animated. Clusters along the specific value chains and niche products of the given territory can help to stimulate collaboration and knowledge transfer.

Universities and science/technology parks are important stakeholders when it comes to knowledge and technology based entrepreneurship and the promotion of enterprises in high-growth sectors. Approaches to entrepreneurship should integrate these stakeholders and develop adequate facilities to support start-ups and business growth. Smart specialisation in certain scientific, technological and innovation areas can be a promising tool for areas with geographic specificities to strengthen their niche advantages¹³⁸. Relevant strategies can put a focus on the territorial dimension of innovation, where regions pick up those assets that best highlight their potentials.

Networking and collaboration should be an important tool in overcoming the effects of isolation. The use of ICT can extend networks easily to other territories and even go beyond national or European borders. High speed ICT networks enable various electronic services (e.g. teleworking, e-health, e-training) and thereby may not only improve connectivity but also alleviate the brain drain from islands and other peripheral areas. Networks of entrepreneurs, networks with business angels and venture capital investors, and networks of professional business services can bring together business ideas with partners,

¹³⁷ OECD (2014). *Innovation and Modernising the Rural Economy*. OECD Publishing.

¹³⁸ *Ibid.*

suppliers, access to capital and advice. Networks of regions and cities¹³⁹ with the same interests can help to shorten the learning curve for the involved stakeholders and help to test new policy approaches and support schemes more efficiently.

Policy recommendations at EU level

Islands and peripheral areas have specific territorial features that hamper socio-economic development, including SME development and entrepreneurship. In the common statistics that are used to depict regional disparities in the EU (e.g. GDP at NUTS2 level), these territorial challenges are difficult to observe. At the same time, comparable business statistics are not available at NUTS 3 level for all MS, so that the true challenges of the business environment of islands and peripheral regions cannot be observed clearly. Specific indicators, e.g. territorial characteristics on accessibility, business structure or regional competitiveness, are therefore necessary (at NUTS 3 or LAU-2 level) to make the territorial challenges of islands and peripheral areas visible.

Some challenges that might hamper SME development and entrepreneurship on islands and peripheral areas can be compensated for by specific on-going support as it is offered by ESIF. However, to allow for an effective and efficient use of ESIF in peripheral regions, post-2020 cohesion policy should consider islands and peripheral regions as territories that will continue to require regional aid to overcome their structural and territorial challenges with adequate support policies.

Some EU initiatives and programmes to support SME development and entrepreneurship (e.g. EFSI, COSME, InnovFin, Horizon 2020) are less adequate for islands and peripheral areas that consist of predominantly small and very small companies. To benefit from these programmes, the integration of a territorial dimension would be needed. Apart from additional capacity-building measures, this could call for an explicit inclusion of territorial specificities. These could be included, for instance, by specific calls for beneficiaries from islands and peripheral areas or certain changes of eligibility criteria.

The analysis shows that some Member States have well-developed policies for SME development, innovation and entrepreneurship in place for island and peripheral areas, while others lack specific support. Looking for a transfer of knowledge and good practices between Member States, regions and local authorities, the EU might support specific knowledge transfer and management

¹³⁹ For instance, the Joint Programming Initiative Healthy and Productive Seas and Oceans (JPI Oceans) <http://www.jpi-oceans.eu> or the EGTC ‘Cities of Ceramics’ <http://www.aeucc.eu/> or DAFNI Network of Sustainable Greek Islands <http://www.dafni.net.gr/en/>

processes with regard to economic development on islands and peripheral areas (e.g. similar to the European Network for Rural Development).

Cross-border and territorial cooperation projects and instruments (INTERREG, EGTC), but also more specialised innovation networks (e.g. JPI, EIP, KIC, Era-NETs) are important means to exploit new areas of SME growth. However, peripheral areas usually have limited resources and capacities (e.g. Research Centres) to participate in relevant network activities. Here, a specific support for capacity-building measures and travel grants for participation in events can help to stimulate the participation of peripheral areas in these networks and partnerships.

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