



European Commission

Enterprise and industry

Access to finance for innovative SMEs

Main activities of the European Commission



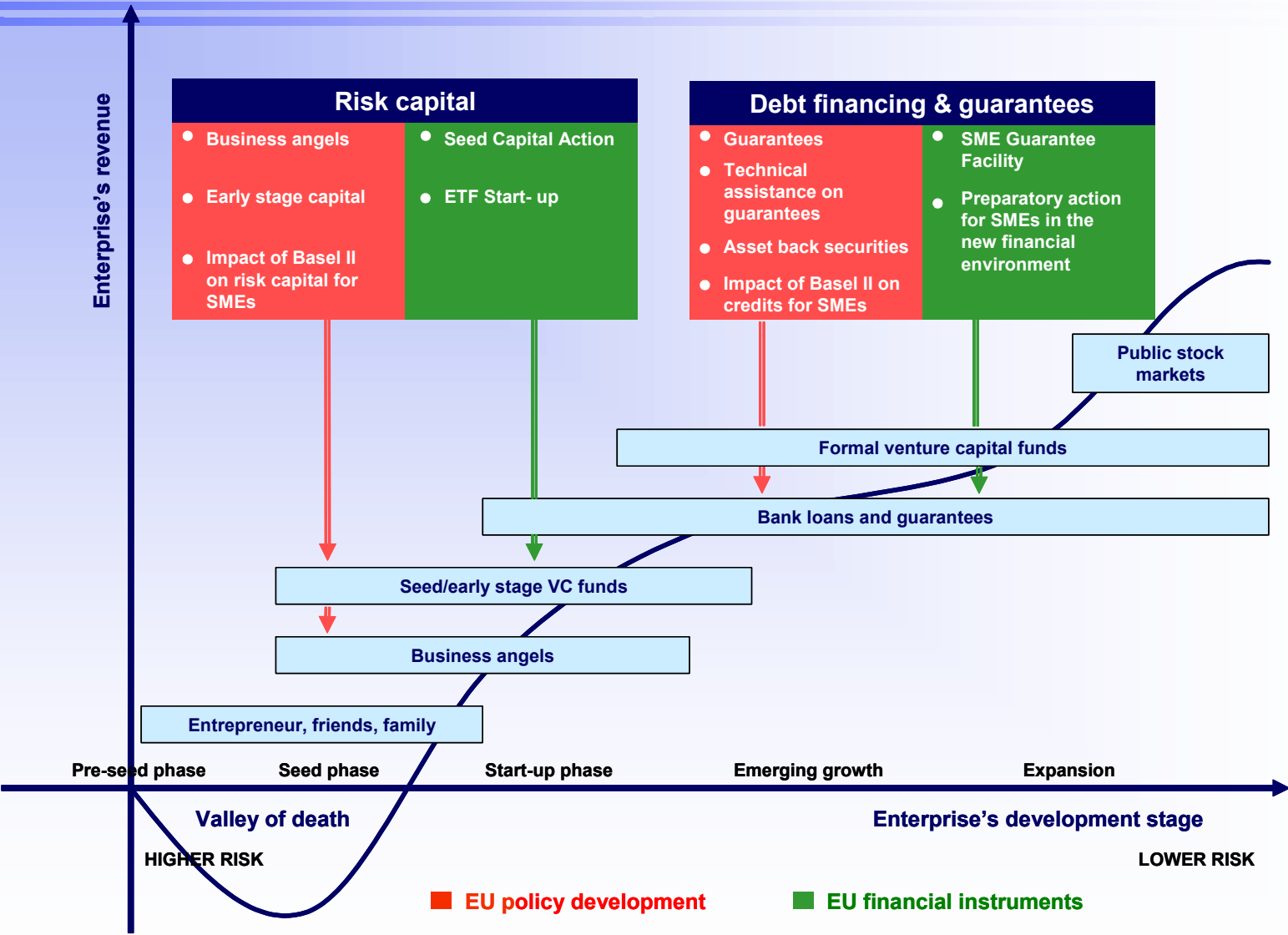
Geneva, 3/4 May 2007

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European Commission, Directorate-General for Enterprise & Industry
Unit D3 – Financing SMEs, entrepreneurs and innovators

DG ENTR ~ access to finance

DG Enterprise and industry - European Commission



The financial environment : EU policy development and financial instruments

Activities of DG Enterprise and Industry Unit D3

- Financial instruments within Competitiveness and Innovation Programme
- Policy development:
 - ❖ E.g. expert groups on VC cross-border investments, on regulation of microfinance, on early-stage finance
 - ❖ Round table between bankers and SMEs
 - ❖ Workshop series (tech-transfer, seed finance etc.); working group on VC in cooperation with US Department of Commerce International Trade Administration
 - ❖ Communication “Financing SME Growth – Adding European Value, June 2006
 - ❖ Development of trendchart for SME access to finance

Current situation

- Debt finance:
 - * Mostly used source of financing in the EU
 - * But - it is under pressure: consolidation and new financial environment (Basel II)
 - * Differences in banking cultures within EU
- Equity finance:
 - * Limited in comparison to the US
 - * Fragmented EU capital markets
 - * Not sufficient early-stage investments and expansion investments by VC funds ~> equity gap
 - * Business angels are needed

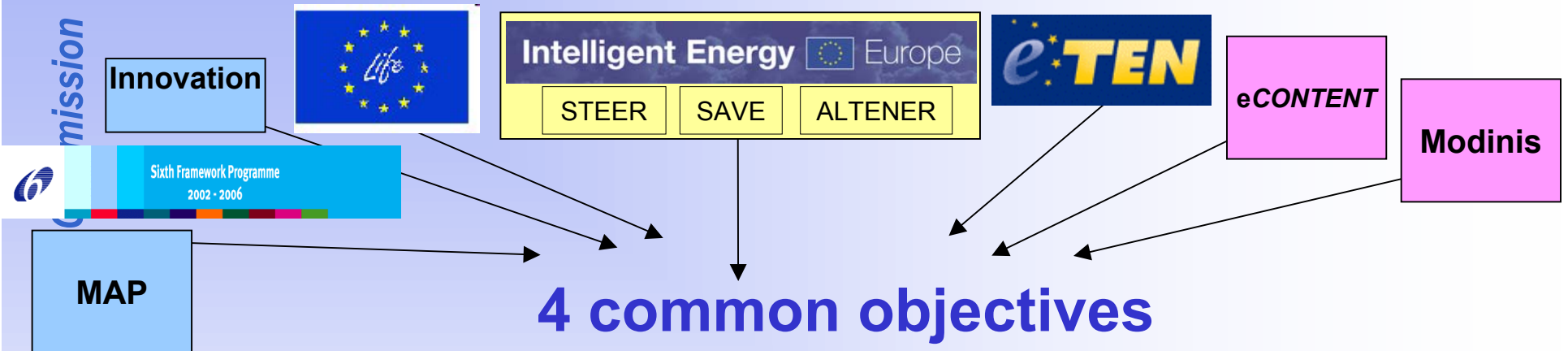
CIP, 2007-2013

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Competitiveness and Innovation Programme



CIP: 9 previous programmes



1. ENTERPRISE (PARTICULARLY SME) COMPETITIVENESS

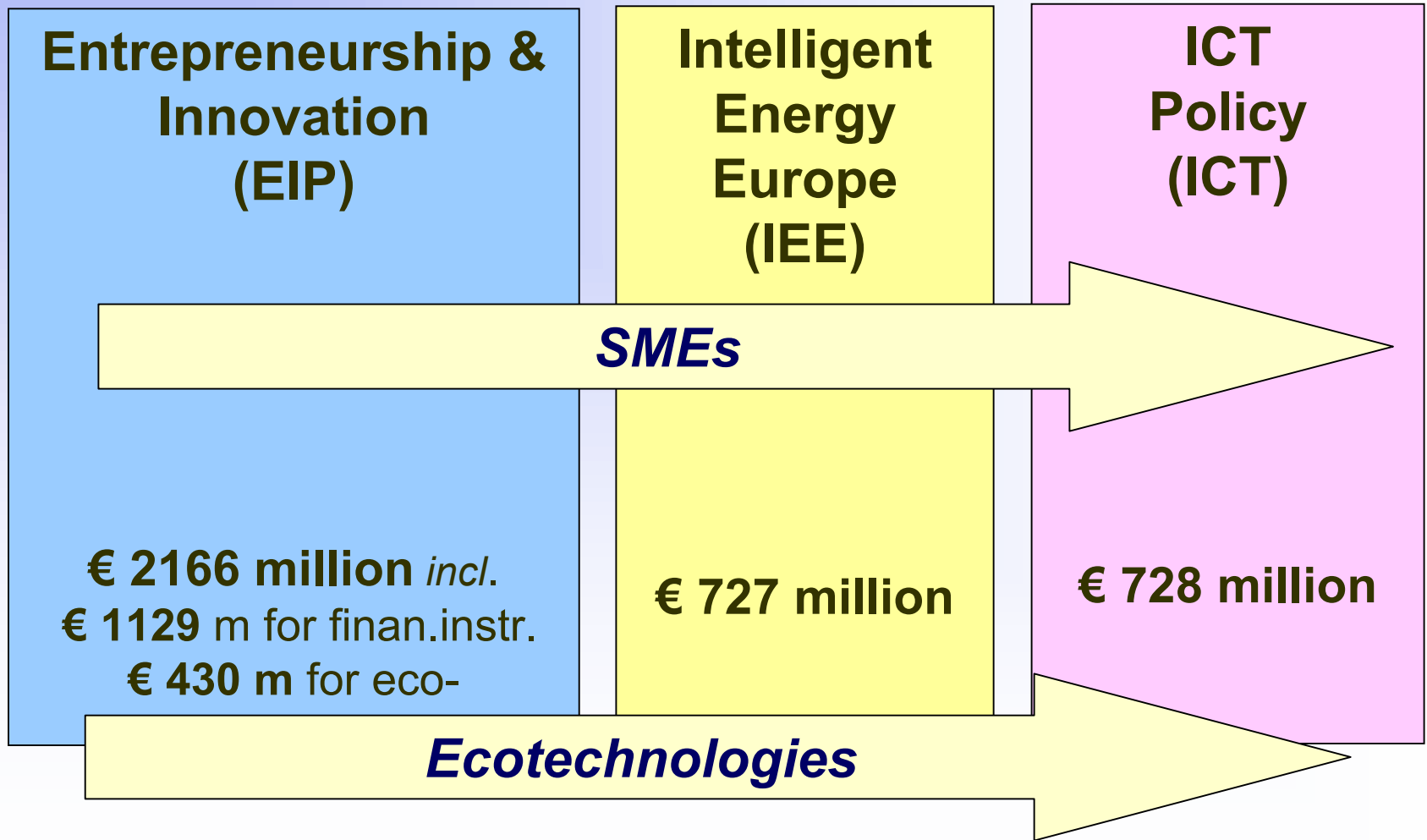
2. INNOVATION AND ECO-INNOVATION

3. COMPETITIVE, INNOVATIVE & INCLUSIVE INFORMATION SOCIETY

4. ENERGY EFFICIENCY & NEW/RENEWABLE ENERGY SOURCES

CIP structure: 3 pillars

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EIP: 3 new elements

1. Risk capital instrument for High Growth and Innovative Companies

2. Securitisation of banks' SME loan portfolios

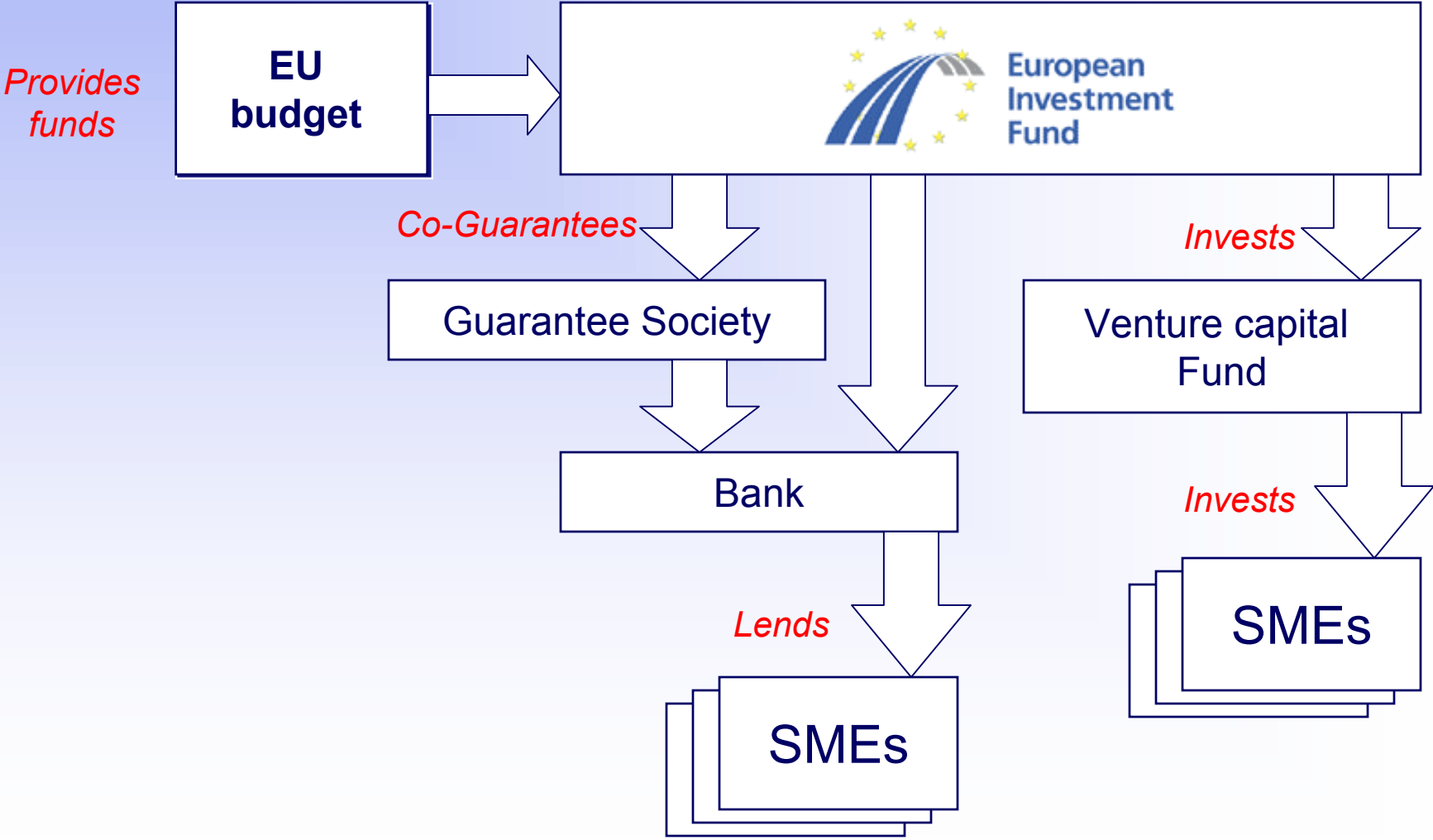
3. Enhanced role for innovation and business support networks

Financial instruments: MAP & CIP

<p style="text-align: center;">MAP</p> <p style="text-align: center;">Period: 2000-2006</p> <p style="text-align: center;">EU Budget: approx. € 500 million (in 2004 prices)</p>	<p style="text-align: center;">CIP</p> <p style="text-align: center;">Period: 2007-2013</p> <p style="text-align: center;">EU Budget: € 1,129 billion (in current prices)</p> <p style="text-align: center;">INDICATIVE:</p>
<p>ETF-Start-ups (approx. € 200 m)</p> <ul style="list-style-type: none"> - VC funds - high tech, early stages < 5 y þ - Incubators ý 	<p>High Growth Innovative Companies Scheme - GIF (€ 554 m)</p> <ul style="list-style-type: none"> - VC funds – GIF 1 (€ 255 m): <ul style="list-style-type: none"> • Early stages þ • Expansion stages (funding € 200,000 - €2.5 m) ☆ - Co-investments in side-funds with business angels - GIF2 (€ 299 m) ☆
<p>SMEG (approx. € 300 m)</p> <ul style="list-style-type: none"> - SME loans guarantee þ - Microcredit guarantee þ - Equity guarantees þ - ICT loans guarantees ý 	<p>SMEG (€ 506 m)</p> <ul style="list-style-type: none"> - SME loans guarantee þ - Microcredit guarantee þ - Equity and mezzanine guarantee ☆ - SME loan securitisation risk-sharing scheme ☆
<p>JEV ý</p>	
<p>Capacity Building (approx. € 1 m)</p> <ul style="list-style-type: none"> - Seed Capital Action þ 	<p>Capacity Building (€ 69 m)</p> <ul style="list-style-type: none"> - Seed Capital Action (€ 19 m) þ Partnership with IFIs (€ 50 m) ☆

Indirect financing

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Commission Communication, June 2006

“Financing SME Growth – Adding European Value”

→ Better access to debt and equity finance

- * **More risk capital investments:**

larger funds, increased returns, cross-border investing

- * **Develop bank finance for innovation:**

understanding banking requirements, mezzanine finance, microcredits (loans of less than € 25.000)

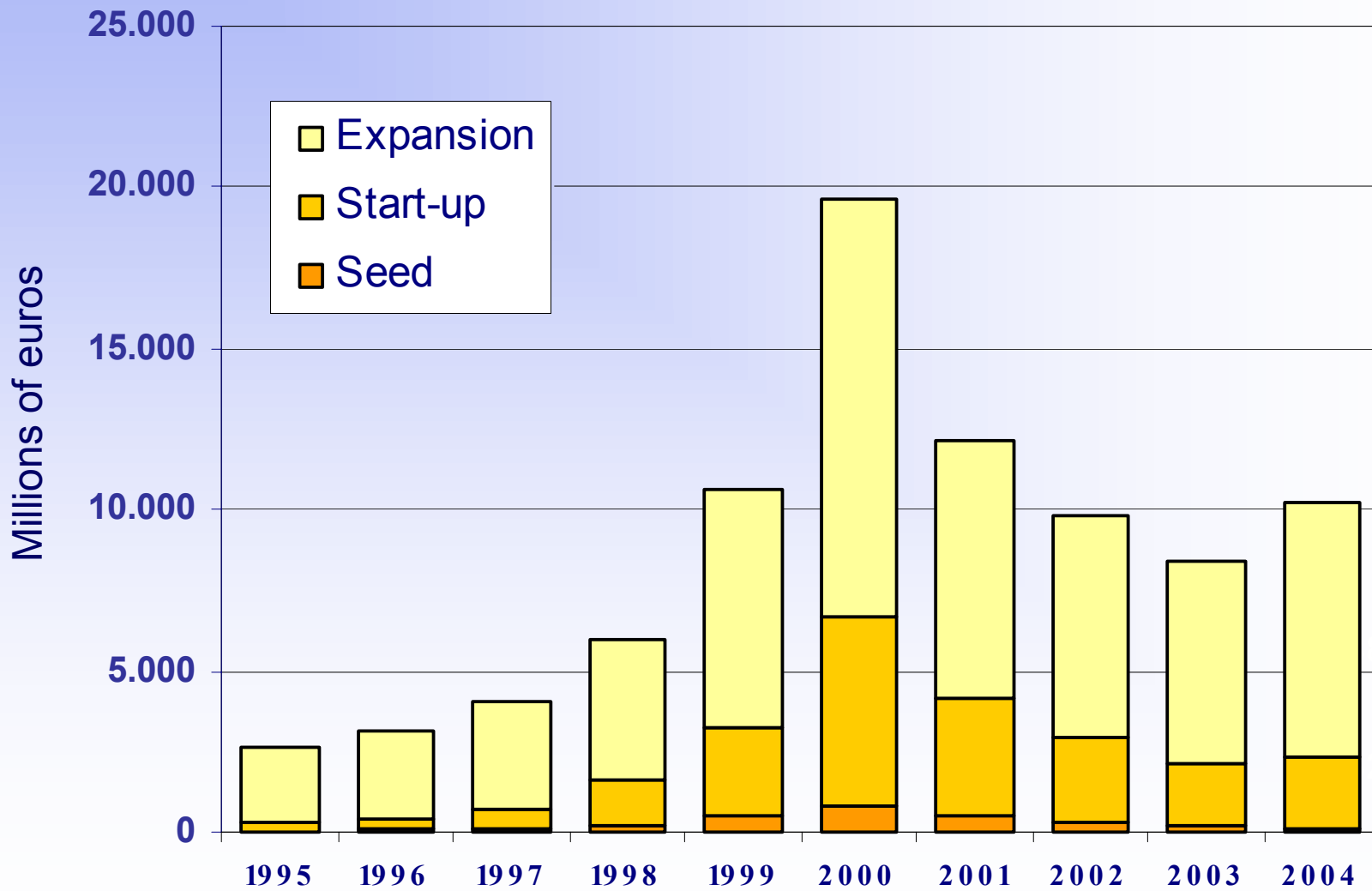
- * **More SME-friendly financial systems:**

implementing good practices, 5th roundtable of bankers, improving long-term banking relationship

http://ec.europa.eu/enterprise/entrepreneurship/financing/publications_documents.htm

VC investments in EU

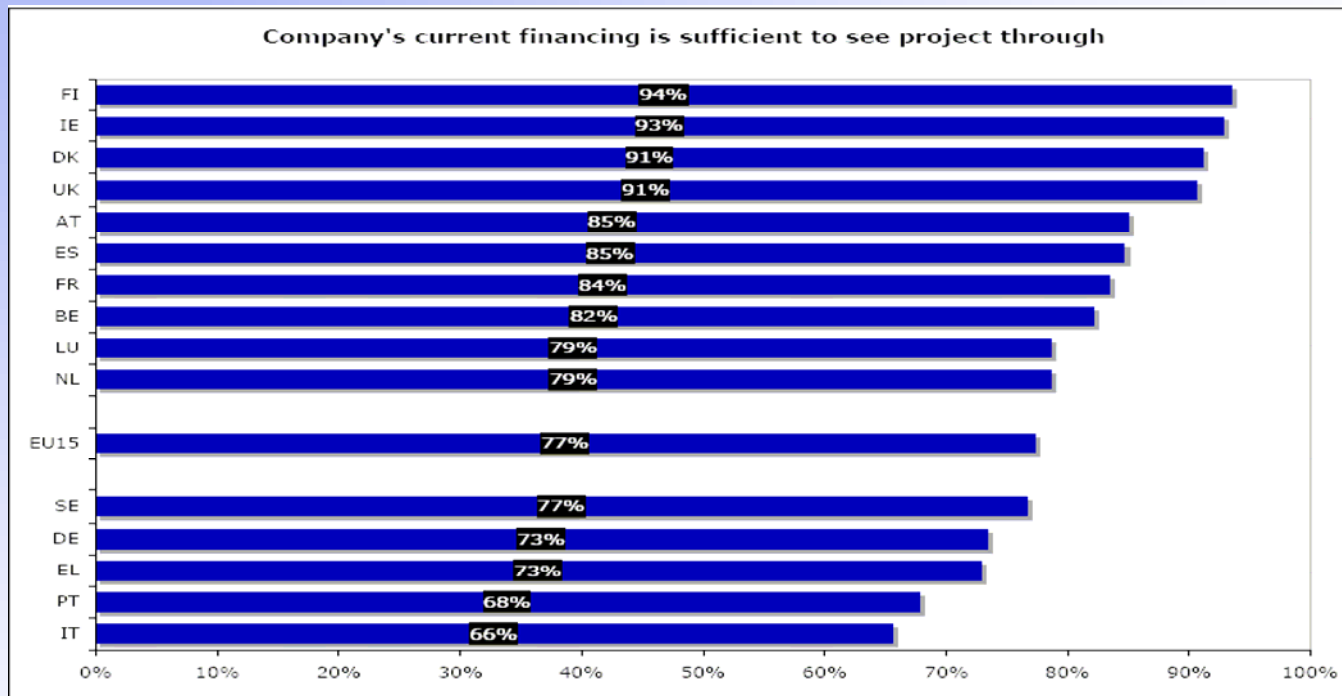
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Source: EVCA

Flash Eurobarometer in EU-15 (October 2005)

- 3047 SMEs surveyed; 75% SMEs have sufficient financing for project development;



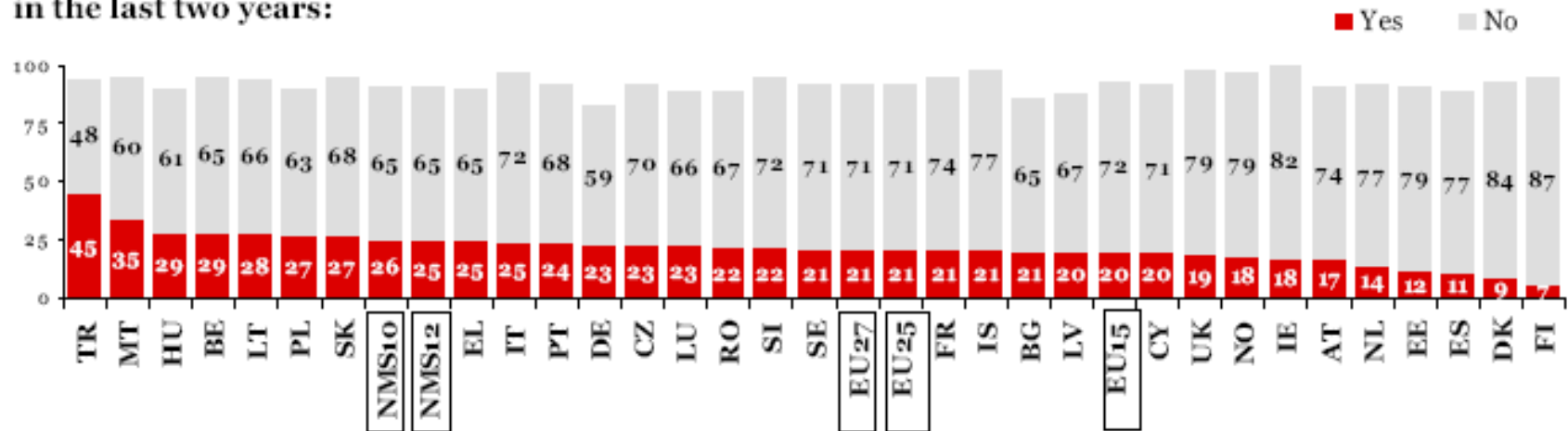
- To encourage SMEs access to finance: small loans with lower interest rates & less demanding guarantees requirements & simpler procedures for granting loans.
- Leasing and overdraft: most used instruments to finance SMEs activities (50%);
- Loan + 3 years: traditional product (42%);
- Loan: more difficult to get than previously;
- Banks remain the first SME partner when discussing financing (80% of SMEs);
- Loan: more difficult to get than previously;
- 6% SMEs increased capital from VC funds; 14% SMEs might use VC funding in 2 years.

Observatory of European SMEs (April 2007)

- Flash Eurobarometer survey in EU-27: characteristics of SMEs and also LSE (>250 employ.)
- 2006: a better year for SMEs in new MS (15% increase in income compared to 2005);
- 2007: 41% of EU SMEs expect an increase in income; more optimistic in new MS
- Main European SMEs' business constraints: purchasing power of customers (46%), administrative regulations (36%), lack (35%) and costs (33%) of human resources, infrastructure problems (23%), limited access to finance(21%)
smaller enterprises ~> more likely to have funding difficulties:

Limited access to finance

Constraints/difficulties encountered in the last two years:



Q21. Did your enterprise encounter any of these constraints or difficulties in the last two years?
a) Limited access to finance
Base: SMEs, % by country, DK/NA not shown

US-EC working group on VC (2005)

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- Focusing on the early stage
- Aiming at leverage with private investors
- Strengthening regional cooperation
- Increasing the expertise of fund managers
- Benefiting from existing stock markets
- Reviewing regulations that hamper investment
- Developing the treatment of intangible assets

Expert group on VC cross-border investments

- Obstacles when investing cross borders
 - * Liable for separate registration
 - * and separate establishment
- Fragmented European market
 - * 27 EU MS ~ 27 jurisdictions
 - * A complex legal and regulatory environment
 - * Differences in market development between MS
(notably between old and new Member States)
- Industry-driven proposals for
 - * Reducing the existing fragmentation
 - * Improve opportunities for cross-border investments
 - * Mutual recognition & common understanding



Workshop on Seed Capital (2006)

- Particular importance of public sector (incl. SF)
- Attention to crowding-out effects
- Investment decision best placed with private sector

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Updated information on CIP:

☞ European Commission

http://ec.europa.eu/enterprise/enterprise_policy/

☞ European Investment Fund

<http://eif.europa.eu>



Weblinks

- Policy on access to finance (DG ENTR/D3):
 - * http://ec.europa.eu/enterprise/entrepreneurship/financing/index_en.htm
- DG ENTR financial instruments:
 - * europa.eu.int/comm/enterprise/entrepreneurship/financing/instruments.htm
 - * www.eif.org www.eib.org
- Communication « Financing SME growth – Adding European Value »
 - * http://ec.europa.eu/enterprise/entrepreneurship/financing/publications_documents.htm
- Competitiveness and Innovation Programme – CIP:
 - * http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm
 - * *CIP legal base published in the Official Journal of the EU:*
http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_310/l_31020061109en00150040.pdf
- Overview of the main funding opportunities for SMEs in 2007:
 - * http://ec.europa.eu/enterprise/smes/download/sp_2007_en.pdf
- A guide to SME Policy
 - * http://ec.europa.eu/enterprise/smes/index_en.htm