BUSINESSEUROPE

SPEAKING NOTES

15 September 2010

WORKSHOP OF THE SME INTERGROUP OF THE EUROPEAN PARLIAMENT

"THE FUTURE OF EUROPEAN INSTRUMENTS TO SUPPORT SME FINANCE"

15 SEPTEMBER 2010

Comments by Daniel Cloquet, Entrepreneurship & SME Director

A. A quick look at the total picture :

For BUSINESSEUROPE, four factors or preconditions play an essential role for improving SME access to finance:

- Healthy banks, since SMEs need solid financial partners to help them develop;
- Well designed rules for increasing capital requirements of banks. Transitional arrangements for implementing the new standards adopted on 11.9.2010 (Basel III) should help ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy;
- A dynamic policy on the part of EIB Group designed to promote better SME access to finance;
- Encouragement of private equity. Private equity should be seen as the ideal source of financing for SMEs, and obstacles to its development should be removed.

B. Comments on the existing European instruments to support SME finance.

1) Financial instruments developed in the field of regional policy

We generally support the concepts underlying the financial instruments developed in the field of regional policy (JEREMIE, JESSICA, JASPERS). JEREMIE in particular helps creating a revolving effect on the structural funds rather than the usual one-off grants. We welcome this as it increases the leverage effect of the funds.
Yet, in a number of cases, the implementation of JEREMIE has been reported as slow and unsatisfactory by Authorities and we need therefore to check what can be done to improve it. Several shortcomings have been identified:

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
WWW.BUSINESSEUROPE.EU

- Firstly, JEREMIE is an optional instrument and therefore the regional managing authorities must decide to take part of it - which many do not;
- Secondly, procedures are time-consuming and difficult to be introduced. Implementation costs are also non negligible;
- Finally, there is a clear lack of information regarding financial engineering instruments.
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BUSINESSEUROPE therefore asks the Commission to simplify the legal provisions of the JEREMIE and Managing Authorities to take advantage of the enormous potential of this instrument.

2) The EIB loan schemes and the EIF instruments

Our basic message here is that a good start has been made, but that the range of products and services of the EIB Group should be broadened.

The traditional EIB loan schemes and the EIF's more market-based instruments of the EIB Group have demonstrated their strength as tools to support the financing needs of start-ups and of growing European companies. Of course, from an operational point of view, things can always be improved – today's workshop should highlight ways for that.

This being said, we believe that the EU focus should shift gradually towards alternative ways of financing, namely:

a) First : deepening of the European venture and risk capital pools:

In this connection, we clearly suffer from the lack of an integrated venture capital market within the EU. Remedying this is vital.

We also call for amending the draft European directive on Alternative Investment Fund Managers, which places private equity on the same footing as hedge funds. In our view, this is not appropriate. It has generated provisions that are likely to render private equity investment transactions more difficult and less attractive in Europe.

For example, disclosure requirements which require the public disclosure of commercially sensitive information such as details on merger and acquisition plans, research and development strategy or the capital structure of the company will discourage European investors from investing long-term risk capital in European companies. This should be rectified.

National tax systems should be improved to make risk capital investments more attractive.

b) Second: introducing and widening the use of risk sharing facilities.

c) Third: improving the number of European companies able to tap financial markets directly. Action should be taken to promote pooled corporate bond issuance for SMEs which often have no access to this form of finance.

3) <u>EU spending on research & development and innovation</u>

The level of EU finance available here is a major issue.

For example, the Competitiveness and Innovation Framework Programme is currently seriously underfunded.

But the level of finance available is not the only issue we have to take care of. We also need to make EU financing instruments more efficient from a managerial point of view.

Examples can be given of things that can be improved in relation to the RTD Framework Programme:

- It is important to implement strategic approaches which stimulate conversion of research results into innovations. BUSINESSEUROPE supports a closer connection of the Community's R&D projects with clearly identified societal objectives.

- Future EU public-private research partnerships should be implemented through lean instruments, without resorting to the "Community body" statute.

- A more risk-tolerant and trust-based approach should characterize the implementation of EU programmes

- There is a need to simplify audit and reporting procedures to encourage business participation in European research and innovation programmes.

- The 2002 EU Financial Regulation must be substantially revised to enable more flexibility in funding and staff management for research and innovation. Overall, BUSINESSEUROPE supports the Commission proposals of May 2010 in this respect, which it has commented in a position dated June 2010.

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