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MEETING OF NETWORK OF SME ENVOYS WITH EU BUSINESS ORGANISATIONS
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CUTTING RED TAPE IN THE EU AND IMPROVING SMES' ACCESS TO FINANCE

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I- Cutting red tape : state of play at EU level and way forward

- BUSINESSEUROPE welcomes the important steps that have been made to reduce administrative burdens and improve legislation. The EU better regulation agenda has made stakeholder consultations and impact assessments important parts of the policy-making process and the Commission has simplified legislation and made significant progress in reducing administrative burdens. But we are disappointed that companies have not yet felt a change in their daily business.

- In 2007, the Commission and the Member States set an ambitious goal. They jointly agreed to reduce administrative burdens by 25% in 2012 compared with 2007. Reaching the target will lead to an estimated increase of 1.5% in EU GDP – around 150 billion Euros. In the meantime, the Commission - with the help of the Stoiber Group - have tabled reduction measures that it claims go beyond the target (reaching a reduction of 33% compared with 2007). At national level, similar actions are planned and in process.

- However, in spite of all these proposals, plans and targets, businesses see still very little real effects in their day-to-day operations. There are several reasons for that:

  – First, a lot of the planned measures still have to be adopted by the legislator and subsequently implemented in order to generate their effect (about 50% of the reductions is still pending);

  - Second, sometimes the cost reduction potential of a proposal is amended and decreased by the legislator (e.g. the e-invoicing measure where a final text was adopted that could lead to different interpretations by Member States which could ultimately increase administrative burden if Member States interpret the rules differently); and

  - Third, a lot of the measures which overall reduce costs by significant amounts only entail small changes at company level.

- A number of actions can and should be taken to improve the situation:

  - There should be a real fast-track approval procedure in the Parliament and Council;

  - The legislator should not amend the proposal in any way that imposes new and additional burdens;

  - The proposals should focus on the right issues – priority should be given to those measures that address so called irritation burdens – burdens that are irritating to business but not necessarily expensive;

  - Businesses should be more closely involved with respect to the identification of proposals and their progress throughout the legislative process – feedback should be provided to companies that have been providing the Commission with concrete suggestions;

  - All policy areas should contribute to the reduction of administrative burdens. Opportunities should be looked at not only in company law but also in environmental regulations, for example;

  - The target should be a net target to ensure that new legislation does not add burdens that offset any achieved reductions; and

  - The Commission should not only look at information obligations (which basically involves looking at the cost of filling forms,etc). The Commission should also look at the much higher compliance and enforcement costs (cost of acquiring equipment, cost of training personnel,...).

- The Commission should also urgently go ahead with its plans to carry out systematic post-implementation monitoring and evaluation of Community legislation to identify further unnecessary burdens.

- To conclude, all these plans will only work if the resulting cost reduction measures are approved by the legislator and properly implemented at national level – this should be the first priority.

- BUSINESSEUROPE supports the integrated approach of the Commission's impact assessment system as set out in the Impact Assessment Guidelines. These should always be followed. The assessment should take due account of competitiveness issues and the "Think Small First" principle.

- Comprehensive stakeholder consultation in the impact assessment process is crucial to preparing high-quality assessments which accurately assess both benefits and costs and address in a balanced way all the significant economic, social and environmental impacts. It is thus vital that all relevant stakeholders can provide input and that there is sufficient publicity or time afforded to the process.

- There are many similarities between the situation at EU and national level. It should therefore systematically be ensured that new legislation at national level takes into account the potential implications for SMEs, by means of the SME Test.

II- <u>SMEs' access to financing: the need for an improved EU regime for venture capital</u>

- BUSINESSEUROPE believes that the EU should create a passport that would allow managers to manage small funds and to raise capital across the EU.

- In Europe, companies, and especially small and medium-sized companies, depend highly on bank lending to access finance. New capital rules for banks will affect the ability of banks to lend to businesses and liquidity requirements will lead to a bias towards government debt as opposed to equity which is considered more risky. A similar effect is caused by the implementation of Solvency II rules which discourage investments in long-term bonds below AAA rating.

- As demand for capital intensifies, companies will thus find it increasingly difficult to obtain the finance they need for investment. It is crucial that European rules on venture capital support market liquidity and make it easier for businesses to access debt and equity funding investments. Investors should be encouraged to invest long-term risk capital in European companies at a time when we need such partnerships between European companies and long-term European investors to generate employment and economic growth.

- Therefore, the EU should create a passport that would allow managers to manage small funds and to raise capital across the EU. The scope of such a proposal should be broad to include both venture and enterprise capital funds and also other investors such as "business angels", high net worth individuals, and family offices as these are an important part of the investor base of small funds. In order not to cut off capital from these latter categories, a fitting regime would allow investments as well from institutional and professional investors as defined in the Markets in Financial Instruments Directive (MiFID), but also from investors that would invest a high minimum amount of capital and/or can provide an independent and reliable assessment of their financial know how. Any regime for small fund managers should be voluntary to avoid disproportionate burdens for funds which choose to operate domestically and/or do not wish to obtain an EU-wide passport.

- There should be a separate initiative for small funds' managers rather than a modification of the Alternative Investment Fund Managers Directive (AIFM Directive) as many of the provisions of that directive are not proportionate for them. The aim of such a new EU regime should not be to facilitate tax incentives as the main problem faced by small funds' managers involved in cross-border activities relates to fundraising and not investing. Issues related to taxation should be addressed in separate initiatives.

- Lastly, it is important that small and medium-sized companies which are owned by funds managed by the same funds' manager do not lose their SME status in the context of the EU SME definition. Application of the concept of "linked enterprises" included in the EU definition should thus not lead to aggregating all those companies so that they are no longer considered to be an SME in the context of the definition.

III- <u>Improving financial dialogue between banks and SMEs</u>

- It is a fact that a number of communication hurdles exist between banks and SMEs which can work against the succesful conclusion of loan contracts, and therefore impact negatively on the spirit of enterprise. Banks should take initiatives to help SMEs to meet the presentational requirements needed to facilitate evaluation of their credit applications.

- But even in the case of projects presented with great care, the bank may give a negative response following a process which often sheds very little light on the reasons for refusal. This situation is not very positive from the angle of promoting entrepreneurship. It is important for an entrepreneur to understand the reasons for the failure of his application, so that he can (1) present it better on another occasion or (2) present arguments to his bank if some very positive elements of his project appear to have been undervalued or disregarded.

- For this reason, BUSINESSEUROPE attaches great importance to measures being taken to disseminate best practices to enhance transparency of credit conditions and credit application processes. The fact that this theme is being debated today by the SME Envoys is very positive.

- As examples of positive initiatives, one can mention the Belgian system of credit mediator or the Business Finance Task Force created by the British Bankers' Association in 2010. This Task Force has recommended that member banks put in place an in-house mediator and a fair and equitable appeals process for when loan applications are declined. Each bank's appeals process will be independently monitored by a senior independent reviewer who will publish the results of that review.

- Other countries have focused attention on the introduction of lending codes. Definition of a detailed European lending code would not be a very pragmatic objective. By contrast, it could be useful to define an overarching set of guidelines and common principles at European level to help to guide each member state in implementing its own code or to help launch codes in those countries that do not have one.

IV. SME financing and the proposed Multi-annual Financial Framework (MFF)

- BUSINESSEUROPE is pleased to see that SME development is high on the list of basic objectives underlying the MFF proposal. The MFF proposes innovative instruments and significant means to support SME research, innovation and growth through stronger international competitiveness.

- BUSINESSEUROPE strongly supports the planned use of equity and loan facilities accessible to SMEs both in the "Competitiveness and SMEs Program" and in "Horizon 2020".

Funds provided on favourable terms to national financial intermediaries by EIB/EIF should translate into attractive financial conditions for the loans they offer to SMEs, which is not the case today in some countries.