



26 April 2012

Czech Permanent Business Representation to the EU (CEBRE)

Conference on Financial engineering in future EU programmes

Comments by Daniel Cloquet, Entrepreneurship and SME Director, BUSINESSEUROPE

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Ladies and Gentlemen,

The central issue of this conference is “Will the new financial instruments of COSME (the Programme for Competitiveness of Enterprise and SMEs) and Horizon 2020 ensure better access of SMEs to finance?”

BUSINESSEUROPE gives a very positive answer to this question, based on the successful experience of the Risk Sharing Finance Facility introduced under the 7th Research Framework programme and on the equally very positive experience of the financial instruments introduced by the CIP (the EU Competitiveness and Innovation Programme), namely the High Growth and Innovative SME Finance Facility (GIF) and the SME Guarantee Facility (SMEG).

A full-size demonstration has in fact been made over the last years of the value of the different loan or equity products offered by the EU and delivered through the EIF.

So, we are very keen to see these instruments continuing and we are very happy that the existing broad spectrum of instruments has been maintained by the Commission in its Multi-annual Financial Framework proposal.

This basically positive view does not of course mean that the success of the new generation of financial instruments can be considered as automatically guaranteed.

The ultimate success will depend on the right management of some implementation issues, and on a limited number of technical design issues, which still need to be improved or clarified.

Let us look at these issues in the context of COSME first.



The first issue where we see a need for improvement is the ceiling 150,000 euro for the loans that COSME can guarantee. This ceiling is too low and should be increased.

We understand that this view is shared by a number of Member States.

Our second request regarding COSME is that it should contain clearer wording, clarifying that the programme is designed to facilitate not only access to equity and debt finance but also to mezzanine finance.

There are three reasons why mezzanine finance is important:

- Firstly, mezzanine finance is relevant for many owners of SMEs for whom it is not attractive in a given situation to give up to their ownership partly or fully;
- Secondly, mezzanine finance is relevant for companies unable to obtain debt financing due to a low equity ratio;
- Thirdly, companies with mezzanine capital are often able to obtain additional and more attractive bank loans, since the mezzanine finance is subordinated to all other types of loans.

We are encouraged to hear that the Council Working Party on Competitiveness and Growth is taking the mezzanine point on board, and intends to clarify article 14 of the COSME proposal to make it that the EGF (the Equity Facility for Growth) will have to focus on funds that provide venture capital and mezzanine finance, such as subordinated and participating loans.

Moving to the less satisfactory aspects of COSME, I will single out in fact only one point, namely the low level of the budget for the financial pillar of COSME, which is 1.4 billion euro for 7 years. It is really essential to raise this level.

Turning to Horizon 2020, we welcome the fact that it will offer a number of new or reinforced financial instruments, besides the classical grants.

Needless to say, grants should remain the main support instrument within Horizon 2020, because of the high risks of research and innovation. This being said, we support the parallel deployment of a demand driven debt facility and of an equity facility under Horizon 2020.

It is very good to see that the Horizon 2020 Commission proposal makes it clear that the equity facility will have to invest also in funds providing mezzanine finance.

The success of the Equity Facility supporting Horizon 2020 and COSME will highly depend on the smart selection of the financial intermediaries that will provide seed money or venture capital. It will also depend on the smart choice of the funds of funds where community money will be invested. We expect that the EIF, which will be in charge of managing the financial facilities, will deploy the best expertise to select, on a competitive basis, the most professional and forward looking financial intermediaries.



Let me make a remark on the issue of innovative companies, and where they can go to apply for EU finance.

It is not always easy to define what is an “innovative company” and a “not innovative company”, even if the intention is, in Horizon 2020, to define innovation on a broad basis, including service innovation, design innovation, etc.

There should certainly be no draconian barriers preventing companies with innovation projects from having access to COSME. In that sense, the wording in Horizon 2020 specifying that it should focus on companies that are research and innovation “driven” are probably smart. We interpret them in the sense that Horizon 2020 would focus on companies where innovation is at the core, on a day-to-day basis; and that COSME would be able to finance innovation projects developed by companies where innovation is just one element amongst others in the company strategy.

Finally, BUSINESSEUROPE calls for a more holistic approach for the support of SMEs through the ERDF, the European Regional Development Fund. The spectrum of SME needs is broad. It is very positive that tailor-made support for SMEs is included in the draft revised ERDF Regulation. But SMEs also need indirect support, resulting from positive action on the economic structures that surround them. It is therefore vital to correct the fact that large and intermediate companies are not eligible for access to ERDF support for productive investment that can result in huge benefits for SMEs.

Thank you.
