

Enterprise policy: multiannual programme MAP 2001-2005

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This Commission Staff Working Document accompanies the annual report from the Commission on the financial instruments of the multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2006). It covers the four Community financial instruments ("measures") implemented under MAP, i.e:

- SME Guarantee Facility;
- Start-up Scheme of the European Technology Facility (ETF Start-up Facility);
- Seed Capital Action;
- Joint European Venture (JEV) programme.

The report includes specific conclusions of the abovementioned financial instruments. These are as follows:

SME Guarantee Facility: to recall, the objective of this Facility was to promote entrepreneurship and to enhance growth and competitiveness, by improving the financial environment for business, especially for SMEs.

The report concludes that the SME Guarantee Facility has had a **strong impact** over the entire programme period and has **undoubtedly improved access to finance for SMEs**. The entire budget has been used and nearly 194 000 enterprises, representing about 1% of existing European enterprises, have benefited. This figure also represents more than 10% of newly created enterprises.

It allowed Financial Intermediaries to increase substantially the volume of loans they granted to SMEs and to take on higher risk. There is further added value, particularly in the Micro-credit Window, where "disadvantaged" groups have also benefited from the programme.

The Facility has a high leverage effect, especially under the Loan Guarantee Window, where for each EUR 1 000 of EC money committed, there is more than EUR 80 000 of loan volume.

The rather flexible, market-driven structure of the SME Guarantee Facility has meant it could be easily adapted to different market, national and regional conditions, allowing it to achieve both a wide range of application and a broad geographical distribution. A higher level of transparency has been achieved by increased monitoring and reporting requirements, which must be carried through all the way down to the final beneficiaries. Visibility of the EU contribution was ensured through a requirement for the FIs to mention the EU support in the loan agreements with SMEs.

The *Loan Guarantee* window proved to be an appropriate scheme for most Financial Intermediaries, allowing them to significantly increase their financing to SMEs. It is by far the most used of all windows in terms of monies committed.

The *Micro-credit* window allowed some of the Financial Intermediaries to enter into the field lending to micro-enterprises, which may have been previously excluded from access to finance. It also improved access to finance for the self-employed and some disadvantaged groups.

The *Equity Guarantee* window was little used. It guarantees larger investments for fast-growing high-tech companies, which means that the target group is similar to that of Venture Capital (VC) funds and therefore limited overall. There were also some technical constraints.

The *ICT Loan Guarantee* window, designed as a sectoral window, did not attract any demand, due to its narrow focus. It is assumed that part of such ICT investments are covered by the "general" Loan Guarantee window.

ETF Start-up Facility: the objective of ETF Start-up was to increase the availability of risk capital to innovative SMEs during their creation and their early stage development. The facility is tailored to the strategically important area of seed and early stage investments in mainly high tech enterprises with high growth potential. The **demand for early stage funding remains strong** and European technology centres (especially research centres and universities) continue to generate valuable results in terms of concepts and intellectual property rights.

The entire budget allocated to ETF Start-up has been used. ETF Start-up has often had a catalytic effect in the establishment of early stage VC funds making it possible to attract more investors and thereby allowing funds to invest larger amounts, to have more resources available for follow-on investments in selected SMEs and to achieve a more commercially viable size. The improved market cycle in 2006 resulted in the recovery of the venture capital market, with a significant impact on the number of new investments under ETF-Start-up, although investors remained much more reluctant to invest in early stage enterprises than later those in later stages of development. The EIF's investment in VC funds under ETF Start-up also gave a degree of reassurance regarding the quality of the funds, thus helping to attract other investors.

Seed Capital Action: the Seed Capital Action (SCA) aimed to stimulate the supply of capital for the creation of innovative new businesses with growth and job-creation potential, including those in traditional economic sectors, through support for seed funds, incubators and similar schemes. The report highlights that the **demand for this instrument was significantly below expectations**. Constraints in terms of eligibility criteria and difficult market conditions for seed capital meant that demand was limited. Based on this experience, the **instrument will therefore be modified under the CIP programme**.

The JEV programme: this programme aimed to encourage joint ventures between European SMEs in the European Economic Area, thereby helping them to benefit from the opportunities offered by the single market.

The report concludes that **demand for JEV from the market was much lower than originally expected**. Although the logic behind the JEV programme was considered sound, time has shown that there was in fact relatively little demand from SMEs for support for the creation of transnational joint ventures in the EU. In reality, SMEs investing in other Member States often preferred to create subsidiaries rather than joint ventures, or to enter into looser cooperation agreements without the obligation to create a new legal entity. Take-up of the programme may also have been affected by the need to impose thorough controls on the processing of applications in order to ensure sound financial management and reduce the risk of irregularities to the minimum. As a result, file processing times were longer than expected by the SME target group.