Small and medium-sized enterprises SMEs: job creation, financial assistance. Growth and employment initiative

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PURPOSE : to present the 2002 Report from the Commission on the measures on financial assistance for innovative and job creating SMEs. CONTENT : in accordance with Council Decision 98/347/EC, the Commission is submitting its annual report to the European Parliament and Council on the progress achieved on the implementation of three financial instruments: - Start-up Facility (ETF); - Joint European Venture (JEV); - SME Guarantee Facility. The report states that 2002 was a difficult year for the European venture capital industry as demonstrated by the sharp decline of 49.2 % in fundraising, with EUR 19.4 billion raised, compared with EUR 38.2 billion in 2001. In this context, the progress made during the year under review in the implementation of the ETF Start up facility is satisfactory and shows that the facility worked in a complementary way to fill the gap created by the relative absence of private funding. It should be noted that the worsening economic climate may have a significant impact on the expected returns of venture capital funds. The report highlights that as at 31.12.02, an amount of EUR 59,82 million out of a total appropriation of EUR 449.56 million was still available for commitments. Under the ETF Start-up Facility, an amount of EUR 17.42 million was available subject to an extension of the reinvestment period. An amount of EUR 42.4 million was also available for JEV. The report stipulates that the activity of the EIF related to the ETF Start-up Facility and the SME Guarantee Facility developed according to plan, although it was affected by the economic situation that resulted in a downturn of risk capital in Europe and the increased reluctance of banks to lend to activities towards SMEs. In this respect, the banks also anticipated consequences, in terms of higher risk exposure, of the Basle II capital accord In 2002, the SME Guarantee Facility showed its strength in supporting SMEs. Against a worsening and unstable economic climate, participating banks and other guarantee institutions relied on it to provide them with an extra cushion of assurance to continue financing SMEs and thus to maintain job creation opportunities that might otherwise suffer from lack of finance. Compared with 2001, guarantee commitments by the EIF to participating financial intermediaries increased by 14.2%. As far as JEV was concerned, the take-up by the market was far below expectations. The employment creation impact was minimal and the cost-effectiveness was very low, as already reported last year. An evaluation of the various financial instruments has been carried out by the Commission services. The Commission will present this evaluation in a separate document that will include a proposal on the future of JEV. On 20 December 2000, the Council decided to extend the financial instruments of the Growth and Employment Initiative under a new legal basis, the multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (2001-2005) (MAP). The MAP proposes modifications and extensions of the ETF Start-up Facility and the SME Guarantee Facility and introduces a new action, the Seed Capital Action. All three actions are managed by the EIF and aim toaddress recognised market failures in order to improve SMEs' access to finance. Lastly, in May 2002, the first commitments were made for the MAP budget, ensuring a smooth transition from Growth and Employment. Formalities to allow the candidate countries to participate in the financial instruments were largely completed in 2002. The formal implementation notice for candidate countries was published on 25.02.03. Performance information on the SME Guarantee Facility, the ETF Start-up Facility and JEV will be provided in the context of the MAP.