

Enterprise policy: multiannual programme MAP 2001-2005

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This document consists of the Communication from the Commission on access to finance of small and medium-sized enterprises. The Commission recalls that improving access to finance is an important aspect of fostering entrepreneurship in Europe. The role of the public sector should primarily be to improve the general framework conditions of finance and take limited direct action only when market failures warrant it. Experience has shown that best results in SME finance are achieved when the public sector works with the markets and acts as a catalyst to encourage their development. - The problems of finance facing start-up businesses require long-term solutions involving the public sector. Most Member States have programmes and institutions that aim to overcome the gap in early-stage SME finance caused by high risk and high overhead costs. Efficient public support mechanisms need to be tailored to local conditions and need to be simple and accessible. This can only be achieved by using local banks and venture capital funds as intermediaries - as happens with the Community financial instruments. - Experience from the EU financial instruments shows that loan guarantees are a very efficient way to use limited public funds and directly address the problems of lacking collateral and intangible assets. To improve the conditions of bank lending, the Commission has facilitated discussions about a code of conduct for credit institutions and SMEs. It has also produced a report on best practices in microlending. The Community financing institutions, the European Investment Bank (EIB) and the European Investment Fund (EIF) provide important support to SMEs' access to finance. The increasing risk awareness of banks has led them to expand the use of internal rating of SMEs. - Many SMEs need stronger balance sheets although formal venture capital is an option only for entrepreneurial growth companies. In addition to developing European venture capital markets, promoting the possibilities provided by business angels and business angel networks should continue to receive attention at regional, national and European level. The proposed new capital requirements for banks from 2007 onwards will increase stability and competition in European financial services markets, and they should also bring benefits to the SME sector. The effects of the new rules for the European economy, and in particular for SMEs, are the subject of a study being carried out on behalf of the Commission. To efficiently promote entrepreneurship in Europe, further European, national and regional public sector actions should be focused on three areas of SME finance: 1) Improving the framework conditions : besides completing the single market and removing obstacles from growth, developing financial markets will be a particular challenge in the accession countries because they suffer from low level of equity investments and bank lending. These countries merit special attention, as otherwise the underperforming financial markets will hamper entrepreneurship and growth. 2) Focusing on early-stage finance, in particular guarantees and microlending : the persistent gap in early stage finance makes it necessary that the public sector continues to work with the private sector to overcome it. Easily and widely available guarantee instruments that share risk between the private and public sectors effectively address SMEs' difficulties in getting bank loans. Microlending can provide start-ups with a decisive help and loan guarantees should be used efficiently to promote it. The use of national financial intermediaries and national programmes makes it possible for financial instruments to be tailored to the different financing traditions providing additional leverage to programmes targeted at the financing gap in early stage SME finance. 3) Increasing equity : the needs of entrepreneurial growth companies and the mainstream European SMEs are different, but both need stronger balance sheets with enough equity. Retained earnings are the best form of financing growth and investment. The Member States should review whether their tax laws inhibit firm growth by taxing retained earnings more than distributed profits. For entrepreneurial growth companies, liquid and well-functioning venture capital markets are essential.