

Enterprise policy, SMEs: prolongation of the multiannual programme MAP until 31 December 2006

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This is the third annual MAP progress report. To recall, MAP was set up, initially, to cover the period 2001-2005 but was later extended to the end of 2006. The report covers the three financial instruments set up by MAP namely: the SME Guarantee Facility; the ETF Start-up Facility and the Seed Capital Action.

SME Guarantee Facility: The objective of this Facility is to promote entrepreneurship, enhance growth and competitiveness and to improve the overall financial environment for SMEs in the Community. It does so by seeking to encourage the growth of SMEs through increasing their debt financing. The Facility provides higher volumes of guarantees for existing guarantee products of the Financial Intermediaries (FIs); by offering access to financing for a larger number of small companies and by offering a wider variety of investments and guarantees for riskier loans. In addition, the SME Guarantee Facility covers part of the losses incurred under the guarantees up to a pre-determined amount (the cap). It applies only to companies with up to 100 employees. In short, the Facility offers: Loan Guarantees; Micro-credit Guarantees; Equity Guarantees; and ICT Guarantees.

At the end of 2005, the budgetary resources committed under the SME Guarantee Facility amounted to EUR 267.50 million – representing 64.3% of the total MAP budget. As far as the “utilisation” of the Facility is concerned (meaning the aggregate volume of guarantees issued by the EIF in relation to the signed agreements between the EIF and the FIs under the facility), at the end of 2005 the average utilisation reached 67% for the Loan Guarantee window, 66% for the Micro-credit window and 65% for the Equity window. This is fully in line with expectations.

Guarantee schemes, in general, have a very high leverage effect as do Loan Guarantees as they are often provided in the form of counter-guarantees to institutions that in turn provide guarantees to other actors such as intermediaries and banks. Due to the risk-sharing between these various actors the leverage, in terms of volume of loans supported, is very high.

The number of final beneficiaries increased progressively and stood at nearly 140 000 at the end of 2005 (of which more than 115 000 under the Loan Guarantee window). In 2005 about 570 000 persons were recorded as employed at the date of the loan issues against less than 310 000 in 2004. At the end of 2005 Final Beneficiaries with up to 10 employees made up 91% of the total number of SME's under the Loan Guarantee window, 100% under the Micro-credit window and 64% under the Equity Guarantee window. These figures clearly demonstrate that the SME Guarantee Facility remains focused on its target population as set out in the EU “Charter for small enterprises”.

ETF Start-up Facility: The purpose of the ETF Start-up Facility is to increase the availability of risk capital to innovative SMEs during their creation and their early state development. It invests in specialised venture capital (VC) funds that have been made available to provide equity or other forms of risk capital to SMEs. At the end of 2005 the budgetary resources committed under the ETF Start-up amounted to EUR 143.20 million, representing 34.4% of the MAP budget.

Since the start of MAP, 12 requests for approval have been submitted to the European Commission for approval. Nine have been signed by the EIF with VC funds. One investment of EUR 15 million in Germany is still under negotiations. For the remaining two approved proposals, the operations have not

materialised. Five out of the ten contracts were signed in 2005. Several deals are still in the pipeline. If successful they should materialise in the course of 2006.

In general, the VC funds, in which the EIF has invested, have an international, national or regional focus. Funds are mainly oriented towards early stage investments in high technology sectors, such as information and communication technologies, internet, healthcare and life sciences. Given that the VC funds are still in the early stages of their investment periods it is too early to provide any meaningful data on their employment potential. Up to December 2005, the VC funds had invested in 35 portfolio companies, which reported a total of 568 employees as of June 2005.

Seed Capital Action: The purpose of the Seed Capital Action is to stimulate the supply of capital for the creation of innovative new businesses with growth and job creation potential, including those in the traditional economy, through support for seed funds, incubators or similar schemes. At the end of 2005 the budgetary resources committed under the SCA amounted to EUR 5.6 million, representing 1.3% of the MAP budget committed until the end of 2005. The VC funds approved through the SCA scheme have contractual agreements with the EIF under the ETF Start-up initiative. By the end of 2005 three grant agreements were signed with the two VC funds.

Conclusions: The Commission concludes its report by stating that the SME Guarantee Facility has had a positive market take-up. The Loan Guarantee and the Micro-credit windows have been particularly successful allowing the participating Financial Intermediaries to increase volumes and to take on more risk. At the end of 2005 the Facility covered 27 countries and 45 portfolios of 41 Financial Intermediaries.

The implementation of the ETF Start-up Facility has, on the other hand, faced some difficulties in the period 2002 to 2003, due to the difficult fundraising situation prevailing on the EU venture capital market. Precisely for this reason, the report argues, the ETF Start-up Facility has a key role to play as a unique and important European financial instrument fostering investments in strategic sectors. The demand for early stage funding remains important and European technology centres (especially research centres and universities) continue to generate valuable results in terms of concepts and intellectual property rights.

Regarding Seed Capital Actions, the programme has not been as successful as originally hoped – largely due to constraints relating to eligibility criteria and difficult market conditions for venture capital in the MAP starting period. Only three grant agreements have been signed so far.

The successor programme to MAP, the “Competitiveness and Innovation Programme” or CIP was adopted in 2006. CIP will bring together, within a coherent framework, specific Community support programmes and relevant parts of other Community programmes in the fields most critical to boosting European productivity and innovation capacity whilst at the same time respecting environmental concerns.