



April 2012

## PROPOSED COMMISSION PROGRAMME ON COMPETITIVENESS OF ENTERPRISE AND SMEs (COSME)

### KEY MESSAGES

- 1 BUSINESSSEUROPE strongly supports the introduction of the Equity Facility for Growth (EFG) and of the Loan Guarantee Facility (LGF) proposed in COSME. Because of the high leveraging effect of these two instruments, the budget proposed for the EGF and LGF (i.e. 1.4 billion euros for 2014-2020) should be significantly increased.
- 2 The current EU portfolio of support instruments for SME internationalisation should be carefully assessed and optimised, as announced by the Commission. This should clarify whether and where the conditions are met for pursuing current actions and for developing new ones.
- 3 BUSINESSSEUROPE supports COSME's stated objective of promoting entrepreneurship as well as the competitiveness and sustainability of European enterprises through Community actions. However, it is necessary to clarify the content of some of these actions and to upgrade the level of the associated performance indicators.

### WHAT DOES BUSINESSSEUROPE AIM FOR?

- Access to finance has become a more pressing priority for business. The ability of the financial sector to finance a recovery is uncertain in the years ahead. It is therefore important to take actions to remedy market deficiencies and take advantage of the strong leverage offered by EU financial instruments.
- A great deal of work remains to be done to implement the policy principles of the Small Business Act (SBA), at both European and national level. With this in mind, it is important to put in place a well designed COSME action programme that fosters implementation of the SBA.

### KEY BUDGET FIGURES OF COSME (€ MILLIONS, 2014-2020)

Improving framework conditions	384 (16%)	Promoting entrepreneurship	87 (4%)
Improving SME access to finance	1,436 (59%)	Improving access to markets	535 (22%)



SMEs play a vital role in the European economy. Therefore BUSINESSEUROPE supports the general objectives of the European Commission's proposal for a Regulation establishing a Programme for the Competitiveness of Enterprises and for SMEs (COSME) to strengthen the competitiveness of SMEs – start-ups as well as established enterprises<sup>1</sup>.

## 1. COSME objective 1: improving the framework conditions

BUSINESSEUROPE welcomes the Commission's objective to reduce the administrative burdens. However the proposed objective and impact indicators are unambitious and imprecise.

The proposed impact indicators are the following:

- Reduction of number of days to set-up a new SME: 3 working days in 2020
- About 7 simplification measures per year in 2017.

The proposed impact indicators will not necessarily ensure that it will become easier to start up and run a business in the EU. With the proposed impact indicators the Commission does not take into account the increase of new regulation and the complexity of the regulation. Hence BUSINESSEUROPE proposes that the impact indicators are complemented with a net reduction target in the administrative burdens based on the so-called Standard Cost Model defined in the Commission impact assessment methodology.

## 2. COSME objective 2: promoting entrepreneurship

BUSINESSEUROPE supports the Commission's objective of promoting entrepreneurship and increasing the number of entrepreneurs in EU. There is no question that the EU has a challenge in increasing the number of entrepreneurs, but BUSINESSEUROPE believes that the EU has an equally great challenge in increasing the number of high growth entrepreneurs. BUSINESSEUROPE proposes that the medium-term growth target defined for the population of self-employed is complemented by a similar target for the population of high-growth entrepreneurs.

## 3. COSME objective 3: improving access to finance for SMEs: general view

A significant barrier to growth is the access to finance; hence BUSINESSEUROPE strongly supports the Commission's proposal to allocate 1.4 billion euros under COSME to an equity facility and a loan guarantee facility. BUSINESSEUROPE recommends however that the Commission monitors the financial situation closely and if necessarily make use of the possibilities to increase the financial instruments share of the total budget.

---

<sup>1</sup> A table giving the budgetary details of the COSME proposals is attached



In general terms, BUSINESSEUROPE is satisfied to see that the equity and loan facilities in the COSME and Horizon 2020 proposals are broadly complementary and make it possible to meet the financial needs of a wide spectrum of SMEs:

- SMEs being in the start-up/early phase *or* in the growth phase
- SMEs whose expansion is based on innovation (broadly defined) *or* on other growth models.

BUSINESSEUROPE urges that the whole of this toolkit and connected budget resources proposed by the Commission are actually approved by the Parliament and the Council.

### 3.1. Measures to improve the access to risk capital (Equity Facility for Growth)

BUSINESSEUROPE supports the proposal to create an Equity Facility for Growth (EGF) focusing on funds that provide venture capital and mezzanine finance, such as subordinated and participating loans.

While there are clear needs for mezzanine finance, these needs do not sufficiently attract the attention of fund managers. Initiatives like the on-going EIF Mezzanine Facility for Growth (MFG) are important to strengthen mezzanine finance, and BUSINESSEUROPE insists that the EGF must amplify the action of the MFG.

There are two reasons why mezzanine finance is important. Firstly, mezzanine finance is relevant for many owners of SMEs for whom it is not attractive in the 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 low equity ratio (high leverage). Finally, 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.

### 3.2. Measures to encourage loans (Loan Guarantee Facility-LGF)

As far as COSME loans guarantees are concerned, the € 150,000 threshold (as the maximum amount of loan for which the guarantee is granted) is very low. If an enterprise is willing to invest, obtaining a guarantee for a maximum loan of only € 150,000 will be a high burden.

In order to allow guarantees for higher loans, it will be necessary to introduce, in the implementation phase, the opportunity to combine national and regional guarantee instruments with the European ones. In this way, a SME could cumulate the guarantees to cover entirely a planned investment.

It would also be appropriate to identify more flexible rules for the structural funds allocated to finance guarantees instruments. In particular, these rules should not inhibit the use of the funds by banks and financial intermediaries.



### 3.3. Guarantees for mezzanine finance

BUSINESSEUROPE recommends that the Commission looks into how the EGF could strengthen mezzanine finance – for instance through a mezzanine guarantee. A mezzanine guarantee facility will help to reduce the required return by investors (due to the lower risk), making mezzanine finance attractive to a wider range of businesses.

### 3.4. Need for active promotion of EU financial instruments

BUSINESSEUROPE calls for the contracts signed between EIF and financial intermediaries for the provision of financial products to contain clear obligations regarding the promotion of these products.

## 4. COSME objective 4: improving access to markets inside the Union and globally

BUSINESSEUROPE agrees with the Commission that EU plays a significant role in improving the companies' access to the Single Market and the markets outside EU.

BUSINESSEUROPE has expressed its views in a separate position (April 2012) on the Commission Communication "Small business, big world", where the Commission proposes an overall strategy for improving SME access to markets globally. This position stresses in particular that the current EU portfolio of support instruments for SME internationalisation should be carefully assessed and optimised, as announced by the Commission. In relation to the COSME objective 4, this assessment should clarify whether and where the conditions are met for pursuing current actions and for developing new ones. The Enterprise Europe Network (EEN) initiative should be included in this overall review. BUSINESSEUROPE has commented in a January 2012 position on the need to adapt the governance model of the Enterprise Europe Network

BUSINESSEUROPE proposes that, in COSME, the demands to the impact indicators concerning the EEN are increased. BUSINESSEUROPE finds that the objective to increase "clients' satisfaction rate" with just more than two percentage points from 78 percent to over 80 percent is unambitious.

Trade fairs have an irreplaceable importance facilitating SME internationalisation. Trade promotion activities for companies from several Member States towards third countries are today very difficult to finance. BUSINESSEUROPE is aware that trade promotion is a national competence, and has noted that the Commission Communication considers trade fairs as falling within the competence of countries and regions. BUSINESSEUROPE finds it however advisable to explore whether an EU fund could be set up to finance innovative multilateral trade promotion activities on a demand-driven basis, in a way that does not distort competition. The prerequisites for such a fund should be investigated, having in mind that it would focus on financing trade promotion projects of enterprises from several Member States towards third countries.

In relation to improving access to the internal market, BUSINESSEUROPE calls for initiatives under COSME to be coordinated with the existing SOLVIT initiative.



## Proposed programme for Competitiveness of Enterprise and SMEs (COSME)

COSME OBJECTIVES	ACTION LINES	TOTAL COST (2014-2020) (millions of €)	%
<b>OBJECTIVE N° 1: Improving framework conditions for the competitiveness and sustainability of EU enterprises</b>	Activities to improve European competitiveness	101.7	4%
	Activities to develop SME policy and promote SMEs competitiveness	64.5	3%
	Tourism	131.4	5%
	New business concepts for consumer goods	86.8	3.5%
	<b>Sub-total:</b>	<b>384.4</b>	<b>16%</b>
<b>OBJECTIVE N°2: Promoting entrepreneurship</b>	<b>Sub-total:</b>	<b>86.8</b>	<b>4%</b>
<b>OBJECTIVE N°3: Improving SMEs access to finance</b>	Guarantees for loans	746	31%
	Venture capital	690	28%
	<b>Sub-total:</b>	<b>1.436</b>	<b>59%</b>
<b>OBJECTIVE N°4: Improving access to markets</b>	Enterprise Europe Network (EEN)	423.9	17.3%
	Support to SMEs abroad (Studies, platforms, etc.)	39.1	1.6%
	Support to SMEs abroad (SME centres)	60.0	2.4%
	Support to international industrial cooperation	12.4	0.5%
	<b>Sub-total:</b>	<b>535</b>	<b>21.9%</b>
<b>TOTAL COST:</b>		<b>2,443</b>	<b>100%</b>