



Brussels,
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Opinion

Title **DG COMP – Impact Assessment on Guidelines on State Aid to promote Risk Finance Investments**
(draft version of 19 September 2013)*

(A) Context

The review of the Guidelines on State aid to promote risk capital investments in small and medium-sized enterprises (RCG) and relevant provisions of the General Block Exemption Regulation (GBER) is guided by the common approach developed in the context of the modernisation of the EU State aid Policy, which seeks to support sustainable growth and contribute to the quality of public spending by discouraging aid that does not bring real added value, and distorts competition. More generally this review comes within the overall context of the Commission's initiatives to enhance SMEs' access to finance. In particular, one of the key priorities set out in the Europe 2020 Strategy is to ensure a healthy supply of and access to debt and equity finance for growth-oriented SMEs in the EU through actions well designed to stimulate and leverage private capital. This Impact Assessment will explore the need and options to review the existing State Aid rules applicable to risk capital.

(B) Overall opinion: POSITIVE

The report should be improved in a number of respects. First, it should strengthen the problem definition by focusing it more explicitly on the risks and weaknesses of the current framework. Second, it should set out the substance of the options in more detail, and explain how they relate to other initiatives aiming to improve SMEs' access to finance. It should also present the rationale for changing the threshold in combination with more flexible criteria. Third, it should make an effort to give a better indication of the impact of the various options on the amount of private investment leveraged (at least in order of magnitude). It should also better assess the expected impacts on competition, growth, employment, administrative costs for market operators, and implementation costs for public authorities. Finally it should give a better overview throughout the report of the input received from different categories of stakeholders, especially on the problem definition, the policy options and the expected impacts.

* Note that this opinion concerns a draft impact assessment report which may differ from the one adopted.

(C) Main recommendations for improvements

(1) Better define the problems. The report should more clearly focus on issues within the scope of this initiative and indicate which aspects of the problems facing SMEs in accessing finance are actually affected by the current state aid regime. It should present the specific problems to be addressed by this initiative (possibly very high levels of intervention in individual companies, lack of flexibility for investors) at an earlier stage of the problem definition section, as these are currently only identified in more detail in section 3.4.2. The report should further explain how the issue of whether aid is beneficial, is related to the degree of development of the venture capital market, possibly illustrated by reference to the different positions of Member States and between the EU and the US in this respect. It should clarify the inherent risks (of both over- and under-deterrence) in the current framework.

(2) Present the substance of the policy options more clearly. The report should clearly explain how the key problems that have been identified in the current framework are addressed by the various options. It should clarify how the presented initiative relates to other EU and Member State initiatives seeking to improve SMEs access to finance. It should present the rationale for changing the threshold in combination with a more flexible system for timing investment tranches, and explain the underlying motivation for the changes in relevant SME definitions. The report should also put this initiative in the broader context of other State aid guidelines recently adopted and explain how consistency will be ensured.

(3) Strengthen the assessment of impacts. Given the considerable degree of uncertainty, and the fact that Member States have full discretion over the use they wish to make of the possibilities under this state aid regime it is understandable that no exact figures can be provided for the expected impact on the amount of investment leveraged. However, this needs to be clearly explained in the report. Where possible, an indication should be given of the range in which expected results would lie on the basis of historical evidence on the behaviour of the venture capital market. This could be explicitly linked to a set of performance indicators that could be monitored, and provide a more comprehensive fact base for future evaluation of this policy. Whereas impacts on growth and employment can at this stage only be discussed in broad qualitative terms, the expected consequences of the options for the administrative costs to operators and implementation costs for public authorities can and should be better quantified.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.

(D) Procedure and presentation

The report should better present specific stakeholders' views in relation to key elements of the initiative (notably the problem definition, policy options and expected impacts) throughout the report. Technical concepts like funding gap, mezzanine, Midcap, Buyout, etc. should be explained in a glossary.

(E) IAB scrutiny process	
Reference number	2013/COMP/002
External expertise used	No
Date of IAB meeting	16 October 2013