Access to finance for SMEs and General Block Exemption Regulation

Regulation (EU) No 651/2014

Entry into force: 1.7.2014
Content of the presentation

1. Market-conform access to finance measures = no State aid
   A. Equity – *pari passu*
   B. Loans – Reference Rate Communication
   C. Guarantees – Guarantee Notice

2. General Block Exemption Regulation = compatible aid & no notification
   1. General SME access to finance:
      1. Risk finance aid
      2. Start-up aid
      3. Aid for alternative trading platforms
      4. Aid for scouting costs
   2. Access to finance for specific objectives: e.g. Urban development aid; Energy efficiency

3. Risk Finance Guidelines = compatible aid & to be notified
From risk capital to risk finance State aid

Until 1 July: risk capital

- GBER – Article 29

- Risk Capital Guidelines
  Standard assessment
  Substantive assessment

- Expiry: 31 December 2013 + 6 months extension

From 1 July: New section on SME access to finance

- New GBER:
  - Article 21 – risk finance aid
  - Article 22 – start-up aid
  - Article 23 – aid for alternative trading platforms
  - Article 24 – aid for scouting costs

- Risk Finance Guidelines
  Only substantive assessment

- Entry into force: 1 July 2014
GBER - Access to finance for SMEs
Forms of intervention

1. Risk finance aid – Article 21
   MS delivering SME access to finance measures via financial intermediaries
   Incentives to private investors (upside-downside incentives)
   Provision of preferential loans, guarantees to SMEs
   tax incentives to private investors investing directly or indirectly in SMEs

2. Aid for start-ups – Article 22

3. Aid to alternative trading platforms – Article 23
   Fiscal incentives to investors investing via an alternative platform trading in SME shares
   Start-up aid to the platform operator

4. Aid for scouting costs – Article 24
   Covering 50% of the costs of initial screening and formal due diligence incurred by managers/investors
GBER Article 22 – Start-up aid

• Eligible companies:
  Small companies, or Small & innovative companies, and
  5 years from registration,
  Not yet distributed profits, and
  Not formed through a merger

• Form of aid: grant, equity, quasi-equity, loan, guarantee, or mix

• Grant, equity, quasi-equity:
  Non-assisted area: € 400 000 GGE
  Assisted (c) area: € 600 000 GGE
  Assisted (a) area: € 800 000 GGE
Loan start-up aid

- Non-assisted area: nominal amount EUR 1 million & duration of 10 years
- Assisted (c) area: nominal amount EUR 1.5 million & duration of 10 years
- Assisted (a) area: nominal amount EUR 2 million & duration 10 years
- If duration is between 5 and 10 years, the max. amount adjusted by multiplying the amounts above by the ratio between 10 years and the actual duration (nominal amounts proportionately higher)
- If duration is shorter than 5 years, rules for 5 years apply
Loan start-up aid

- Non-assisted area: nominal amount EUR 1 million & duration of 10 years
- Assisted (c) area: nominal amount EUR 1.5 million & duration of 10 years
- Assisted (a) area: nominal amount EUR 2 million & duration 10 years
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- If duration is shorter than 5 years, rules for 5 years apply
Guarantee start-up aid

- Guarantee rate: 80%
- Non-assisted area: nominal amount EUR 1.5 million & duration of 10 years
- Assisted (c) area: nominal amount EUR 2.25 million & duration of 10 years
- Assisted (a) area: nominal amount EUR 3 million & duration 10 years
- If duration is between 5 and 10 years, the max. guaranteed amounts may be adjusted by multiplying the amounts above by the ratio between 10 years and the actual duration of the guarantee (nominal amounts proportionately higher)
- If duration is shorter than 5 years, rules for 5 years apply
Article 21 - What is risk finance State aid about?

• Supporting SMEs' access to the necessary form & amount of finance
• Aid is channelled to the final beneficiaries via financial intermediaries
• No grants but repayable forms of aid
• Involvement of independent private participation is necessary in the aided investments
• Reflecting market practices & based on commercial logic
• Presence of aid at several levels: private investors, financial intermediaries, managers, final beneficiary SMEs
• Compatibility conditions at each level
• Only schemes, no individual aid
1. Extension of the scope of GBER:
   - More eligible undertakings
   - More forms of investment
   - More funding structures
   - Covering fiscal aid to natural persons
Risk finance - Objectives of the reform II

2. Simplification:
   Shifting standard assessment into GBER
   Guidelines will only have substantive assessment

3. Flexibility:
   Move from annual investment cap to total investment cap per company
   Move from predominant equity measures to free choice of public financial instruments

4. Better alignment with commercial practices:
   No differentiation between assisted - non-assisted areas
   Instead of flat rates, minimum private investment to reflect investment risk
   Covering common funding structures

5. Better alignment with EU funds: COSME, Horizon 2020
Risk finance - Eligible undertakings in GBER

Until 1 July: risk capital

- SMEs in seed, start-up and expansion phase
- Medium-size companies only eligible in seed/start-up phase (expansion phase only in assisted areas)
- Problem: unclear definitions, assisted area differentiation not in line with commercial logic

From 1 July: risk finance

A. SMEs before 1st commercial sale
B. SMEs within 7 years from first commercial sale
C. SMEs requiring higher initial investment than 50% of average annual turnover, with a view to entering into new product or geographic market
Until 1 July: risk capital

- EUR 1.5 million / SME / year

- Minimum private investment:
  - 50% - in non-assisted areas
  - 30% - in assisted areas

From 1 July: risk finance

- EUR 15 million total cap/SME

- Minimum private investment to reflect riskiness & development stage:
  - 10% - before first commercial sale
  - 40% - until 7 years post first commercial sale
  - 60% - follow-on investment beyond 7 years post first commercial sale

- Weighted average for multi-stage financial intermediaries
GBER – Financial parameters II

Until 1 July: risk capital

- Public Financial Instruments:
  - 70% equity & quasi-equity
  - Max. 30% loan

- Criteria on commercial management
- Criteria on profit-oriented decision-making

From 1 July: risk finance

- Public Financial Instruments:
  - Equity/ quasi-equity
  - Loan
  - Guarantee

- Strengthened criteria on commercial management and profit-oriented decision-making
- MS may designate and entrust the implementation of the measure on an Entrusted Entity acting on behalf of the State
- Financial intermediaries have to be selected via an open, transparent, objective and non-discriminatory procedure
- Financial intermediaries have to pass on all the benefit to the final beneficiaries
- Guarantee rate 80% & FLP 25%
GBER: funding structures

Until 1 July: risk capital

Only the setting up of public-private equity funds

From 1 July: risk finance

- Public-private equity funds
- Multiple layers in financing chain: entrusted entity, funds-of-funds, sub-funds
- 100% public funds co-investing on a transaction basis with private investors
- Other financial intermediaries
Risk Finance Guidelines

(OJ C 19, 22.1.2014)
Notifiable risk finance measures

1. **Measures targeting categories of undertakings outside the GBER**
   - Small mid-caps
   - Innovative mid-caps
   - Undertakings receiving first aided investment after 7 years following first commercial sale
   - Undertakings requiring more than €15M overall investment
   - Alternative trading platforms not fulfilling the conditions of the GBER

2. **Measures with financial design parameters not complying with the GBER**
   - Private investor participation below the GBER ratios
   - More preferential risk-reward sharing arrangement to private investors
   - Preference to downside protection over asymmetric profit-sharing in the selection
   - Fiscal incentives to corporate investors

3. **Large schemes falling outside the GBER**
Eligible undertakings - Guidelines

1. SMEs

2. Small midcaps

Employees below 499, annual turnover €100 M, annual balance sheet €86 M

Rationale:

- Support successful endogenous growth
- Maximise return for private investors by allowing them to exit at a later stage
- Allow for setting up a seamless financing chain supporting companies from creation to internationalisation
- Align with EU funds (Horizon 2020)

2. Innovative midcaps

- Employees below 1500
- Criteria of 'innovative': R&D&I costs represent at least 10% of the operating costs in last 3 years, or 15% in any of the last 3 years
- Rationale: Innovative companies face specific market failure even at later stages of growth
Ex ante market failure assessment

1. **Identifying specific market failure: funding gap affecting eligible undertakings in target area**
2. **Identifying specific policy targets and performance indicators, e.g.:**
   - Required private investment
   - Expected number of undertakings invested in
   - Estimated number of new undertakings created
   - Estimated number of new jobs created
   - Expected return
3. **Justifying choice of the specific measure compared to other policy & State aid instruments:**
   - Consistency with & complementarity to national SME access to finance policies
   - Justifying the form and design of the State aid measure
4. **Demonstrating that negative effects are limited to the minimum necessary**
5. **Avoiding duplication:**
   - Assessment carried out by internal or external expert
   - Accepting ex ante assessment prepared for Structural Funds Financial Instruments
Compatible fiscal instruments (tax incentives)

- **GBER: tax incentives to natural persons**
- **Guidelines: tax incentives to corporate investors**
  
  Well-defined category of eligible undertakings affected by market failure
  Total investment in any eligible undertaking up to €15 M
  Investment requirements made public
  Fiscal advantage open to all investors fulfilling the predefined criteria
  Specific limits defining the maximum advantages
  Shares must be held for at least 3 years
  Scheme limited to 10 years
Alternative Trading Platforms

• **Rationale of support:** measure addressing supply-side market failures

• **GBER:**
  Fiscal incentives to natural person private investors investing via an alternative platform trading only in SME shares
  Start-up aid to the platform operator – operator has to be a small company

• **Guidelines:**
  Platforms trading not only in SME shares
  Platform operator is bigger than a small company
  Platform operator requiring higher amounts of aid than start-up aid ceilings
Conclusions
How to approach Financial Instruments

State aid legal base determines the entire design of Financial Instrument:
-> need to choose the state aid legal base first
  • Eligibility criteria
  • Maximum amount per final recipient
  • Minimum private investment
  • Financial parameters
  • Governance parameters

State aid may be present at several levels:
-> compliance with state aid rules at final recipient level is not enough
  • Private investors
  • Financial intermediary/manager
  • Final recipients
EU Financial Instruments and State aid law
Centrally-managed EU Financial Instruments

- **Characteristics:**
  Designed at an EU level and financed from the central EU budget
  Managed directly by the Commission, or indirectly, based on an entrustment
  Entrusted entity is usually the EIB/EIF, that invests directly or indirectly
  No geographic allocation: final beneficiaries compete on same eligibility criteria
  No discretion to the Member States

- **Examples for 2014-2020:**
  Horizon 2020 for innovative SMEs and midcaps
  COSME for competitiveness of SMEs

- **State aid aspect:**
  Not State aid, but
  Article 140(2)(c) Financial Regulation – EU Financial Instruments shall be consistent (not compliant) with State aid law
Cohesion policy Financial Instruments

- Characteristics:
  Financial instruments financed from the European Structural and Investment Funds: from the EU budget, but flowing through the national budget
  Managed by the Member State which may entrust the management to EIF/EIB
  Member State retains discretion in the design of the measure & selection

- Examples:
  JEREMIE – financing of SMEs
  JESSICA – financing of urban development projects
  Off the shelf financial instruments – standard terms and conditions for typical financial interventions (to be adopted soon)

- State aid aspect:
  Financing from the Structural Funds shall be compliant with State aid law
Joint Financial Instruments

• Characteristics:
  Member State transfers structural funds in a centrally-managed EU financial instrument
  Member State retains some discretion:
  – National contribution is on a separate block account
  – National contribution should be invested only in the contributing Member State
  – Reflows go back to the Member State

• Example:
  SME Initiative (to be adopted soon)

• State aid aspect: National contribution retains its state aid character, and therefore shall be State aid compliant
Thank you!

Bojana.Vrcek@ec.europa.eu