Non Paper by Austria and Germany on "Access to Finance for SMEs and Scale-Ups"

In September 2014, under the Italian Presidency, the Competitiveness Council decided to "*carry out in a more structured and more systematic manner its mandate to examine all relevant proposals that have substantial effects on competitiveness*", and to "*hold regular debates about the implementation of industrial competitiveness mainstreaming* [called for by the March 2014 European Council, Doc. 8410/03], *based on information to be provided by the Commission*" (Doc. 13338/14).

This has led to the development of new working methods intended to facilitate the implementation of mainstreaming while improving the functioning of the Competitiveness Council, such as the launching of the "Competitiveness Check-up" and - at the last formal Competitiveness Council meeting in May 2016 - the establishment of the "Competitiveness Scoreboard".

The aim of the Check-up is to allow Ministers to put forward priorities and to respond to urgent issues and developments in all areas of relevance to the core business of the Competitiveness Council: the real economy.

Small and medium-sized enterprises (SMEs) are the backbone of the European economy as they contribute significantly to economic growth, innovation and employment. According to the Annual Report on European SMEs 99 out of every 100 businesses are SMEs. They employ 2 in every 3 employees and produce 58 Cents in every Euro of value added (net contribution of the company to the economy).

Ensuring sufficient access to finance for SMEs and high-growth companies is therefore an important determinant for the development of those enterprises as well as for enabling innovation, ensuring overall economic growth, job creation and competitiveness in Europe. It was thus also identified as one of the thematic areas of the Competitiveness Scoreboard.

State of play

Within the European Union bank lending is by far the most important external financing source for SMEs. The analytical report 2015 of the SAFE monitor¹ shows that EU28 SMEs mention credit line and overdraft and bank loans as the most relevant sources of external finance. Ensuring a sustainable supply of loans for SMEs is therefore a key task to ensuring the financing of the real economy.

At the same time our economy is facing multiple challenges and new chances offered by the increasing digitization along the entire value chain. In order to be future-proof and to promote new areas of growth and an innovation-led economy there is a need to strengthen new avenues of financing to support start-ups, innovative SMEs and scale-ups.

¹ <u>http://ec.europa.eu/growth/access-to-finance/data-surveys_en</u>

The diversification of crowdfunding, venture capital, private equity and other alternative financing sources varies between the Member States of the EU. Furthermore, as the Competitiveness Scoreboard shows, the venture capital market is particularly well developed in the US, but also Japan outperforms the EU in this regard. The same accounts for the stock market capitalization.

According to the European Commission European SMEs receive five times less funding from capital markets, compared with the US: If our venture capital markets were as deep, more than EUR 90 billion of funds would have been available to finance companies between 2009 and 2014. An integrated Capital Markets Union should inter alia aim at closing this gap.

Concrete Actions

In order to ensure the financing of businesses, stimulate growth and to strengthen Europe's competitiveness, traditional bank financing needs to be integrated with alternative financing methods such as venture capital, crowdfunding, private equity etc. To this end, the European Union should set concrete actions to enable banks to fulfill their core task of financing the real economy as well as to ensure the removal of obstacles for businesses to be financed through capital markets means.

- ✓ The capital reduction factor for loans to SMEs the so called SME Supporting Factor - introduced by the Capital Requirements Regulation (CRR) should be implemented on a permanent basis.
- ✓ The work of the Basel Committee on refining elements of the Basel III framework by the end of 2016 should be supported as declared by the ECOFIN on 12th July 2016, where it noted that "the reform package would not be expected to result in a significant increase in the overall capital requirements for the banking sector, therefore, not resulting in significant differences for specific regions of the world".
- ✓ The adoption of concrete measures in relation to the Commission's action plan on the Capital Markets Union should be accelerated as called for by President Juncker in his 2016 State of the Union speech.
- In order to strengthen the Venture Capital market within the EU, measures designed to support venture capital and equity financing, such as the revision of EuVECA and EuSEF, should be pursued with emphasis.
- Costs and regulatory burdens for SMEs to access capital markets should be reviewed in depth and with higher speed.
- ✓ The recent Commission proposal on the **extension of EFSI** should be dealt with as a matter of priority in order to strengthen SME financing in Europe.

The Competitiveness Council should ensure that the Commission as well as the ECOFIN and the European Parliament are informed accordingly in order to strengthen Europe's competitiveness in the field of access to finance.