



# **The revision of the risk capital aid regime: proposal for a broader 'safe harbour'**

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## Failures in SMEs finance markets

- Early stages SMEs unattractive to institutional investors
  - Information asymmetries due to high fixed screening costs and uncertainty of cash flows
- Existence of a "funding gap" affecting high-growth and innovative SMEs due to failures in SMEs finance markets across the EU
- Weak informal venture capital/business angels sector
  - Limited investment capacity, low visibility, poor communication channels, a narrow geographical focus, difficult exits.
- Sub-optimal formal venture capital (VC) sector
  - Sub-critical mass, no EU-wide market, failures at various stages of SMEs development, limited possibilities for MSs to grant aid (e.g. not possible for SMEs at growth stage and for follow-on capital)
- Scarcity of alternative trading platforms for SMEs
  - Insufficient liquidity, shortage of listings, high evaluation costs



## Current architecture of risk capital aid rules

### ➤ Narrow focus of the GBER:

- Aid instrument: only public equity/quasi equity injections in private funds
- SMEs only up to the early-expansion stage in assisted areas, and only to the start-up stage for mid-sized firms in non-assisted areas
- Debt instruments capped at 30% of fund's overall investment
- €1.5m maximum investment tranches per 12-month periods
- Minimum leverage at 50% in non-assisted areas (30% in assisted areas)
- 'Profit-driven investments' and 'commercial management' requirements

### ➤ "Standard" assessment under the Guidelines (RCG):

- Additional aid instruments: public capital co-invested at SME level, guarantees and fiscal incentives to investors or funds,
- €2.5m investment tranches per 12-month periods

### ➤ "Detailed" assessment of specific measures under the RCG

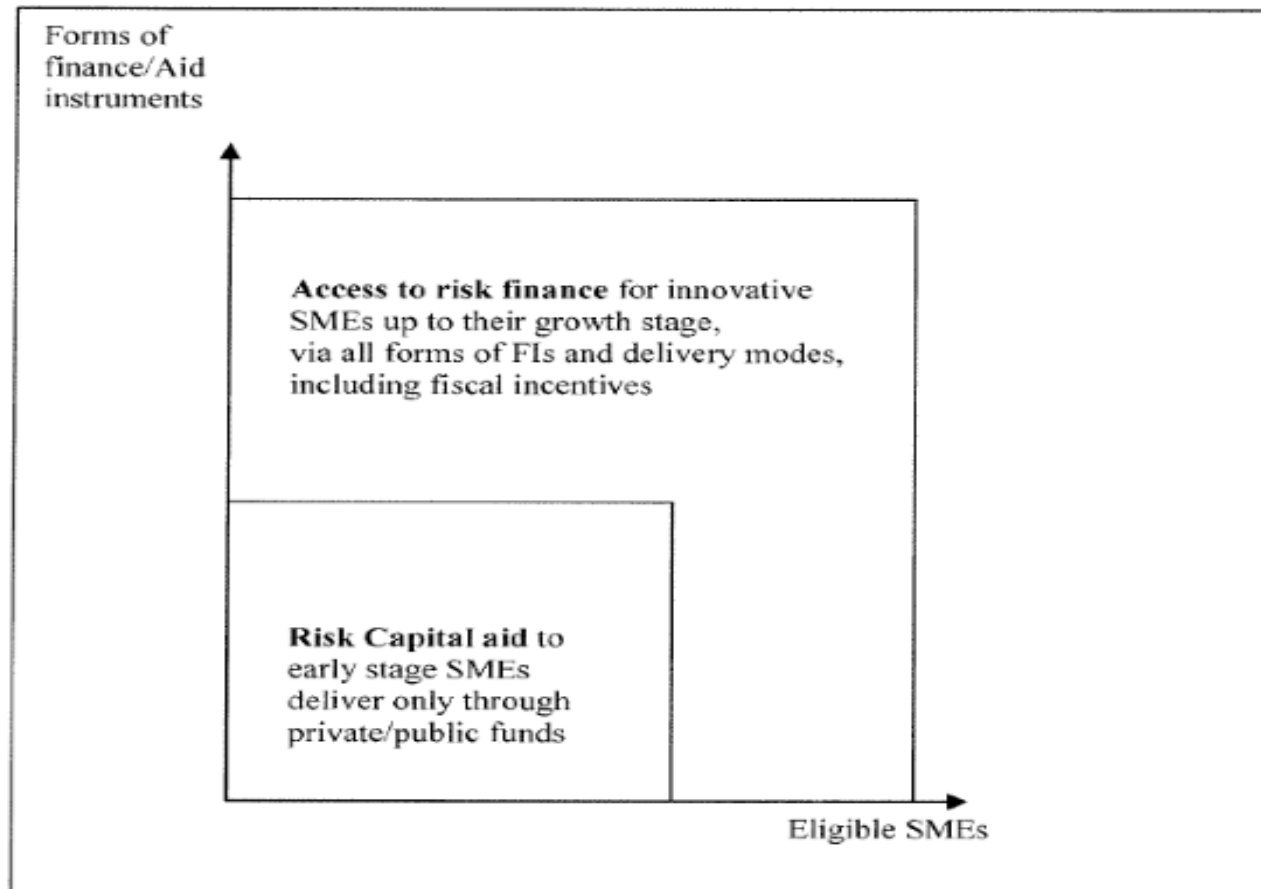
- Guidance regarding evidence on the equity gap, elements for the assessment of incentive effect, proportionality and negative effects.



## Challenges for the future regime

- Contributing to the EU2020 overall objectives
  - Aid to support the efficiency of the 'funding ladder' for high-growth and innovative SMEs
  - Objective: a well-functioning VC sector and undistorted competition in business finance markets across the EU
  - Legal certainty for the use of EU-level financial instruments (FI)
- Fostering State Aid Modernisation objectives by promoting a more efficient, coherent and predictable policy
  - Targeted aid for high-growth and innovative SMEs, focused enforcement on most distortive cases, better regulation and faster decision-making
- Addressing the main issues raised in the public consultation
  - Too narrow scope (limited to early-stages SMEs), too rigid annual investment thresholds (€ 1.5m GBER, € 2.5 m RCG), excessive restrictions on standard debt finance (30% of fund's investments).
  - Weak safeguards to ensure an incentive effect and proportionality of aid to private investors, lack of incentives against fragmentation of the VC market

## Towards a more inclusive 'safe-harbour' for SMEs' access to risk finance





## A market failure beyond the SMEs' 'early expansion' stage

- A broader definition of eligible SMEs under the new GBER
  - Covering high-growth and innovative SMEs from seed to later expansion/growth stages to allow State support from innovation to market, including ramp-up of production capacities
  - A simple, operational criterion: SMEs within a 5-years period post-first sale/market entry
  - "Transition" businesses
- Extension of the safe harbour to follow-on investments
  - Beyond the 5-year period
  - Up to an overall investment amount reflecting the size of the relevant funding gap
- Aid for replacement capital allowed under certain conditions
  - Linked to the exit of early investors (business angels)
  - Combined with the provision of additional growth capital whose amount must be significant relative to the size of the investment



## **A market failure justifying a wider set of aid instruments**

- Covering under the GBER different forms of finance
  - Equity, quasi-equity, guarantees and pure debt instruments deployed into 'equity-backed SMEs'
  - Rationale: cover only debt instruments targeting high-growth, innovative SMEs
- Different funding structures
  - Funds of funds
  - Public funds co-investing with private investors at the SME's level
- Fiscal incentives
  - Coverage of fiscal advantages to physical persons investing directly or indirectly into eligible SMEs
  - No discrimination between financial intermediaries depending of their place of establishment
- Alternative trading platforms
- Aid for pre-due diligence costs



## Reducing red tape while ensuring a level playing field

- A simpler legal architecture
  - Clearer distinction between cases falling under the GBER 'safe harbour' and cases subject to substantive assessment under the Guidelines
  - Do away with the distinction between 'standard' and 'detailed' assessment
- Lighter reporting obligations while maintaining transparency
- More flexible and focused compatibility criteria for cases covered by the future GBER and clearer rules for the substantive assessment under the new Guidelines





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**Thank you for your attention**

*Competition*