

## **FinNetSME Position on the Commission Communication “Consultation Document on State Aid for Innovation”**

The FinNetSME would like to thank the Commission for the opportunity to contribute its views on the “Consultation Document on State Aid for Innovation”. The Network for Regional SME Finance, FinNetSME, is a network designed to encourage an intensive exchange between regional public financiers on how to improve access to finance for Small and Medium Size Enterprises (SMEs). FinNetSME represents the interests of 20 partners (public banks, funding agencies and regional state agencies, incubators) from nine EU Member States. In the network the partners are discussing current problems of SME finance, compare the situation in their respective regions and will suggest practical ways to bridge the market gap in SME finance, with or without public funding.

We highly appreciate the intention of the Commission to stimulate investment in innovation and to enhance the attractiveness of support schemes. In the following we intend to give some central remarks to the consultation paper.

**Question 1:** In our opinion a separate framework for State aid for innovation is not needed. We therefore support the approach of taking action in innovation-related fields and amending existing EC rules or introducing innovation aspects in planned new rules, such as the present and envisaged block exemption rules, the framework for research and development or the communication on risk capital and its upcoming revision.

**Question 2:** Amongst the principles which are to govern the control of State aid for innovation, that of “market failure” plays a central role in the Communication.

Regarding the notion of the “market failure” as a criterion for granting state aid we are opposing its extended adoption in the future state aid discussions. Market failure as a term at present is not clearly defined nor will it be able to be defined in a manner that allows a satisfying practical use in the future. In any case it would lead to a considerable increase in time and energy needed for a notification, for all parties involved.

The more frequent use of the market failure criterion would counteract the Commission’s endeavours to simplify the EC State aid rules, outlined in the State Aid Action Plan.

**Question 4:** Larger enterprises active in R&D form crystallisation cores in regional clusters and innovation networks. The support of larger enterprises has positive effects on job-creation directly in the business and even more indirectly for related service providers and technical suppliers. Additionally, the regional economy benefits from increased purchasing power.

**Question 6:** In order to pay proper respect to the regional dimension of innovation support, there should be a possibility to cumulate innovation aid and regional aid. Innovation aid should not lead to a prohibition of regional aid granted in parallel. Establishing appropriate upper limits for the cumulating of aid could prevent an excessive use of State aid and guarantee the necessary flexibility at the same time.

**Questions 8 and 9:** In our opinion, eligibility for innovative start-ups should not be restricted to small start-ups younger than 5 years. For the benefit of more innovation for the economy as a whole, enterprises of medium size should be eligible as well.

Having highly innovative medium-sized enterprises in mind, the limit of €1 million within three years appears insufficient. Similarly, we advise against the prohibition of an accumulation of aid (see also question 6).

We warmly welcome the intention not to define eligible costs and aid amounts, as this will contribute to greatest possible flexibility. All costs related to innovation should be eligible for support.

**Question 10:** The intention to support enterprises in the post-seed phase with the provision of risk capital finds our explicit support, as not only young enterprises face a gap in the supply of venture capital. We would also welcome an increase of the thresholds for public ownership in funds targeting investment at the seed stage to 50% and 70%. Here, a market failure in the provision of private capital is clearly discernible.

**Question 11:** We would like to extend support mechanisms to include later innovation phases and therefore welcome the Commission's intention to make the "experimental development stage" eligible for support. The promotion of innovation by SMEs should not only cover technical aspects, but management and marketing ones as well. The commercial exploitation should be kept in mind from the first phase of promotion onwards. Aid should always have a specified purpose.

As regards aid intensities, we suggest applying the limit of 25% used in the Community Framework for R&D for pre-competitive activities to the "experimental development stage". This would lead to more transparent aid schemes and to an appropriate and continuous provision of finance throughout the entire innovation process.

**Questions 16-20:** We explicitly welcome a support of the development of poles of excellence and clusters. However there should be clear definitions of clusters, co-operations, networks, centres of competence and innovation intermediaries to allow for a proper distinction between the different entities.

Aid should not be limited to regional or sectoral centres of excellence. Furthermore, aid should not be limited to enterprises within clusters. Businesses which are not part of a cluster should be eligible as well, as there is not only innovative potential in regional or sectoral clusters or poles of excellence, but also in enterprises outside of clusters as well. The concentration of resources on poles of excellence should be complemented by a support of these broad potentials to guarantee for a balanced economic and demographic development. To avoid fragmentation of aid, poles of excellence could be evaluated on a periodic basis with respect to their excellence and their contributions to a knowledge based economy.

The support of large enterprises should follow other criteria than the support of SME. The eligibility criteria, for instance, could cover the amount of investment, regional structural effects, the employment policy and the degree of networking with SME and research centres.

**Signatories - List of financing institutions united in FinNetSME (excluding the two associations):**

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