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PRESS RELEASE

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State aid: Commission adopts new rules on risk finance

The European Commission has adopted new guidelines setting out the conditions under which Member States can grant aid to facilitate access to finance by European SMEs and companies with a medium capitalization (the so-called "midcaps"). Certain SMEs and midcaps, in particular innovative and growth-oriented SMEs in their early development stages, have difficulties to get funding, independently of the quality of their business potential. State aid can help address this funding gap, not by replacing existing funding channels but by attracting fresh money into new ventures through well-designed financial instruments and fiscal measures. These guidelines are part of the Commission's State Aid Modernisation (SAM) strategy, which aims at fostering growth in the Single Market by encouraging more effective aid measures and focusing the Commission's scrutiny on cases with the biggest impact on competition (see IP/12/458). The guidelines will enter into force on 1 July 2014.

Commission Vice-President in charge of competition policy, Joaquín Almunia, said: *"The market failure in access to finance, which has been exacerbated by the crisis, affects European companies in their development, from the start-up stage onwards. These new rules will help bridge this funding gap by encouraging Member States to put in place well-designed aid measures. Such measures can give private investors the right incentives to invest more into SMEs and midcaps, enhancing their capacity to grow and create jobs".*

SMEs are still heavily dependent on the traditional bank lending, which is limited by the banks' refinancing capacity, risk appetite and capital adequacy. The financial crisis has amplified the problem: approximately one third of SMEs have been unable to get the finance required in recent years, hence creating a "funding gap". Therefore, the Commission is setting up a simple, flexible and generous state aid framework for the provision of risk finance to SMEs and midcaps. This will help companies overcome the most critical stages of their life cycle – the so called "valley of death" they have to cross to bring new products and ideas to the market.

These new guidelines replace the "risk capital guidelines" adopted in 2006 and amended in December 2010.

Key features of the new guidelines are:

- **Extended possibilities for Member States to grant aid:** The new guidelines have a radically enlarged scope, now including (i) SMEs (ii) small midcaps, and (iii) innovative midcaps. The guidelines set out compatibility criteria for amounts above €15 million per company, since the next General Block Exemption Regulation (GBER, see IP/13/1281) will exempt aid below this threshold from prior Commission scrutiny (compared to €1.5 million per year and per company today).

- **A wider range of financial instruments admissible** – including equity, quasi-equity, loans and guarantees – to better reflect market practices. The financial intermediaries and investment funds involved will therefore be able to offer companies the amount and form of financing that is appropriate to their development stage and to the sector in which they operate.
- **A mandatory participation of private investors tailored to the development stage and riskiness of the company:** Such participation alongside public investors ensures that aid measures serve to attract rather than replace private funding. However, minimum private investor participation will now range between 10% and 60% depending on the age and riskiness of the company. This will allow higher public support to company-creation, where the private business finance markets are the most reluctant to provide the necessary financing. The private participation requirement is now as low as 10% for seed and start-up companies before their first commercial sale.

Other modifications include:

- New and more flexible forms of support to alternative trading platforms: the guidelines allow grants for the setting up of such platforms, as well as tax incentives to investors buying the shares of SMEs listed on such platforms.
- More flexibility and clearer conditions for tax incentives to investors: tax incentives to natural person investors will be exempted from the notification requirement, complemented by the guidelines which set out the conditions for tax incentives to corporate investors.

The text of the new guidelines is available at:
http://ec.europa.eu/competition/state_aid/modernisation/index_en.html#risk_finance

See also MEMO/14/14.

Background

The current risk capital guidelines, adopted in August 2006 (see IP/06/1015 and MEMO/06/295) and amended in December 2010 (see IP/10/1636) will remain in force until 30 June 2014. They relate to the equity financing of companies with perceived high-growth potential during their early growth stages. The current framework proved however to be too restrictive in terms of eligible SMEs, forms of financing, aid instruments and funding structures.

A review process was launched in 2010 to adapt the guidelines to the market developments in the EU over the last seven years, to the effects of the economic crisis, as well as to the objectives of state aid modernisation (SAM). Taking into account the comments gathered in two public consultations (July 2012, see IP/12/789 and July 2013, see IP/13/737) and in intensive dialogues with all stakeholders (Member States, public authorities, business associations, financial institutions and citizens), the new rules aim at enhancing the private sector's incentives, including institutional investors, to increase their funding activities in this critical area of SME financing. They go hand in hand with other EU initiatives designed to promote a wider use of financial instruments in the context of the new support programmes such as Horizon 2020 (IP/13/1232 and MEMO/13/1085) or COSME (IP/13/1135).

The new guidelines will be complementary to the provisions on risk finance included in the revised General Block Exemption Regulation (GBER) (see IP/13/1281) that will replace the GBER adopted in July 2008 (see IP/08/1110 and MEMO/08/482). The current GBER will expire in June 2014.

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