The amended EuVECA and EuSEF Regulations

In Europe there are a couple of financial instruments little known to the general public, the European Venture Capital funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF), with the aim of promoting investment in innovative start-ups and social enterprises respectively. Both of them want to play a very important role in the EU economy, helping its small and medium enterprises (SMEs). In this note we will try to give a brushstroke about them and their recent amendment.Before advancing, I would like to remind the reader of the definition of SMEs within the EU. The European Commission adopted a Recommendation on the definition of SMEs on 6 May 2003, which amends the previous recommendation of 1996. The text establishes a transparent method for calculating the financial limits and the number of employees and is in force as from January 1, 2005. In general terms, it is said that a company is part of this group if it has less than 250 employees and one of the following two characteristics: i) invoices less than 50 million euros per year; or ii) presents a balance sheet equal to or less than 43 million euros.

Company category	Employees	Invoice
Small	< 50	? € 10 m
Medium	< 250	? € 50 m

How do these funds work? EuVECA and EuSEF´s fundamental mission is to support European SMEs. The way this is done is relatively innovative, since a series of financial products have been designed focused on the "partners" (banks, microfinance companies, leasing companies, investment funds, private investors, seed capital, etc.) that act as intermediaries. In other words, the European Investment Fund (EIF) offers its collaborators an integrated range of products so that they can provide European SMEs with financing that is different from traditional banking.Through the participation in these funds, the EIF facilitates access to capital for SMEs with high growth and innovative potential. The meticulous selection of these funds and their procedures of action facilitate that the EIF is an important catalyst of the European economy. In this way, it does not invest directly in those companies that may have a special interest, since its selection would be an impossible task to perform with the means and resources available. What it does is to collaborate with those agents that meet the requirements set, establishing and defining the characteristics that must be met by the companies in which it can be invested.**What was the problem?**During its review, in 2016, the Commission found that these funds were falling short as they were being concentrated in a few of the Member States and that, although the use of EuVECA could have been successful, EuSEF's results so far did not meet the expectations. One of the main issues was that funds could not be invested in companies with more than 250 employees or in those with a turnover of more than 50 million euros or an annual balance exceeding 43 million euros.In comparison with other microfinance markets, the European market is in the process of development. However, it is a market that currently has a strong growth rate, especially in the last countries incorporated into the EU, since the regulations and the small size of the financial market facilitate it.Therefore, with the objective of overcoming the obstacles, a reduction in costs for the mentioned funds and an expansion on the range of eligible assets in which the funds could be invested were proposed, seeking to increase investment in these.**Amendments**A few weeks ago, without debate by the twenty-eight member states, after the European Parliament backed the legislative changes on September 14, the new amendments were agreed.Amendments include the following:

- Allows managers of funds whose value exceeds 500 million euros negotiable and manages EuVECA and EuSEF funds, as well as the use of loans from companies in which they can invest, including companies not negotiated with up to 499 employees and SMEs listed in growth markets.
- Encourages simple and efficient registration procedures.

- Opens the doors to a higher number of companies that will be able to invest in EuSEF through the expansion of the definition of the concept "positive social impact". This, it should be mentioned, must always be justified, founded, evaluated and measured in an objective and demonstrable manner.
- Gives the opportunity to a wider range of authorized managers to market and manage EuVECA and EuSEF including larger fund managers.
- Reduces costs, expressly prohibiting the fees imposed by the competent authorities of the host Member States, simplifying the registration procedures and determining the minimum capital to become a manager.

As we can see, the objective of the amendments to the regulation of these investment funds is to improve access to financing throughout Europe by unifying the twenty-eight different national standards, promoting good fiscal practices and stimulating investment in SMEs.We have been talking about crisis and unsustainable numbers for years. We must change our economic model to one that prioritizes technology and innovation and little by little, it seems that we are beginning to see the light at the end of the tunnel, although it is clear that in the field of creation and technology we still have a lot to do; supporting innovation is good for the European Union as it benefits all the chain and agents in the trade. The support to start-ups and social enterprises not only results in improvements in technology and innovation, but also leads to the creation of a greater number of jobs, economic growth and new options to paint our future. **Me Julien Dif**