

VENTURE CAPITAL AND SMALL-MEDIUM ENTERPRISES: THE EUROPEAN MEASURES AND THE AIFI PROPOSALS TO HELP ITALY IN THIS CHALLENGE.

“The Coronavirus pandemic is testing us all. This is not only an unprecedented challenge for our health systems, but also a great shock for our economies” these are the words of the President of the European Commission Ursula von der Leyen.



As it has been clear for weeks, the COVID-19 emergency is questioning the priorities of individual citizens and governments. Each of them is formulating and progressively launching measures aimed at supporting individuals and companies that at this moment must give rise to an unprecedented attack.

From a finance and investment point of view, a systemic crisis like the one we are experiencing due to the spread of Covid-19 discourages individual citizens and at the same time more sophisticated investors. The consequence is a total contraction of liquidity.

For many startups, liquidity right now is the gasoline with which to survive this emergency. Precisely cash, a scarce resource, could cost the early failure of many Italian and SMEs innovative companies, regardless of having proven the goodness of their business model or their innovation.

"For many startups, the only goal will be to survive the year" this is the summary of Rajan Anandan Managing Director of Sequoia Capital India ¹.

HIGHLIGHTS

- Even the private market industry has suffered a severe setback in the last month due to the Covid-19 emergency.
- “For many startups, the only goal will be to survive the year.”
- The European Commission through the EIF will provide liquidity and guarantees to banks, mobilizing € 8 billion in working capital financing.
- The EIB Group has formulated a plan which envisages the mobilization of 40 billion with immediate availability.

The measures of the European Commission and the EIB Group

At European level, the European Commission and the European Investment Bank have taken **measures that aim to support small and medium-sized enterprises that are suffering from the consequences of the crisis.**

Among these, the European Commission will make € 1 billion available in a guarantee from the EU budget for the European Investment Fund (EIF) through the European Fund for Strategic Investments (EFSI).

With the support of the EU budget guarantee, the EIF will provide liquidity and guarantees to banks, mobilizing € 8 billion of working capital financing. This will help at least 100,000 SMEs and small mid-cap companies.

To help affected businesses and relieve the stress of their finances, late loan repayments will be allowed ².

The Commission proposes to target € 37 billion under the European Structural Investment Fund (ESIF) to fight the Coronavirus crisis. This entails the abandonment, for this year, of the obligation to request the repayment of unspent

pre-financing for the ESIF funds currently held by the Member States.

This equates to 7.9 billion euros of the EU budget that Member States will be able to use to integrate 29 billion euros of structural funding into the European Union.

This will effectively increase the amount of investments in 2020.

In addition, € 28 billion of structural funds not yet allocated should be available to combat the crisis, thus providing Member States with the necessary sources of funding.

In parallel, the Commission proposes to extend the scope of the EU Solidarity Fund to include a public health crisis, in order to mobilize it, if necessary, for the most affected Member States. Up to € 800 million available in 2020 ³.

The European Commission has adopted a Temporary Framework to allow Member States to use the full flexibility provided by state aid rules to support the economy in the context of the COVID-19 epidemic.

In addition to the Commission, the European Investment Bank (EIB) has also disseminated the measures to be taken.

On 24 March, the EIB Director announced ⁴ that a new fund will be launched to guarantee € 200 million in loans to companies in difficulty, details of which will be released shortly.

In addition, the EIB Group has shared a plan which envisages the mobilization of 40 billion euros divided in short as follows ⁵:

- guarantee schemes for banks based on existing programs to be used immediately (20 billion);
- specific lines of credit for banks to ensure additional capital to support SMEs and small mid caps (10 billion);
- asset-backed securities (ABS) purchase programs to allow banks to transfer risk to SME loan portfolios (10 billion).

AIFI's proposals for Venture Capital and Italian SMEs

At Italian level, AIFI has formulated and forwarded its suggestions in support of venture capital and Italian startups in order to overcome this period and safeguard most of the realities.

“Currently, VC funds have startups in their portfolio which are likely to fail. We need to act quickly to prevent these companies from closing resulting in job losses”.

A summary of the proposed measures broken down by topic includes:

A. National Innovation Fund

1. Strengthening of the fund of venture funds (with a destination of at least 200 million). In addition, to facilitate the rapid operation of new funds, the matching obligation between public and private capital could be eliminated or relaxed.

2. Provide a budget (hypothesis 200 million) for investments in rounds B and C aimed at strengthening the companies in the portfolio of VC funds. 100 follow-on operations could be carried out in a very short time in startups selected and invested by professional

managers, saving many jobs and contributing to the continuity of innovative projects. In a few months, FNI would create a very interesting and diversified portfolio made up of over 100 startups which could subsequently also be listed on the stock exchange (basket venture)

3. Start of ITAtech 2 together with FEI.

B. Direct support to VC funds

To increase the resources of the currently operating funds and, therefore, to convey more resources on the startup market, it is suggested to:

- Re-propose and adapt the measures contained in law 388/2000, which provided for the opportunity to double investments, granting financial advances to banks and financial intermediaries, including asset management companies, to be used for the acquisition of temporary and minority shareholdings in newly created and innovative small and medium-sized enterprises (SMEs), in order to facilitate their access to risk capital.

The procedure requires the accreditation of VC operators but, since there would be 20 intermediaries already "approved" to law 388/2000, a rapid application of the measure is assumed;

or

- Create side funds to be entrusted to current managers to co-invest in the existing portfolio with a view to strengthening, with automatic logic (e.g. you have a NAV of XX million, you are entrusted with a side fund of XX million available).
- Introduction of a tax credit for pension funds and funds that invest in alternative funds. In this regard, a modulation of the tax benefit could be assessed according to the underlying assets in which the fund invests, giving greater advantages to the riskier asset classes,
- Increase (from 30 to 40%) of the deduction / deduction for underwriters of venture capital funds and provision of some clarifications to correctly apply this incentive. In particular, it should be clarified that the verification of the prevalence criterion and the innovative characteristics of startups and SMEs is carried out at the time of the investment.

C. Startup support

Strengthening of the central guarantee fund

D. Fundraising

- Creation of a new category of semi-professional investors / lowering the minimum investment threshold (from 500,000 to 100,000 euros), so as to widen the potential fund-raising pool to high-end "private" customers

E. Requests at European level

- Continuous support for venture capital and startups (accelerating EIF interventions and EU public programs)
- Relaxation of state aid rules for private equity and venture capital backed companies

Conclusions

Despite the complex situation, even a sector such as Venture Capital, which in Italy represents a market niche, is moving in favour of those small and medium-sized enterprises that are the engine of a nation like Italy, in the hope that these interventions can save as many businesses as possible.

You can consult all the updates at the following [link](#) on the AIFI website where all the news on the topic are summarized.

References

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