

Competitiveness of Enterprises and SMEs (COSME)

In a nutshell

COSME is a programme of the European Union which supports enterprises (in facilitating access to finance, supporting internationalisation, creating an environment favourable to competitiveness, encouraging entrepreneurship) in order to help them grow and create jobs.

EU's Multiannual Financial Framework (MFF) heading and policy area

Heading 1a (Competitiveness for growth and jobs)

Enterprise and Industry

2014-2020 financial envelope (in current prices and as % of total MFF)

Commitments: €2 298.24 million (0.21 %)

2015 budget (in current prices and as % of total EU budget)

Commitments: €295.26 million (0.18 %)

Payments: €320.67 million (0.23 %)

2016 budget (in current prices and as % of total EU budget)

Commitments: €295.30 million (0.19 %)

Payments: €262.30 million (0.18 %)

Methods of implementation

Direct management (European Commission, Executive Agency for Small and Medium-sized Enterprises) and indirect management (European Investment Fund).



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The EU's role in the policy area: legal basis

Articles 173 and 195 of the [Treaty on the Functioning of the European Union](#) (TFEU) stipulate that the Union and the Member States shall ensure the necessary conditions for the competitiveness of the industry and tourism sectors, among others. Particular emphasis is placed on the development of small and medium-sized enterprises (SMEs). However, in the areas of industry and tourism, the EU only has competence to support, coordinate or supplement actions of the Member States (Article 6 TFEU).

So much attention is focused on [SMEs](#) because the overwhelming majority (99.8% in 2012)¹ of entities active in the EU-28's non-financial business economy are micro-, small and medium-sized enterprises.² They are the key provider of jobs in the private sector. No less than two thirds (67.1%) of the EU's non-financial business economy workforce was active in an SME in 2012. Furthermore, SMEs have been increasingly present in EU policies thanks to the [Lisbon strategy](#), which called for the creation of a friendly environment for starting up and developing innovative businesses, especially SMEs.

In June 2008, the European Commission published a communication, Think Small First – A [Small Business Act for Europe](#) (SBA), in which it urged the EU to make a breakthrough in its policy on SMEs. The SBA spelled out ten principles aimed at honing the potential of SMEs and thereby making the EU 'a world-class environment for SMEs'. In February 2011, the SBA was reviewed in light of recently emerged needs of SMEs and their increased difficulty in accessing financing and markets.³

Since its inception, the EU's ten-year growth strategy, [Europe 2020](#), has addressed SMEs through several flagship initiatives. Additionally, for the 2014-2020 programming period, [Regulation \(EU\) No 1287/2013](#) established a Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME). Under the previous programming period, from 2007 to 2013, certain COSME initiatives had been included in the Competitiveness and Innovation Framework Programme (CIP).⁴

COSME objectives

The general objectives mentioned in the [COSME Regulation](#) are: strengthening the **competitiveness and sustainability** of the Union's enterprises, particularly SMEs; encouraging **entrepreneurial culture**; and promoting the **creation and growth** of SMEs.

More specifically, COSME is to: 1) improve **access to finance** for SMEs in the form of equity and debt; 2) improve **access to markets**, particularly inside the Union but also at global level; 3) **improve framework conditions** for the competitiveness and sustainability of Union enterprises, particularly SMEs, including in the tourism sector; and 4) **promote entrepreneurship** and entrepreneurial culture.

Funded measures

In total, some €2.3 billion is available for COSME in the 2014-2020 Multiannual Financial Framework (MFF). The Commission's annual work programmes specify concrete actions and allocate amounts for all the specific objectives. Key actions such as the financial instruments, the Enterprise Europe Network and Erasmus for Young Entrepreneurs will receive support throughout the COSME programming period. According to Article 5 of the COSME Regulation, 'not less than 60% shall be allocated to financial instruments', which means that in practical terms they are the most significant part of the programme.

The Commission entrusted the Executive Agency for Small and Medium-sized Enterprises (EASME) with the implementation of actions under the four COSME specific objectives and delegated the indirect management of financial instruments to the European Investment Fund.

The programme is accessible not only to entities from the EU Member States but also from European Free Trade Association (EFTA) countries which are members of the European Economic Area (EEA), to acceding countries, candidate countries and potential candidates and to countries falling within the scope of the European neighbourhood policies. An updated [list](#) of third countries participating in COSME is accessible on the [Commission website](#).

Access to finance for SMEs

Two financial instruments fall under this first specific objective of COSME: the [Loan Guarantee Facility \(LGF\)](#) and the [Equity Facility for Growth \(EFG\)](#). They build on the SME Guarantee (SMEG) and the High Growth and Innovative SME Facility (GIF), both part of the CIP. The use of innovative instruments is meant to leverage additional investment from other public and/or private sources.

Practical information on how to apply for loans and venture capital supported by the EU can be found on the web portal [access2finance.eu](#).

Loan Guarantee Facility (LGF)

Through the **LGF**, the European Investment Fund offers guarantees and counter-guarantees, including securitisation of SME debt-finance portfolios, to selected financial intermediaries (such as guarantee institutions, banks, and leasing companies, among others) to help them provide more loans and leases to SMEs.

By sharing the risk, COSME guarantees allow financial intermediaries to expand the range of SMEs they can finance, thus facilitating access to debt finance for many SMEs which might have difficulties accessing the traditional banking system.

All types of SMEs (regardless of sector or size) are eligible for financing under the LGF for loans up to an amount of €150 000. Above this threshold, financial intermediaries have to verify that the SME is not eligible for financing under Horizon 2020, especially under its SME & Small Mid-caps Debt Financing Window. This part of Horizon 2020 contains a financial instrument similar to LGF: the [InnovFin](#) SME/MidCap Guarantee Facility, which is open only to research-based and innovative SMEs and small mid-cap firms.⁵

As regards LGF, some 32 agreements with partners from 17 countries had already been [concluded](#) by the end of April 2016.

To meet the exceptionally high market demand for the LGF since the start of COSME, it was enhanced by means of a guarantee provided under the European Fund for Strategic Investments (EFSI) (the 'EFSI SME Window'). This additional financing is the result of an amendment to the COSME Delegation Agreement signed in July 2015. Between 2015 and 2019, the LGF's overall enhancement is forecast to reach up to €500 million, thereby enabling the mobilisation of up to €10 billion in funding for SMEs.⁶

Loan guarantee

A legally binding agreement under which the guarantor agrees to pay any or all of the amount due on a loan instrument in the event of non-payment by the borrower.

Loan guarantees are a very important means of helping small businesses to obtain loans from banks.

Source: [IATE](#).

The EFSI SME Window supports COSME activities and reinforces the implementation of the COSME LGF. It has permitted the European Investment Fund (EIF) to sign more transactions with financial intermediaries earlier than would have been possible under the COSME budget alone. According to initial estimates, the EIF could sign additional transactions of up to €150 million in 2015, enabling the mobilisation of up to €3 billion of funding for SMEs.

The way the SMEG worked can be illustrated by the example of a Slovene entrepreneur in the construction sector. The EU-guaranteed loan of €119 000 he got from the Slovene Enterprise Fund enabled him to buy a new lift, expand his company's product range and hence his business. He employed two additional staff, and in just one year the company's revenue increased by 28%.⁷

SMEs wishing to apply for financing from the LGF need to approach a financial intermediary in their own country, from the [list of intermediaries](#) which have concluded a contract with the EIF for this purpose.

Equity Facility for Growth (EFG)

Through the **EFG**, the EIF invests in selected funds (acting as EIF's financial intermediaries), which provide venture capital and mezzanine financing to expanding or growing SMEs, in particular to those operating across borders. The fund managers operate on a commercial basis to ensure that investments are focused on SMEs with the greatest potential for growth.

Venture capital

Capital invested in a project in which there is a substantial element of risk and, in particular, money invested in a new venture or an expanding business in exchange for shares in the business.

Source: [IATE](#).

It is expected that some 500 firms will receive equity financing through the EFG, and that overall investment under it will reach almost €4 billion. It is also anticipated that further finance will be attracted through co-investments from other public and private sources ('leverage effect'). These estimates are based on previous experience with GIF, which has, according to the [Commission](#),

mobilised more than €2.3 billion in equity investments since 2007.

Demands for this type of investment must be introduced through a national financial [intermediary](#) – an EIF contractual partner in the country eligible for COSME.

Mezzanine financing

Mezzanine financing is basically debt capital that gives the lender the right to convert it to ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

Mezzanine financing is advantageous because it is treated like equity on a company's balance sheet and may make it easier to obtain standard bank financing.

Source: [IATE](#).

The EFG is suitable for SMEs that need capital for growth. The EIF website provides [examples](#) of how it can be used, one such example being a Swedish company from the lighting systems sector. The company had developed a special technology offering strong potential. With funding from the Chalmers Innovation Seed Fund and the EFG, the company was able to expand to new areas: research into light quality and its impact on productivity in the forestry industry.

Access to markets

Access to markets – the second specific objective of COSME – helps SMEs to extend the scope of their activity, making full use of the potential held by the EU's internal market. It supports measures such as:

provision of information and awareness-raising in relation to EU programmes, law and standards; provision of information on existing barriers to market entry and business opportunities; and measures that aim to foster companies' internationalisation. The 2016 work programme has a budget of more than €52 million. Within it, the biggest share (€45 million) belongs to the [Enterprise Europe Network](#) (created in 2008 by merging two previous networks), which helps SMEs make the most of business opportunities in the EU and beyond. The network's 600 member organisations, among them chambers of commerce and industry, technology centres, universities and development agencies, offer SMEs a range of free services, including practical answers to specific questions in their language, and contacts with prospective business partners across all Member States. The network serves as a link between the Commission and the SME community in the implementation of the 'Think Small First' principle and the Small Business Act.

The second specific objective of COSME also covers actions that help provide European SMEs with useful information or contacts in other countries, performed, among others, by the EU-Japan Centre for Industrial Cooperation and the China, Latin America and south-east Asia helpdesks, which offer advice on issues related to intellectual property.

Framework conditions

This third specific COSME objective is horizontal; it aims at improving the framework conditions for the competitiveness and sustainability of Union enterprises, particularly SMEs. Relevant Commission support includes specific actions to improve the framework conditions for enterprises through a reduction in and avoidance of unnecessary administrative and regulatory burdens. One such example is the systematic application of the [SME test](#) which analyses the possible effects of EU legislative proposals on SMEs at Union and Member State level.

The work programmes focus on industry modernisation, cross-EU partnership, intensification of cluster- and business-network collaboration, implementation of the SBA and the SME Performance Review (an empirical tool monitoring SME performance and guiding policy-making). Other actions such as diversifying and increasing the tourism offer as well as increasing Europe's visibility as a tourist destination, relate to tourism as a sector which holds significant growth potential and employs many SMEs.

Entrepreneurship

Through its fourth specific objective, COSME seeks to promote entrepreneurship and entrepreneurial culture and to pay particular attention to potential, new, young and female entrepreneurs as well as to other specific target groups. The annual work programmes support different measures, such as promoting entrepreneurship among women, delivering education (training, skills and attitudes) on entrepreneurship, and running an entrepreneurship barometer. An important example of action is Erasmus for Young Entrepreneurs, which is to be supported throughout the entire programming period.

[Erasmus for Young Entrepreneurs](#) is a cross-border exchange mobility scheme aimed at facilitating the exchange of entrepreneurial and management experience between entrepreneurs from the participating countries. The scheme allows newly established or potential entrepreneurs to spend up to six months with an experienced entrepreneur running an SME in another country.

The above-mentioned programme follows on from a 2009-2011 preparatory action; between 2012 and 2013, it ran under the CIP and had a total budget of €24.5 million. As of January 2014, it came under COSME and was allocated a total budget of €55.3 million for the 2014-2020 period. The programme enjoys increasing popularity: since 2014, more than 3 600 relationships between a host entrepreneur and a new entrepreneur have been established, which means more than 7 000 entrepreneurs from all over the EU and from some other eligible countries have taken part since its launch in 2012. The Commission aims to achieve up to 10 000 exchanges by 2020.⁸

Assessment of COSME

The [COSME Regulation](#) provides for monitoring the implementation and management of COSME. To this end, the Commission draws up annual monitoring reports, and has to produce an interim evaluation report by 2018 at the latest, and a final evaluation report on the longer-term impact and sustainability of the effects of the measures.

As regards the CIP, COSME's predecessor, the [final evaluation report](#) rated it as successful, including the elements that are now financed under COSME. The report said that the financial instruments had achieved their objectives. It considered the GIF facility and the SMEG loan and micro-credit windows as relevant to the needs of European SMEs, helping them access the finance they need to get started and to grow. The report also highlighted the leverage effect of these instruments.

Furthermore, the report voiced appreciation for the Enterprise Europe Network, saying it was fulfilling its main objectives of promoting innovation, business cooperation and cross-border trading. A high level of client satisfaction with the network's services was also mentioned.⁹

In 2011, the Commission launched a [public consultation](#) on a possible successor to the CIP, which consisted of gathering opinions and feedback (via an online survey, a public conference and meetings with stakeholders and Member State representatives). The financial instruments (both risk capital and guarantees instruments) were seen as highly relevant and having an impressive leverage effect.

During the consultation, the Commission was asked to maintain diverse financial instruments so as to address different needs and market realities. To this end, it was requested not to limit the support to the financial instruments then existing, but also to consider other options such as mezzanine funds or business angels' support. The business support services provided by the Enterprise Europe Network were widely recognised and the main recurring message was that they needed to continue and to be reinforced with new actions such as support for the internationalisation of SMEs.

The SMEG audit, published by the European Court of Auditors (ECA)¹⁰ in 2011, contained many elements of relevance to COSME. The ECA audited SMEG for the effectiveness of its design and planning, the management of its operations and the achievement of its objectives. The Court advised the Commission to set more specific quantifiable targets in order to make it easier to monitor the achievement of the SMEG objectives. Progress towards achieving these targets should be measured during the lifetime of the instrument, allowing remedial action to be taken as necessary.¹¹ In the same document, the Commission accepted this recommendation, saying that it would take it into account for any successor to the SMEG.

At present, Annex I of the COSME Regulation is dedicated specifically to 'Indicators for general and specific objectives and targets'. For example, the specific objective 'Access to finance for SMEs in the form of equity and debt' may be evaluated according to criteria such as 'Number of firms benefiting from debt financing' or 'Leverage ratio'. For this purpose, a baseline figure and a target are set for 2020, allowing continuous monitoring of performance.

The long-term target for the guarantee scheme under COSME requires that by 2020, the funds mobilised through it should increase from €14.3 billion to €21.5 billion and the number of companies benefitting from it rise from 220 000 to 330 000. The targets for COSME in terms of leverage ratio are 1:20-1:30 for the debt instrument and 1:4-1:6 for the equity instrument, which means that €1 from the EU budget should result in €20-30 in debt financing or €4-6 in equity investments over the lifetime of COSME. The expected results are based on the experience with the CIP.¹² For example, under the CIP, the SMEG mobilised a total of €13.4 billion in financing that reached 219 000 firms (as of 31 December 2012).

Other EU measures in the area

Micro-, small and medium-sized enterprises can access loans and venture capital from other sources of EU financing besides COSME.

Horizon 2020 offers two possibilities: 1) the [InnovFin Programme](#): loans and guarantees to innovative businesses; financing of research and development (R&D) projects and equity for businesses in the early or start-up phase; and 2) the [SME instrument](#): funding and coaching support to innovative SMEs that are beyond the start-up phase with regard to concept and feasibility; demonstration; market replication and R&D; and commercialisation.

[Creative Europe](#) provides loans to small and medium-sized enterprises in the cultural and creative sectors.

[Programme for Employment and Social Innovation](#) (EaSI) offers microloans of up to €25 000 to micro-enterprises and to vulnerable persons who wish to set up or develop a micro-company, and investments to social enterprises of up to €500 000.

[European Structural and Investment Funds](#) (ESI funds) can provide loans, guarantees, equity financing or business grants.

The [European Fund for Strategic Investments \(EFSI\)](#), part of the 'Juncker Plan', is backed by a guarantee from the EU budget. EFSI aims to foster job creation and growth across the EU by triggering investments worth an estimated €315 billion over three years.

Main references

[Regulation \(EU\) No 1287/2013](#) of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014-2020) and repealing Decision No 1639/2006/EC.

[2014 Work Programme, financing decision and support measures](#), C(2014) 4993 final.

[2015 Work Programme, financing decision and support measures](#), C(2015) 3767 final.

[2016 Work Programme, financing decision and support measures](#), C(2016) 63 final.

[Final Evaluation](#) of the Competitiveness and Innovation Framework Programme (CIP), December 2011.

CIP implementation, evaluation and performance reports, found on European Commission [website](#).

European Court of Auditors, ['The audit of the SME Guarantee facility'](#), Special Report No 4/2011, 2011.

Endnotes

- ¹ http://ec.europa.eu/eurostat/statistics-explained/index.php/Structural_business_statistics_overview.
- ² The European Commission defines micro-, small and medium-sized enterprises in [EU Recommendation 2003/361](#).
- ³ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0078&from=EN>.
- ⁴ For a comparison between CIP and COSME, see Lajarthe, F., [Differences and Similarities Between CIP and COSME](#), Policy Department A, European Parliament, April 2012, and Lajarthe, F., Porrino, F., ['Financial instruments in COSME and Horizon 2020'](#). Workshop proceedings, Policy Department A, European Parliament, June 2012.
- ⁵ Under InnovFin, 'small mid-cap' refers to firms with no more than 3 000 employees.
- ⁶ [European Fund for Strategic Investments adds firepower to COSME funding for SMEs](#), European Commission press release, 22.7.2015.
- ⁷ 'With CIP funding, the sky's the limit', [Finance for Europe's entrepreneurs](#), European Commission – European Investment Fund, Luxembourg: Publications Office of the European Union, 2012.
- ⁸ <https://ec.europa.eu/easme/sites/easme-site/files/documents/EYE-Info-Day-presentation.pdf>.
- ⁹ [Final Evaluation of the Entrepreneurship and Innovation Programme](#), final report, April 2011, p. 143.
- ¹⁰ European Court of Auditors, ['The audit of the SME Guarantee facility'](#), Special Report No 4/2011, 2011.
- ¹¹ *ibid.*, Recommendation 5, p. 47.
- ¹² See http://ec.europa.eu/growth/access-to-finance/cip-financial-instruments/index_en.htm for the results of CIP Financial Instruments.

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