

JEREMIE: A Joint REGIO – EIF/EIB Initiative Supporting Improved Access to Finance for SMEs

The Council stressed the importance of improving access to finance for small and medium enterprises in the context of cohesion policy, in its Decision of October 2006 on Community strategic guidelines on cohesion. In particular, the Council refers to the need to enhance support for start-ups and micro-enterprises, through technical assistance, grants, as well as non-grant instruments such as loans, equity, venture capital or guarantees, and highlights the added value of undertaking these actions in cooperation with the EIB group (European Investment Bank and European Investment Fund).

Evaluations and studies demonstrate a clear correlation between, on the one hand, access to finance and risk capital for small and medium enterprises and, on the other hand, economic growth and competitiveness. Improving access to finance and risk capital for SMEs is therefore a key element of the Lisbon agenda and in this context, ERDF resources allocated to this objective in the new programming period will count in full to Lisbon earmarking targets.

DG REGIO and the EIB Group have prepared a joint initiative to support improved access to finance for SMEs and development of micro-credit for the next programming period, presented under the acronym "JEREMIE" (Joint European Resources for Micro to Medium Enterprises).

The proposal for the JEREMIE initiative was first presented by Commissioner Danuta Hübner and the EIB Group, at a Ministerial meeting of 11 October 2005 in Brussels. Ministers responsible for the Structural Funds in the 25 Member States and in the candidate countries participated actively and contributed to

the discussion, welcoming the JEREMIE initiative. In their interventions, Ministers agreed on enhanced involvement of national and regional actors, including Banks and financial intermediaries.

In the light of the comments from Ministers, the Commission has updated, consequently, its proposal and presented it at the regional conference of 24 November 2005 on "*Financing growth and cohesion in the enlarged EU*". Representatives from all the regions of the European Union eligible for support by the ERDF, along with representatives from the International Financial Institutions, the European banks, SMEs associations, the social partners, welcomed the JEREMIE initiative and declared their wish to participate in it.

HOW JEREMIE WORKS

JEREMIE is a framework providing a series of coherent actions to promote increased access to finance for micro to medium enterprises. Its main features are as follows:

A. PREPARATORY PHASE IN 2006 AND 2007 - EVALUATIONS

During the preparatory phase, which will be concentrated in the years 2006-2007, the EIF (European Investment Fund) and the Commission will pool their resources in order to undertake, in cooperation with the national and regional authorities, evaluations of the gaps between the supply and demand for financial engineering in the regions ("gap analysis"). For this exercise, the EIF would contribute 25% of the required resources while the remainder

will come from the ERDF technical assistance budget at the initiative of the Commission.

The objective of JEREMIE evaluations is to identify gaps between, on the one hand, the potential demand for financial engineering products in support of SMEs and micro-credit operations in the regions and, on the other hand, the existing supply capacity of the local specialised financial intermediaries for such products. The evaluations will also include a proposed action plan to achieve better balance between supply and demand in the regions.

It could also be envisaged to extend the evaluations to the sub-regional level, for example, in order to prepare the ground for the JEREMIE initiative to be accessible to urban authorities.

The results of evaluations will be made freely available to the regions and the competent programme authorities in the Member States, as well as to interested holding funds and financial intermediaries.

B. IMPLEMENTATION DURING 2007-2013

All agreements and arrangements presented will be subject to Community law, including state aid and public procurement law.

Programming - selection of holding fund

This gap analysis, evaluation and proposed action plan, will be used for the preparation of the next generation of operational programmes to be financed by the Structural Funds in the programming period 2007-2013. These programmes are prepared in partnership between the authorities in the Member States and the Commission. The programmes will set out objectives and the relevant grant resources specifically for actions to improve access to finance, based on the gap analysis and proposed action plan.

The implementation of programmes and projects is the responsibility of the programme authorities. For actions to improve access to finance, two essential steps would have to be taken at the initiative of the programme authority in the Member State:

- first, it is envisaged that the authorities will identify a suitable holding fund to act as a “fund-of-funds”, either by awarding a grant to the EIF to carry out this task, or by awarding a contract in accordance with public procurement law.
- second, a formal “Funding Agreement” setting out funding arrangements and deliverables, would be concluded between the programme authority and the selected holding fund.

Funding Agreement with selected holding fund

The funding agreement with the holding fund shall include provisions for: i) the terms and conditions for contributions from the operational programme to the holding fund, ii) the call for expression of interest addressed to financial intermediaries, or to urban development funds, iii) the appraisal by the holding fund, selection and accreditation of financial intermediaries, iv) setting up and monitoring the investment policy, including the targeted small and medium enterprises and the financial engineering products to be supported, v) reporting by the holding fund to Member States or managing authorities, and monitoring implementation of actions, vi) the investment exit policy, and the winding up provisions for the holding fund.

Where a Member State, a region or a managing authority signs a Funding Agreement with a holding fund, it is also recommended that the holding fund undertakes to ensure a sufficient presence on the ground, possibly in local offices. This local presence will

help to provide information, marketing and similar contacts with the financial intermediaries, and the SMEs in the regions concerned.

The operational cost to the holding fund for this presence on the ground will be included in the management cost for the amounts and on the conditions to be specified by the Funding Agreement. Management cost of the specific JEREMIE accounts in the selected holding fund will be eligible expenditure to the ERDF for the operational programme(s) concerned, on the conditions and for the amounts provided by the Funding Agreement.

The detailed rules for the implementation of JEREMIE to be laid down as provided by art 42 bis of the new draft general regulation for the Structural Funds, will set ceilings for the cost of managing JEREMIE by holding funds or funds. These ceilings will not exceed those defined by rules 8 and 9 in Commission regulation 448/2004 laying down detailed rules for the implementation of Council Regulation 1260/99.

Contributions from operational programmes to selected holding funds

The resources contributed from the programme to the accounts with the selected holding fund consist of an ERDF component and a national public component (the ratio depending on the ERDF co-financing rate of the relevant priority axis of the operational programme).

The EIB could, in accordance with its operational procedures (notably when the EIF is selected as holding fund), refinance through loans the national public component of these programme grants, if the Member States or regions request it and on terms that take account of the nature of the financial product.

Each contribution from the operational programme to the selected holding fund will be irreversible for the programming period 2007-2013. It will constitute an eligible interim payment for the ERDF under the rules of the Structural Funds already in force.

These rules also require that by the end of 2015 at the latest, the totality of contributions from the operational programme to funds or holding funds would have to have given rise to an equivalent level of payments by the financial intermediaries for investments in micro- to medium enterprises.

In this context, the Funding Agreements between the holding fund and Member States or managing authorities should be sufficiently flexible as to allow for a prudent initial contribution from the relevant operational programme(s), and then for additional contributions to be made to the JEREMIE specific accounts within the holding fund over the programming period.

Selection of financial intermediaries – support for SMEs

The holding fund would make an open call for expression of interest. The call will be addressed to all financial intermediaries (including venture capital, loan or guarantee funds or micro-credit providers), offering them the possibility to participate in the initiative. The call should be sufficiently flexible and remain open for at least the first half of the programming period 2007-2013.

The holding fund would evaluate, select and formally accredit financial intermediaries. Such accreditation will be subject to periodic review. Drawing on the resources in the specific national or regional accounts, the selected holding fund will provide equity, guarantees or loans, to the accredited financial intermediaries (that is, funds and micro credit providers).

The terms and conditions for contributions to financial intermediaries, from holding funds supported by operational programmes, including deliverables, investment strategy and planning, monitoring implementation, investment exit policy and winding up provisions, will be set up in a funding agreement, to be concluded between the fund and the holding fund.

Member States or managing authorities could decide to make in parallel available technical assistance credits to accredited financial intermediaries or to supported SME's, from the relevant operational programme(s). This should take place in accordance with operational details to be agreed between the managing authority of the operational programme and the holding fund.

The selected financial intermediaries would in turn make available equity, loans or guarantees, on competitive terms the principles of which would be agreed between the programme authority and the holding fund, to micro, small or medium sized enterprises. Special emphasis should be given to supporting technology transfer, start-ups, technology and innovation Funds, micro credit. The financial intermediaries will monitor investment implementation by supported SMEs, and report to the holding fund, as specified by the funding agreement between them.

Recycling contributions from operational programmes

Resources returned to the holding fund from investments undertaken by it, from reimbursement of loans, or left over after all guarantees have been honoured shall be reused by the Member States for the benefit of micro to medium enterprises, possibly under the JEREMIE holding fund, on the terms and conditions specified by the funding agreement. This revolving character of operational programmes resources contributed and used for improved access to finance for micro to medium enterprises will be a key point for ongoing and sustainable support for the social and economic fabric of the regions.

Leverage for contributions from operational programmes

Contributions from operational programmes to JEREMIE actions, are expected to give rise to a significant leverage effect, bringing in additional loan capital from banks, the EIB, notably where the EIF ensures the holding fund tasks, and other IFIs. Such loan capital and financial products to be contributed would be used to co-finance complementary actions with the operational programme(s) concerned, to support micro to medium enterprises in the region(s).