



COMMISSION OF THE EUROPEAN COMMUNITIES

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SECOND REPORT
FROM THE COMMISSION

relative to the implementation of the Decision regarding
the provision of Community interest subsidies
on loans for small and medium-sized enterprises
extended by the European Investment Bank under its temporary lending facility
(the SME Facility)

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1. INTRODUCTION

The present report has been established in the framework of Council decision 94/217/EC of 19 April 1994 ⁽¹⁾, relative to the provision of Community interest subsidies on loans for small and medium-sized enterprises extended by the European Investment Bank under its temporary lending facility (the SME Facility). The report constitutes an update of the first one, which was made available by the Commission on 19 October 1994 (COM(94)434).

The SME facility was established at the invitation of the Copenhagen European Council (21-22 June 1993), which invited the EIB to increase the size of its temporary lending facility by 3 bn Ecu, of which 1 bn Ecu would be allocated to the strengthening of the competitiveness of European small and medium-sized enterprises. The Ecofin Council was invited to examine how the part of appropriations available for SMEs could benefit from interest rate subsidies linked to employment creation.

2. LEGAL FRAMEWORK

Following the introduction of a legislative proposal by the Commission ⁽²⁾, and the opinion of Parliament of 24 February 1994 ⁽³⁾, the legal base for extending Community subsidies was enacted by the Council on 19 April 1994. This Decision specifies that the interest subsidies shall be:

- linked to Ecu 1000 million of EIB loans to SMEs in the Community;
- restricted to investment projects involving the creation of employment;
- fixed at 200 basis points (2 %);
- extended for a period of 5 years to the beneficiaries of the loans.

The decision also indicates that the facility shall be administered by the EIB on behalf of the Community and that the detailed arrangements for implementing the interest subsidy mechanism shall be laid down in a cooperation agreement between the Commission and the EIB. This agreement was signed in Luxembourg on 14 June 1994. In December 1994, the Commission and the Bank agreed the modalities for the enlargement of the SME Facility to enterprises from the three acceding Member States (Austria, Sweden, Finland) from 1 January 1995 onwards. In July 1995, the Commission and the Bank also agreed to extend the Facility to the end of 1995 and to include specific provisions regarding the re-allocation of unused shares.

(1) O.J. L107 of 28.04.94, p. 57. Article 3 of the Decision specifies that the Commission shall send to the European Parliament and the Council a yearly report evaluating the implementation of the Decision.

(2) COM(93)332 of 9.07.93, subsequently amended by COM(93)577 of 16.11.93 (O.J. C10 of 14.01.94, p.13).

(3) O.J. C114 of 25.04.94.

3. DESCRIPTION OF THE FUNCTIONING OF THE SME FACILITY

3.1. EIB global loans

The largest part of EIB lending (83 % of operations within the Union in 1994) to projects takes the form of direct loans, whereby loan applications are appraised by the Bank's own staff. Direct lending is generally practiced for operations exceeding a certain size (e.g. infrastructure or larger industrial projects).

For smaller loans, and SME loans in particular, the Bank has recourse to global lending procedures, whereby framework agreements are signed with various financial intermediaries operating in the Member States. These intermediaries are then entitled to draw upon EIB resources up to certain ceilings for the purpose of extending subloans to projects which are in conformity with the rules and conditions laid down in the framework agreement. The financial intermediaries carry out the project appraisal (subject to criteria previously agreed upon with the Bank and to subsequent EIB approval) and handle all relations with the beneficiaries. The intermediaries are furthermore responsible vis-à-vis the Bank for the full and timely repayment of the global resources on-lent to the final beneficiaries. In the context of the SME Facility, the role of the financial intermediaries is largely comparable as they will assess all individual applications and decide whether they are eligible for subloans.

3.2. The role of national agents

In most Member States, the management of the interest subsidies has been entrusted to a single national agent per country. These agents act under the Bank's supervision and process all requests for subsidies within a single country; the final beneficiaries however have no direct contacts or links with the agent in question as the latter receive all the necessary information through the financial intermediaries. In some countries, the agent can also be an intermediary.

The agents ensure that approved applications for subsidies are registered and processed in sequence on a "first come, first served" basis. They are also responsible for the processing and verification of the evidence which the beneficiaries are invited to submit in relation to employment creation, as well as for the actual payment (and whenever needed the recovery) of the subsidy. The agents therefore play an important role in ensuring that potential and actual beneficiaries are treated in a uniform way and that all administrative procedures linked to the verification and payment of the subsidy requests are handled in a timely and consistent manner.

3.3. Agreements with intermediaries and agents

As soon as the legal framework for extending Community subsidies was in place, the Bank has started signing the necessary agreements with financial intermediaries, either by amending global lending arrangements which were already in existence or otherwise by signing new agreements.

The Bank has appointed the national agent for each Member State after consultation with national authorities. Where no agent has been appointed, the Bank assumes this role. The list of agents and intermediaries is provided in annex 1. Each agent has been assigned an initial share of the total facility so as to allow him to start operations; a subsequent (and final) allocation has been assigned in the course of April 1995 on the basis of the actual commitments on the first tranche.

3.4. Characteristics of the subsidized SME loans

The subsidized subloans (SME loans) extended by the financial intermediaries to the beneficiaries are limited to 30.000 Ecu times the number of jobs created. If the loan request exceeds this maximum amount (e.g. if 200.000 Ecus of loans are applied for but only 5 new jobs are created), the loan amount additional to the ceiling imposed by the number of jobs created (50.000 Ecus) is unsubsidized.

Subsidized loans have a maturity of at least 5 years; voluntary repayment is not allowed during the first 5 years (except upon repayment of the subsidy). The loans cannot be combined with other loans at reduced rates offered by the EIB under other agreements or with ECSC loans. No restriction is imposed on the loan currency or on the repayment characteristics (repayment schedule, grace period, ...). Loans can be either fixed or floating rate.

3.5. Characteristics of the subsidy

The Council Decision sets the subsidy rate at two percentage points. As the loans allocations to SMEs can be expressed in various currencies and as the loans can also have different repayment schedules (depending on the maturity, the length of the grace period, etc.), the actual value of the subsidy could differ between beneficiaries, even for an identical loan size. In order to ensure fair and similar treatment of all beneficiaries, the interest subsidy is therefore calculated and paid on the basis of a notional 5 year bullet loan in Ecu. For this type of loan, an interest subsidy of 2 % per annum for a total of 5 years corresponds in total to 10 % of the SME loan amount (i.e. 3.000 Ecus per job).

3.6. Incentives for early job creation

In view of the objectives of the SME facility (employment creation, sustainment of growth through productive investment), special incentives are offered to applicants so as to encourage early job creation and rapid execution of investment plans. Firstly, the applications for subsidized loans from the SME Facility must be received until a certain deadline date (initially set at 31 July 1995, subsequently postponed to 15 December 1995). In addition, the total amount of interest subsidies (i.e. 3000 Ecus per extra job) is made available to the beneficiaries in a single payment, as soon as the following conditions relating to the investment and the creation of jobs have been met:

- the SME loan has been effectively disbursed;
- the first interest payment has come due;
- the new jobs have been in place for at least 6 continuous months;
- the evidence relative to these conditions has been presented to the national agent (through the intermediary).

While applicants have a clear incentive to go ahead as soon as possible with their planned recruitments, experience shows that the creation of new employment may take considerable time (e.g. because the jobs are linked to the implementation of an extensive investment programme). Applicants have therefore some flexibility regarding the timing for introducing their requests for the subsidy. In any event, jobs must be created no later than 31 December 1996.

Applicants creating less jobs than originally applied for (i.e. less than the number stated in the loan application), only receive subsidies for the jobs effectively created. In the opposite case (more jobs created than originally envisaged), the subsidies are only paid in relation to the number of jobs indicated in the application.

3.7 Improving the take-up of loans

In order to avoid that subsidies available under the present mechanism are ineffectively or only partially used, two specific provisions exist as regards the re-allocation of unused credits. Each of these redistribution mechanisms is based on the reserve lists, which national agents are allowed to constitute if strong demand exists in their country for loans from the Facility.

A first re-allocation mechanism will operate across countries. It will allow for the apportioning of any indicative shares which are still unallocated by 15 December 1995 in favour of applicants on the reserve lists. This one-time redistribution will occur on the basis and in the sequence of the dated application record maintained by the national agents.

The second type of re-allocation will occur on a continuous basis and exclusively among applicants within the same country. Applicants on the reserve list, who have satisfied all the necessary conditions regarding job creation, hereby gain the possibility to receive the subsidies which had initially been set aside for other applicants, in particular when the latter appear to have overestimated the number of jobs which they would be able to create within the imposed time frame.

3.8 Priority for small SMEs

The EIB's customary global lending arrangements with its financial intermediaries define SMEs as enterprises with net fixed assets not exceeding 75 Mecus, less than 500 employees and not more than one third of the equity owned by a company which is not an SME. In the framework of the SME facility, the agents and intermediaries have been asked to put special emphasis on smaller enterprises, particularly the ones having not more than 250 employees, and either a turnover not exceeding 20 Mecus or total assets not exceeding 10 Mecus.

In order to favour these smaller enterprises, at least 60 % of the number of beneficiaries of subsidized loans should belong to this category of enterprises. In addition, the size of the SME loans to enterprises of this category is unrestricted, while subsidized loans to larger SMEs are limited to 810.000 Ecus (corresponding to the creation of 27 jobs).

3.9. State aid rules

The SME Facility is compatible with state aid rules applying in the Member States and complies with the Community rules for accelerated clearance ⁽¹⁾, which specify limitations on the amount of aid which can be granted, notably in relation to the total size of the investment cost, the amount of aid per job created, etc. In view of the relatively limited amounts of aid granted, administrative controls in relation to state aid can thus be kept to a strict minimum.

3.10. Control and supervision

The agents verify the entitlement of each beneficiary to its respective subsidy on the basis of the declarations made by intermediaries and beneficiaries and agreement of the EIB that its criteria are satisfied. In addition, besides the usual monitoring of its global loans, the Bank will also carry out sample checks on the documentary evidence presented in relation to the requests for subsidy payments. In the event that documents presented or statements made by a beneficiary are materially incorrect or misleading, particularly in connection with elements allowing the verification of employment creation, the payment of subsidies will be cancelled and the beneficiary will be required to repay to the intermediary institution the corresponding amounts received. The Bank has made appropriate arrangements with the agents and intermediaries to allow the Court of Auditors to exercise its mission and to verify the regularity of the interest subsidy payments.

3.11. Promotion of the SME Facility

The promotion and success of the SME Facility depends to a considerable extent on the wide availability of information about the existence and operation of the SME Facility, particularly among potential beneficiaries.

The Commission and the EIB have devoted special attention to this aspect and have prepared an information brochure, summarizing the purpose and operation of the interest subsidy mechanism, as well as the list of intermediaries to whom applications should be addressed. The brochure is available in all Community languages and has been distributed through the network of financial intermediaries taking part in the mechanism. In addition, the Euro Info Centres have been invited to play an active role in disseminating information about the Facility and the modalities for taking part in it.

(1) Communication to the Member States on the accelerated clearance of aid schemes for SMEs and of amendments of existing schemes (92/C213/03 of 02.07.92); O.J. C213 of 19.08.92, p.10.

4. IMPLEMENTATION

4.1 Planned job creation

The impact of the SME Facility on the creation of additional employment has been carefully monitored. As the beneficiaries are entitled to receive 30.000 Ecus of subsidized loans for every new job created, and as the total volume of EIB loans from the Facility amounts to 1 billion Ecus, the SME Facility will thus support the creation of at least 33.333 jobs.

The statistical information collected indicates that this objective has already been largely exceeded at this stage as the total for the Union currently amounts to almost 42.000 jobs. When extrapolating these figures for a loan volume of 1 bn Ecu, a total in excess of 45.000 jobs could be anticipated. The number of jobs which are planned to be created per Member State are provided in annex 2, while annex 3 provides the average loan amount per additional job in each country.

4.2. Take-up of loans from the Facility

The loan allocation profile in each individual Member State is provided in annex 4. For each country, the graph indicates the amounts which have already been allocated and committed, and the part which has not yet been used up (uncommitted share). The total of the committed and uncommitted shares constitute each country's indicative share. Moreover, several countries which have fully committed their share, have already constituted a reserve list.

The overall amount of loans allocated in the Union currently amounts to 951.6 Mecu i.e. about 95 % of the total size of the Facility (situation as of 31 July 1995). The cumulative reserve list exceeds 182 Mecu.

4.3 Priority for small SMEs

Annex 5 illustrates that financial intermediaries in each Member State have largely exceeded the requirement to allocate at least 60 % of all loans to small SMEs. The average figure for the Union amounts to about 95 %.

5. BUDGETARY ASPECTS

Budgetary appropriations in relation to the payment of interest subsidies amounted to 65.5 Mecus for 1994, of which 45.5 Mecu were transferred to the Bank in mid-1994 and the remaining 20 Mecu at the end of 1994 following budgetary transfers decided by Parliament at the end of the exercise. The amount proposed by the Commission in the 1995 Preliminary Draft Budget (22.75 Mecu) was reduced correspondingly, and credits amounting to 2.75 Mecu have been approved for the 1995 budget (and paid out in early 1995). The Commission proposed an amount of 7.75 Mecu in the PDB for 1996.

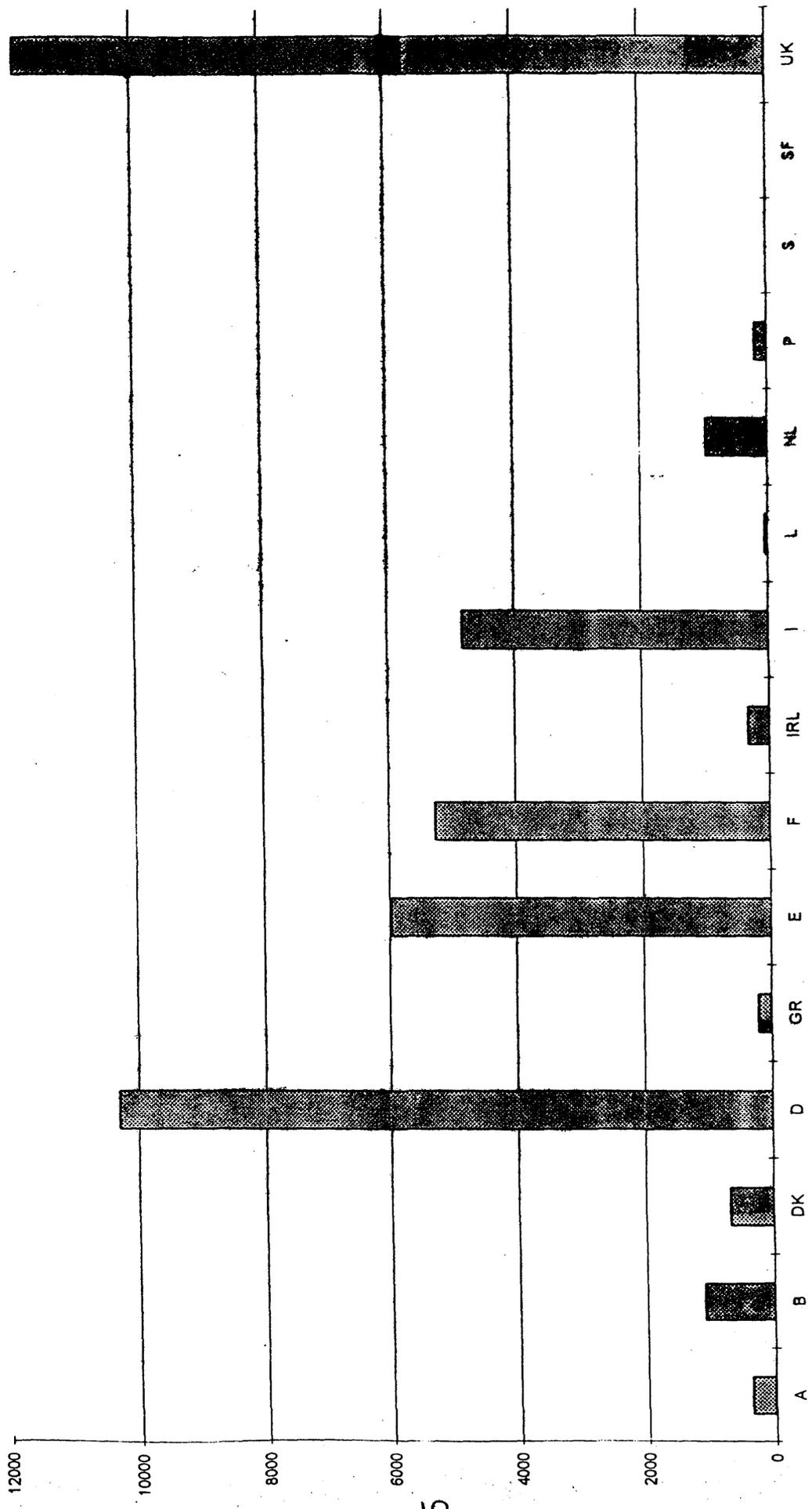
All financial resources entrusted to the EIB for the payment of interest subsidies are credited on a special Community account within the Bank; interest earned on the account is credited monthly. Any amount outstanding at the time of termination of the SME facility will be repaid to the Community budget.

ANNEX 1

IMPLEMENTATION OF THE SME FACILITY IN EACH MEMBER STATE
(Situation as of September 1995)

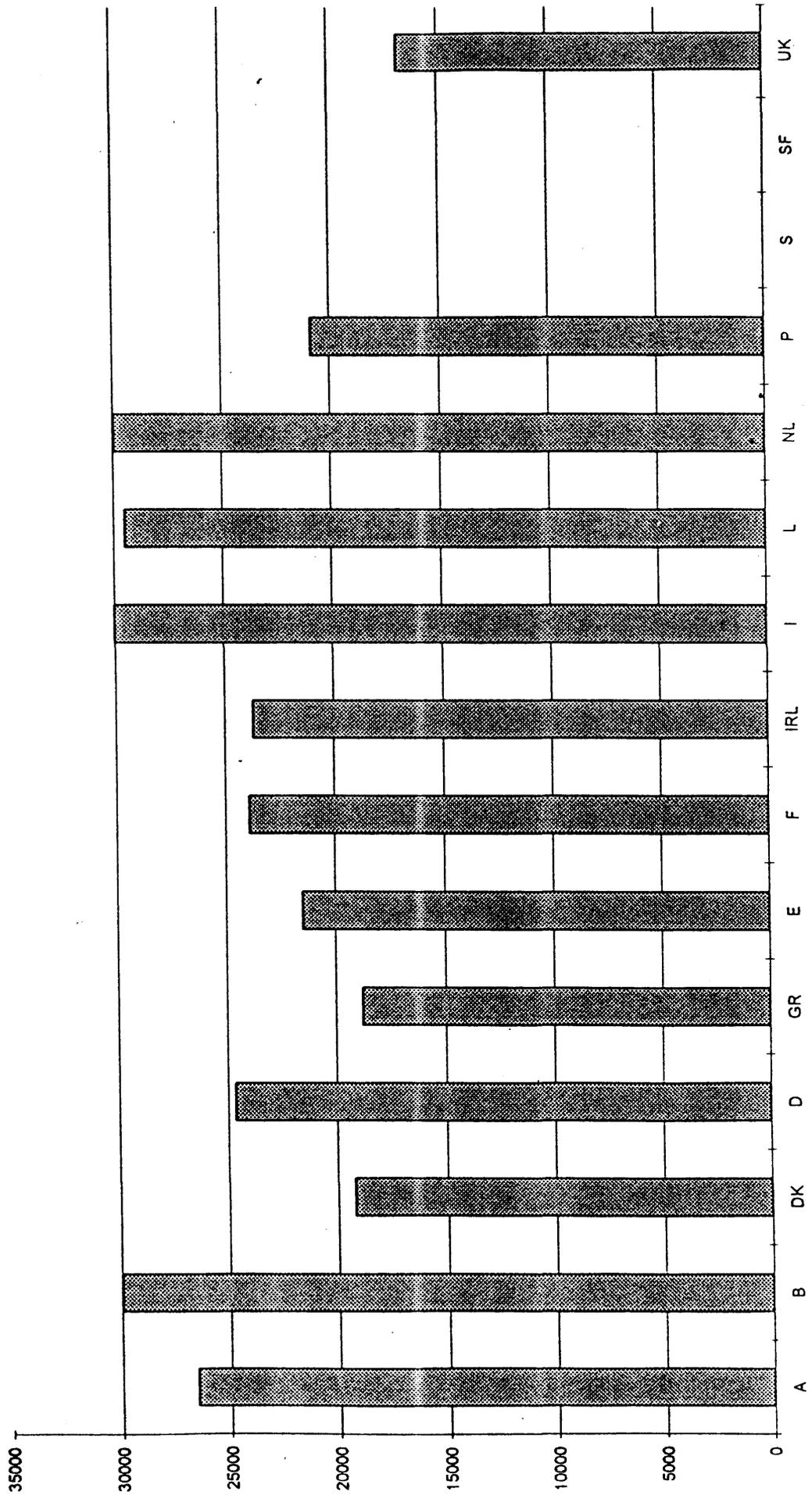
Member State	Agent	Intermediaries
Austria	BÜRGES	INVESTKREDIT
Belgium	SNCI/NMKN	SNCI plus other EIB global loan intermediaries through SNCI
Denmark	FIH	FIH
Germany	KfW	Whole banking system through KfW
Greece	Ministry for the National Economy	All global loan intermediaries
Spain	ICO	Whole banking system through ICO
France	CDC	BFCM, CCCC, CCBP, CFD, CNCA, CNCM, CMB, CBG-PARIBAS, CCF
Ireland	EIB	ICC and AIB
Italy	MCC	All global loan intermediaries
Luxembourg	SNCI	SNCI
Netherlands	NIB	NIB, ING, ABN AMRO
Portugal	IAPMEI	All global loan intermediaries
Sweden	SEK	SEK
Finland	KERA	KERA
United Kingdom	Barclays	Barclays, Barclays MBF, Midland, Royscot Trust, The Royal Bank of Scotland, Bank Scotland, Clydesdale, Northern Bank

PLANNED JOB CREATION (Situation as of 31 July 1995; in units)

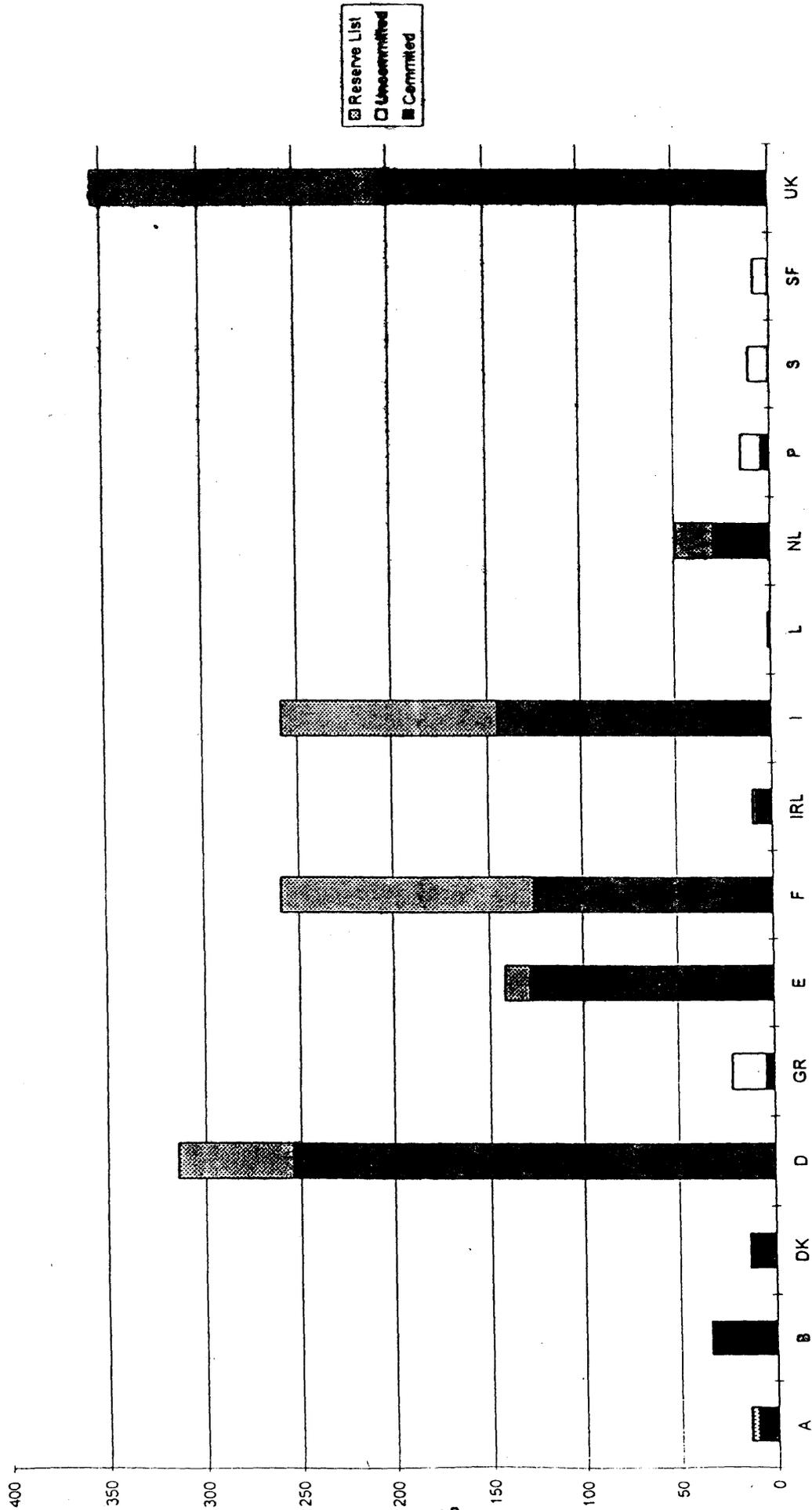


AVERAGE LOAN SIZE PER JOB CREATED

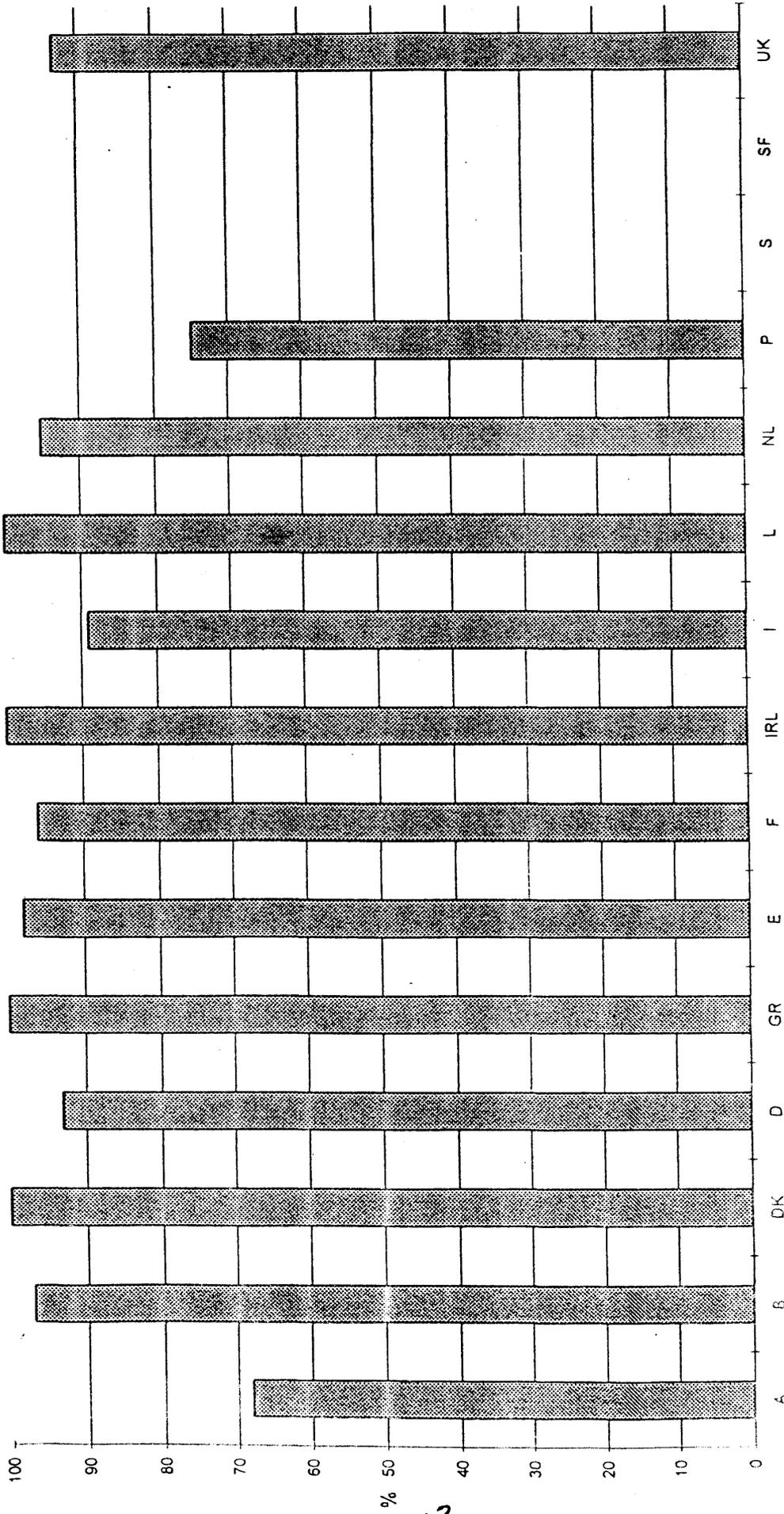
(Situation as of 31 July 1995; in Ecus)



LOAN ALLOCATION
(Situation as of 31 July 1995; in Mecus)



PERCENTAGE OF SMALL SMEs
(Situation as of 31 July 1995; in percent)



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DOCUMENTS

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