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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Fifth Report of the Commission on the implementation of the Decision on 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

1.1. General introduction

This report has been drawn up under Council Decision 94/217/EC of 19 April 1994[1] on the provision of Community interest subsidies on loans for small and medium-sized enterprises extended by the European Investment Bank (EIB, the Bank) under its temporary lending facility (the SME Facility). The report constitutes an update and enlargement of the fourth one, which was made available by the Commission on 2 December 1997 (COM(97)645 final). Given that the EIB finalised subsidy payments by the end of 1997, this fifth report includes an evaluation of the scheme. The Commission intends to make available further information after the active period of the facility is deemed to have ended and all outstanding matters have been resolved. At the present time operations involving the recovery of subsidies are still being recorded.

Statistical information on the final phase of the life of the SME Facility was made available to the Commission by the EIB in June 1998 with complementary information provided in September 1998. Available to the Commission have also been the Court of Auditors sector reports on control missions to the Member States. These missions, with the exception of those to Sweden and Finland, were attended by Commission representatives.

The SME Facility was established at the Copenhagen European Council (21-22 June 1993), which invited the EIB to increase the size of its temporary lending facility by ECU 3000 million, of which ECU 1000 million 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 the appropriations available for SMEs could benefit from interest-rate subsidies linked to job creation.

The present report analyses the implementation and economic impact of the SME Facility on job creation so as to produce conclusions on the overall outcome as required in Council Decision 94/217/EC. In the resolution following the discharge of the general budget for 1995, Parliament invited the Commission to report, at its earliest convenience, on the management and efficiency of the scheme, in particular regarding the implementation of the employment criteria applied. The question of employment criteria, as well as a number of other questions raised in Parliament’s report on the Commission’s second report on the SME Facility (A4-0147/96; rapporteur: Mrs. Ewing) are also discussed in the present report.

1.2. The economic climate in the early 1990s [2]

The Council’s decision to create this mechanism was taken in a very specific economic climate which it is as well to bear in mind. The early 1990s were characterised by a deep recession and a correspondingly gloomy mood.

More specifically, at the end of 1992 the low rate of growth in the economies of all the member countries of the OECD, which amounted to 1.5% in 1992 compared with 0.8% in

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[1] O.J. L107, 28.4.94, p. 57. Article 3 of the Decision specifies that the Commission shall send the European Parliament and the Council a yearly report evaluating the implementation of the Decision.

[2] Sources: Statistical Annex of European Economy and reports of The Banque Nationale de Belgique

1991, was not sufficient to realise the long-deferred expectations of a recovery in worldwide economic activity.

In the Community as a whole economic growth in 1992 was even weaker than in the preceding years.

At the same time the employment situation showed a marked deterioration, with unemployment rising to 10.5% of the working population compared with 8.3% in 1990, while nominal and real interest rates reached very high levels.

In addition, another feature of 1992 was an extremely serious crisis in the EMS, which further deepened in 1993 and was also a contributory factor in the rise in interest rates for certain currencies that were the victims of bearish speculation.

These factors naturally had an impact on the behaviour of economic operators in 1992. Households stepped up their saving ratios and enterprises reduced their debt ratios, which slowed consumption and led to the deferment of capital expenditure.

The deterioration in the financial situation of the private sector was obviously not without consequences for credit institutions.

In many cases credit institutions were obliged to be more selective in the granting of loans and to provide themselves with wider interest spreads. This behaviour, combined with that of a private sector which was itself endeavouring to keep its level of debt in check, put a damper on economic activity.

In 1993 the most striking feature of the international economic environment was perhaps the general feeling of uncertainty. For the third year running growth in the world economy fell short of expectations, and Europe and Japan remained in recession.

In the European Union, economic activity bottomed out in the first quarter of 1993.

Over the year as a whole, GDP shrank on average by about a quarter percent, with Belgium, France, Germany and Spain in particular posting below-average results. Only in the United Kingdom, which had gone into recession much earlier than the rest of the Union, were there unmistakable signs of a recovery. In almost all the countries in mainland Europe domestic demand fell, sometimes considerably. The drop in employment and the restrained growth, or even reduction, in real disposable incomes damped down households' consumption expenditure, but it was investment by enterprises that showed the most marked decline, as a result of the increasing under-utilisation of production capacity, the narrowing of profit margins and the weakness of demand at home and abroad.

At the end of 1993 the unemployment rate was 10.7% of the working population.

In 1994 economic activity in the industrialised countries picked up again. Nonetheless there was a further rise in unemployment, to 11.6% of the working population in Europe.

Interest rates, which had been very high at the end of the 1980s, rose again in 1994 after dropping somewhat in 1993.

To shed some light on this rather special situation, it is worth looking at the analyses made at the time.

At the end of 1994, economists were saying that in due course the rise in interest rates could hold back growth. They considered that, although enterprises relied on forecasts which differed from those governing the financial markets, they could be forced to give up a number of investment projects which would offer insufficient returns in view of the interest rate. It was also thought that if price rises were lower than expected this would subsequently translate into increased real interest charges, which would damage companies' cash flow.

Against this highly complex economic background, the decision of the European Council setting up the Copenhagen mechanism sent business leaders and citizens a message of support and encouragement for the creation of jobs from the authorities at European level.

2. LEGAL FRAMEWORK

Following the legislative proposal from the Commission[3], and the opinion of Parliament of 24 February 1994[4], the legal basis for extending Community subsidies was enacted by the Council on 19 April 1994. This Decision specified that the interest subsidies were to be:

– linked to ECU 1 000 million of EIB loans to SMEs in the Community;

– restricted to investment projects involving the creation of jobs;

– fixed at 200 base points (2 %);

– extended to the beneficiaries of the loans for a period of 5 years.

The Decision also indicated that the facility was to be administered by the EIB on behalf of the Community and that the detailed arrangements for implementing the interest subsidy mechanism were to be laid down in a co-operation 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 arrangements for enlarging the SME Facility to enterprises from the three new Member States (Austria, Finland, and Sweden) 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 subsidies.

3. DESCRIPTION OF THE FUNCTIONING OF THE SME FACILITY

3.1. EIB global loans

The largest part of EIB lending to projects (70% of operations within the Union in 1997) takes the form of direct loans, where loan applications are appraised by the Bank's own staff. Direct lending is generally practised for operations exceeding a certain size (e.g. larger infrastructure or industrial projects).

For smaller loans, and SME loans in particular, the Bank has recourse to lending procedures whereby global loan agreements are signed with various financial intermediaries operating in the Member States. These intermediaries are then entitled to draw upon EIB resources up to

[3] COM(93)332 of 9.7.93, subsequently amended by COM(93)577 of 16.11.93 (O.J. C10, 14.1.94, p.13).
[4] O.J. C114, 25.4.94

certain ceilings for the purpose of extending sub-loans to projects which are in conformity with the rules and conditions laid down in the global loan 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. For the SME Facility the role of the financial intermediaries was largely comparable, as they assessed all individual applications as to whether they were eligible for sub-loans.

3.2. The role of national agents

In most Member States, the management of the interest subsidies was entrusted to a single national agent per country. These agents acted under the Bank's supervision and processed all requests for subsidies within one country; the final beneficiaries generally had no direct contacts or links with the agent in question, as the latter received all the necessary information through the financial intermediaries. In some countries, however, the agent could also be an intermediary.

The agents ensured that approved applications for subsidies were registered and processed in sequence on a "first come, first serve" basis firstly on a main list and secondly, in order to provide for the possibility that not all operations would go ahead, on a reserve list. They were also responsible for the processing and verification of the evidence which the beneficiaries were asked to submit in relation to job creation, as well as for the actual payment (and whenever needed the recovery) of the subsidy. The agents therefore played an important role in ensuring that potential and actual beneficiaries were treated in a uniform way and that all administrative procedures linked to the verification and payment of the subsidy requests were handled promptly consistently.

For these services, the agents received a remuneration of 1% of the subsidies disbursed.

3.3. Agreements with intermediaries and agents

As soon as the legal framework for extending Community subsidies was in place, the Bank signed the necessary agreements with financial intermediaries during the second half of 1994, either by amending global lending arrangements which were already in existence or by signing new agreements.

The EIB appointed the national agent for each Member State after consultation with national authorities. In Ireland where no agent had been appointed, the Bank assumed this role. In agreement with the Commission, each agent was assigned an initial allocation from the total facility so as to allow it to start operations; a subsequent (and final) allocation was assigned in the course of April 1995 on the basis of the actual commitments for the first tranche. As agreed between the Commission and the EIB in July 1995, the uncommitted balance of the Facility, which only amounted to 1.65 % of its total size, was redistributed between countries on 15 December 1995 in favour of applicants on the reserve lists. The SME Facility was thus fully committed by the end of 1995.

3.4. Characteristics of the subsidised SME loans

The subsidised sub-loans (SME loans) granted by the financial intermediaries to the beneficiaries were limited to ECU 30.000 times the number of jobs created. If the loan request exceeded this maximum amount (e.g. if a loan of ECU 200.000 was applied for but only 5 new jobs were created), the loan amount above the ceiling imposed by the number of jobs created (ECU 50.000 in the example) was unsubsidised.

Inversely, if the loan was smaller than the maximum amount (e.g. if a loan of ECU 100 000 was applied for an investment creating 5 additional jobs, although it would allow for a loan size of up to ECU 150.000), the total amount of subsidies was always limited to 10% of the size of the loan. This explains why the average loan size per job is smaller than ECU 30 000 in certain cases.

Subsidised 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 could not be combined with other loans at reduced rates offered by the EIB under other agreements or with ECSC loans. No restriction was imposed on the loan currency or on the repayment characteristics (repayment schedule, grace period etc.). Although the EIB could make funds available at either fixed or floating rates, some financial intermediaries preferred to take only the fixed-rate option.

3.5. Characteristics of the subsidy

The Council Decision set the subsidy rate at two percentage points. As the loan allocations to SMEs could be expressed in various currencies and as the loans could also have different repayment schedules, the actual value of the subsidy could have differed between beneficiaries, even for an identical loan size. In order to ensure fair and equal treatment of all beneficiaries, the interest subsidy was therefore calculated and paid on the basis of a notional 5-year bullet loan in ecus. For this type of loan, an interest subsidy of 2 % per annum for a total of 5 years corresponded in total to 10% of the SME loan amount (i.e. up to ECU 3 000 per job).

In its application for subsidies, the SME had to state the amount of financing required from the EIB, the capital cost of the investment and the number of jobs it was planned to create, with only jobs created after 28 April 1994 being eligible.

In order to become eligible to receive a definite subsidy payment, the beneficiary had to declare in a “bona fide statement” the actual net increase in the number of jobs and that the additional jobs had been in existence for more than six consecutive months prior to the date of the declaration. If the actual job creation was below that planned the subsidies were reduced accordingly. In the opposite case – more jobs created than originally envisaged – the subsidies were limited to the number of jobs in the application. Moreover, for the subsidy to become payable, the subsidised loan had to have been actually disbursed and the first interest payment had to have fallen due.

3.6. Incentives for early job creation

In view of the objectives of the SME Facility (rapid job creation with sustenance of growth through productive investment), special incentives were offered to applicants so as to encourage early job creation and rapid execution of investment plans. Firstly, the applications for subsidised loans from the SME Facility had to be received by a certain deadline (initially set at 31 July 1995, subsequently postponed to 15 December 1995). In addition, the total amount of interest subsidies (i.e. up to ECU 3 000 per extra job) was generally made available to the beneficiaries in a single payment, as soon as the eligibility conditions outlined in paragraph 3.5. had been met. In Germany and Spain, the beneficiary did not receive a cash payment, but the subsidy was applied by the Intermediary to reduce the outstanding loan capital.

While applicants had a clear incentive to go ahead as soon as possible with their planned recruitment, experience shows that the creation of new jobs may take considerable time (e.g. because the jobs are linked to the implementation of an extensive investment programme). Applicants had therefore some flexibility regarding the timing for introducing their requests for the subsidy. In any event, jobs had to have been created no later than 31 December 1996, and the beneficiaries had to have submitted requests for subsidy payment no later than 30 June 1997.

3.7. Improving the take-up of loans

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

One re-allocation mechanism operated across countries and allowed for the apportioning of any indicative shares which were still unallocated by 15 December 1995 in favour of applicants in countries which had a reserve list (cf. section 3.3 above). This one-time redistribution occurred on the basis and in the sequence of the dated application record maintained by the national agents.

The second type of re-allocation took place on a continuous basis, exclusively among applicants within the same country. Applicants on the reserve list who had satisfied all the necessary conditions regarding job creation hereby gained the possibility of receiving the subsidies which had initially been set aside for other applicants, in particular when the latter appeared to have overestimated the number of jobs which they would be able to create within the imposed time frame. This re-allocation process was completed at the end of September 1997.

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 ECU 75 million , less than 500 employees and not more than one third of the equity owned by a company which is not an SME.

The Commission’s criteria are different: the number of employees is limited to 250 for SMEs and 50 for small businesses.

In the framework of the SME facility, the agents and intermediaries were asked to put special emphasis on smaller enterprises, particularly the ones having not more than 250 employees, and either a turnover not exceeding 20 million ECU or total assets not exceeding ECU 10 million.

In order to favour these smaller enterprises, at least 60 % of the number of beneficiaries of subsidised loans should belong to this category. In addition, the size of the SME loans to enterprises in this category was unrestricted, while subsidised loans to larger SMEs were limited to ECU 810 000 (corresponding to the creation of 27 jobs).

3.9. State aid rules

The SME Facility was compatible with state aid rules applying in the Member States and complied with the Community rules for accelerated clearance[5] that 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 could thus be kept to a strict minimum.

3.10. Control and supervision

The agents verified the entitlement of each beneficiary for its respective subsidy on the basis of the declarations made by the intermediaries and beneficiaries. Besides the usual monitoring of its global loans, the Bank also carried out sample checks on the documentary evidence presented in relation to the requests for subsidy payments. In 1996, 1997 and 1998, the EIB has monitored the procedures applied by the agents in 11 countries. In the event that documents presented or statements made by a beneficiary were materially incorrect or misleading, particularly in connection with elements allowing the verification of job creation, the payment of subsidies would be cancelled and the beneficiary would be required to repay to the intermediary institution the amounts received.

The Bank had 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 depended to a considerable extent on the wide availability of information about its existence and operation, particularly among potential beneficiaries.

The Commission and the EIB devoted special attention to this aspect and prepared an information brochure summarising the purpose and operation of the interest subsidy mechanism, as well as the list of intermediaries to whom applications should be addressed. The brochure was available in all Community languages and was distributed through the network of financial intermediaries taking part in the mechanism. In addition, the Euro Info Centres were invited to play an active role in disseminating information about the Facility and the procedures for taking part in it. Certain national agents and intermediaries organised additional measures in agreement with the EIB designed to address the relevant markets and to raise awareness.

4. IMPLEMENTATION

4.1. Allocation of Resources

As at 8 June 1998, the total amount of subsidies made available to SMEs in the Member States amounted to ECU 92.3 million[6]. This figure is still subject to a limited downward

5 Communication to the Member States on the accelerated clearance of aid schemes for SMEs and of amendments to existing schemes (92/C213/03 of 2.7.92); O.J. C213, 19.8.92, p. 10.

6 The analysis in this report is based on figures provided by the EIB dated 8 June 1998. Figures in national currencies have been translated into ecus using end-1997 exchange rates.

revision. Cancellations of operations resulting in the recovery of subsidies will continue as long as there are SME loans outstanding. The breakdown of total subsidies between the Member States is given in Table 1. below.

Table 1. Subsidies disbursed

Member State	**Subsidies disbursed, ECU**	**Member State**	**Subsidies disbursed, ECU**
Belgium	2 188 792	Luxembourg	114 000
Denmark	1 236 707	Netherlands	2 855 000
Germany	20 445 336	Portugal	321 780
Greece	1 429 887	UK	19 840 000
Spain	12 535 766	Austria	950 000
France	13 860 096	Finland	684 249
Ireland	384 346	Sweden	1 035 514
Italy	14 440 000	EU-15	92 321 473

4.2. Planned and actual job creation

The impact of the SME Facility on the creation of additional jobs has been carefully monitored. Subsidy disbursements were finalised by the end of 1997. Although there are significant variations between countries, the information based on the situation as at 8 June 1998 gives implementation results of the SME Facility as follows.

- The actual number of new jobs created was 53 789, which exceeded by 11.8% the planned job creation of 48 077 promised in the applications for subsidies. The minimum number of jobs corresponding to the ECU 1 000 million of loans possible under the Facility, would have been 33 333.

- The number of final beneficiaries in the 15 Member States was 4 336.

- Total subsidies disbursed amounted to ECU 92.3 million corresponding to a subsidised loan volume of ECU 923 million. Compared to the total resources for the SME Facility of subsidised EIB loans of ECU 1 000 million and interest subsidies of ECU 100 million , the final utilisation rate was 92.3%.

- The total investment volume associated with the Facility was approximately ECU 3 800 million, and the average individual investment ECU 890 000.

- The interest-rate subsidies disbursed corresponded to approximately 2.4% of the capital cost of the investments. Under the rules of the Facility, the subsidy available could have been up to 7.5% of the capital cost of the investment, provided that the beneficiary borrowed the maximum permitted loan amount and created the maximum number of jobs eligible for subsidies.

- Average investment per job created was approximately ECU 74 450 and the average subsidy per job ECU 1 716. The highest possible subsidy per job would have been ECU 3 000.

The fact that the actual job creation turned out to be higher than the planned job creation could suggest that the overall improving economic conditions played an important role in the increased investment and job creation.

The job-creation results of the SME Facility at Member State level are summarised in the table below:

Table 2. Job creation results

Member State	Actual job creation	Planned job creation	Number of final beneficiaries	Average subsidy per job created, ECU
Belgium	1520	802	100	1440
Denmark	978	657	36	1265
Germany	8222	8752	886	2487
Greece	605	623	10	2363
Spain	6070	7945	1005	2065
France	9053	6403	976	1531
Ireland	184	218	9	2089
Italy	7844	7204	335	1841
Luxembourg	55	38	3	2073
Netherlands	1373	1115	75	2079
Portugal	273	172	4	1179
UK	15 985	12 805	811	1241
Austria	480	391	21	1979
Finland	445	366	24	1538
Sweden	702	586	40	1475
EU-15	53 789	48 077	4335	1716

The actual number of new jobs exceeded planned job creation by 12%, but there was substantial variation between the Member States. In Spain, only 76% of planned jobs materialised and lower than planned job creation was also recorded in Germany, where the number of actual new jobs reached 94% of the planned figure. There was nothing in the technical implementation of the facility which would have led to the actual job creation not reaching the planned level in these countries. Greece and Ireland also produced fewer jobs than planned, but in these countries the number of operations was too low to provide a basis for conclusions.

The average amount of subsidy per job created varied greatly between the Member States. For instance Germany and the UK each disbursed approximately ECU 20 million, but with widely different results. In Germany, new jobs associated with the SME Facility received an average subsidy of ECU 2 487, whereas at the other end of the scale in the UK the new jobs were only subsidised by an average of ECU 1 241. Figures available would tend to indicate that the German investments supported by this scheme were more capital-intensive than in those the UK.

4.3. Allocation and utilisation of the resources of the SME Facility

In the implementation of the programme, the Commission endeavoured to achieve an equitable distribution of resources between the Member States. To this end, the funds available were allocated in several stages. Initially, ECU 65 million of the total amount of ECU 100 million of subsidies available were allocated between the Member States as indicative country shares on the basis of GDP (20% weighting), unemployment (30%) and population (50%). In the second stage, in December 1995, the new Member States, Austria, Finland and Sweden, were allocated a total of ECU 2.78 million of the ECU 35 million that had not been previously allocated. The proportionate share of the new Member States was calculated as half of the entitlement of EU-12 in indicative country shares and was allocated using the same key. The remaining ECU 32.22 million was allocated between the EU-12 countries in April 1995 on the basis of indications provided by the Bank on the demand for subsidies recorded in the individual Member States. Finally, in December 1995 an amount of ECU 1.65 million, representing interest earned by funds held on account with the EIB, was made available to the national agents on the basis of reserve lists of potential beneficiaries.

Within the Member States, the re-allocation of funds was delegated to national agents under the principles described in paragraph 3.7. The ability of the agents to recycle funds depended on the existence of a reserve list. In most Member States SMEs which submitted their applications only after funds had been committed in full were entered on a reserve list to await the availability of funds either as a result of increased country shares or the cancellation of operations already committed. In some countries in particular where the overall country share was low no reserve lists were set up so as to avoid disappointing potential beneficiaries.

In the end, ECU 7.7 million of the ECU 100 million of budgetary funds made available for subsidies was not taken up and the final utilisation of the SME Facility was 92%. Generally, in Member States where final utilisation was low this was caused by the initial subsidy allocations not leading to full disbursements as a result of a number of SMEs cancelling their participation in the scheme. However, in certain countries where the total amount of funds available was too small to warrant wider marketing, or the Facility was particularly uncompetitive in relation to national schemes, the number of applicants was too low to support full take-up of the funds. The final distribution of disbursed funds between the Member States is shown in Table 3 overleaf.

Table 3. Available and utilised resources

Member State	First indicative share of subsidies %	Final share of disbursed subsidies % (A)	Utilisation Rate %	Share of new jobs % (B)	Share of new jobs compared to share of subsidies (A/B)
Belgium	2.7	3.3	66	2.8	0.85
Denmark	1.4	1.3	95	1.8	1.38
Germany	19.9	25.4	81	15.3	0.60
Greece	2.5	1.7	84	1.1	0.65
Spain	13.2	13.1	95	11.3	0.86
France	16.0	13.9	100	16.8	1.21
Ireland	1.2	0.8	50	0.3	0.38
Italy	15.9	14.4	100	14.6	1.01
Luxembourg	0.1	0.1	100	0.1	1.00
Netherlands	3.9	2.9	100	2.6	0.90
Portugal	1.9	0.5	71	0.5	1.00
UK	15.8	19.8	100	29.7	1.50
Austria	1.9	1.0	100	0.9	0.90
Finland	1.5	0.8	88	0.8	1.00
Sweden	2.1	1.1	99	1.3	1.18
EU-15	100.0	100.0	100.0	100.0	1.00

Demand and final allocations were influenced by various factors, which were not necessarily the same in all Member States:

- The position of the intermediary in the relevant market, in particular the strength of its SME business, and the marketing campaigns undertaken by intermediaries or national agents could significantly influence demand.

- In some Member States, notably in Denmark, Greece, Ireland and Portugal, more generous national schemes may have reduced interest in the SME Facility.

- In some Member States, the EIB loans to which subsidies were linked were only available with a fixed interest rate as the Financial Intermediaries preferred to take only that option. In an environment of falling interest rates, this could help to explain the reduced demand in Belgium, Denmark, France, Germany and Spain.

- In some Member States, the lack of a mechanism for reallocating funds within the country reduced final take-up. In Belgium and Ireland, fixed amounts were allocated to intermediaries (as opposed to the agent making funds available on the basis of first come first serve), meaning that if an intermediary was unable to utilise its full share, the funds were not be applied elsewhere. In Member States that received a very small share of funds, generally no reserve lists were set up. Funds released from cancelled operations could therefore not be re-allocated.

4.4. Investments linked to the Facility

Table 4. Average investments, loans and job creation

Member State	Average Investment, ECU	Average EIB loan, ECU	Average subsidised loan, ECU	Average Investment per job, ECU	Average number of jobs per operation
Belgium	1 835 400	691 000	219 000	120 750	15.2
Denmark	897 100	361 000	344 000	33 022	27.2
Germany	1 120 930	241 000	231 000	120 791	9.3
Greece	4 488 890	1 440 000	1 430 000	74 197	60.5
Spain	499 520	185 000	125 000	82 705	6.0
France	383 660	173 000	142 000	41 362	9.3
Ireland	1 997 650	467 000	427 000	97 711	20.4
Italy	2 653 730	1 231 000	431 000	113 335	23.4
Luxembourg	2 951 760	667 000	380 000	161 005	18.3
Netherlands	2 007 070	971 000	381 000	109 636	18.3
Portugal	7 164 340	1 625 000	604 000	104,972	68.3
UK	707 220	391 000	244 000	35 925	19.7
Austria	2 631 930	452 000	452 000	115 147	22.9
Finland	1 072 050	325 000	285 000	57 818	18.5
Sweden	922 500	300 000	259 000	52 564	17.6
EU-15	893 360	348 000	213 000	72 000	12.4

The average size of investments linked to the SME Facility varied substantially from country to country, as did their apparent labour intensity as shown by Table 4. above. The overall average investment was ECU893 360, of which 40% was financed by a sub-loan from an EIB global loan. On average, 61.2% of the sub-loan was subsidised indicating that some investments were too capital intensive to be eligible for the full subsidies.

As explained earlier in paragraph 3.4., the maximum subsidised loan per job created was ECU 30 000. Under the rules of the SME Facility, the amount of the EIB loan could be up to 75% of the value of the investment, meaning that investments of up to ECU 40 000 per job could be subsidised. This was obviously far less than the average investment per job of ECU 74 450 experienced in the actual implementation of the Facility.

An examination of the results in certain Member States may provide clues to the factors which may have influenced the size of loans linked to the Facility and the variation in the apparent cost efficiency of the Facility, i.e. average subsidy per job created (Table 3.).

In Germany, the average investment per job created, ECU 120 791, was the highest in the EU and was combined with the second lowest number of new jobs per investment. The capital intensity of the investments was thus high. Average investment amounted to ECU 1 120 930. EIB global loan rules for this facility allow EIB funds to be used to finance up to 75% of a project, meaning that the average project would have been eligible for up to approximately ECU 841 000 of EIB funding. However, on average the EIB funds used amounted to only ECU 241 000, of which of ECU 231 000, i.e. 96% was subsidised. At the same time the average subsidy per job created was ECU 2 487, the highest in the EU. These figures suggest that in Germany promoters chose to finance their investments from sources other than the EIB global loan sub-loans, but chose to make use of the latter up to the amount that allowed the maximisation of subsidies received.

In the UK, investments linked to the SME Facility were labour intensive: the Union's lowest average investment per job created was combined with a number of jobs per operation which at 19.7 was high, indicating that the investments were significantly more labour intensive than the average across the EU. The average investment was ECU 707 220 and the average EIB loan ECU 391 000, of which ECU 244 000 – or 62.4% – was subsidised. The average investment per job was a very low ECU 35 925 and the average subsidy per job only ECU 1 241, suggesting that in the UK there was a proportionately high number of strongly job-creative investments which could not receive the full subsidy of ECU 3000 per job created, because the investment per job created was less than ECU 40.000 or the aggregate calculated subsidy exceeded 10% of the SME loan.

4.5. Size of beneficiary SMEs

Table 5. Size of beneficiary SMEs

Member State	Number of operations			Share of operations %		
	Up to 50 employees	51-250 employees	251-500 employees	Up to 50 employees	51-250 employees	251-500 employees
Belgium	72	21	7	72.0	21.0	7.0
Denmark	21	15	0	58.3	41.7	0.0
Germany	662	179	45	74.7	20.2	5.1
Greece	4	6	0	40.0	60.0	0.0
Spain	892	102	11	88.8	10.1	1.1
France	781	184	11	80.0	18.9	1.1
Ireland	8	1	0	88.9	11.1	0.0
Italy	162	137	36	57.3	40.9	10.7
Luxembourg	1	2	0	33.3	67.3	0.0
Netherlands	51	21	3	68.0	28.0	4.0
Portugal	2	1	1	50.0	25.0	25.0
UK	487	294	30	60.0	36.3	3.7
Austria	8	8	5	38.1	38.1	23.8
Finland	15	9	0	62.1	37.5	0.0
Sweden	33	6	1	82.5	15.0	2.5
EU-15	3199	986	150	73.8	22.7	3.5

As outlined in paragraph 3.8., the agents and intermediaries were asked to give special emphasis to small SMEs, i.e. those with no more than 250 employees whose turnover did not exceed ECU 20 million or whose assets were less than ECU 10 million. A target of 60% was set as the minimum share of small SMEs among the final beneficiaries.

Table 5. above shows that the objective of prioritising small SMEs (Cfr. § 3.8 – Priority for small SMEs) was fully achieved and the target figure for their proportionate share greatly exceeded. Across the EU, only 3.5% of operations were with SMEs with more than 250 employees. In two countries only, namely in Austria and Portugal, the number of operations with small SMEs was less than 80% of the total. The number of operations was too low, however, to draw any relevant conclusions.

Table 5. also shows that the great majority of operations, 74% across the EU, was with SMEs with less than 50 employees.

Table 6. Job creation relative to the size of final beneficiaries

Member State	**Share of subsidies %**			**Share of new jobs %**		
	Up to 50 employees	**51-250 employees**	**251-500 employees**	**Up to 50 employees**	**51-250 employees**	**251-500 employees**
Belgium	62.0	27.0	11.0	52.7	30.3	16.9
Denmark	36.0	64.0	0.0	29.6	70.4	0.0
Germany	52.8	34.2	13.0	54.0	32.8	13.3
Greece	21.9	78.1	0.0	21.8	78.2	0.0
Spain	75.4	22.1	2.6	76.3	21.0	2.6
France	61.0	35.0	4.0	57.8	38.0	4.2
Ireland	68.0	32.0	0.0	66.0	33.2	0.0
Italy	31.7	50.0	18.3	28.1	50.4	21.6
Luxembourg	13.0	87.0	0.0	12.7	87.3	0.0
Netherlands	34.0	50.0	16.0	34.2	50.0	15.8
Portugal	39.0	36.0	25.0	23.8	19.0	57.1
UK	38.0	54.0	8.0	33.0	57.3	9.7
Austria	17.2	47.8	35.0	29.6	38.1	32.3
Finland	28.0	72.0	0.0	25.8	74.2	0.0
Sweden	65.0	27.0	8.0	55.7	24.1	20.2
EU-15	49.1%	41.2%	9.7%	45.2%	44.0%	10.9%

While it is true that small companies with less than 50 employees created proportionally fewer jobs than their relative share of subsidies, the job creation efficiency of interest-rate subsidies was remarkably similar throughout the EU.

4.6. Sectoral distribution

Table 7. Sectoral distribution of subsidies in EU-15

Sector	No. of Ops	Share %	Subsidies ECU	Share %	Planned Job creation	Actual Job creation	Share %
I.Public Infrastructure	30	0.7	505 170	0.5	309	485	0.9
II. Agriculture, forestry, fishery	25	0.6	353 427	0.4	202	242	0.4
III. Industry							
Mining	31	0.7	613 228	0.7	246	239	0.4
Metal production & semi-processing	18	0.4	629 640	0.7	273	221	0.4
Construction material	78	1.8	2 065 373	2.2	890	983	1.8
Wood industry	216	5.0	5 147 647	5.6	2 539	2 996	5.6
Glass & ceramics	121	2.8	4 773 533	5.2	2 652	2 627	4.9
Chemicals	92	2.1	1 784 233	1.9	813	935	1.7
Metal working & mechanical engineering	834	19.2	19 046 059	20.6	9 763	11 184	20.8
Construction of transport equipment	124	2.9	2 480 888	2.7	1 352	1 666	3.1
Electronic & electrical engineering	190	4.4	5 480 029	5.9	3 729	3 800	7.1
Foodstuffs	287	6.6	8 171 142	8.9	4 151	5 132	9.5
Textiles & leather	168	3.9	3 786 603	4.1	2 215	2 112	3.9
Paper, pulp; printing, publishing	247	5.7	5 050 160	5.5	2 308	2 533	4.7
Rubber & plastic processing	241	5.6	6 121 136	6.6	3 049	3 210	6.0
Other industries	173	4.0	2 816 376	3.1	1 529	2 121	3.9
Building/Civil engineering	233	5.4	2 943 467	3.2	1 425	1 997	3.7
Total	3 053	70.4	70 909 514	76.8	36 934	41 756	77.6
IV. Trade and services							
General (no specification)	2	0.0	58 821	0.1	27	134	0.2
Tourism and leisure	129	3.0	4 303 198	4.7	2 310	1 923	3.6
Research & development	5	0.1	207 571	0.2	80	76	0.1
Private & public sector services	705	16.3	10 427 051	11.3	5 458	6 332	11.8
Trade	353	8.1	4 765 211	5.2	2 383	2 434	4.5
Waste recovery	27	0.6	691 658	0.7	318	285	0.5
Education	5	0.1	90 244	0.1	55	126	0.2
Health	2	0.0	9 633	0.0	9	8	0.0
Total	1 228	28.3	20 553 387	22.3	10 640	11 318	21.0
Total I. to IV:	**4 336**	**100.0**	**92 321 473**	**100.0**	**48 077**	**53 789**	**100.0**

SMEs in industrial sectors, with 76,8% of subsidies and 77,6% of job creation were the predominant beneficiaries of the SME Facility. More than half of the beneficiaries classified under industry were accounted for by four sectors. Of these, metalworking & mechanical engineering, with 20.6% of subsidies paid to industry and the same proportion of the corresponding job creation was the most important. Other significant sectors were foodstuffs, rubber & plastic processing and electronic & electrical engineering and private and public sector services.

In certain Member States (Germany, Italy), craft industries, the distributive trades and other local services were excluded from eligibility for the temporary mechanism because of instructions from the respective governments.

However, the table above shows that the subsidies were widely distributed amongst sectors and that actual job creation compared to share of subsidies was remarkably consistent.

4.7. Role of Intermediaries

In the EU-12 countries most national agents and intermediaries were long-standing EIB global loan intermediaries and had structures in place for the granting of global loan sub-loans and the relevant reporting to the EIB. The SME Facility, however, added a significant extra burden to the usual global loan procedures. The intermediaries were responsible for distributing information of the availability of interest-rate subsidies, the collection of subsidy applications, the collection of the bona fide statements on job creation and the payment of the granted subsidies to the final beneficiaries.

There are still considerable differences in the financial environment for SMEs in the Member States. The nature of intermediaries therefore varied from country to country. Examples of countries where the distribution of the Facility could be said to have been particularly successful are France, the United Kingdom and Sweden, all of which applied different mechanisms.

- In France, a government institution, Caisse des Dépôts et Consignations, acted as agent and the Facility was available through a network of mainly co-operative banks with the large commercial banks absent. The success of the Facility appears to have been the result of the strong SME involvement of the intermediaries.

- In the United Kingdom, the resources available were used in full and a good geographic coverage was achieved, although one intermediary, who was also the agent Barclays Bank, distributed 83% of total subsidies. In this case success appears to have been underpinned by a strong marketing effort by Barclays, including the preparation of specific marketing literature.

- In Sweden, AB Svensk Exportkredit (SEK), a specialised financial institution owned by the government and commercial banks, managed the distribution of the subsidies. It acted as agent, as well as the direct recipient of EIB funding, which it then passed on to the intermediary banks to fund the SME loans associated with the Facility. The good results achieved in Sweden appear to have been achieved through a strong campaign by SEK to publicise the SME Facility.

In addition to the examples mentioned above, Italy and Netherlands, which applied similar distribution mechanisms, also achieved a wide coverage of their respective SME markets and were able to make full use of the resources allocated to them, most probably thanks to strong marketing efforts.

In Spain and Germany, the SME Facility was embedded in existing national schemes managed respectively by ICO and KfW. This allowed the Facility to be accessed through the entire banking sector. However, in both countries the actual subsidy was distributed in a way that reduced its immediate benefit to the SMEs. Contrary to the procedures adopted in other Member States, in Spain and Germany the subsidy was not paid as an up-front cash payment, but was used to reduce the outstanding loan capital.

The amount of funds available in an individual Member States appears to have had a significant effect on the success of the SME Facility. In Denmark, Greece, Ireland, Luxembourg, Portugal Austria and Finland, whose share of funds ranged between ECU

114 000 and ECU 1 430 000 , the amount of funds available was so low as to permit only a limited number of final beneficiaries, which made it neither practical nor cost-efficient to have a large number of financial intermediaries.

The obligation to recover subsidies in full in the event that the beneficiary elects to repay the loan before its fifth anniversary may not have been appropriate in the context of this particular facility.

4.8. Procedures and administrative costs

In essence, the subsidies paid under the SME Facility constituted a bonus for jobs created. By requiring the potential beneficiaries to submit investment plans and requiring those investments to be partly financed by EIB global-loan sub-loans, it was possible to ensure that the scheme was associated with genuine job-creating investments. Also, by means of early commitment of the available subsidies, the SMEs were encouraged to proceed with their job-creating investments.

The reliance on bona-fide statements on job creation for the release of subsidies had advantages and disadvantages. Self certification may increase the possibility of errors and provides limited protection against misrepresentation. On the other hand, it was intended to maximise the impact of the subsidies by paying them out to the beneficiaries as early as possible and limit the administrative costs for SMEs.

In the implementation of the SME Facility, the EIB, the national agents and the intermediaries shouldered a not inconsiderable administrative burden and were inadequately compensated. In many cases, the intermediaries created new internal procedures to accommodate the scheme and produced publicity material at their own expense. The Agents were remunerated and received fees amounting to 1% of the subsidies disbursed, but the amount could be considered inadequate in relation to the costs incurred. It is possible that the administrative burden carried by the intermediaries was underestimated at the time the scheme was launched. For instance, no provision was made to cover the costs incurred by the intermediaries when operations had to be cancelled or subsidies recovered.

4.9. Efficiency of the SME Facility as an instrument for job creation

The total amount of resources reserved for the SME Facility, ECU 100 million, corresponds to a minimum number of new jobs of 33 333. For various reasons discussed earlier, the total amount of subsidies disbursed was only ECU 93.2 million, but actual job creation was almost 54.000. The number of jobs associated with the scheme thus greatly exceeded the minimum target.

The cooperation agreement between the Commission and the European Investment Bank concerning the management of the SME Facility was signed in June 1994, after which the Bank was able to conclude appropriate arrangements with agents and intermediaries in the Member States. Most of these were concluded between August and October 1994, as were the agency agreements. The initial deadline for the submission of applications for subsidies was the end of July 1995, which was subsequently extended to December 1995. Ideally, the availability of the subsidies should have encouraged SMEs to assess and launch new job-creating investments. Some intermediaries have expressed the view that certain investments may have been brought forward in order for them to benefit from the SME Facility.

The figures indicating the average level of subsidy also suggest that the subsidy alone could not have been enough to justify the creation of additional permanent jobs. The average subsidy per job created was ECU 1 716 and the average total subsidy received by a beneficiary ECU 21 300 or 2.4% of the capital cost of the average investment.

The Commission would not claim that interest rebates alone are the single determining factor in a beneficiary's decision to undertake an investment project. They form part of a package which includes the loan itself at a lower basic interest rate than would otherwise be obtained and measures on a local, regional or national level which together facilitate the achievement of priority Community objectives.

The average size of individual investments was ECU 890 000 and the average number of associated new jobs 12.4. Given that the majority of beneficiary SMEs were small, the investments associated with the scheme must be considered as significant for the companies and likely to involve genuine expansion. It follows that the majority of the new jobs is likely to have been created with the intention of maintaining them in the longer term. Only permanent jobs were eligible and the subsidy was paid after the jobs had been in place for six months, meaning that the staff in question were likely to have completed their probationary period and benefit from the usual protection against dismissal.

4.10. Advantages and drawbacks of interest-rate subsidies

The SME Facility provided interest-rate subsidies on EIB global loan sub-loans extended to SMEs subject to certain job-creation criteria being met. As explained in paragraph 3.5., the 2% subsidy was calculated on the basis of a notional 5-year bullet loan, but was paid in full after the corresponding new jobs had been in existence for six months and the first interest payment of the underlying loan had become due and payable.

Irrespective of the fact that the subsidy was in reality a reward for creating new jobs, it was only available for SMEs that were borrowers of EIB global loan sub-loans. The link to borrowing indirectly linked the subsidies with investments. This, in turn, made it more likely that the jobs subsidised were sustainable.

Under the global loans, the EIB extends loans to financial intermediaries for on-lending to SMEs. The credit risk of the global loan sub-loans is carried by the financial intermediary in full. This could mean that the volume of loan finance available to SMEs was not increased but was on more advantageous terms.

The addition of these subsidies to EIB global loans also provided a distribution channel through the EIB existing global loan banks. This avoided the necessity of creating a totally new conduit for the subsidies. Job-creating investments for which SMEs raised finance from other sources were not concerned and could not benefit from the subsidies of the SME Facility.

As already mentioned in section 3.4, for each new job created a loan of up to ECU 30 000 was eligible to be subsidised. Given that up to 75% of the capital cost of the investment could be financed by an EIB global loan sub-loan, the maximum investment per job eligible for full support was ECU 40 000. Compared to the actual average investment per job of ECU 74 450, this was a low figure and resulted in a low average actual subsidy per job.

The beneficiary SME received the subsidy only after it had fulfilled all the conditions of the facility, i.e. the jobs subsidised had been in existence for a period of six months and the first interest payment of the loan financing the underlying investment had become due and payable The rules of the SME Facility stipulated that in the event that a final beneficiary elected to repay a loan before its fifth anniversary, the corresponding subsidies became repayable in full. This requirement may appear overly strict in a situation where interest rates are rapidly declining and beneficiaries wish to make alternative arrangements.

In order to ensure the rapid implementation of the scheme, the procedures were not unnecessarily complex, involving only an application and a bona fide statement after job creation.

The distribution system through existing channels permitted the rapid implementation of the scheme in all Member States but limited in some instances the flexibility of the instrument and created minor differences in implementation throughout the Community.

The decision of the Copenhagen summit concerning the SME Facility was taken in June 1993. At that time economic growth had slowed in most Member States (Cf. section 1.2. Introduction – General economic climate). The final decision with details of implementation, scope and volume was enacted only in April 1994. The Facility had generally become fully operational by autumn 1994 when the European economies had started to recover. Additionally, interest rates started to fall in most Member States and there was an expectation – subsequently fulfilled – that the decline in rates would continue.

5. BUDGETARY ASPECTS

Budgetary appropriations for the payment of interest subsidies amounted to ECU 65.5 million for 1994, which were transferred to the Bank in the course of 1994. In 1995, appropriations amounting to ECU 2.75 million were approved and paid out of the 1995 budget. The Commission proposed an amount of ECU 7.75 million in the PDB for 1996, which was paid out in early 1996. Following budgetary appropriations by Parliament on the budgetary line, another ECU 17.5 million was paid out in late 1996 to cover the cost of the Facility in full.

In total the Facility was credited with ECU 93.5 million, which was almost completely disbursed to the beneficiaries. were transferred back to the budget in 1998. On 31.12.1998 the balance on the Community account was ECU 656 476.

All financial resources entrusted to the EIB for the payment of interest subsidies were credited to a special Community account within the Bank; interest earned on the account has been and will be credited monthly. It appears likely that the Community account will have to be maintained for several more years to receive of subsidy payments recovered.

6. OUTSTANDING ISSUES

The requests for payment of subsidies had to be submitted no later than 30 June 1997, at which time the SME loan had to have been actually disbursed and the first interest payment had to have fallen due. Assuming an interest period of six months, the final SME loans would have been disbursed at the end of 1996, meaning that the five-year period during which they cannot be repaid without the subsidy also becoming repayable ends at the end of 2001. The aggregate number of cancelled operations may therefore continue to increase for several more years and the administrative structures for reclaiming subsidies and returning them to the Community account with the EIB and subsequently to the Community budget will have to remain in place probably until the middle of 2002.

The SME Facility excluded SMEs that benefited from other loans offered by the EIB under other agreements or ECSC loans. A small number of cases where the SME Facility was combined with ECSC funding have come to light, and work is in progress by the Commission and EIB departments to determine the exact nature of such operations and to take appropriate remedial action.

It also appears that subsidy payments have been made to final beneficiaries that may not have met the conditions of the SME Facility in full. The most important types of anomalies are cases where the number of jobs created was lower than declared and cases where excess subsidies were paid because VAT was included in the investment cost. The EIB, in cooperation with the agents and intermediaries is in the process of assessing the extent of this practice with a view to taking action for the proportional recovery of subsidies.

7. CONCLUSIONS

7.1. Achievements

The SME facility was successful in achieving its objectives at little cost. Across the EU it helped create nearly 54 000 new jobs, which exceeded substantially the minimum target of 33 333. With this employment being linked to growth through investment, the sustainability of the new jobs is likely to be high. This figure represents only the jobs created directly and takes no account of indirect job creation.

Although there were significant variations between Member States, the average subsidy for each new job was only ECU 1 716 and represented extremely good value for money. With average investment per job at ECU 72 000, the facility supported some ECU 3 800 million of job-creating investment in a wide range of industrial and service sectors.

The target of 60% of final beneficiaries being the smaller SMEs with under 250 employees was also substantially exceeded, with over 96% falling into this category and over 73% actually having fewer than 50 employees.

The EIB's use of its existing global loan intermediaries enabled the facility to be rapidly implemented with correspondingly rapid job creation.

7.2. Lessons to be learned

The figures show that implementation was not even throughout the EU. In some countries the allocation of subsidy was probably too small to merit an extensive marketing exercise. There was also a relatively heavy administrative burden for little or no remuneration on the EIB, agents and global-loan intermediaries. It might therefore be appropriate in any future scheme of this nature for the Commission to maintain responsibilities for managing the subsidies.

As regards the final beneficiaries, the fact that loans could not be repaid early during a period of falling interest rates without total loss of subsidy was not well regarded and a pro-rata loss could have been more appropriate.

In hindsight the self-certification of job creation would appear to have its drawbacks and may in some cases have resulted in excess jobs being declared.

As is usual with global loan schemes it is the financial intermediary that carries the entire credit risk. Whilst this has the advantage that the Community has no likelihood of loss due to default on the loan it is possible that some of the financially weaker SMEs may not therefore have had access to these loans and the associated subsidy. The Commission has taken this into consideration in drawing up subsequent schemes, notably those providing guarantees.