

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## REPORT OF 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 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 up to a maximum of three percentage points over 5 years, on the understanding that the subsidies would be linked to employment creation and funded within the existing financial perspectives. The Brussels European Council (29 October 1993) called upon the Council to ensure that an interest rate subsidy mechanism for SMEs was set up in accordance with the guidelines adopted by the Copenhagen European Council and within the limits assigned for the 1994 budget.

# 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 EIB's decisions to extend subsidized loans shall be taken within 12 months of the date of entry into force of the decision and that the facility shall be administered by the EIB on behalf of the Community. 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.

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(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. The first report shall be submitted before 30 October 1994.  
 (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 (84 % of operations within the Union in 1993) 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 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 will be 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 will act under the Bank's supervision and will process all requests for subsidies within a single country; the final beneficiaries will however have no direct contacts or links with the agent in question as the latter will receive all the necessary information through the financial intermediaries. In some countries, the agent can also be an intermediary.

The agents will ensure that approved applications for subsidies are registered and processed in sequence on a "first come, first served" basis. They will also be 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 will 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. Characteristics of the subsidized SME loans

The subsidized subloans (SME loans) extended by the financial intermediaries to the beneficiaries will be 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) will be unsubsidized.

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Subsidized loans will have a maturity of at least 5 years; voluntary repayment will not be 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.

#### 3.4. 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 will be 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).

#### 3.5. 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 before 1 August 1995. In addition, the total amount of interest subsidies (i.e. 3000 Ecus per extra job) will be 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), will only receive subsidies for the jobs effectively created. In the opposite case (more jobs created than originally envisaged), the subsidies will only be paid in relation to the number of jobs indicated in the application.

In order to avoid that subsidies available under the present mechanism would be ineffectively or only partially used, notably because applicants have overestimated the number of jobs which they are able to create, or otherwise because jobs are not created within the time frame indicated above, the agents will re-allocate the surplus subsidies to other applicants satisfying all the conditions in chronological order of their application.

### 3.6. 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, special emphasis will however be put 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 will belong to this category of enterprises. The situation will be regularly reviewed by the Commission and the Bank so as to ensure that this objective is attained. In addition, the size of the SME loans to enterprises of this category will be unrestricted, while subsidized loans to larger SMEs will be limited to 810.000 Ecus (corresponding to the creation of 27 jobs).

### 3.7. 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 <sup>(1)</sup>, 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.

### 3.8. Control and supervision

The agents will 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 shall be required to repay to the intermediary institution the corresponding amounts received. The Bank will also make 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.

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(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. Agreements with intermediaries and agents

As soon as the legal framework for extending Community subsidies was in place, the Bank began signing the necessary agreements with financial intermediaries, either by amending global lending arrangements which were already in existence or otherwise by signing new agreements. Each agent has been assigned an initial share of the total facility so as to allow him to start operations; further allocations will be decided notably on the basis of the actual commitments on the first tranche.

As indicated above, the Bank has also appointed a national agent per Member State after consultation with national authorities. In those countries where no agent is appointed, the Bank will take on this role. The current situation with regard to agents and intermediaries is summarized in annex; the list of intermediaries will enlarge as further agreements are being signed.

### 4.2. Promotion of the SME Facility

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

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

### 4.3. Take-up of loans from the Facility

Global lending agreements with the Bank's financial intermediaries provide for regular reporting on the subloans extended, more specifically on the beneficiaries of the loans, their impact in terms of investment generation and employment creation, etc. Additional information regarding the subsidized loans will become available through the EIB.

The impact of the SME Facility on the creation of additional employment will be carefully monitored. As the beneficiaries are entitled to 30.000 Ecus of subsidized loans for every new job created, and as the total amount of EIB loans from the Facility corresponds to 1 billion Ecus, the SME Facility will support the creation of up to 33.333 jobs.

As most global lending contracts with financial intermediaries are only in operation for a few weeks, the available statistical information is currently very partial and insufficient to produce a coherent and reliable statistical overview. It is however expected that an overview on how initial requests for subsidized SME loans are progressing could be produced within a few months.

## 5. BUDGETARY ASPECTS

Budgetary appropriations in relation to the payment of interest subsidies amounted to 45.5 Mecus for 1994 and have already been transferred to the Bank. The Commission has proposed 22.75 Mecus in the 1995 PDB, and has indicated a similar amount in the indicative programming for 1996. No further commitments or payments are expected beyond 1996.

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



## ANNEX

**IMPLEMENTATION OF THE SME FACILITY IN EACH MEMBER STATE**  
*(SITUATION AS OF 23 SEPTEMBER 1994)*

<b>Member State</b>	<b>Agent and/or Intermediary Agent (1)</b>	<b>Signature of the Contract Agent</b>	<b>Intermediaries other than Agents</b>
Belgium	SNCI/NMKN	shortly	no
Denmark	FIH	shortly	no
Germany	KfW	signed (29.07.94)	no (2)
Greece	Ministry for the National Economy	signed (04.08.94)	yes
Spain	ICO	signed (28.07.94)	no (2)
France	CDC	signed (19.09.94)	yes
Ireland	EIB	.....	yes
Italy	MCC	signed (28.07.94)	yes
Luxembourg	SNCI	signed (02.08.94)	no
Netherlands	NIB	shortly	yes
Portugal	IAPMEI	signed (23.09.94)	yes
United Kingdom	Barclays	signed (19.09.94)	yes

- (1) In some countries, the Agent also acts as Intermediary  
(2) The Agent liaises with the domestic banking system

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# DOCUMENTS

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