



## Lowlands and Uplands Scotland ERDF and ESF Programmes 2007 - 2013 Programme Monitoring Committee

### SCOTTISH CO-INVESTMENT FUND A JEREMIE PROGRAMME FOR SCOTLAND

#### 1. Purpose

- 1.1 The purpose of this paper is to update the Programme Monitoring Committee on the potential use of JEREMIE (Joint European Resources for Micro to Medium Enterprises) as a mechanism for delivering financial engineering instruments. Support for financial engineering instruments was identified as a significant area for spending under Priority 2 of the ERDF programme.

The intent to explore the use of JEREMIE as a mechanism for delivering those financial instruments is set out in the 2007 – 2013 LUPS Single Programme Document (Section 6.6). The Scottish Government and Scottish Enterprise are currently considering the case for JEREMIE for Scotland. They intend to involve COSLA and other interested parties in these considerations. A paper would then be presented at the next PMC meeting in March 2009 for decision.

#### 2. Background

- 2.1 JEREMIE is an initiative of the Commission together with the European Investment Bank and the European Investment Fund in order to promote increased access to finance for the development of micro, small and medium-sized enterprises in the regions of the EU.

Improving access to finance is a priority area of the renewed Lisbon agenda for growth and jobs in an effort to increase the availability of capital in Europe for new business formation and development. Past experience has shown that this is an area where the programme authorities would like to do more, but they lack both expertise and access to risk capital. JEREMIE, by creating a framework for cooperation with the specialised financial institutions, the EIF and EIB, as well as other international financial institutions, is designed to help to overcome these difficulties.

Historically, monies from EU Structural Funds have essentially been spent as awards which are issued as one-off payments on a project basis. An exception to this has been the Scottish Co-investment Fund, which has aimed to re-cycle returns by re-investing them in further SMEs. The JEREMIE initiative offers new opportunities for Member States and Regions to invest and re-invest Structural Funds using a range of financial instruments, instead of grants. Investment and re-investment opportunities through JEREMIE mean that funds are used to maximum advantage, gaining additional value, or leverage, and also that funds can be used over a longer period for the benefit of SMEs.

### **3. How JEREMIE works**

- 3.1** The first phase of JEREMIE consists of an evaluation of the supply of financial engineering products in Scotland and an assessment of potential needs: a technical gap analysis of market failures and imperfections which underpins the rationale for funding JEREMIE activities. An earlier evaluation was conducted by the EIF during 2006 and is currently being updated in a cooperation arrangement between the Commission and the EIF, working closely with the Scottish Government and Scottish Enterprise.

The second phase intervenes in 2007-2013 ERDF Programme. Where management authorities wish to benefit from accessing JEREMIE, they would decide to allocate ERDF grant resources from the programme to a JEREMIE holding fund, which could then lever-in additional loan capital from the EIB. The holding fund could be a suitably qualified financial institution at national level. The role of the holding fund is to finance a range of regional funds which address the market failures and imperfections identified at the first phase evaluation. These can include: venture or seed capital funds, start-ups, technology or technology transfer funds, guarantee or mutual guarantee funds, loan funds, micro credit providers, etc. On the basis of its specific expertise, the holding fund, working closely with the managing authority, will evaluate, select and accredit financial intermediaries. It will be able to provide them with equity, loans or guarantees, as well as technical assistance as appropriate.

The selected financial intermediaries will in turn be responsible for making funds available on competitive terms (the principles of which would be agreed between the programme authority and the holding fund), to micro, small or medium sized enterprises. Special emphasis will be given to supporting the Lisbon growth and jobs agenda, by emphasising technology transfer, start-ups, technology and innovation Funds and micro credit.

### **4. What are the benefits of using JEREMIE?**

- 4.1** The principal benefits are:
- **Legacy/Recycling of funds:** The Holding Fund is of a revolving nature, receiving repayments from the financial intermediaries for further investments in the SME sector. This makes SME support via EU Structural Funds more sustainable than using the pure grant approach, and ensures a long term economically sustainable legacy fund;
  - **Leverage:** A significant implied advantage of JEREMIE is its potential ability to lever substantial additional investment from the European Investment Bank, at up to 50% of the fund size;
  - **With the JEREMIE initiative, the LUPS Programme can benefit from a flexible, efficient, “visible” and revolving financial platform for SMEs, through a long-term partnership with their local financial institutions.**
  - **Benefits of a portfolio approach:** The Holding Fund will be able to re-allocate the resources to one or other financial product in a flexible way, depending on the actual demand over time; furthermore, the Holding Fund approach will allow a diversification of risks and expected returns, financial products having different default rates;

## **5. Disadvantages**

- 5.1** Potential disadvantages are currently being investigated by Scottish Enterprise and Scottish Government officials as part of their consideration. They will engage with COSLA and other interested parties to ensure all possible downsides are taken into account.

## **6. Recommendations**

- 6.1** The Committee is invited to:

- 6.1.1 note that a JEREMIE for Scotland is currently being explored by the Scottish Government and Scottish Enterprise. A paper for decision detailing the structure, scope, scale and impact of adopting a JEREMIE for Scotland may be presented to the Committee at the next meeting in March 2009.

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