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The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

Abbreviations

Abbreviation	Full name
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
FRSP	Funded Risk Sharing Product
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JHF	JEREMIE Holding Fund
OP	Operational Programme
PRSL	Portfolio Risk Sharing Loan instrument
R&D	Research and Development
SME	Small and medium-sized enterprise



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1 Summary

The JEREMIE¹ Holding Fund (JHF) was set up in 2013 within the Extremadura 2007-13 Regional Operational Programme (OP) co-funded by the European Regional Development Fund (ERDF). The Regional OP envisaged a financial instrument to stimulate investments of SMEs and self-employed for business growth and innovation, given that Extremadura businesses have one of the lowest levels of innovation in Spain², and that many SMEs have difficulties in accessing finance. One example of a supported enterprise is FERTIEX SL, located in Don Benito (Extremadura), which manufactures and sells liquid fertilisers, and offers advice to farmers. In 2014 it received a loan for plant modernisation and additional equipment to remain competitive and to grow in line with market demands. This investment would not have been possible at that moment without the loan.

This case study shows how a EU co-funded initiative managed to attract private investment to stimulate SME growth and innovation in a rural and sparsely populated Spanish region. The initial amount of EUR 15.7 million was absorbed in about two months, so additional resources were added. The financial instrument's total of EUR 29.95 million includes EUR 16.9 million from the ERDF, EUR 2 million in national co-funding and EUR 11.05 million from private resources. This amount was used to provide loans of up to EUR 250 000, or up to EUR 1 million in exceptional cases, for between 12 months and 10 years. By the end of 2015 the financial intermediary had provided loans of approx. EUR 40.5 million to 1 022 projects and 934 SMEs. Absorption was 135.2% (due to the reinvestment of resources repaid to the financial instrument). About 43% of the portfolio was loans made to innovative SMEs.

The Extremadura Regional Government acting as intermediate body of the Regional OP signed a funding agreement with the European Investment Fund (EIF), which was the holding fund manager. Banco Santander was the financial intermediary, offering loans to final recipients. One success factor was the thorough analysis of the regional market that led to a tailor-made financial instrument.

A positive outcome was the capacity developed within the regional public administration regarding financial instruments. The positive experiences and lessons learned provided a solid basis for continuing with financial instruments in the 2014-2020 period. The Extremadura Regional Government has also contributed ERDF resources under the 2014-2020 Regional OP to the multi-regional financial instrument 'SME Initiative Spain', set up in January 2015 and managed by the EIF.

1 Acronym for 'Joint European Resources for Micro to Medium Enterprises' and refers to a joint initiative developed by the European Commission (Directorate General for Regional and Urban Policy) in cooperation with the European Investment Bank Group and other financial institutions during the 2007-2013 programming period.

2 For more detail, see the Smart Specialisation Strategy (RIS3) Extremadura 2014-2020 (Gobierno de Extremadura, 2015) and the "Informe COTEC 2015" (Fundación Cotec para la Innovación Tecnológica, 2015).



JEREMIE loan fund in Extremadura, Spain

THE FINANCIAL INSTRUMENT

Funding source

ERDF, Regional OP for Extremadura 2007-2013

Type of financial products

Loans

Financial size

EUR 29.95 million total OP resources (EUR 16.9 million from ERDF, EUR 2 million from public national funding and EUR 11.05 million from private resources).

Thematic focus

SME support for investments in growth and innovation projects

Timing

September 2013 to December 2015 (extension until December 2016)

Partners involved

Extremadura Regional Government (intermediate body)
European Investment Fund (holding fund manager)
Banco Santander (financial intermediary)
Regional authorities

ACHIEVEMENTS

Absorption rate

135.2% (as of December 2015) – 100% from 1st cycle of investments and 35.2% from reinvesting resources repaid to the financial instrument

EU leverage

1.77 times³

Leverage of public resources

1.58 times⁴

Re-investment

35.2% (at December 2015)

Main results

1 022 projects supported and 934 SMEs benefited from the loan operations up to the end of 2015. EUR 40.5 million in loans were disbursed, and about 43% of the portfolio was made of loans to innovative SMEs.

- 3 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 29.95 million, divided by the total amount of ERDF allocation to this financial instrument, i.e. EUR 16.9 million. It does not include the reuse of resources returned to the instrument.
- 4 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 29.95 million, divided by the total amount of public resources allocated to this financial instrument, i.e. EUR 18.9 million. It does not include the reuse of resources returned to the instrument.



2 Objectives

Extremadura is a rural and sparsely populated region in south-western Spain, bordering Portugal. Despite high growth rates in recent years, the region is still among the least developed in Spain. It has a low active population, high unemployment and a less developed economy with a large primary sector. The agricultural sector accounts for over 10% of the regional gross domestic product, as compared to 6% for industry. The most representative export from the region is food, in particular pork, one of the main products of the economy. Over 95% of companies have less than ten employees and are in traditional sectors such as agriculture, energy, cork and quarries. Extremadura businesses have one of the lowest innovation rates in Spain.⁵

Set against this background, the Extremadura ERDF 2007-2013 OP focuses on six objectives that include developing the knowledge economy, business development and innovation as well as support for local and urban development. The OP has a total budget of EUR 1.975 billion, of which EUR 1.58 billion is from ERDF. The business development and innovation objective has three strands:

- SME assistance to use environmentally-friendly products and processes;
- investments for business growth;
- to stimulate research, innovation and entrepreneurial spirit in SMEs.

Most programme funds are for grants. However, 'investments for business growth' envisaged a financial instrument to facilitate access to funding for companies and to stimulate investments for business growth and innovation.

In Extremadura, there is a shortage of finance for the riskier segments of the SME market, as stated in the 2007 EIF market assessment for JEREMIE instruments.⁶ Public actors provide early-stage and expansion support only when SMEs can offer adequate collateral. Therefore, the Extremadura government promoted the initiative to improve access to finance for regional companies, in particular SMEs.

Plant Modernisation in FERTIEX SL

Located in Don Benito (Extremadura), FERTIEX manufactures and sells liquid fertiliser in all its forms. It also offers specialised advice to farmers, by helping to implement and monitor fertilisation plans for various crops. In 2014, the company had 17 employees. In order to stay competitive and grow in line with market needs, FERTIEX SL undertook a very ambitious project of plant modernisation and the acquisition of additional equipment, costing EUR 1 million. In requesting a loan from the local branch of Banco Santander, FERTIEX was recommended a loan, which was provided at favourable conditions. 'The loan offered the best conditions for us', states Liviano Ayuso, FERTIEX general manager. FERTIEX successfully applied for a EUR 250 000 loan which was matched with EUR 250 000 from the company's own resources. To complete the project, FERTIEX obtained additional funding from a local bank.

5 For more detail, see the Smart Specialisation Strategy (RIS3) Extremadura 2014-2020 (Gobierno de Extremadura, 2015) and the "Informe COTEC 2015" (Fundación Cotec para la Innovación Tecnológica, 2015).

6 Estudio de evaluación del acceso a la financiación de la PYME en EXTREMADURA.



3 Design and set-up

The JEREMIE Extremadura Instrument was implemented under the Extremadura ERDF 2007-2013 OP to give regional SMEs better access to finance to maintain or increase their business activity. The operation was the first of its kind for the EIF in Spain. A positive effect was the impressive take-up of the initiative (with 90% absorption in only two and a half months of inception). In recognition of the difficulties faced by SMEs at a time of modest growth and expensive financing, the Government of Extremadura decided, in December 2013, to increase the size of the instrument. This increase led to a further EUR 14 million being made available to companies based in Extremadura, increasing the total portfolio to almost EUR 30 million.

3.1 Preceding events

In a market study of the potential use of financial instruments in Extremadura (2007) the EIF recommended establishing a JEREMIE Holding Fund (JHF) for the 2007-2013 programming period. This recommendation was based on an analysis of supply and demand for SME funding. The objective was to shift SME funding towards a more market driven approach and to provide SMEs with an integrated finance chain.

The study recommended that the holding fund could be initially set up with EUR 20-30 million, to be increased later if it was successful. The amount might appear small compared to the ERDF resources available, but from the EIF's perspective, SME absorption capacity in the region was not expected to exceed this amount. In addition, a considerable number of SMEs are not eligible for ERDF- or EIF-supported instruments because they are active in agricultural sectors that are covered by the European Agricultural Fund for Rural Development.

The JEREMIE Extremadura Instrument started with the signing of the funding agreement between the Regional Government and the EIF. It was implemented following a call for expressions of interest, in September 2013, once the EIF signed an agreement with the financial intermediary, Banco Santander, under the framework of the JEREMIE Extremadura Instrument. The operation allowed the financial intermediary to initially provide up to EUR 15.7 million of new loans to SMEs based in Extremadura with a significant reduction in interest rates.

After initial negotiations and advice from the European Commission, the analysis of the regional market was revised in 2012 following the first study of the potential use of financial instruments in Extremadura carried out in 2007.

Plant Modernisation in FERTIEX SL: financing gap

In 2013 and 2014, FERTIEX SL, like most other smaller companies in rural Extremadura, faced difficulties in obtaining the funding they needed to grow. Spain had been hit hard by the economic and financial crisis since 2009 and commercial banks were extremely cautious about funding smaller companies without sufficient collateral. Commercial loan terms were unattractive for smaller companies (around 8% interest). Given this, FERTIEX was happy to be offered a loan of up to EUR 250 000 (the maximum amount per customer), with an interest rate of about 4%. In addition, the loan gave credibility to FERTIEX's investment plans and together with its own contribution, this facilitated an additional loan from another bank to make up to EUR 1 million required for the investment.



3.2 Funding and partners

The main partners are the Extremadura Regional Government, the JEREMIE holding fund manager (EIF), an investment board and the financial intermediary (Banco Santander).

The managing authority, the Spanish Ministry for Treasury and Public Administration, delegated the tasks for this financial instrument under Priority Axes 2 and 8 of the regional OP to the intermediate body, the regional government of Extremadura. The intermediate body appointed the holding fund manager to implement the regional JEREMIE fund for SME investments. An investment board composed of representatives of the intermediate body and the holding fund manager helped define the investment strategy including the potential target groups. This led to the selection of a financial intermediary to provide loans, also investing its own resources.

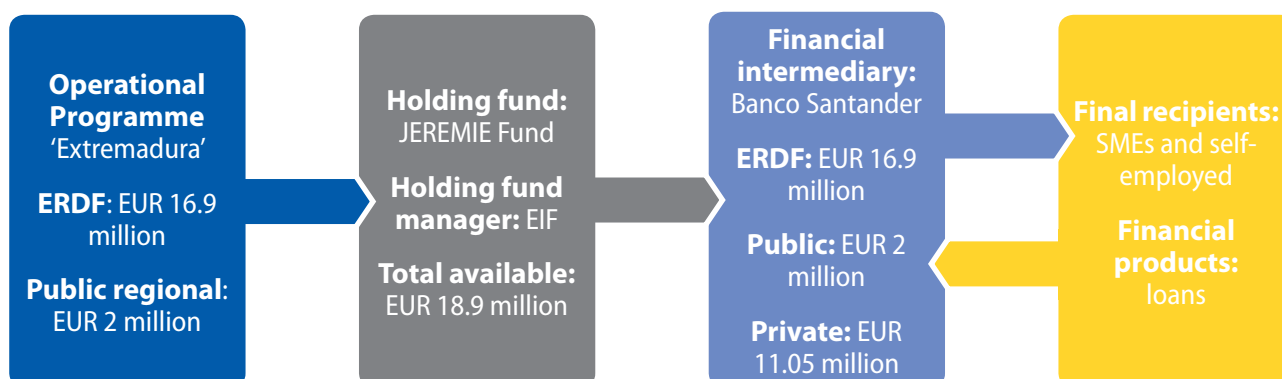
Table 1: Funding sources

Funding sources	EUR
ERDF	16.9 million
Public - national	2 million
Private (financial intermediary)	11.05 million
Total	29.95 million

Public resources were made available by the holding fund manager to the financial intermediary, then invested in final recipients together with the financial intermediary's own resources.

Loan repayments are re-invested in other final recipients, and 35.2% of resources had already been re-invested by December 2015.

Figure 1 Flow of funds in the JEREMIE Extremadura financial instrument





The Regional Government proposed an increase of the JEREMIE Extremadura for 2014. In December 2013, an addendum to the funding agreement with the EIF was signed and the additional funding (EUR 8.9 million from the ERDF and EUR 5.35 million from the financial intermediary) was made available.

The leverage effect of EU resources, i.e. ERDF, is 1.77 times, meaning that each euro from the ERDF was complemented by EUR 0.77 of additional public and private sources. In total, each publicly-provided euro was complemented by EUR 0.58 of private contributions from the financial intermediary.

3.3 Investment strategy

The JEREMIE Extremadura instrument was implemented under Priority Axis 2 of the regional ERDF 2007-13 OP on 'Business development and innovation' and Priority Axis 8 'Investments for business growth'. It supported SMEs and self-employment in Extremadura by alleviating the lack of funding and the high cost of commercial loans in the region, made worse by liquidity constraints and the higher risk aversion of banks.

The instrument brings together the EIF's financial instruments technical expertise, regional public administration's knowledge of the needs of regional SMEs, together with the financial intermediary's practical know-how of working with SME debt financing.

This system allowed funding for SMEs and the self-employed at better conditions than through commercial financial products, while keeping the administrative burden for final recipients low. It also facilitated using public and private resources within one portfolio, with the effect that public resources are multiplied and, in addition, can be re-invested as soon as loans are repaid. Indeed, the financial intermediary agreed to produce a new loan portfolio for this scheme, providing loans at reduced interest rates to the two target groups while dedicating 20% of the portfolio to innovative SMEs or SMEs undertaking an innovative project as defined in the OP and on a checklist approved by the Investment Board in July 2013.

3.4 Governance

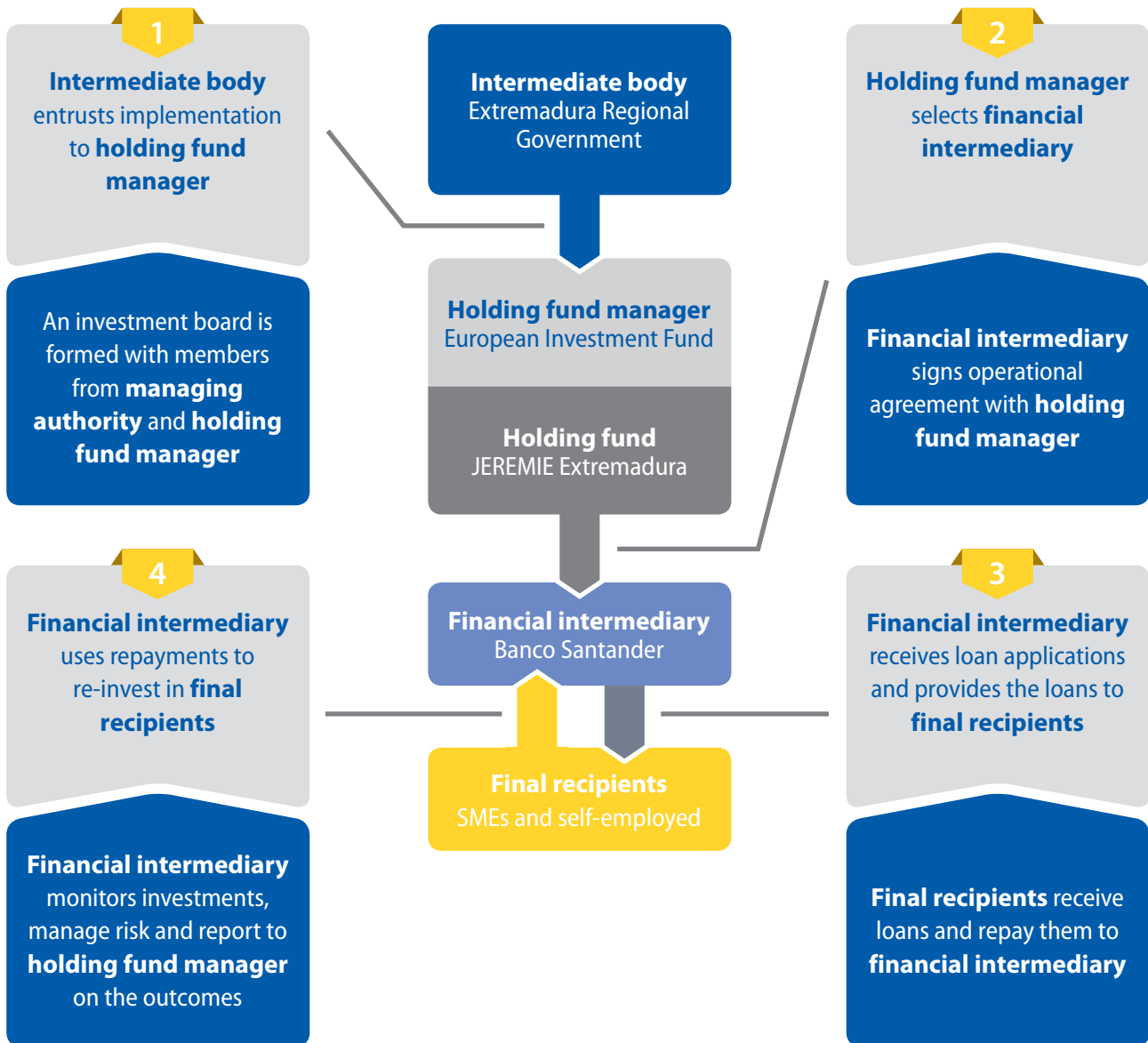
The first step to formalise cooperation between the Extremadura Regional Government and the EIF – acting as JHF manager – was the funding agreement signed in 2012. This defines the cooperation and the key responsibilities for the financial instrument, including entrusting the EIF with the management of ERDF and national co-financing resources from the 2007-2013 Regional OP. An investment board was set up, consisting of three members with 'proven experience' in financial instruments proposed by the Regional Government and two members appointed by the EIF without voting rights. The investment board usually meets twice a year.

In February 2013, the EIF published a call for expressions of interest to select a financial intermediary to implement the financial instrument. The EIF assessed proposals from a formal perspective at first and later from a 'quality criteria' perspective, submitting the results to the investment board. In this selection procedure, Banco Santander was retained as financial intermediary, signing an operational agreement with the EIF and contributing additional private resources. The financial intermediary started to offer loans under this scheme in October 2013.



The financial instrument consists of portfolio risk-sharing loans (PRSL) to regional SMEs and the self-employed. The PRSL's objective is to motivate the bank to extend loans and similar debt financing to SMEs. The financial intermediary tops up the resources made available by the JHF. The repayment risk is shared at the pre-agreed rate of 60% for the fund and 40% for the financial intermediary, on a loan-by-loan basis. This means that the risk on the entire portfolio is shared on a 40%/60% basis between the financial intermediary and the financial instrument.

Figure 2 Set-up and implementation



The financial intermediary is responsible for implementation of the SME loans and day-to-day administration of the financial instrument (origination, due diligence, documentation and execution of the underlying loans). The financial intermediary is also responsible for payments, on-going monitoring and reporting to the JHF. As a commercial gesture towards the initiative, the financial intermediary gave up the management fee for the SME portfolio. The financial intermediary employed its own resources to set up the procedures and the marketing strategy. As manager of the mandate, the EIF provided the necessary support and guidance to the financial intermediary.



Table 2: Timing of the financial instrument

Time period	Action taken
November 2007	Gap analysis study by the EIF
2012	The intermediate body appointed the EIF as holding fund manager and signed a funding agreement, leading to the setting up of an investment board. In 2012 the analysis of the regional market was revised
February 2013	The holding fund manager launched a call for expressions of interest to select a financial intermediary
September 2013	The holding fund manager selected Banco Santander as financial intermediary
October 2013	The financial intermediary made the first investments
December 2013	After only 45 days, 90% of the available funds were absorbed, leading the regional government to propose an increase in funding for 2014, through an addendum to the funding agreement providing an extra EUR 14.25 million
December 2015	Banco Santander granted more loans than initially planned: by this date, 35.2% of the original resources had been re-invested Extension of the funding agreement termination date until 31 December 2016



4 Implementation

The financial instrument provided loans at advantageous conditions to SMEs and the self-employed. Loans reached Extremadura's top three economic sectors and its success prompted the regional government to increase the scheme's funding.

4.1 State aid

The loan conditions complied with State aid de minimis regulation.

4.2 Financial products and terms

By December 2015, the average loan was for EUR 39 619, and ranged from EUR 1 000 to EUR 1 million. The average maturity was 52 months, ranging from 12 months to 10 years. The maximum amount per enterprise was EUR 250 000, but in exceptional cases this could go up to EUR 1 million. The loan terms are explained in the box below.

Product description: JEREMIE Extremadura SME loans

The financial instrument is an exclusive product for the self-employed and companies in Extremadura to finance investments and provide liquidity.

Target group: Self-employed and companies with fewer than 250 employees

Eligible investments: Acquisition of tangible assets other than land; intangible investments; etc.

Product: Loan

Amount: Up to 100% of the investment, with a maximum of EUR 250 000 per customer (exceptions possible)*

Repayment period: Minimum two years and maximum 10 years

Availability: Until 31 December 2015 or earlier if funds have been spent

Conditions: The interest rate charged for the JEREMIE SME loans is EURIBOR 3 months + 2% (at October 2014)

* The operational agreement with the financial intermediary specified that loans exceeding EUR 250 000 should not constitute more than 25% of the portfolio amount. In the agreement signed in 2015 for the second round, this figure was raised to 30%.

Source: www.bancosantander.es



4.3 Final recipients targeted

The financial instrument targets SMEs and the self-employed. By December 2015, 854 micro, 71 small and 9 medium enterprises were supported with loans of EUR 26.5 million, EUR 9.4 million and EUR 4.5 million respectively. There was an average of four employees per final recipient, indicating that a significant number of microenterprises and self-employed have benefited from the initiative. The top three sectors of Extremadura's economy (food manufacturers, wholesale trade and retail trade) made up about 46% of the portfolio and benefited most from the initiative. A total of 63 sectors had access to financing. The loans significantly helped to promote innovation among SMEs, with 43% of the portfolio provided as loans for innovative projects, more than doubling the initial 20% target.

To support implementation and take-up of the instrument, the financial intermediary actively marketed the loans with advertisements in the regional press, other press, radio and TV coverage, their web page and posters outside the financial intermediary's branches throughout the region.

4.4 Changes in strategy

After only two and a half months, 90% of the available resources were absorbed. For this reason, the parties agreed in December 2013 to make available another EUR 14.25 million, of which EUR 8.9 million came from the ERDF and EUR 5.35 from the financial intermediary.

The financial instrument will not continue in the 2014-2020 period. This is due to the crowding-out of the target group by other nationally-funded instruments, as well as by Spain's recent adherence to the new EU-level multi-regional instrument 'SME Initiative' managed by the EIF. The Regional Government of Extremadura already mentioned this in the regional OP 2014-2020, therefore the JEREMIE instrument will be wound up when the eligibility period for the 2007-2013 funds expires.



5 Achievements

The Extremadura JEREMIE scheme was intended to facilitate SME access to finance on favourable terms. Despite the financial instrument being created only in 2013, it has had an important financial impact. Lending by the financial intermediary significantly increased the impact of the financial instrument. By the end of 2015, the amount of SME loans was approx. EUR 40.5 million and 934 SMEs had benefited from 1 022 loans. Given the considerable number of enterprises in the region benefitting from the scheme's loans, its goal has been achieved. Accessible financing has contributed to the growth and development of many companies in the region.

The JEREMIE Extremadura Instrument has initiated a shift from predominantly grant-based support towards the use of financial instruments and funding that can be leveraged by adding private resources and can revolve repayments.

Plant Modernisation in FERTIEX SL: achievements

Thanks to the loan, additional resources could be leveraged by FERTIEX SL. Together with FERTIEX SL's own contribution, this allowed modernisation of the local production plant and the purchase of new machinery. This led to an extension of production capacity, 12 years after their last large investment. FERTIEX SL has now increased production and employs three more people. "This investment and the growth of our business would not have been possible at that moment in time without the loan, maybe some years later", confirms the general manager of FERTIEX, Señor Liviano Ayuso. FERTIEX is grateful for the loan, offered at better conditions compared to commercial loans at that time. It was easily accessible, due to support and advice from the local Banco Santander branch. FERTIEX hopes that more loans under financial instruments will be available in the future, as they are important, especially for smaller companies.

6 Lessons learned

The financial instrument improved SME access to finance. This enabled companies to develop projects and improve their competitiveness. For the Regional Government it represented an alternative way of implementing ERDF funds to boost growth and development, facilitate fund re-investment and obtain additional value.

6.1 Main challenges

Up to 2007 the regional public administration had supported business development and innovation mostly through grants, the initial lack of knowledge about financial instruments was a challenge. However, the work with the EIF helped to transfer knowledge and build up the capacity to set up and implement financial instruments.

6.2 Main success factors

The instrument is a success for both the Regional Government and the EIF. Extremadura was the first Spanish region to collaborate with the EIF on an instrument for SMEs. For the EIF, the high absorption level shows that there was a market gap in SME loan financing that was adequately addressed by the scheme. The setup of this instrument has allowed SMEs to be less dependent on grants and contributed to the socioeconomic development of the region.

For the financial intermediary, involvement in this scheme brought several advantages. It was able to extend its client base in Extremadura, to diversify the range of financial products for SMEs and to add to its image as a socially responsible and active bank.

Another success factor was the analysis and fieldwork of experts from the Regional Government and the EIF before signing the agreement. This initial market analysis helped define a suitable size for the instrument that could be absorbed within two years. It also helped by analysing the conditions required for financial intermediaries to participate in the instrument. The rapid absorption of the funds confirms the initial analysis and the decisions based on it.

Another positive outcome was the capacity developed within the regional public administration. Until 2007, grants were the main instrument used to support SME development. The institutional capacities were thus concentrated on implementing grants. However, the joint work between EIF experts and the Regional Government helped transfer knowledge about financial instruments, especially loans, and to build up the capacity to work with financial intermediaries.

6.3 Outlook

The positive experiences and lessons learned provide a solid basis for continuing using financial instruments in the 2014- 2020 period. Inspired by the success and the achievements of the JEREMIE Extremadura, the Regional Government has contributed ERDF resources from their regional 2014-2020 OP to the multi-regional financial instrument 'SME Initiative Spain', set up in January 2015 and managed by the EIF.

