



MEMORANDUM OF UNDERSTANDING

in respect of

a coordinated approach to improving access to finance for micro to medium enterprises in the regions supported by the European Regional Development Fund

(Joint European REsources for MIcro to medium Enterprises- JEREMIE)

between

THE EUROPEAN COMMISSION

and

THE EUROPEAN INVESTMENT FUND

This MEMORANDUM OF UNDERSTANDING is entered into on this 30^{th} day of May 2006 between

The **EUROPEAN COMMISSION**, (hereinafter referred to as the "Commission"), established 200 Rue de la Loi, B-1049 Brussels which is represented for the purposes of the signature of this Memorandum of Understanding by Commissioner Danuta Hübner,

of the first part, and

the **EUROPEAN INVESTMENT FUND** (hereinafter referred to as the "EIF"), established at 43, Avenue J.F. Kennedy, Luxembourg, Grand Duchy of Luxembourg, represented for the purposes of signature of this Memorandum of Understanding by Mr Francis Carpenter, Chief Executive Officer,

of the second part,

1. CONTEXT

The Commission's Communication of July 2005, "Cohesion policy in support of growth and jobs, Community strategic guidelines 2007-2013" stresses the importance of improving access to finance for the development of SMEs. In particular, the Commission refers to the need to enhance support for start-ups and micro-enterprises, through technical assistance, grants as well as non-grant instruments such as loans, equity venture capital or guarantees, and highlights the added value of undertaking these actions in cooperation with the European Investment Fund and European Investment Bank (hereinafter EIB).

In this context, a proposal for a joint initiative to support improved access to finance for SMEs and development of micro-credit for the next programming period, referred to as "JEREMIE" (Join European Resources for Micro to Medium Enterprises) has been prepared by the Commission (DG REGIO) in consultation with the EIF.

The JEREMIE initiative was presented by the Commission and the EIF at a Ministerial meeting on 11 October 2005 and, subsequently, at a conference on 24 November 2005 with the regions and the international financial institutions on "Financing growth and cohesion in the enlarged EU", where it received wide support.

2.OBJECTIVES AND GENERAL PRINCIPLES

This Memorandum of Understanding has been established in the context of the JEREMIE initiative and aims at setting out the principles for a coordinated approach and cooperation between the Commission and the EIF, in close cooperation with the Member States, to the preparation, programming and implementing of the JEREMIE initiative in the context of operational programmes co-financed by the European Regional Development Fund (hereinafter ERDF) for the period 2007-2013.

The coordinated action of the parties hereto shall be manifested through the joint work in the Steering Committee (c.f. item 4), regular exchanges of information and the adoption of a common approach, in close cooperation with Member States, aiming at improving access to finance for micro to medium enterprises in the regions supported by the ERDF.

3. COORDINATED APPROACH IN THE PREPARATORY PHASE OF JEREMIE

JEREMIE evaluations

During the preparatory phase in 2006-2007, the EIF with the Commission, and in cooperation with national and regional authorities, financial intermediaries and SMEs as appropriate, will undertake evaluations of the gaps between supply and demand for financial engineering products in the regions. The objective of the JEREMIE evaluations is to identify gaps between, on the one hand, the potential demand for financial engineering products in support of SMEs and micro-credit operations in the regions and, on the other hand, the existing supply capacity of the local specialised financial intermediaries for such products. The evaluations will include a proposed action plan.

The parties hereto can envisage extending the evaluations both after 2007 as appropriate, and to the sub-regional level, for example, in order to prepare the ground for the JEREMIE initiative to be accessible to interested urban authorities.

Results of evaluations

The results and conclusions of evaluations, including proposed action plans, will be made freely available to the regions and the competent programme authorities in the Member States, as well as to SMEs, interested holding funds and financial intermediaries.

Financing JEREMIE evaluations

The Commission intends to contribute 75% of the funds required to finance the evaluations and the EIF intends to contribute the remaining 25%. The total budget for the year 2006 amounts to EUR 3.500.000. The Commission's contribution in 2007, and possibly in subsequent years, will be subject to signature of corresponding legal commitments (annual contribution agreements) between the Commission and the EIF. In addition, the Commission's contribution is subject to budgetary availability and will only be made available to the extent that the budgetary authority of the European Community makes available the necessary appropriations.

4. COMMON UNDERSTANDING ON OPERATIONAL PRINCIPLES FOR THE IMPLEMENTATION OF JEREMIE

The parties hereto confirm their common understanding and approach concerning operational principles for the implementation of JEREMIE, in accordance with the new Council regulation laying down general provisions on the Structural Funds and the Cohesion Fund for the period 2007-2013, and the relevant Commission's implementation regulation, as follows:

Preparing and adopting operational programmes

The evaluations including the proposed action plan will be used by the Commission and the Member States for the preparation of operational programmes for the period 2007-2013. These programmes are prepared in partnership between the Member States and the Commission. The programmes will set out, as appropriate, objectives and the relevant resources for actions to improve access to finance for micro to medium enterprises.

Implementing JEREMIE – selecting a holding fund

The implementation of programmes and projects is the responsibility of Member States and managing authorities. For operations to improve access to finance for micro to medium enterprises under the JEREMIE initiative, Member States or managing authorities must select a suitable holding fund.

They can select it either by awarding a grant to the EIF or to a financial institution pursuant a national law compatible with Community legislation, or by awarding a public service contract to a financial institution in accordance with public procurement law. EIF may

participate, alone or in cooperation with other international or specialised financial institutions in any such tendering procedure.

Funding agreement with the holding fund

Following the selection of a JEREMIE holding fund, Member States or managing authorities must negotiate and sign a "funding agreement" with it. The Funding agreement shall in particular include provisions for:

- i) the terms and conditions for contributions from the operational programme to the holding fund,
- ii) the call for expression of interest addressed to financial intermediaries,
- iii) the description of the process for appraisal, selection and accreditation of financial intermediaries by the holding fund,
- iv) setting up and monitoring the investment policy, including the targeted small and medium enterprises and the financial engineering products to be supported,
- iv) reporting by the holding fund to Member States or managing authorities, and monitoring implementation of actions as well as auditing requirements,
- v) the investment exit policy, and the winding up provisions for the holding fund.

Local presence of JEREMIE holding funds

JEREMIE holding funds would undertake to ensure a sufficient presence in the Member States, or as appropriate, the regions concerned, possibly in local offices. This local presence will help to provide information, marketing and similar contacts with the financial intermediaries, and the SMEs in the regions concerned. The operational cost to the holding fund for this presence will be included in the eligible management cost, for the amounts and on the conditions to be specified by the funding agreement, respecting Commission's regulation for the implementation of the Council regulation for the Structural Funds 2007-2013.

Operational programmes contribution to JEREMIE holding funds

Initial and supplementary contributions from the operational programme will be possible, on the conditions to be specified in the funding agreement. Each contribution from the operation programme to the selected holding fund will be irreversible for the programming period 2007-2013. It will constitute an eligible interim payment for the ERDF under the rules of the Structural Funds

Selecting financial intermediaries

The JEREMIE holding fund will make an open call for expression of interest addressed to all financial intermediaries concerned (including possibly venture capital, loan or guarantee funds or micro-credit providers), offering them the possibility to participate in the initiative. The call should be sufficiently flexible and remain open for at least the first half of the programming period 2007 – 2013. The holding fund will evaluate, select and formally accredit financial intermediaries. Such accreditation will be subject to periodic review.

The terms and conditions for contributions to funds, from the JEREMIE holding funds supported by operational programmes, including deliverables, investment strategy and planning, monitoring implementation, investment exit policy and winding up provisions, will be set up in a specific funding agreement, to be concluded between the fund on one hand, and the holding fund on the other.

Contributions from JEREMIE holding funds to financial intermediaries

Drawing on the contributions from operational programmes, the holding fund will provide equity, guarantees or loans, to accredited financial intermediaries. Member States or managing authorities could decide to make available technical assistance credits from the relevant operation programme(s) to accredited financial intermediaries, in accordance with operational details to be agreed between the managing authority of the operation programme and the selected holding fund.

Financial intermediaries supporting SMEs

The selected financial intermediaries will in turn make available equity, loans or guarantees, 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 would be given to supporting technology transfer, start-ups, technology and innovation Funds, micro credit. The financial intermediaries will monitor investment implementation by supported SMEs.

Recycling contributions from operational programmes

Resources returned to the holding fund from investments undertaken by it, reimbursement of loans, or left over after all guarantees have been honoured shall be reused by the Member States for the benefit of micro to medium enterprises, possibly under the JEREMIE holding fund, on the terms and conditions specified by the funding agreement. This revolving character of operational programmes resources contributed and used for improved access to finance for micro to medium enterprises will be a key point for ongoing and sustainable support for the social and economic fabric of the regions.

Leverage for contributions from operational programmes

Contributions from operational programmes to JEREMIE actions, are expected to give rise to a significant leverage effect, bringing in additional loan capital from banks, the EIB, notably where the EIF ensures the holding fund tasks, and other international financial institutions. Such loan capital and financial products to be contributed would be used to co-finance complementary actions with the operation programme(s) concerned, to support micro to medium enterprises in the region(s).

5. GOVERNACE - STEERING COMMITTEE

The parties hereto agree to exchange information on their respective experience under the JEREMIE initiative, in view of coordinating their approach in close cooperation with Member States, aiming at improving access to finance for micro to medium enterprises. This exchange of information and coordinated approach will be monitored by a Steering Committee, which shall consist of:

- three members appointed by the Commission;
- three members appointed by the EIF;
- one member appointed by the EIB acting as an observer without voting powers.

The Commission, EIF and EIB members of the Steering Committee shall act on behalf of the party appointing them to the Committee. The rules and procedures governing the Steering Committee will be set out and adopted by it.

6. STATUS OF MEMORANDUM OF UNDERSTANDING

This Memorandum records the understandings of the parties hereto and does not create legally binding obligations.

IN WITNESS WHEREOF, each of the Parties hereto has caused this Memorandum of Understanding to be signed in their respective names and to be executed in 2 originals, one for the Commission and one for the EIF, as of the date written below.

Brussels, this 30th day of May 2006

Signed for and on behalf of

Signed for and on behalf of

THE EUROPEAN COMMISSION

THE EUROPEAN INVESTMENT FUND

Danuta HÜBNER Commissioner for Regional Policy

Francis W. CARPENTER Chief Executive Officer