

# European and External Affairs Committee

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## **Update on JEREMIE and JESSICA financial instruments**

### **Purpose**

1. This paper provides an update on the plans to utilise the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative in Wales. It was requested by the Committee following the announcement of plans to establish an investment fund supported by JEREMIE. It also updates the Committee on progress with the JESSICA (Joint European Support for Sustainable Investment in City Areas) initiative. The information in the paper supplements paper EUR(3) 04-07 (p2) provided to the committee on 27 November 2007.

### **Summary**

2. JEREMIE and JESSICA are new facilities under the Structural Fund 2007-2013 regulations to facilitate joint working between Structural Funds and the European Investment Bank.

3. The Welsh European Funding Office (WEFO) has given an "in principle" agreement to a European Regional Development Fund (ERDF) contribution to a JEREMIE fund, subject to confirmation of match funding from the European Investment Bank (EIB) and completion of State Aid notification.

4. The intention is that a JEREMIE fund to the value of £150m (comprising equity, loan and mezzanine investment) would be financed by ERDF (Convergence and Competitiveness funding), a loan from the EIB and Finance Wales match funding.

5. Potential utilisation of the JESSICA scheme is under discussion. The EIB have been asked to commission a scoping study which will look at the viability of this approach against the background of the market conditions in Wales.

### **Background**

6. In "One Wales" we have made a commitment to explore options to lever in additional resources from the European Investment Bank to help create a prosperous society. JEREMIE and JESSICA give us the opportunity to use loan finance from the EIB to stimulate sustainable economic development and regeneration.

7. The Committee discussed the possibility of exploiting the opportunities offered by JEREMIE and JESSICA at its meeting on 27 November 2007.

8. JEREMIE and JESSICA are financial engineering instruments, the use of which is established by the European Commission in the Structural Funds Regulations 2007-2013, envisaging closer alignment of European Structural Funds (primarily ERDF) with European Investment Bank resources. Domestic resources and private finance will also be utilised in order to maximise their impact. The ERDF Operational Programmes for the Convergence and Regional Competitiveness and Employment programmes set out the Welsh Assembly Government's commitment to explore the benefits of these instruments for Wales.

### **JEREMIE**

9. JEREMIE is designed to help regions directly address the funding gap experienced by SMEs in securing finance in the market. The JEREMIE model comprises a holding fund into which the EIB, ERDF and domestic private and public resources can be placed to provide SMEs with a range of financial products through appointed financial intermediaries. The mix of products and size of the overall fund is dependent on the evidence of market failure. As with the venture capital instruments in the 2000-2006 round of Structural Funds, the fund would 'revolve' to provide legacy funding for SMEs.

10. Evidence of the SME funding gap in Wales as a whole was amassed by the European Investment Fund (EIF) and presented in a report compiled with the support of the Welsh Assembly Government (provided by Finance Wales) and drawing on information from national data sources and the outcomes of other recent studies. The report recommended that a JEREMIE fund with a value of £150m was needed in Wales over the next 5 years to meet market need, as well as to: provide a portfolio with sufficient critical mass; offer enough diversity; and be self sustaining.

### **JEREMIE - latest developments**

11. Finance Wales has received "in principle" approval from WEFO for the ERDF funding contribution to an all-Wales fund of £150m. The West Wales and the Valleys ERDF Convergence Programme will contribute approximately £49m towards the fund and the East Wales Competitiveness Programme will contribute £11m. The formal approval is subject to confirmation of the EIB contribution to the fund and completion of the state aid notification.

12. Finance Wales is in negotiations with the EIB for suitable loan finance to the fund and it has responded to initial queries from the Commission regarding the state aid notification submitted in November 2007.

13. Finance Wales is also currently running an open tender for the management of the Funds, in compliance with EU procurement law,

with contracts likely to be awarded in early summer. This is subject to confirmation of EIB funding, state aid clearance and formal approval from WEFO. The successful fund managers will provide fund management services to deliver the financial instruments proposed - namely equity, mezzanine and debt instruments to support the viable growth of SMEs in Wales unable to meet their funding needs from the private market.

## **JESSICA**

**14. JESSICA (Joint European Support for Sustainable Investment in City Areas)** is a mechanism to promote sustainable investments and growth in urban areas. The Structural Fund Regulations anticipate that ERDF could be channelled into recyclable development investment funds alongside other public and private sector funds. The mechanism does not necessarily involve any additional money from the EIB, although the ability to raise debt finance, from the EIB or national financial institutions, is a key aspect of any JESSICA scheme.

### **JESSICA - Latest developments**

15. Consideration of the JESSICA scheme is at an earlier stage than for the JEREMIE scheme. Following confirmation from WEFO of its potential interest, the EIB is commissioning a scoping study to look at the feasibility of using the JESSICA approach in Wales. It is anticipated that the contract for the scoping study will be awarded by the end of April with the study taking a further 3 months to complete. A Stakeholder Steering Group has been established to oversee the study and to comment on the recommendations.

16. Alongside this, the DE&T are working with partners to identify the potential scope of projects that might be delivered through a JESSICA approach.

### **Financial Implications**

17. There are no direct financial implications at this stage. The ERDF funding will come from the Wales allocations and this will be applied for through the standard WEFO application process.

18. JEREMIE will primarily be funded through the ERDF and the EIB with the remaining funds coming from Finance Wales' own resources.

19. A scoping study has been commissioned on JESSICA and this will identify precise funding needs. The EIB will commission and pay for the scoping study. JESSICA will consist of public investment (usually land holdings), ERDF, private sector cash contributions and EIB (or private sector) debt. Potential land holdings are being identified alongside the scoping study.

### **Action for Subject Committee**

20. To note the content of this paper and the next steps to be taken for each instrument.

**Ieuan Wyn Jones, AM**

**Deputy First Minister and Minister for the Economy and Transport**