JEREMIE- A NEW WAY TO PROMOTE SME ACCES TO FINANCING

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Abstract: This article highlights the importance of SME access to financing from a sustainable development point of view as a solution to exit the current economic crisis. The access to financing is vital for starting up or expanding a business. Usually, banks grant loans to already existing enterprises and are reticent in approving credits for start up companies or for that offer no guarantees. Also, the current economic context, affected by the economic and financial crisis, has limited the loan granting activity and has rendered banks more prudent in selecting clients. The European Union offers support for the SMEs, available under different forms, such as subventions, loans or guarantees. The support can be offered either directly, or by means of the EU's Structural Funds. JEREMIE (Joint European Resources for Micro to Medium Enterprises) is an initiative of the European Commission, developed in collaboration with the European Investment Fund.

JEL classification: O16, O52

Key words: JEREMIE, SME, access to financing, sustainable development, economic crisis

1. INTRODUCTION

After joining the EU, Romania's development has aimed at a superior living standard, investments in the productive sector, in the infrastructure and quality public services, investments meant to increase the occupancy level and the human capital opportunities. This involves Romania recording high economic growths rates and the key factor is to increase the economic competitiveness.

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The European Union offers support for the SMEs, available under different forms, such as subventions, loans or guarantees. The support can be offered either directly, or by means of programs managed at a national or regional level, such as the EU's Structural Funds.

JEREMIE (Joint European Resources for Micro to Medium Enterprises) is an initiative of the European Commission developed in collaboration with the European Investment Fund and promotes the use of financial engineering instruments in order to increase the SME access to financing through interventions from the structural funds. The

JEREMIE initiative offers to the EU member states, by means of the national or regional management authorities, the possibility to use a part of their European structural funds to finance small and medium enterprises (SME) through capital participation, loans or guarantees.

Promoting SME access to financing and, last, but not least, financing SMEs is often used by the EU member states as a way to stimulate and encourage the regional growth.

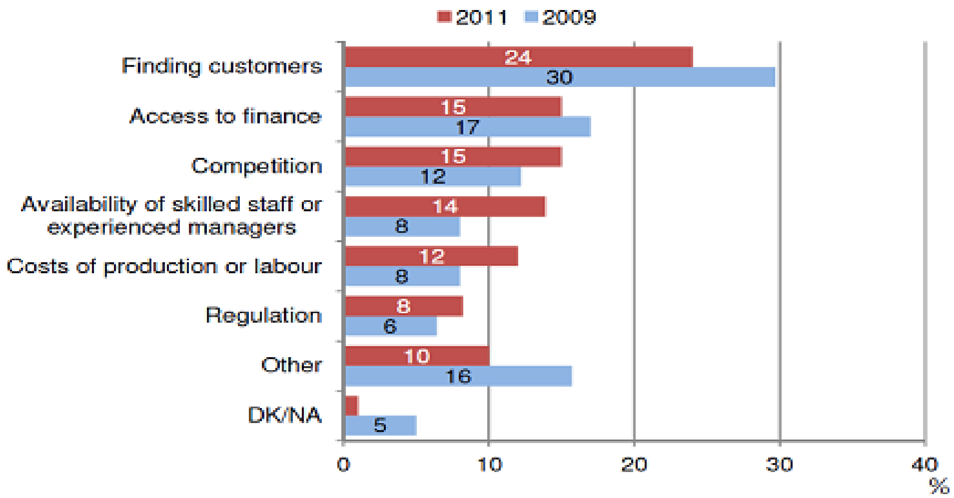
2. SME ACCES TO FINANCIG- CASE STUDY

Access to financing is a vital factor for businesses in general. Companies have very different needs and face different challenges as far as financing is concerned. Larger companies have access to the capital markets, which are not accessible for the most part of the medium and small enterprises and the lack of capital invested in the small firms makes them rely more on other sources, such as bank loans and other types of financial products.

The current economic environment has brought the needs of the SME under special attention, considering the significantly restricted loan granting conditions and the banks' intention to offer financing, which this sector is so dependent upon.

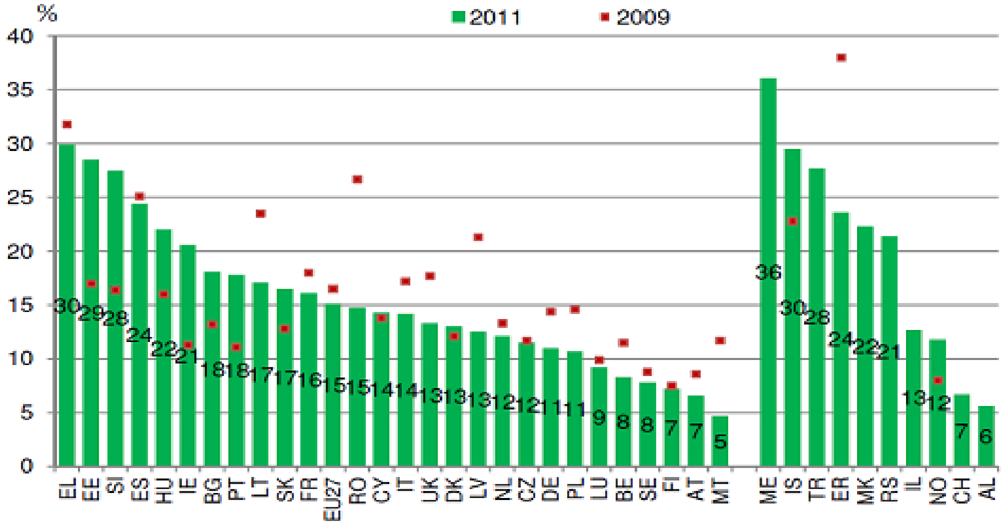
The European Commission and the Central European Bank have decided that, in 2008, a study should be conducted regarding the access to financing of the European Union's SMEs. The study was performed in 38 countries, including the European Union's 27 member states and consists of a sample group of over 15,000 companies. This study is performed every two years. The study's complete results can be found on the Commission's website: http://ec.europa.eu/enterprise/policies/finance/data.

According to it, the access to financing is the second biggest problem the European Union's SMEs face (as answered by 15% of the managers), exceeded only by finding clients which represents the biggest problem the SMEs face (as indicated by 24% of the total questioned people). At a country level, access to financing is the most pressing issue in Greece (mentioned by 30%), Slovenia and Estonia.



Source: http://ec.europa.eu/enterprise/policies/finance.data

Chart no.1 Problems the SMEs face



Source: *http://ec.europa.eu/enterprise/policies/finance.data*

Chart no.2 SME acces to finance by countries

In most of the cases (56%), when they were on a search for financing sources, the SMEs only used external financing, more than double compared to the answers obtained as a result of the 2009 survey (27%). O fifth (20%) stated that they had used both internal and external financing sources, while only a small percentage (4%) stated they used only internal financing sources (falling from 14% in 2009).

The most used financing sources in 2011 were the overdrafts (40%), leasing/renting/factoring (36%), trade loans (32%) and bank loans (30%). Overall, 75% of SMEs from the EU used at least one external financing source, an increase compared to the 2009 level, when 61% of the SMEs from the EU used at least one external financing source. A company's own capitals were used by less than one in ten SMEs (7%), throughout the analyzed period. This financing option was used more by the large companies (11%).

3. THE JEREMIE INITIAVITE

The European Commission (The Directorate General for Regional Policy) and the European Investment Bank Group (the European Investment Bank and the European Investment Fund), during a ministerial reunion at Bruxelles, held on 11 October 2005, has launched the JEREMIE initiative, meant to promote access to financing for SME development throughout the period 2007 – 2013.

The JEREMIE initiative - Joint European Resources for Micro to Medium Enterprises – offers to the EU member states, by means of the national or regional management authorities, the possibility to use a part of their European structural funds in order to finance small and medium enterprises (SME), through capital participation, loans or guarantees, as part of a revolving participation fund which functions as an umbrella fund.

As an umbrella fund, JEREMIE will address to the financial intermediaries and not directly to the SMEs. The JEREMIE participation fund can offer to the financial intermediaries guarantees, co-guarantees or counter-guarantees, including financial instruments oriented towards the SMEs, guarantees for capital participation, (micro)loans etc. JEREMIE will not grant non-reimbursable financing to the SMEs.

The EU member states are implementing the JEREMIE initiative by creating a participation fund financed from structural funds. The participation fund elaborates an investment strategy before signing a JEREMIE financing agreement between the European Investment Fund (IFE) and a national/regional authority of an EU member state. The participation fund can be managed by the IFE or other financial institutions, in accordance with the European legislation applicable to structural funds (EC Regulation no. 1083/2006 and the Implementing Regulation no. 1828/2006).

The goal of these funds is to:

- create new companies and develop the existing ones;
- modernize and diversify activities by promoting the companies' (especially SMEs) access to investment capital or new product development;
- innovation and entrepreneurship, business research and development, technology transfer;
- perform technological modernization of the production structures;
- aim at productive investements which would create new workplaces and preserve the old ones.

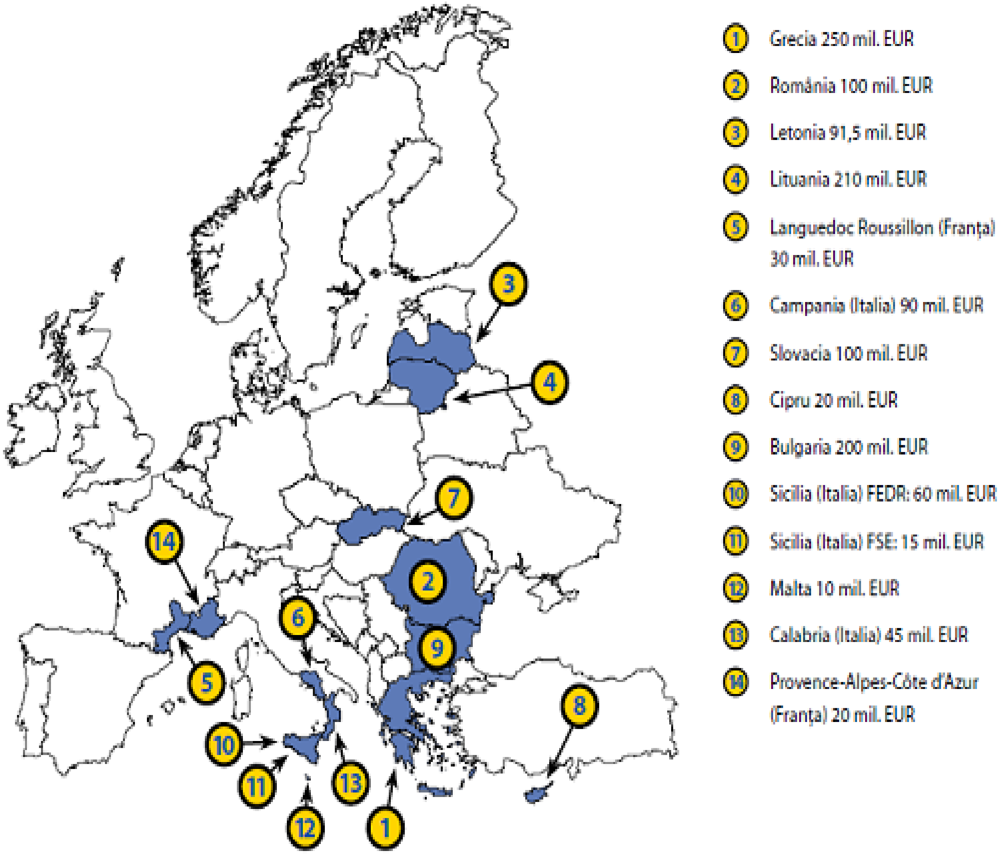
The advantages of using JEREMIE

- *Sustainable character* – The financial engineering instruments are based on ensuring a returnable assistance from the investment structural funds, which should generate profit and, consequently, return the money to the investors. This is a more sustainable alternative to the assistance usually offered through grants.
- *Support* – by combining structural funds with complementary investment sources, resources will be boosted and more entreprises will be supported
- *Flexibility* – JEREMIE offers flexibility, both from the structure point of view, as well as from the fund use, either through capital investments, or credits or guarantees, which can be adapted to the specific requirements of certain countries and regions.
- *Expert knowledge* – JEREMIE allows to the structural funds management authorities to benefit from the banking and private sector expert knowledge and, thus, to increase the effectiveness of investing into companies.
- *Partnerships* – the partnership created between the European Commission, the European Investment Fund (EIF) and the European Investment Bank (EIB) within JEREMIE can also prove a powerful catalyst for cooperation between countries, regions, EIF, EIB, other banks and investors, in order to approach the problem of enterprises' (especially SMEs) access to financing.

The program's **eligible beneficiaries** at the level of Romania are companies with Romanian legal entity which:

- Have not already benefitted from the same non-reimbursable financing for the same investment, from European and/or national funds
- Are SMEs in accordance with Law 346/2004, with all the subsequents modifications and completions
- Are not facing any difficulties
- Do not perfom/will not perform activities in guarantee restricted sectors
- Apply for financing in the eligible sectors, which are not found on the excluded sector list
- Observe the minimis aid rules
- Are registered and perform their activities in Romania

At the European Union level, the European Investment Fund has signed eight agreement at a national level and five at a regional level.



Source: *www.eif.org/jeremie*

Figure no.1 JEREMIE financing agreements

In Romania, the JEREMIE guarantee is a portfolio guarantee granted as part of the "Transparent minimis aid scheme under the form of credit portfolio guarantees, as integral part of the JEREMIE initiative implementation in Romania", financing scheme approved through Order no. 1338/2010 issued by the Ministry of Economy, Commerce and Business Environment, as the minimis aid provider is the Ministry of Economy, Commerce and Business Environment, through the POS CCE (Operational Sectoral Program Increase of Economic Competitiveness) Management Authority.

The JEREMIE initiative is financed from EU structural funds, respectively from the European Regional Development Fund, through the POS CCE, Priority Axis 1 "An innovative and eco-efficient production system", major intervention area 1.2 "SME access to financing".

The Government of Romania has signed an agreement with the EIF, through which it granted 100 million Euro for JEREMIE. The three main financial institutions that offer JEREMIE guarantees are BCR, Raiffeisen Bank and Unicredit Tiriac Bank.

5. CONCLUSIONS

The main mission of the European Investment Fund is to support European SMEs, by facilitating their access to financing. The EIF develops risk capital and guarantee instruments, specific to this market sector.

In this economic context, deeply affected by the current economic and financial crisis, supporting the development of the small and medium enterprises (SME) sector is a priority, both at the level of the European Union, and at the level of Romania. The SMEs continue to remain an important segment of clients, for which new banking products of credit granting and guarantees are permanently developed. JEREMIE, this new guarantee alternative, will contribute to satisfying the large demand for loans from the local market SMEs, which are facing difficult bank financing, due to the harsh economic context.

As result of the new guarantees available through the JEREMIE initiative, the banks will be able to offer new credits for investments and expanding the small and medium enterprises on the local market, under more advantageous conditions and reduced required collateral levels.

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