COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT

on the implementation of budget heading B5-504 "Measures to assist the phasing-in in the general budget of the activities financed through the ECSC"
# TABLE OF CONTENTS

Executive Summary ........................................................................................................................................... 3

1. Introduction ............................................................................................................................................ 4
   1.1 Legal basis ........................................................................................................................................... 4
   1.2 Objectives and expected results ....................................................................................................... 4
   1.3 Budgetary aspects .......................................................................................................................... 5
   1.4 Human resources .......................................................................................................................... 5

2. Project Development .......................................................................................................................... 5
   2.1 Initial implementation analyses ...................................................................................................... 5
   2.2 New approach and finding of project partners ............................................................................. 6
   2.3 Feasibility of the "EUROFER Guarantee Fund" project ................................................................. 6
   2.4 Stages of implementation of the "EUROFER Guarantee Fund" .................................................... 8

3. Project Partners ..................................................................................................................................... 8
   3.1 EUROFER ......................................................................................................................................... 8
   3.2 Financial Intermediaries (FIs) ......................................................................................................... 9

4. Implementation Instruments ............................................................................................................... 11
   4.1 Fiduciary and Management Agreement with EUROFER .......................................................... 11
   4.2 Guarantee Agreements between EUROFER and the FIs .......................................................... 11
   4.3 Guarantees (Letters of Guarantee) .............................................................................................. 12

5. Project Monitoring and Reporting by the Commission .................................................................... 12
   5.1 Monitoring ....................................................................................................................................... 12
   5.2 Reporting ....................................................................................................................................... 13

Annex: Comments of the budgetary authority on budget heading B5-504 .............................................. 14
EXECUTIVE SUMMARY

Budget heading B5-504 ("Measures to assist the phasing-in in the general budget of the activities financed through the ECSC" - see Annex) provides € 2 million for a pilot project to test the feasibility of measures in favour of regions "where industrial restructuring is taking place in the coal and steel industries". It was implemented in 2001 by setting up a guarantee fund to support job creation by innovative SMEs in these regions.

The guarantee fund is being managed as a trust on behalf of the Commission by EUROFER, the European Confederation of Iron and Steel Industries. EUROFER will issue guarantees partially covering loans and equity investments made by specialised financial intermediaries to innovative SMEs, including start-ups, in regions "where industrial restructuring is taking place in the coal and steel industries".

In order to ensure the feasibility and economic efficiency of the pilot project within the budgetary ceiling of € 2 million, it was considered necessary to limit its geographical coverage to certain EU Member States and regions. These regions are situated in Belgium (Wallonia), France, Germany (Dortmund) and the United Kingdom.

As the majority of the traditional hard coal regions in Belgium, France and the UK, and also the "Ruhrgebiet" (Dortmund), fall within the regional coverage of the project, the interests of the EU hard coal industry have also been served by this approach.

The SMEs benefiting from these guarantees will normally belong to the "new economy" or other innovative industries or service sectors in which SMEs and start-ups are typically active.

A guarantee fund was considered the most suitable instrument for implementing this budget heading, as it has greater leverage than direct loans or grants. The purpose of these guarantees is to support the creation of new jobs by facilitating access by SMEs in these regions to investment capital (loans and/or equity investments).

The main objective of the new instrument is to give continuing redevelopment support to coal and steel regions after the expiry of the ECSC Treaty in July 2002. Most of the target regions defined in the comments on the budget heading as regions "where industrial restructuring is taking place in the coal and steel industries" were formerly ECSC regions benefiting from conversion loans under Article 56 of the ECSC Treaty.

Cooperation with experienced external partners (financial intermediaries) specialised in the field of SME support and job creation should further contribute to the success of this pilot project. If the pilot project demonstrates that this instrument meets a corresponding market need, a follow-up programme on a wider scale, including all EU Member States and candidate countries, could be envisaged.
1. INTRODUCTION

1.1. LEGAL BASIS

The report is submitted to the European Parliament following the requirement stated in the comments of the budgetary authority in 1999 to budget heading B5-504N of the general budget of the European Communities for the year 2000\(^1\).

In accordance with Point 37(a)(i) of the Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure\(^2\), no specific legal basis is required for the implementation of this budget heading, because it is a pilot project.

1.2 OBJECTIVES AND EXPECTED RESULTS

1.2.1 General objective

The general objective of the measures envisaged under budget heading B5-504 was to finance measures to facilitate the transition from activities traditionally financed from the ECSC budget to programmes existing in the general budget, particularly the Structural Funds and research. It has the aim of promoting the establishment of innovative enterprises (SMEs) linked to the industrial conversion of the coal and steel industries.

1.2.2 Specific objective

The specific objective of the pilot project is to stimulate job creation in EU regions where industrial restructuring is taking place in the coal and steel industries by supporting the investment activities of innovative SMEs.

1.2.3 Desired results:

- investment by innovative SMEs in regions where industrial restructuring is taking place in the coal and steel industries;
- creation of new jobs;
- verification of the practical feasibility of an SME guarantee fund of this kind. On the basis of the next report in 2003, a similar project on a wider scale could be envisaged.

\(^1\) see Annex

\(^2\) OJ C 172, 18.6.1999, p. 1
1.3 **Budgetary Aspects**

Commitments in € million:

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003 and subsequent years</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td>2.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Payments in € million:

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003 and subsequent years</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td>1.5</td>
<td>0.5</td>
<td>0.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Calculation of cost:

The amount of € 2 million is a maximum amount. The exact total cost, which must not exceed € 2 million, is expected to be lower than that amount; it is unlikely that the majority of guarantees issued will be called on.

1.4 **Human Resources**

Since the Guarantee Fund itself will be managed by EUROFER, monitoring by the Commission does not require any additional staff. Staffing requirements can be met by employing Commission staff formerly engaged in the management of the ECSC loan scheme.

2. **Project Development**

2.1 **Initial Implementation Analyses**

Following contacts between several Directorates-General (e.g. DG ECFIN, DG EMPL, DG ENTR, DG REGIO, DG RTD, DG BUDG, DG FC), the implementation of the budget heading was entrusted to DG ECFIN-FOS in November 1999.

The initial implementation analyses made in late 1999 and in spring 2000 came to the conclusion that it was not possible to implement the budget heading within the budgetary ceiling of € 2 million and still cover the full range of all EU Member States plus all candidate countries as proposed by the EP Committee on Budgets.

In practice this would have meant losing the "additionality" of the EU contribution. Moreover, it was not feasible with a budget of this size to cover all of the objectives mentioned in the comments of the Committee on Budgets.
There also was no possibility of linking this budget heading to already existing Community instruments. Furthermore, any launch of an autonomous new financial instrument within these budgetary limits would have led to inadequate cost/benefit ratios.

2.2 NEW APPROACH AND FINDING OF PROJECT PARTNERS

For the reasons outlined above, a new approach had to be found to make implementation of this budget heading feasible. Firstly, the geographical coverage was reduced to a few selected EU Member States and regions, and the kind of instrument to be created was changed. Instead of establishing an autonomous main instrument (such as loans or grants), it became clear that a complementary instrument, reinforcing the existing instruments for supporting SMEs, was more cost-effective.

It was finally decided to set up a special SME guarantee fund for this purpose by analogy with already existing guarantee funds, such as the SME Guarantee Facility (managed by the European Investment Fund) in the framework of the Growth and Employment Initiative.3

Discussions with the EIF and the EIB concerning the management of a small pilot or test fund indicated that these institutions were reluctant to take over the management of a specialised fund of this size. Therefore, a primarily non-profit oriented partner was sought who was both able and willing to accept the Commission's special conditions for managing such a fund. Apart from the EIF and the EIB, several associations and companies in the coal sector4 were contacted and they also declined this cooperation offer.

In September 2000 an initial provisional agreement concerning the management of the guarantee fund was reached with EUROFER, the European Confederation of Iron and Steel Industries, which has its headquarters in Brussels.

EUROFER was the best available and most realistic option owing to its broad representation, its long experience in handling major projects, including those co-financed by the European Commission, and its ability to cooperate with experienced intermediaries in the very specific field covered by the project.

2.3 FEASIBILITY OF THE "EUROFER GUARANTEE FUND" PROJECT

The arguments for the feasibility of the pilot project "EUROFER Guarantee Fund" can be summarised as follows:

4 e.g. CESCO (European Solid Fuel Association), Gesamtverband des deutschen Steinkohlebergbaus, Essen and RAG Coal International, Essen.
1. It complies with the terms of Point 37(a)(i)\(^5\) of the Inter-Institutional Agreement (IIA) of 6 May 1999\(^6\), in that

a) it meets the criteria of a "pilot scheme of an experimental nature aimed at testing the feasibility of an action and its usefulness";

b) the relevant commitment appropriations have been entered in the budget for one financial year only (two financial years being the maximum period for that purpose according to Point 37(a)(i) of the IIA) and

c) their total amount of € 2 million does not exceed the limit of € 32 million stipulated in Point 37(a)(i) for such pilot schemes.

2. It is consistent with the Commission's policy on SMEs in general and with the preparations for the expiry of the ECSC as regards:

a) the aim of creating jobs by supporting innovative SMEs;

b) the instruments used for that purpose (guarantee facility);

c) the management method used (framework agreement with one single institution acting as an interface with specialised financial intermediaries);

d) its compatibility with the objectives of winding up the activities of the ECSC and of phasing them in into the general budget.

3. It is compatible with the principle of subsidiarity: Contacts with specialised institutions in the field of economic redevelopment of coal and steel regions have shown that there is no national or Community instrument of the same kind and for the same regions.

4. It corresponds to the principles of economy and sound financial management as stated in Article 2 of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities:

a) The outsourcing of the fund management limits the management obligations of the Commission mainly to monitoring duties, thus allowing a good cost-benefit ratio for these measures;

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\(^5\) This article deals with "pilot schemes of an experimental nature aimed at testing the feasibility of an action and its usefulness".

\(^6\) see above, 1.1; OJ C 172, 18.6.1999, p. 1
b) The mechanisms of limited guarantees\(^7\), risk sharing\(^8\) and additionality\(^9\) ensure optimal leverage of the Community funds used for the budget heading;

c) An initial report on the implementation of the project was prepared in 2001, a further report will follow in 2003 and a final report will be made after the winding-up of the guarantee fund, i.e. approximately in 2011.

5. It saves Commission administrative and management resources and does not require any additional staff (see above, 1.4).

2.4 **STAGES OF IMPLEMENTATION OF THE "EUROFER GUARANTEE FUND"**

Following the formal approval of this implementation proposal by Commission Decision PE/2000/2821 of 22 Dec. 2000\(^{10}\), the Fiduciary and Management Agreement (FMA) between the Commission and EUROFER was signed on 29 March 2001. In April 2001 the Commission transferred the first tranche of the funds (€ 1.5 million) to the EUROFER trust account established for this purpose. The remaining tranche of € 0.5 million is scheduled to be paid, subject to budgetary availability, as soon as this can be justified by the progress of the project.

Under the provisions of the FMA, EUROFER has agreed to issue guarantees to partially cover loans or equity investments made by Financial Intermediaries (FIs) to innovative SMEs in regions where industrial restructuring is taking place in the coal and steel industries. Four FIs have been selected by EUROFER and accepted by the Commission. They are:

1. SODIE France
2. SODIE S.A. Belgium
3. UK Steel Enterprise Limited
4. Venture Capital Dortmund GmbH ("Dortmund Project")

The framework agreements between EUROFER and these FIs were signed in October/November 2001. The first guarantees have been issued by EUROFER in February 2002.

\(^7\) The EUROFER Guarantees are limited by risk and by portfolio.
\(^8\) Each risk has to be shared with the Financial Intermediary.
\(^9\) The use of EUROFER Guarantees is restricted to those cases where other and, in particular commercial, guarantees are not available.
\(^{10}\) not published in the OJ
3. **PROJECT PARTNERS**

The good reputation of EUROFER and the successful track record of the FIs involved contributed to the Commission's decision to implement the project in this way and with these partners.

3.1 **EUROFER**

The European Confederation of Iron and Steel Industries (EUROFER) was founded in 1976. Members and Associate Members are steel companies and national steel federations throughout the European Union and the Central and Eastern European Countries.

In 2000, 155 million tonnes of crude steel were produced by the EU Member companies of EUROFER. This represents 95% of the total productions in the EU. The Associate members in Central and Eastern European Countries, with 28 million tonnes of crude steel, account for 95% of the total steel production in this region.

The objectives of EUROFER are cooperation between the national federations and companies in all matters that contribute to the development of the European steel industry, and the representation of the common interests of its members vis-à-vis third parties, notably the European institutions and other international organisations.

EUROFER possesses considerable experience and proven qualifications in handling major projects, such as:

"Business Support Program"
(Adaptation support to Central and Eastern European steel federations in view of their countries' accession to the European Union)

<table>
<thead>
<tr>
<th>Period:</th>
<th>July 2000 to June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budget:</td>
<td>€ 1.1 million</td>
</tr>
<tr>
<td>EC contribution:</td>
<td>€ 880 000</td>
</tr>
</tbody>
</table>

"Management of Change and Human Resources"
(Study in cooperation with the main European steel producers investigating the processes of change that have taken place in the industry and how these processes have constructively influenced dialogue between employers and the workforce in the European steel industry)

<table>
<thead>
<tr>
<th>Period:</th>
<th>December 1996 to June 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budget:</td>
<td>&gt; € 450 000</td>
</tr>
<tr>
<td>EC contribution:</td>
<td>€ 300 000</td>
</tr>
</tbody>
</table>
3.2 Financial Intermediaries

3.2.1 SODIE France

SODIE\textsuperscript{11} France, created in 1983, is a subsidiary of USINOR. At present it is owned 55\% by USINOR\textsuperscript{12} and 45\% by a bank.\textsuperscript{13} Its business is redevelopment, i.e. the granting of financial and practical advisory support to mainly SMEs/start-ups and training and qualification support to employees or the unemployed. Since 1983 SODIE has supported about 8 000 companies, i.e. on an average 450 companies per year, and these companies have created more than 100 000 jobs. In parallel, almost 20 000 employees or unemployed persons have been assisted in their mobility and training efforts.

Today, SODIE is cooperating in France and Belgium with a number of government authorities at all levels and with companies of all sizes in more than 30 employment regions. It has a long list of customers, including cities, ministries and well-known major companies such as ALCATEL and IBM.

3.2.2 SODIE Belgium

SODIE Belgium is a recently established branch of SODIE France. It was founded following the acquisition of 75\% of the share capital of COCKERILL-SAMBRE SA by USINOR. Its mission is to create 4 000 new jobs in Wallonia. This is to be achieved mainly by supporting SMEs, e.g. by granting loans with interest rebates.

3.2.3 UK Steel Enterprise Limited (UKSE)

UK Steel Enterprise Limited (UKSE) is a private incorporated company specialised in redevelopment support. It is a wholly-owned subsidiary of CORUS Group plc and was established in 1975 by the former British Steel plc.

For over 25 years it has provided 2 400 SMEs with over £ 50 million (€ 80.6 million) of finance of which £ 39 million (€ 62.9 million) have been in the form of loans or share capital, with the balance provided in other forms.

Altogether more than 3 700 businesses have been directly assisted with finance or workspace, and in some cases with both. It is estimated that these businesses have created more than 60 000 new jobs. In addition, businesses assisted by organisations set up by UKSE in the early 1980s are estimated to have created at least another 50 000 jobs.

3.2.4 Venture Capital Dortmund GmbH ("Dortmund Project")

The Dortmund Project is a public-private partnership financed and run by the city of Dortmund in cooperation with private companies such as

\textsuperscript{11} Société pour le développement de l'industrie et de l'emploi
\textsuperscript{12} via SODISID, which is a wholly-owned subsidiary of USINOR
\textsuperscript{13} Caisse des Dépôts et Consignations, via its subsidiary SCET
ThyssenKrupp, venture capital firms, "business angels" and consulting firms. Its aim is the redevelopment of Dortmund and its surroundings from a centre of traditional heavy industry into a centre of the New Economy (E-commerce, IT, microsystem technology).

The measures envisaged and started (in 2000) include the encouragement of existing and new companies by making loans, venture capital, premises and highly skilled personnel available to them, inviting foreign companies to invest and set up firms in the region, improving the infrastructure and providing management and logistical support.

Venture Capital Dortmund GmbH is a limited liability company and subsidiary of Stadtsparkasse Dortmund, which acts as one of the banking partners of the Dortmund Project. Although only founded in 2000, Venture Capital Dortmund (VCD) GmbH can draw on the experience in the field of SME financing of Stadtsparkasse Dortmund gained during more than 30 years of operation. Since the start of its business activities in 2000, VCD has invested about € 7.7 million (DM 15 million) in some 10 companies.

All companies financed by VCD have to correspond to the usual definition of SMEs; particular attention is given to SMEs in the field of IT, telecommunication, microsystems technology, robotics and biotechnology. The average size of equity investments made by VCD is between € 256 000 - € 511 000 (DM 500 000 and DM 1 000 000).

4. IMPLEMENTATION INSTRUMENTS

4.1 THE FIDUCIARY AND MANAGEMENT AGREEMENT (FMA) BETWEEN THE EUROPEAN COMMISSION AND EUROFER

EUROFER will have full discretionary power to reject or approve individual guarantee applications. Each risk partially covered by a EUROFER Guarantee has to be shared with the FI. EUROFER has to report to the Commission concerning its activities related to the Guarantee Fund, including the delivery of copies of all relevant documents and of the Trust Account statements.

The initial availability period for the guarantees will be two years, ending in September 2003. The Commission will remunerate EUROFER for the services provided under the FMA by paying a flat management fee calculated on the basis of the guarantees committed. The Guarantee Fund will be wound up at the latest by 2011.

The FMA contains provisions on reporting, auditing, monitoring and control, including the right of the Court of Auditors of the European Communities to carry out its audits both in EUROFER's premises and in those of all final beneficiaries.
4.2 THE GUARANTEE AGREEMENTS BETWEEN EUROFER AND THE FINANCIAL INTERMEDIARIES (FIS)

These agreements are framework agreements establishing the terms and conditions of the partnership and cooperation for this project between EUROFER and the FIs. Among other things determined in these agreements are the Guarantee Rate, the Guarantee Cap and the maximum (loan or equity investment) portfolio partially covered by EUROFER Guarantees.

In 2002 the maximum size of this portfolio partially covered by EUROFER guarantees should be approximately € 3 333 000 per FI.\(^{14}\) The EUROFER Guarantee Fund is available to the FIs free of charge.

If a Financial Intermediary (FI) is not able to use all its guarantee portfolio within the first two years after the signature of the Guarantee Agreement, EUROFER will either distribute the unused portfolio among the other FIs or search for a new FI, even in another region.

4.3 THE GUARANTEES (LETTERS OF GUARANTEE)

In order to receive guarantee cover for loans granted to or equity investments made in eligible SMEs, the FIs have to submit guarantee applications to EUROFER. EUROFER will issue the guarantees in its own name but on behalf of the Commission on a trust basis. It will be in principle free to approve or reject individual applications. All projects for which applications have been submitted will be regularly reported to the Commission, which will also receive regular copies of the Trust Account statements. All guarantees will expire at the latest seven years after the date of the loan agreement or the date when the equity investment was made, and in any case not later than March 2010.

In order to be eligible for EUROFER guarantees, loans or equity investments have to meet the following criteria:

a) The final beneficiary has to be an SME.\(^{15}\)
b) The SME has to be established in an EU Member State.
c) The SME has to be established in a region where industrial restructuring is taking place in the coal and steel industries.

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\(^{14}\) This amount is calculated on the basis of the Guarantee Cap of € 500 000 per FI. Since the Guarantee Cap is defined in the Guarantee Agreements as 15% of the Portfolio, the Portfolio is calculated by dividing the amount of € 500 000 by 15 (= 3 333.33) and multiplying the result by 100 (= 3 333 333).

"Guarantee Cap" means the total amount of the EUROFER payment obligations under EUROFER Guarantees, expressed as a percentage of the Portfolio and as a nominal amount. The amount of € 500 000 is obtained by dividing the total amount of € 2 000 000 by 4, thus allotting one quarter thereof to each of the four FIs.

"Portfolio" means the aggregate amount of the principal of the loans or equity investments which are made by an FI to SMEs and which are covered by EUROFER Guarantees.

\(^{15}\) as defined in annex to Commission Recommendation 96/280/EC (OJ L 107, 30.4.1996, p.4)
d) The SME must demonstrate a high degree of innovation.\footnote{16}

e) The financing which is ultimately covered by the EUROFER Guarantee has to be used for a new project or new investment. Eligibility for any kind of financial rescheduling is explicitly ruled out.

f) The purpose of the financing which is ultimately covered by the EUROFER Guarantee must be, directly or indirectly, to create new jobs within the period of validity of the EUROFER Guarantee concerned.

g) The minimum duration of the loan or equity investment is three years.

5. PROJECT MONITORING AND REPORTING BY THE COMMISSION

5.1 MONITORING

The Commission is monitoring EUROFER's fund management activities on the basis of a monitoring programme set up in line with the monitoring programmes for existing comparable funds. Such comparable funds are e.g. the SME Guarantee Facility of the Growth and Employment Initiative or the ETF Start-up Facility, which are both managed by the EIF\footnote{17}. In addition to the screening of the reports and Trust Account statements received from EUROFER, the Commission will carry out audit missions to EUROFER, the FIs and selected final beneficiaries.

5.2 REPORTING

The Commission will monitor and verify EUROFER's compliance with its contractual obligations. The number of SME loans or equity investments covered by EUROFER Guarantees is estimated at as many as 200 during the whole life cycle of the Guarantee Fund.

The exact influence or contribution of these guarantees on the creation of new jobs cannot yet be estimated. It will be evaluated on the basis of questionnaires and reports from the FIs and the final beneficiaries and on on-site missions.

A further report on the implementation of this project is to be submitted to the EP in 2003. That second report should be based on the experience gained from the issuing by EUROFER of the bulk of the initially available guarantee

\footnote{16} "High degree of innovation" means that priority will be given to SMEs that 
a) intend to enter into knowledge-based production or the production of knowledge-based products/services or 
b) are characterised by a substantial innovation and not only by incremental innovation in current business or  
c) focus their efforts on the production of high-added-value products/services.

\footnote{17} see 2.2; Council Decision 98/347/EC of 19.5.1998, OJ L 155, 29.5.1998, p. 43
sum. A final report will follow after the winding-up of the EUROFER Guarantee Fund, i.e. at the latest in 2011.
B5-504 Measures to assist the phasing-in in the general budget of the activities financed through the ECSC\textsuperscript{18}

Remarks

New article


This appropriation is intended to finance measures to facilitate the transition between the activities traditionally financed from the ECSC budget and the programmes existing in the general budget, particularly the Structural Funds and research. It is intended, in particular, to support measures for which, on account of their specificity, there is as yet no corresponding item in Community programmes.

It has the aim of promoting, particularly by means of European Information Centres or Information Outlets, the establishment of innovative businesses (SMEs) linked to the industrial conversion of the coal and steel industries (business incubators, provision of industrial tools and financing facilities for employees undergoing retraining), particularly in the fields of the environment and health and safety at work.

It is also intended to promote initiatives, if possible pursued in a bipartite context (involving employers and employees), in the fields of information, training and stimulation in businesses, especially with regard to the adjustment of working times resulting from restructuring.

In selecting the beneficiaries of these projects, the Commission will assign priority to regions where industrial restructuring is taking place in the coal and steel industries, including in the applicant countries.

In 2001, the Commission will submit to Parliament a report on the results of its projects and on the activities which have received funding from these appropriations.