Small and medium-sized enterprises SMEs: EIB loans, interest subsidies. Special report 6/2000 Court of Auditors

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PURPOSE : to present the Court of Auditors Special Report 6/2000 concerning the granting by the Community of interest subsidies on loans by the European Investment Bank to small and medium sized enterprises, through its temporary lending facility. CONTENT : in the framework of the "Temporary Lending Facility" adopted by the European Council in Copenhagen in 1993, ECU 1 000 million was devoted to strengthening the competitiveness of small and medium sized European enterprises (SMEs). This measure, administered by the EIB, aims to encourage and accelerate the implementation of investment projects involving job creation in SMEs. Following the Court's report on this issue, the European Parliament asked the Council and the Commission to issue opinions at the earliest opportunity on the management and effectiveness of the Copenhagen Facility, with particular reference to the functioning of the job creation, criteria applied to interest rate subsidies. This is the objective of the present report. The Court's audit shows that all the Member States of the Union were visited in order to examine the implementation arrangements and the impact of the measure in the national context. Transfers made by the Commission to the EIB were treated as payments on account, and thus were recorded as final expenditure in the Commission's budgetary accounts. In reality, these sums were only paid over to the agents for distribution to the recipients after a long interval. The balance of the account held by the EIB on behalf of the Community does not appear on the Community's balance sheets. There is a general problem here concerning the rules governing the recording in the accounts of this type of payment on account and the auditing of it. The Court's examination of the measures's management and control system allowed some of the system's inherent weaknesses to be identified: the payment of aid on submission of a declaration by interested parties; entrusting the management to banks criteria that were inadequately presetned and explained; a lack of real penalties for making a false declaration; a lack of checks on recipients. The arrangements put in place restricted equality of access for all potential recipients in certain areas, despite the provision of the Council decisons and the cooperation agreement. Contrary to the provisions of the cooperation agreement prohibiting the combination of an SME subsidised loan with other loans subsidised by the EIB under other agreements, a derogation was agreed between the EIB and the Commission in the case of ERDF aid which also takes the form of interest subsidies on the same loans. Since this derogation was not agreed at the same hierarchical level as the the cooperation agreement ad it has no legal value. The amounts paid in combination with other aids must therefore be considered to be in breach of the regualtions. Furthermore, this exception does not seem to have been applied in all the countries. The Court noted cases where, at the time of the application, the investment was already at an advanced stage of completionand the subsidised loan had actually replaced an existing financial arrangement. The undertakings which benefitted from this measure were certainly creating jobs, but it is impossible to establish whether it was these subsidies which enabled the creation of the jobs in question. Moreover, the arrangements for implementing the measures do not include the information necessary to establish which jobs would not have been created without the subsidised loan. Coordination with other aid on offer at regional, national or even Community level was not taken into sufficient consideration. The banks which distributed the subsidies often integrated them so well into the financial packages they offered their customers that the origin of the subsidy disappeared from sight.