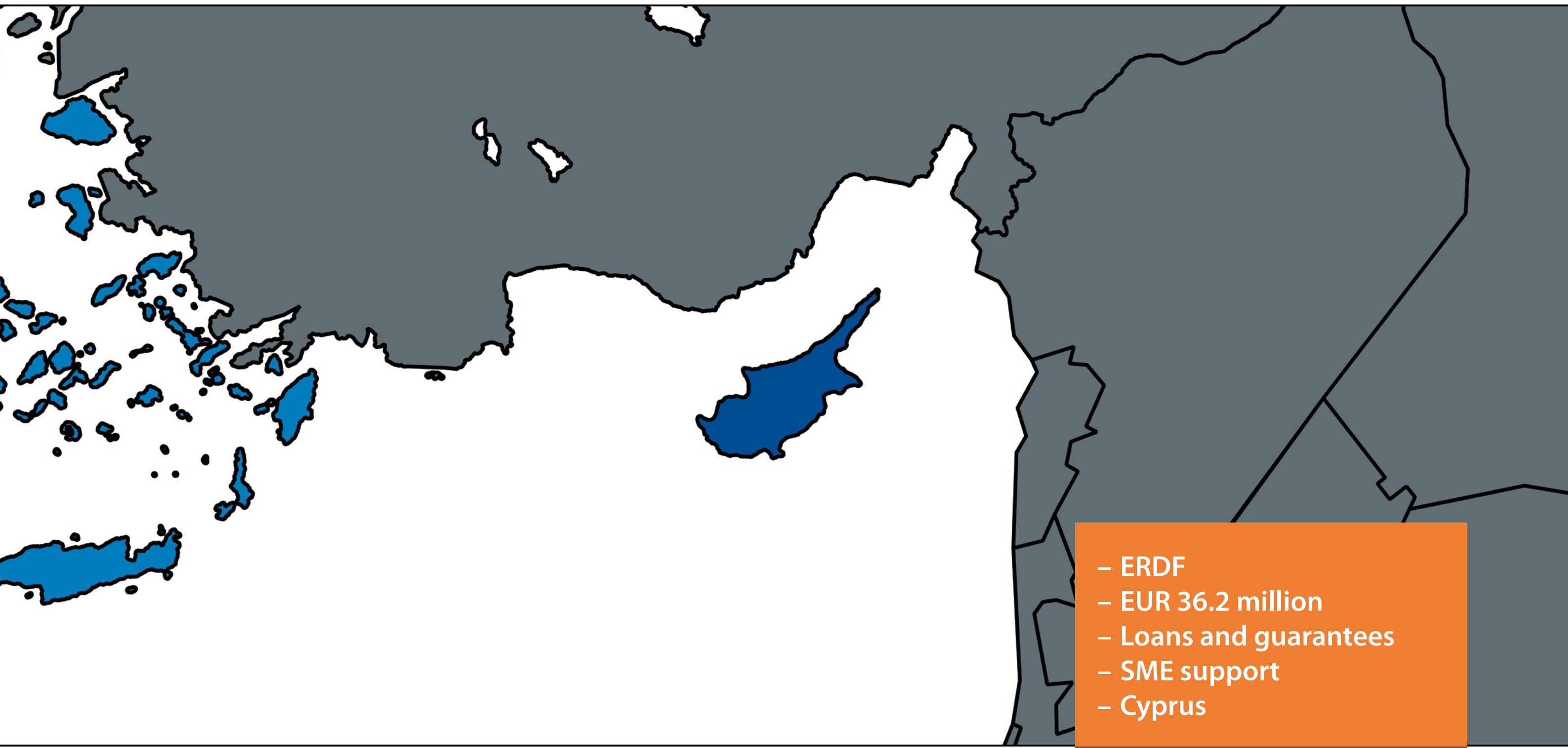

– ERDF
– EUR 36.2 million
– Loans and guarantees
– SME support
– Cyprus

…supporting SMEs to get access to financial resources and overcome the financial crisis…

Loans and guarantees for SMEs

The JEREMIE Initiative in Cyprus

Case Study

European Commission

European Investment Bank
The EU bank

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Abbreviations

Abbreviation	Full name
CYPEF	Cyprus Entrepreneurship Fund
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
EU	European Union
FRSP	Funded Risk Sharing Product
FLPG	First Loss Portfolio Risk Guarantee Product
JEREMIE	Joint European Resources for Micro to Medium Enterprises
OP	Operational Programme
SMEs	Small and medium-sized enterprises

Table of contents

1 Summary

This case study illustrates how European Regional Development Fund (ERDF) co-financed financial engineering instruments were used during the 2007-2013 programming period in Cyprus, a Member State with no prior experience with this form of support. The financial engineering instruments were set up under the Joint European Resources for Micro to Medium Enterprises[1] (JEREMIE) Initiative to address the lack of finance for small and medium-sized enterprises (SMEs), which had worsened with the severe financial crisis in the country in 2010. For example, thanks to the support of the JEREMIE Initiative in Cyprus, Constantinos Christodoulou Ltd., a trader of agricultural products, medical equipment and raw materials, added two more full-time positions to the existing eight employees and expanded to other Cypriot cities.

As shown in the case study, ERDF co-financed financial engineering instruments supported the sustainable development of Cypriot SMEs while contributing to regional development in Cyprus. By the end of 2015 around EUR 40 million had been disbursed through the financial engineering instruments to 509 Cypriot SMEs, mainly in the form of loans with lower interest rates and lower collateral requirements than commercial bank loans.

Financial engineering instruments established under the JEREMIE Initiative included two loan instruments, or Funded Risk Sharing Products (FRSPs) and one guarantee instrument, or First Loss Portfolio Guarantee (FLPG). The first FRSP and the FLPG were made available to Cypriot SMEs at the same time but the guarantee instrument was targeted initially at start-ups. Worsening economic conditions negatively affected the willingness in Cyprus to start new businesses, which translated into falling demand for dedicated financial products. In this regard, the case study shows lessons learned by the managing authority and the JEREMIE holding fund manager, which required modification of the initial set-up of these financial engineering instruments during the implementation period. This involved changes in the scope of targeted final recipients and termination of the guarantee instrument.

The initial steps were time-consuming and challenging due to the limited experience of the financial intermediaries with Structural Funds. Close cooperation between all parties and their commitment to finding solutions ensured the flexibility needed to overcome the challenges of a rapidly changing economic environment. Later amendment of the regulatory framework, which allowed for working capital financing[2], improved the attractiveness of the financial instruments for SMEs and accelerated implementation.

The 'Competitiveness and Sustainable Development 2014-2020' Operational Programme (OP) foresees the use of financial instruments based on the results of ex-ante assessment finalised in 2017. The experience gained by all stakeholders in implementation of this 2007-2013 instrument should facilitate the set-up and implementation of financial instruments in the 2014-2020 programming period.

1 'Joint European Resources for Micro to Medium Enterprises' refers to a joint initiative developed by the European Commission (Directorate General for Regional and Urban Policy) in co-operation with the European Investment Bank Group and other financial institutions during the 2007-2013 programming period.

2 Made possible by the modification of Regulation (EC) 1828/2006 in 2011.

JEREMIE Cyprus – Funded Risk Sharing Products (I and II)

THE FINANCIAL INSTRUMENT

Funding source

ERDF, OP 'Sustainable Development and Competitiveness 2007-2013'

Type of financial products

Loan instrument

Financial size

EUR 36.2 million, of which EUR 18.2 million[3] were OP resources (EUR 15.5 million from ERDF and EUR 2.7 million national public co-financing) and EUR 18 million private resources from the financial intermediary

Thematic focus

SME support

Timing

September 2010 to December 2015

Partners involved

Directorate-General for European Programmes, Coordination and Development (managing authority)
European Investment Fund (EIF) (holding fund manager)
Bank of Cyprus (financial intermediary)

ACHIEVEMENTS

Absorption rate

100% at holding fund level and 99.5% absorption at the level of final recipients by the end of the period for disbursement (30 November 2015)

EU leverage

2.35 times[4]

Leverage of public resources

2 times[5]

Re-investment

According to the latest data available, EUR 8 million of loans (including principal and interest) were repaid under the FRSPs by August 2018.
Decisions concerning the reuse of resources returned to the financial engineering instrument will be taken by the managing authority based on the results of the ex-ante assessment carried out for the use of financial instruments in the 2014-2020 programming period. The ex-ante assessment study identified substantial financing gaps in the areas of SMEs and energy efficiency and recommends using the resources repaid to the financial instrument to target these sectors in 2014-2020. The managing authority is currently discussing with the EIF the characteristics of the programme to be set up with the repayments.

Main results

Under the FRSP products, 439 SMEs were supported through EUR 35.7 million of loans, of which EUR 35.5 million were disbursed by the end of the implementation period for the financial instrument (30 November 2015), a utilisation rate of 99.5% of the portfolio.

3 Including OP financing committed for management costs and fees paid by the holding fund to the financial intermediary.
4 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 35.5 million, divided by the total amount of ERDF allocation to this financial instrument, i.e. EUR 15.1 million. It does not include the reuse of resources returned to the instrument.
5 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 35.5 million, divided by the total amount of public resources allocated to this financial instrument, i.e. EUR 17.8 million. It does not include the reuse of resources returned to the instrument.

2 Objectives

Although the Cypriot economy exhibited strong growth rates in the early 2000s, GDP per capita and labour productivity were still only 82.6% and 75.5% of the EU25 average, respectively.[6]

According to an analysis[7] carried out at the beginning of the 2007-2013 programming period, the small size of enterprises in combination with their limited access to finance was a major reason for their low competitiveness. Other key factors were the prevalence of lower added value sectors, restrictive labour market regulations[8] and labour seasonality. Manufacturing reduced its share of the national Gross Value Added, while its main sector was the food industry, dominated by small enterprises. The average size of manufacturing enterprises declined from 2000 to reach less than 6.3 employees per enterprise in 2010. The level of exports was modest, while the development and dissemination of innovation was hampered for a number of reasons. Tourism activities, which are crucial for the national economy normally have low value added and are strongly seasonal, with intense income fluctuations from year to year.

Against this background, the main goal of the 'Sustainable Development and Competitiveness 2007-2013' OP was to improve competitiveness and create the conditions for sustainable socio-economic development. The specific objectives of the OP included: (a) increasing the attractiveness of the country by improving infrastructure; (b) promoting the knowledge society and innovation, as well as improving the entrepreneurial environment; and (c) supporting sustainable development in urban and agricultural areas. The OP's priority axes reflected those specific objectives.

Figure 1: Priority axes of the 'Sustainable development and Competitiveness 2007-2013' OP

Priority Axes
1. Basic environment and energy infrastructure
2. Basic transport infrastructure
3. Knowledge based society and innovation
4. Productive environment
5. Regeneration of urban and rural areas

Financial engineering instruments were planned under priority axis 4: 'Productive Environment' to improve SME competitiveness and access to finance. Priority axis 4 promoted investment plans for existing SMEs in particular in manufacturing, encouraging the shift to higher added value products and services through improved technology and clustering. It also covered support for the creation of new enterprises, especially among the population with a low propensity for entrepreneurship, such as young people and women. Due to the overall aim of boosting competitiveness, emphasis was also given to the tourism sector.

6 GDP per capita refers to 2004 while labour productivity refers to 2005. See Statistical Service of Cyprus (2006), Cyprus in the EU scale, October, p.17 and p. 21. EU25 comprises the current Member States (the EU28) excluding Bulgaria, Croatia and Romania.

7 World Economic Forum, Annual Reports 2004 – 2006.

8 Restrictive labour regulations were indicated as the most problematic factor for doing business in Cyprus in 2006. See World Economic Forum (2006), The Global Competitiveness Report 2006-2007, p.200.

A gap analysis was carried out in 2007 indicating that approximately 25% of Cypriot SMEs could not access credit.[9] The analysis also pointed to the fact that high borrowing costs and high collateral requirements discouraged SMEs from applying for external finance. Additionally, it found that micro-financing schemes were not sufficient to cover demand from existing and potential micro enterprises. Lastly, it noted that national guarantee schemes deployed in the past had only benefited SMEs to a limited extent.

Based on the analysis, financial instruments were established to provide loans and guarantees to SMEs to address these market conditions. According to the initial design, priority was given to higher risk investment activities and sectors. These included research, development and innovation, information and communication technologies, as well as cultural and social services.

The global financial crisis, which started in 2007-2008, affected Cyprus and influenced the way in which financial engineering instruments were implemented. Balance sheet adjustments and banking restructuring accelerated liquidity constraints and changed the financial needs of the private sector, which led to an amendment of the investment strategy, as described below.

The increasingly severe financial context also led to setting up another public repayable support scheme aiming to strengthen the liquidity of the private sector, which complemented the OP financial engineering instruments. The Cyprus Entrepreneurship Fund (CYPEF) was established by the Government in 2013, with an allocation of EUR 100 million to be disbursed by Cypriot banks. The initial capital was matched by contributions from selected financial intermediaries. Managed by the EIF, CYPEF products have been offered since 2015.

A trade finance facility has also been available since 2014 (with an allocation of EUR 50 million), as well as a European Investment Bank (EIB) loan to the Bank of Cyprus, guaranteed by the Government, for bank loans to finance SME development and investment projects (during 2014-2019).

These additional financial instruments were expected to be complementary to the JEREMIE initiative, strengthening liquidity in the private sector.

Constantinos Christodoulou Ltd. – Objectives

Constantinos Christodoulou Ltd. is a Cypriot SME trading in agricultural and medical equipment and raw materials. From its premises in Nicosia, the company markets its products throughout Cyprus.

In 2014, the company applied for a JEREMIE loan of EUR 100 000 to widen the range of agricultural equipment offered and to open facilities in other Cypriot cities to facilitate product delivery to clients.

As part of the expansion plan, the enterprise decided to invest in new transportation means, rent new premises and hire additional staff. The JEREMIE loan was an opportunity for the company as it offered a competitive interest rate with lower collateral requirements, compared to other products provided by commercial banks.

9 JEREMIE – SME Financing Gap Assessment, Final Evaluation report for Cyprus, December 2007. Market failures specific to risk capital were also identified but are not reported here.

3 Design and set-up

Setting up the instrument required close coordination between all stakeholders and significant support since the country had no experience with implementing ERDF financial instruments.

3.1 Preceding events

The managing authority of the OP 'Sustainable Development and Competitiveness' 2007-2013 envisaged the use of financial engineering instruments in the OP, acknowledging the need to support SMEs looking to access finance. At the same time, the managing authority identified the need for risk sharing, especially for SMEs investing in research and innovation and in other priority areas.

In 2007, an independent gap analysis study was completed, under the supervision of the managing authority and the guidance of the EIF. A Memorandum of Understanding was signed between the Cypriot Government and the EIF in November 2007, allocating EUR 10 million worth of Structural Funds to a new holding fund managed by the EIF.

The signature of the funding agreement between the managing authority and the EIF followed in 2009. The call for selection of financial intermediaries for the FRSP I, a loan co-financing facility product, was launched in February 2010. This was followed in August 2010 by a call for expression of interest for selection of financial intermediaries to implement the FLGP, a guarantee instrument.

The Bank of Cyprus was selected as financial intermediary for both products and operational agreements with the EIF in April 2011. FRSP I was available to final recipients immediately after the funding agreement was signed, while the FLGP was available from June 2011.

Constantinos Christodoulou Ltd. – Financing gap

Two factors were important for the company:

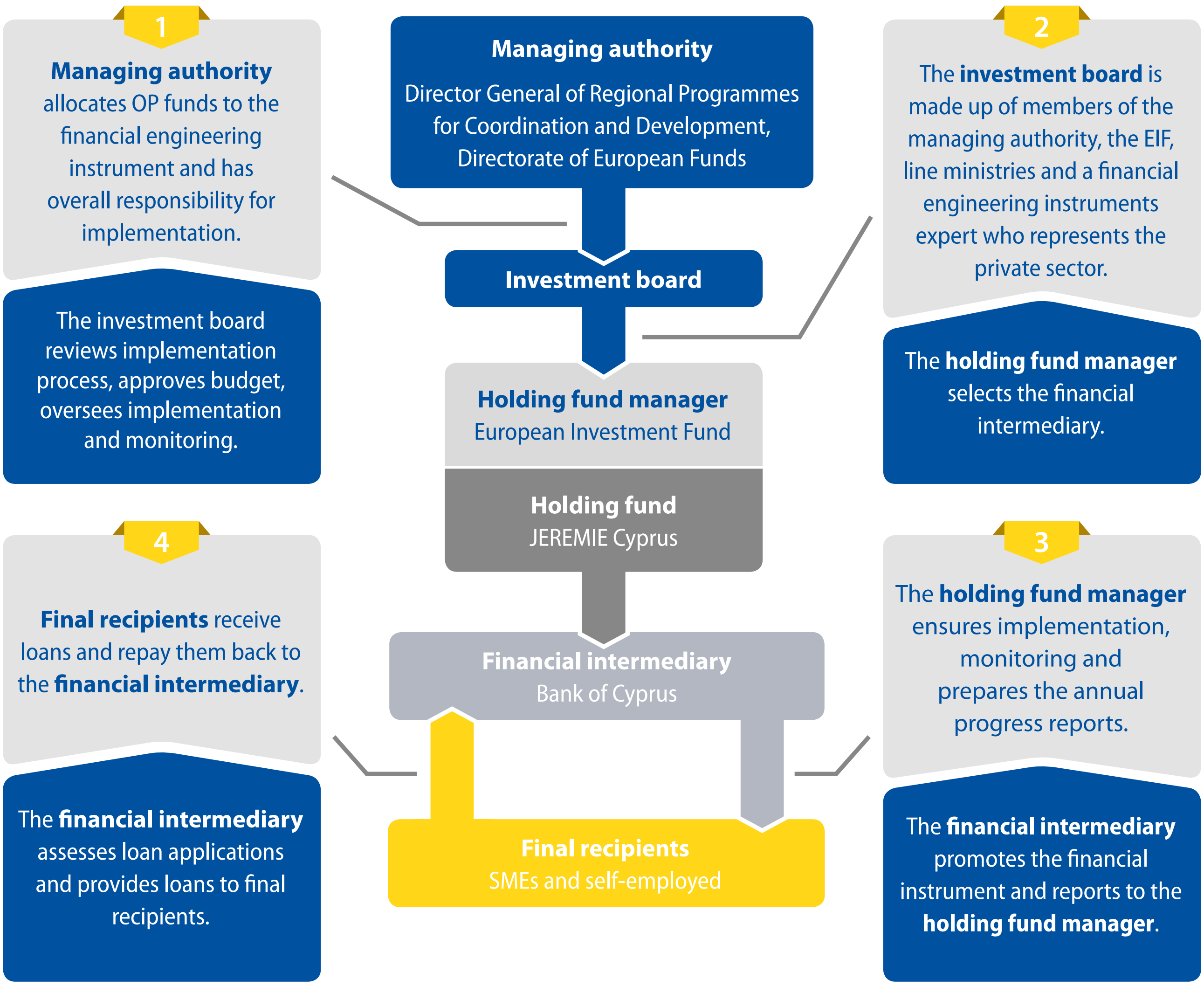
a. The low interest rate of about 4.3% was half the average market interest rate;
b. The collateral required was about 60% of the loan amount. All other types of bank loan required collateral of at least 100%.

3.2 Funding and partners

The partners involved in the implementation of JEREMIE were:

- The **managing authority**, responsible for all operations financed under the OP;
- The **holding fund**, which was established as a 'separate block of finance' within the EIF, as foreseen by article 43, paragraph 3 of Regulation 1828/2006[10];
- The **investment board**, established under the funding agreement between the managing authority and the EIF and following a decision of the Council of Ministers of Cyprus;
- The investment board monitored implementation of the funding agreement and supervised achievement of investment strategy objectives;
- The Bank of Cyprus, acting as a **financial intermediary**.

Figure 2: Organisational structure of the financial engineering instrument



10 Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.

The OP included a general reference to the need for financial engineering instruments, without specifying the resources to be allocated or any other sources of funding. Following the gap analysis, resources devoted to the financial engineering instrument were defined in the funding agreements.

The loans extended under the FLPG were financed by the financial intermediary and backed by OP funds set aside to cover losses in the loan portfolio. The FLPG was available from October 2011 until December 2012, when due to a lack of sufficient demand a decision was taken to terminate the product. The investment strategy was amended and the unused ERDF resources were transferred to the newly launched FRSP II. In addition, the initial ERDF allocation of EUR 10 million for the FRSP products was increased to EUR 15.5 million in December 2013. Under the FRSP products, one euro of ERDF funding led to EUR 2.35 of lending to SMEs (see Figure 3).

Figure 3: Funding of FRSP I and II

Funding sources	Amount
ERDF	15.5 million
Public (co-financing)	2.7 million
- of which national	2.7 million
Private (financial intermediary)	18.0 million
TOTAL	**36.2 million**

3.3 Investment strategy

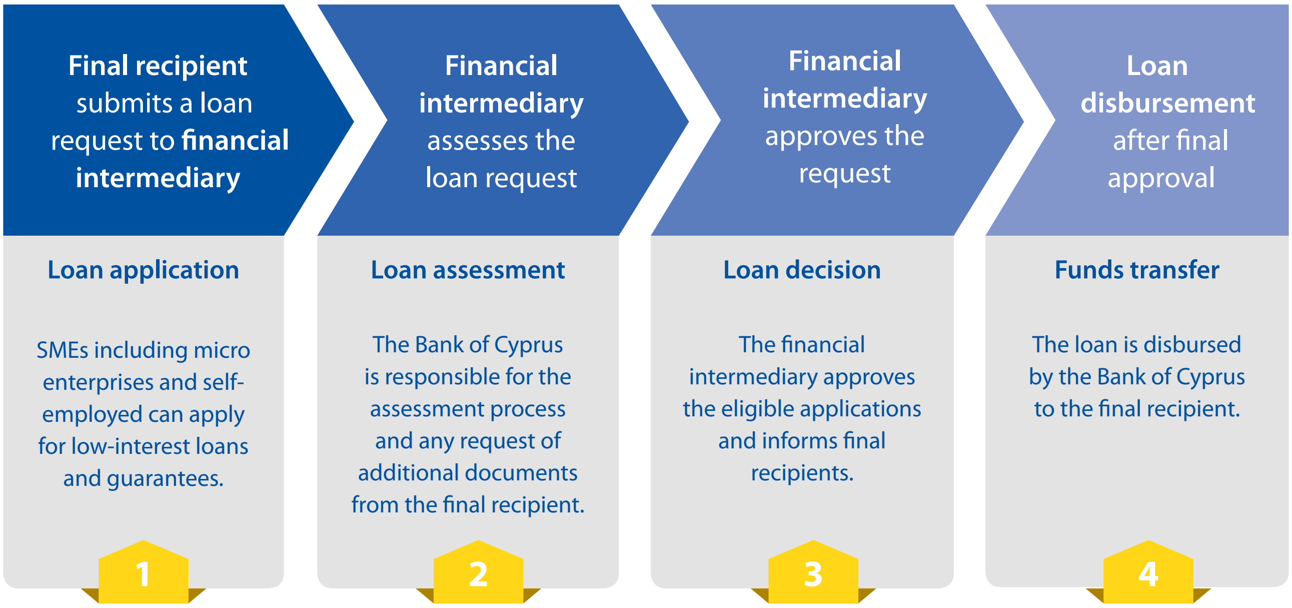
The financial engineering instrument addressed the needs of SMEs, including micro enterprises and the self-employed, in terms of access to finance through low-interest loans and guarantees.

The investment strategy and eligibility rules for final recipients supported under the instrument fully reflected the priorities and objectives of the OP.

Enterprises could apply directly to the Bank of Cyprus as financial intermediary that managed the loan assessment, verification and disbursements to final recipients.

From November 2011, support was allowed for working capital, which increased the demand for JEREMIE products. As mentioned earlier, the guarantee instrument was terminated and the related funds were used to set up a new risk sharing loan instrument (FRSP II). The conditions offered through the loan instrument were more attractive than under the previous guarantee instrument, with an increased maximum loan amount and a significantly lower interest rate. The loan instrument had a significant impact on enhancing liquidity for the private sector.

Figure 4: Accessing the financial instrument



3.4 Governance

The governance of the financial instrument was set out in the funding agreement signed by the managing authority and the EIF.

The **investment board** was responsible for, *inter alia*:

- approving amendments or revisions to the investment strategy and terms of reference to select financial intermediaries;
- providing opinions on operations to be selected, including the business plan and guidelines for co-investments;
- reviewing implementation progress and approving progress reports;
- approving the annual budget of the holding fund manager;
- monitoring the performance and impact of JEREMIE on the national economy in accordance with the objectives of the operational programme and the investment strategy.

The General Director of DG EPCD[11] was the Chairman of the investment board, which also respectively included one representative each from the managing authority, the Ministry of Finance and the Ministry of Energy, Commerce, Industry and Tourism, as well as a representative of the private sector. EIF representatives participate as observers.

The **managing authority** participated in the investment board to ensure that implementation of JEREMIE complied with Structural Funds, State aid and other regulations. It also provided the OP monitoring committee with reports on implementation and included information about the financial engineering instrument in the OP's annual implementation reports.

11 Directorate-General for European Programmes, Coordination and Development.

The EIF as **the holding fund manager** was responsible for implementation and monitoring, including of enterprises receiving support. It was also responsible for preparing the progress report each year, which included a detailed analysis of implementation.

The **financial intermediary** – the Bank of Cyprus – was responsible for management of the financial engineering instruments, according to the business plan set out in the operational agreement, which also included obligations to:

- pursue the objectives set out in the operational agreement;
- report to the EIF in a standardised format and scope;
- allow access to documents for national or EU auditors, and comply with auditing procedures;
- carry out adequate marketing and publicity campaigns to raise awareness of the initiative among SMEs;
- submit annual accounts for the financial instrument to the EIF.

The operational agreement also entitled the financial intermediary to management costs.

Constantinos Christodoulou Ltd. – Accessing the financial instrument

The company learned about JEREMIE from a Bank of Cyprus TV advertisement and asked for further information. The decision to apply for a loan was made by the owner, after consultation with the company accountants, who also assisted with the application.

The whole process from submission of the application to receiving the single instalment loan spanned about three months.

The Bank of Cyprus, operated as a 'one-stop-shop' financial intermediary for the enterprise and, according to the owner, the whole process did not involve significant administrative burden. The company prepared the application and managed all procedures required by the financial intermediary during the implementation.

4 Implementation

Initially, JEREMIE Cyprus was designed to offer both loans and guarantees under FRSP I and FLPG. However, during implementation and as a consequence of the financial crisis, the investment strategy was amended, terminating FLPG and setting up FRSP II to focus on providing loans with more favourable terms.

Figure 5: Timeline related to the financial engineering instruments

Time period	Action taken
November 2007	Memorandum of Understanding signed between the managing authority and the EIF
December 2007	Gap analysis completed
April 2009	Funding agreement signed between the managing authority and the EIF
October 2009	Establishment of the investment board
February 2010	Launch of financial intermediary selection process for FRSP I
August 2010	Launch of financial intermediary selection process for FLPG
September 2010	Operational agreement signed between EIF and financial intermediary for FRSP I
January 2011	FRSP I available to final recipients
April 2011	Operational agreement between EIF and financial intermediary for FLPG
October 2011	FLGP available to final recipients
December 2012	Investment strategy change: FLGP terminated following deterioration of the economic context
February 2013	Investment strategy change: planning for FRSP II, adopting more favourable terms for SMEs Launch of financial intermediary selection process for FRSP II
December 2013	Operational agreement signed between EIF and financial intermediary for FRSP II
December 2013	Almost all the FRSP I budget is disbursed
January 2014	FRSP II launched and available to final recipients

4.1 State aid

All JEREMIE instruments in Cyprus were implemented under the de minimis rule. There was a clear demarcation between recipients of JEREMIE loans or guarantees and recipients of grants under the operational programme. Projects with grant support were not eligible for JEREMIE support and thus avoided double financing from Structural Funds.

4.2 Financial products and terms

Under the JEREMIE Initiative in Cyprus there were three financial products; two loan instruments (FRSP I and, eventually, FRSP II) and one guarantee instrument (FLPG). Their lending conditions are described in Figure 6.

A. FRSP I

The gap analysis proposed a micro-finance facility and, taking into account the broader market needs, a loan product was established. This offered attractive interest rates, longer maturities and extended grace periods.

Demand for the loans was high, leading to fast disbursement and full absorption of the product by the end of 2014, with EUR 18.6 million invested in SMEs.

B. FLPG

JEREMIE funds guaranteed loans from the financial intermediary to SMEs. Capital was set aside to cover the risk of the holding fund up to maturity of the loans.

This financial instrument was expected to be supplementary to FRSP I, as it applied similar eligibility criteria but focused on start-ups, which normally are higher risk and have difficulties in meeting collateral requirements.

However, demand was not satisfactory, mainly due to worsening economic conditions, which saw a decline in willingness to start new businesses. By December 2012, the Bank of Cyprus had approved just 70 loans, for a total of EUR 3.6 million, well below target. This led to the decision to terminate FLPG at the end of 2012.

At the same time, the investment board asked the EIF to use resources released by the termination of FLPG to launch a new loan instrument, FRSP II.

C. FRSP II

The JEREMIE Initiative in Cyprus showed that market demand varied strongly depending on the type of financial product. There was, however, a preference for dedicated products like the FRSP offering potential borrowers lower interest rates compared to the FLPG, which mainly focused on reducing collateral requirements. The historically low interest rate on FRSP loans made it competitive and preferable for SMEs. This and the worsening economic conditions in Cyprus by the beginning of 2013 were the main reasons for launching FRSP II.

There was a significant delay between the start of the financial intermediary selection process in February 2013 and signing the operational agreement in December. This was due to the Eurogroup Decision of 16 March 2013[12], which imposed capital controls in the country. By the end of 2014, shortly after the operational agreement was signed, EUR 5.3 million had been disbursed through the financial instrument, mainly to micro enterprises (32% of the disbursed resources). Demand remained steady and by September 2015, EUR 12.0 million had been disbursed, increasing the absorption rate to 75%.

12 Available on the Council of the European Union’s website at www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/136190.pdf.

Building on the success of FRSP I and the continuous demand from final recipients for such loans, by the end of November 2015 FRSP II had exhausted its resources and was closed to new applications. Under the agreement between the managing authority and the holding fund manager, the interest and capital repayments are being returned to the Government of Cyprus and reinvestment in the future will be decided in accordance with the investment strategy. Based on the amortisation schedule of the loans in the JEREMIE portfolio, the expected date for full repayment is estimated to be during the last quarter of 2025.

Figure 6: Lending conditions of JEREMIE Initiative products in Cyprus

Conditions	FRSP I	FLPG	FRSP II
Allocated funds	EUR 20 million (50% from the operational programme, 50% from the financial intermediary)	EUR 7.5 million (100% from the operational programme), corresponding to EUR 50 million in loans from the financial intermediary	EUR 16 million (50% from the operational programme, 50% from the financial intermediary)
Maximum loan	EUR 100 000	EUR 70 000 for start-ups and enterprises established within the previous 36 months, up to EUR 100 000 for mature enterprises	EUR 300 000
Maturity	24 to 120 months	up to 120 months	24 to 120 months
Guarantee rate/ amount	Not relevant	50% of the losses on a loan	Not relevant
Interest rate	3.5% to 4.5% depending on Euribor	Not relevant	2.66% to 3.33% depending on Euribor
Grace period	up to 1/3 of the duration, maximum 2 years	up to 2 years	up to 1/3 of the duration, maximum 2 years
Collateral	50 – 100% of the loan	0 – 50% of the loan	60 – 120% of the loan
Eligibility of expenses[13]	Investments (tangible and intangible assets) and working capital for development and expansion.	Investments (tangible and intangible assets) and working capital for development and expansion.	Investments (tangible and intangible assets) and working capital for development and expansion.

13 Financing of working capital of enterprises by the ERDF under financial engineering instruments in the 2007-2013 programming became eligible modifications introduced to Article 45 of the Implementing Regulation, as amended by Commission Regulation (EC) No. 1236/2011 of 29/11/2011.

4.3 Final recipients targeted

Priority was given to higher risk investment activities. The scope of the FRSP covered all sectors eligible for support under the OP to ensure flexibility during a difficult economic situation.

In June 2011, the managing authority together with the EIF, the Bank of Cyprus and the Ministry of Economy organised a meeting in Nicosia to announce the signature of the funding agreement with the EIF and the new opportunities for Cypriot enterprises provided by the JEREMIE products. The meeting was widely covered by the national media, including the main TV channels.

The Bank of Cyprus, as a financial intermediary, undertook most of the marketing, covering the costs from its own resources. Marketing included:

- advertising on the main national TV and radio channels in 2012;
- extensive coverage of JEREMIE products on its website;
- leaflets distributed through all branches of the bank and during seminars, conferences and other meetings organised by the bank.

In January 2014, the Bank of Cyprus established a Department of European Relations and Products to manage and promote the ERDF co-funded products, as well as the bank's participation in new instruments. The department is involved in designing new financial products for entrepreneurship, energy efficiency and education, to be implemented in the framework of the 2014-2020 operational programme, or with other resources.

Constantinos Christodoulou Ltd. – Advantages of the financial instrument

In the application stage, during implementation and for reporting, the company did not face any major challenges to meet the financial intermediary's requirements. The invoices and reporting were prepared by the company, without any external support or additional cost.

More generally, the company is satisfied with the simplicity of the process, the level of information received and the services from the financial intermediary during application and implementation.

4.4 Changes in strategy

Strategy changes were required due to the economic and financial crisis as described in section 3.3.

5 Achievements

JEREMIE Cyprus supported SMEs in a period when liquidity problems resulting from the crisis added to the traditional weakness of local enterprises and their difficulties in accessing finance, which undermined development of the private sector.

JEREMIE had disbursed EUR 39.1 million to Cypriot enterprises by the end of 2015, EUR 35.5 million in the form of risk sharing loans and the rest through guaranteed loans, both ERDF co-funded. By the end of 2015, when the availability period for the products ran out, 509 SMEs had been supported, 439 through co-financed loans and 70 through guaranteed loans.

Despite the initial focus on higher risk activities, the instrument covered a wide range of economic sectors. About 23% of loan recipients were from retail trade and 18% were wholesalers, 7.8% were manufacturing enterprises, 6.5% were involved in creative, arts and entertainment activities and 3.3% engaged in professional and technical activities, with a lower participation from all other sectors. A total of 73% of the final recipients were microenterprises and 27% were larger SMEs.

The use of returned resources is being discussed between the managing authority and the holding fund manager. The decision on the scope and design of the new programme will comply with the recommendations of the ex-ante assessment conducted for the use of financial instruments in Cyprus in the 2014-2020 programming period.

Constantinos Christodoulou Ltd. – Achievements

JEREMIE allowed the company to successfully increase its product range and its presence in other Cypriot cities. Without that support, expansion of the firm would have been significantly delayed or abandoned. Two scientists (agriculturalists) were hired as part the development plan.

Based on the experience of JEREMIE Cyprus, the owner is going to consider using similar initiatives or products, if he cannot obtain financing from commercial banks for further expansion.

6 Lessons learned

In Cyprus, ERDF financial engineering instruments were set up for the first time under the OP 'Competitiveness and Sustainable Development 2007-2013'. All stakeholders, especially the managing authority and the financial intermediary, gained experience, providing a basis for implementing similar instruments in the 2014-2020 programming period.

6.1 Challenges

The initial steps for setting up the financial instruments were time-consuming because of lack of experience. During set-up and implementation, the needs of SMEs changed substantially due to the financial and economic crisis. Rapidly changing conditions made it necessary to amend the investment strategy and shift the focus of the financial engineering instrument from start-ups to also include more mature SMEs.

When selected as fund manager in 2010, the financial intermediary did not have any experience of Structural Funds or the regulations that govern them. Furthermore, the information requirements of the holding fund manager required the financial intermediary to develop a dedicated information system, including document storage and specific reporting templates. According to the financial intermediary, the need for upfront investment, along with the complexities of managing the financial instrument, might be considered as important factors for the banking sector when deciding their involvement in delivery of financial instruments as financial intermediaries.

6.2 Success factors

The OP and the gap analysis study detailed that local SMEs needed better loan conditions. JEREMIE met these needs, which is the main reason for its success.

During implementation, close cooperation between the managing authority, the holding fund manager and the financial intermediary provided the required capacity and flexibility to ensure a smooth roll out and implementation of the instruments. Low market demand for the FLPG, as well as the severe economic crisis, necessitated adaptation of the products and terms to suit the needs of SMEs. It also helped overcome the challenges of decreased capital adequacy in the financial intermediary and the rapidly worsening creditworthiness of SMEs. Although the difficulties led to a slight delay (e.g. in the assessment of loan applications in 2013), JEREMIE Cyprus managed to ensure full disbursement of the resources by end of November 2015.

Given the increasing liquidity constraints for SMEs, the provision of working capital loans through the JEREMIE products unlocked many applications, which were pending with the financial intermediary.

Marketing by the financial intermediary was extensive and included wide-reaching television and radio advertisements, which were important for raising awareness among potential final recipients. The financial intermediary is a well-established institution in Cyprus, which also helped to stimulate demand.

6.3 Outlook

Based on the rapid absorption of resources available for FRSPs I and II throughout the implementation, as well as the number of applications submitted to the financial intermediary by the end of the availability period (30 November 2015), demand from local enterprises is expected to remain equally high for this type of product.

Experience gained by all stakeholders, especially in preparing funding agreements, calls for expression of interest, and the IT system should make the set-up and implementation of future financial instruments much easier.

The ex-ante assessment for the use of financial instruments in Cyprus under the 'Sustainable Development and Competitiveness 2014-2020' OP completed in July 2017 identified substantial funding gaps in the areas of renewable energy and energy efficiency for SMEs, private owners and public buildings, as well as general SME support. Based on that, the ex-ante assessment recommended a loan financial instrument. The managing authority is currently discussing arrangements related to setting up the instrument with the EIB, as well as consulting the European Commission about the exact characteristics of the instrument, which is planned to be implemented in the second half of 2018 or in the beginning of 2019.

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