OPERATIONAL EVALUATION RELATING TO THE CHANGES OF THE OPERATIONAL PROGRAMME ENVIRONMENT WITHIN THE CONTEXT OF JEREMIE INITIATIVE IMPLEMENTATION

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CONTENTS

INTRODUCTION

The Slovak Republic entered the European Union as a country whose gross domestic product per capita was only 48% of the average of the then EU-15. The strategic objective defined for the years 2007–2013 in the National Strategic Reference Framework is not only to continue the trend towards convergence with the EU-15 in terms of economic performance but also to implement qualitative and structural changes that increase the competitiveness of Slovakia and its regions and increase the quality of life of citizens of Slovakia.

Achieving its long-term vision and completing the strategic objectives set for the 2007–2013 programming period will require the Slovak Republic to increase the competitiveness of the country and its regions at a faster rate than the European Union as a whole and the chosen direction of development must be in line with the conditions for balanced and sustainable development within the global economy.

One of the joint initiatives of the European Commission, the European Investment Bank and the European Investment Fund promoting access to capital for small and medium enterprises in Slovakia Republic in the 2007–2013 programming period taking into consideration the objectives of the Lisbon Strategy through the use of structural funds is the financial instrument JEREMIE.

The purpose of this operational evaluation is to analyse the opportunities and consequences of the implementation of the JEREMIE initiative for the Operational Programme Environment, its objectives and its indicators in the 2007–2013 programming period. The evaluation was carried out in accordance with the quality standards for evaluation set out in the evaluation plan for the Operational Programme Environment for the 2007–2013 programming period v. 2.0.

1. IDENTIFICATION OF THE REASONS FOR THE USE OF THE JEREMIE INITIATIVE IN THE OPERATIONAL PROGRAMME ENVIRONMENT AND ASSESSMENT OF THE AVAILABILITY OF FUNDING FOR SMALL AND MEDIUM ENTERPRISES

The Operational Programme Environment is the basic programming document of Slovak Republic for the use of assistance from European Union funds in the environmental sector in 2007–2013.

The operational programme is financed jointly from the European Fund for Regional Development and the Cohesion Fund. In accordance with article 37(2) of the general regulation it contains a priority axis specific to each fund and a specific commitment by the fund. In accordance with article 35(1) of the General Regulation, the operational programme is drawn up at the national level.

The operational programme is based on the results of an analysis of the current environmental situation in the Slovak Republic, the requirements laid down by the environmental acquis, including the transitional period set for Slovakia in the Treaty of Accession to the European Union, current European Union legislation, international conventions relating to the environment and new directives and regulations on the environment whose adoption is anticipated during the 2007–2013 programming period. It will be necessary to meet difficult targets for financing in order to implement the programme. The strategy of the Operational Programme creates conditions for the convergence of Slovakia with the average level of environmental infrastructure and environmental protection in the EU-15. It also makes an important contribution to the overall convergence of the economy of the Slovak Republic with the average of the EU-15 through sustainable development. The global objective of the Operational Programme Environment is to improvement of the environment and rational use of resources through the building up and improvement of environmental infrastructure in Slovakia in accordance with European Union and Slovak regulations and increased effectiveness in the environmental aspect of sustainable development.

2. SMALL AND MEDIUM ENTERPRISES IN THE SLOVAK REPUBLIC

Small and medium enterprises (SMEs) are an important part of the economy of all developed countries. Commission Recommendation No. 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises defines the category of micro, small and medium enterprises (SME) as enterprises that employ fewer than 250 persons and which have an annual turnover not exceeding EUR 43 million.

In OECD countries, SMEs make up more than 95% of the total number of enterprises and their share of employment is in the range 60–70% on average. In this context, the quantitative share of SMEs in the Slovak economy is comparable with developed countries: around 99% of enterprises are SMEs and their share of employment was 59.2% at the end of 2001.

The SME category is seen as the most flexible, most efficient, most progressive and most substantial sector of the economy. The EU, in common with other developed countries, pays maximum attention to the status of SMEs and adopts systematic measures for their development. Statistics show that support for the SME sector is an important part of the overall economic strategy of economically advanced countries. Since the first oil crisis at the end of the 1960s and the economic recession in the first half of the 1970s it has been clear that the greater flexibility of small and medium enterprises enables them to more quickly overcome the effects of crises affecting whole industries and start essential reform processes. Statistics for recent years show that small and medium enterprises in EU countries make up 80–99% of economically active entities, employ 45–75% of the workforce and account for 40–60% of GDP.

The role of small and medium enterprises in maintaining existing jobs and creating new job opportunities indubitable. They are better at coping with fluctuation in demand. A high proportion of qualified specialists and more direct working relationships make it small and medium enterprises more resistant to changes in employment in the enterprise.

3. PROBLEMS AFFECTING SMALL AND MEDIUM ENTERPRISES

Compared to large enterprises, SMEs face a number of important competitive disadvantages resulting from the character of SMEs as such. The universal competitive disadvantages of the SME sector are:

- **Limited access to loans –** it is difficult for SMEs to obtain commercial loans.
- Disadvantages resulting from **high administrative demands** affecting small and medium enterprises and **financial barriers affecting start-up businesses**.

Small and medium enterprises in Slovakia are especially disadvantaged. There are also disadvantages that result from specific conditions in Slovakia:

- **High insurance contributions for SMEs** since given the type of development in Slovakia based on labour and pay intensive industry there is both a high tax burden and **a high level of insurance contributions**.
- **Complex, unclear and frequently amended legislation**, which adds to the universal disadvantage of SMEs **–** high administrative burdens.
- **A non-functional capital market**. Capital financing is one of the traditional instruments for enterprise development, including SMEs. SMEs must finance development from their own accumulated assets.

The key problem for Slovak enterprises remains the lack of access to financing. Lack of resources is a fundamental barrier to the development of dynamic enterprises. On the other hand it offers a considerable opportunity for the capital market to fill the gap between the demand of these enterprises for finance and the low willingness to finance this type of activities on the part of the traditionally more conservative banks.

Financial needs can be classified according to whether they arise as the result of starting a business or from its activity and further expansion. It is very important to keep the need for finance in line with current possibilities. There is a marked shortage of finance and this is reflected in its price.

In 2006 the European Investment Fund was instructed by the European Commission to carry out an analysis of deficiencies in the market for finance for small and medium enterprises (a gap analysis). The purpose of the analysis was to identify the gap between the supply of innovative financial instruments in the market and the demand for such products. The aim in JEREMIE is to identify the gap between the potential demand for financial engineering products to support SMEs and microloan operations, and the existing supply of such products from local financial intermediaries. Performance of a Gap Analysis is a condition of the European Commission (DG COMP and DG REGIO) for the start of any successful implementation of the JEREMIE initiative. This analysis was also carried out in Slovakia and identified the following market failures relating to SME access to capital in Slovakia:

The main reasons for the lack of access to finance:

- the low volume of funds made available to self-employed persons and start-ups.
- a low ratio to GDP of domestic loans and guarantees provided to SMEs,
- the low ratio of factoring to GDP (compared to the EU-25 average),
- the low ratio of risk capital investments to GDP,
- the low ratio of research and development spending to GDP,
- the non-existence of enterprise cooperation in technology transfer,
- absence of a network of business angels

Some of these problems could be reduced through the use of revolving instruments, which the European Union is implementing in the 2007–2013 programming period through the JERMIE initiative. The following instruments are provided:

- microloan guarantee schemes aimed at start-ups,
- social microloan schemes,
- a portfolio of guarantee schemes for SMEs,
- the Slovak Seed Capital Fund, the Slovak Development Growth Fund, smaller investments in the quality plans of private risk capital funds,

- factoring support scheme,
- intellectual property fund.

To counteract the market failures referred to above, a proposal for an investment portfolio within the JEREMIE system in the period 2007–2013 has been made.

An optimal solution would involve the use of the following revolving instruments in the JEREMIE system in the period 2007–2013 in accordance with the Gap Analysis:

- a microloan guarantee scheme for start-ups
- social microloans,
- portfolio guarantee schemes for SMEs;
- a guarantee scheme to support factoring activities;
- risk capital funds;
    - seed capital fund;
    - development capital fund;
    - small investments in risk funds;
- intellectual (IP) fund
- construction of business angels networks
- investment readiness stimulation fun (VC: Private)

In the area of debt financing, despite high levels of liquidity, it is not possible to satisfy demand for loans. A proposed solution is portfolio guarantee schemes for SMEs. It is based on an estimate that around 10% of SMEs in business in Slovakia (around 430 000) will make investments and that around 43 000 loans with an average volume of EUR 50 000 will be needed in the period 2007–2013. With expected collateral covering 50% and losses of 10%, the amount of capital necessary for the guarantee scheme would be around EUR 110 million.

The Gap Analysis proposed relevant revolving instruments to cover the gap in the market using the JEREMIE system for the 2007–2013 programming period. The gap was identified by comparing the development of the Slovak economy in comparison with other European countries, in particular GDP growth in relation to the need to expand banking activity. It presumed a high correlation between the level of GDP and the scope of financing provided by intermediaries in the country. If this gap in the market is filled, there should be a balance between the standard of the market economy, the concentration of business structure and high intervention by banks in the financing of the economy.

The gap analysis indicates that portfolio guarantee schemes for SMEs will have an impact on the market that is 10–15 times greater than the size of the guarantee fund. This level of impact represents the potential that exists but the real need depends on the absorption capacity of the given sector. Nevertheless, this is further evidence that innovative financial instruments can be much more effective than the direct provision of resources for limited periods in limited volumes. These guarantee schemes are intended to address unsatisfied demand for capital where there is at the same time high overall liquidity in banks.

Support for small start-ups is provided through a microloan guarantee scheme for start-ups, which should bring about an improvement in conditions such as lower collateral, the possibility to delay payments of instalments, more favourable interest rates and lower fees. Microloans are loans up to EUR 25 000.

It is expected that the risk capital fund will attract a further EUR 60 million from additional investors and the IP fund is expected to be entirely self-financing from external or private sources. These estimates are also only approximate and their final value will be determined by a feasibility study.

The financial crisis is also having a major impact on the availability of financing through bank loans. The European Commission sees a programme of loans for small and medium enterprises as being particularly important at this time. It sees them as a pillar of the EU economy and therefore the Commission and the member states are adopting measures intended to protect jobs and stimulate production. According to Commission estimates, there is a risk that around 200 000 enterprises could go out of business as a result of the current economic crisis. Small and medium enterprises need access to debt and private equity financing to ensure the health and long-term growth of the economy and this access requires support especially in the current global financial crisis.

In order to support solutions for this situation, the state development and financing bank, Slovenská záručná a rozvojová banka, a. s., (SZRB), is providing retail loans to the SME sector with more favourable conditions that commercial banks. For this purpose SZRB provides “microloans” up to EUR 50 000 (SKK 1.5 million), agreeing security conditions with each applicant individually and also not demanding that applicants document their credit history. This means that the applicant need not be in business for a set period as is the case in the conditions set by commercial banks. The National Agency for the Development of Small and Medium Enterprises (NADSME) also provides microloans through its own microloan programme. This provides loans ranging from EUR 1 660 to EUR 50 000 through regional offices subject to the same conditions as the SZRB.

The allocation of sums from the Operational Programme Environment (OP ENV) through the JEREMIE financial instrument must respect article 44 of Council Regulation (EC) No. 1083/2006, according to which expenditure may be financed in respect of an operation comprising contributions to support financial engineering instruments only from the structural funds. In the case of OP ENV, the JEREMIE financial instrument can only be used in priority axes financed from the European Regional Development Fund, specifically in Priority axis 3 Air Protection and Minimisation of Adverse Effects of Climate Change, where funds will be directed to support small and medium enterprises that will use the funds for air protection i.e. to reduce emissions of pollutants into the air as part of their technical measures or technological processes.

4. THE JERMIE FINANCIAL INSTRUMENT IN SLOVAKIA

In the first phase of implementation of the JEREMIE initiative in 2006–2007, the Directorate General for Regional Policy (DG Regio) of the European Commission instructed the EIF to carry out a preparatory study of gaps between supply and demand and related market failures in regions and to propose measures that should be adopted. Information on regional development and strategic guidelines can be found on the DG Regio website.

In its communication of 29.6.2006, to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions entitled "Financing SME Growth – Adding European Value", the European Commission stated that "the partnership for growth and jobs depends on Europe's small and medium-sized enterprises achieving their potential, for they are crucial in fostering the entrepreneurship, competition and innovation that leads to sustainable growth and development. In this communication the Commission also states that the future of European competitiveness depends on an integrated, open and competitive financial market that also covers risk capital and, in particular, that part of risk capital markets that is generally referred to as venture capital. For growth-seeking entrepreneurs, external financing becomes necessary when their initial funds have been exhausted.

Small and medium enterprises have different needs and therefore it is necessary to provide them with easier access to risk capital and debt financing by offering a range instruments.

Risk capital is a form of equity financing for companies with strong growth potential in the early stages of growth. Demand for risk capital usually comes from companies that have the potential for growth but do not have sufficient access to capital markets. The supply side comprises investors who are willing to take on a high level of risk in return for the chance of above average returns on their capital investment. Investment of this kind in Europe is estimated to be less than 10% of the level that exists in the United States. In the opinion of the European Commission, Europe needs more of this type of investment along with greater investment in early stages.

Banks and guarantee institutions in Europe have experience in financing the expansion stage of SMEs. This development must be evaluated to ensure growth and employment. The new Basel II requirements for capital adequacy encourage the tendency of banks to require an in-depth assessment of client risk. It is creating a new environment in which European SMEs must work closely with financial institutions.

The Commission's interest in using innovative financial instruments to achieve the objectives of the Lisbon Strategy is expressed in the strategic guidelines of the Community, in regulations 1080/2006, 1083/2006 and 1828/2006 on the structural funds in the period 2007–2013 but in particular in the JEREMIE initiative.

JEREMIE (**J**oint **E**uropean **RE**sources for **MI**cro to **M**edium **E**nterprises) is an initiative of the European Commission together with the European Investment Bank (EIB) and the European Investment Fund (EIF) that promotes increased access to finance for the development of SMEs in the regions of the EU in the 2007–2013 programming period, especially in the areas of research and development and support for the implementation of the objectives of the Lisbon Strategy through the structural funds. The initiative is designed to achieve the following objectives in cooperation with the managing authorities and other participating financial institutions:

- Better conditions for financing new and start-up business through debt financing (including microloans), equity, risk capital and guarantees together with appropriate organisational and technical assistance;
- better coordination of this area at both a national and regional level and better sharing of good practice and transfer of knowledge in this area.
- a contribution to more effective use of public funds in programmes financed from EU structural funds and the national budgets of member states.

JEREMIE creates a framework for cooperation with specialised financial institutions – the EIB and the EIF – to provide assistance in the form of expertise and better access to risk capital. If member states decide to use the JEREMIE framework, they should allocate resources from the operational programmes for the 2007–2013 programming period to a holding fund in compliance with the relevant regulations.

Previous stages in the development of innovative financial instruments in Slovakia

Pre-accession aid and the 2004–2006 programming period

In the pre-accession period, the National Agency for the Development of Small and Medium Enterprises (NADSME) developed innovative financial instruments using funds from the financial memoranda of the PHARE programme and corresponding commitments from the state budget from 1991 to 2003. These funds were used in programmes for the development of SMEs: the support loan programme – 1192 loans provided with a total volume of SKK 3.95 billion, the small loan scheme – 134 loans with a total volume of SKK 72.37 million, the microloan scheme – 1402 microloans with a total volume of SKK 606 million, the guarantee scheme – 109 guarantees with a total volume of SKK 206 million and the risk capital programme – under which the Start-up Capital Fund was established in 1995.

On 30.6.2005 a memorandum of understanding was signed between the European Commission, the Ministry of Economy of the Slovak Repubic and NADSME in which the parties agreed that funds from the PHARE pre-accession programme that were returned to the accounts of NADSME would be used for the further development of SMEs.

In the 2004–2006 programming period the structural funds were used only in the form of direct, non-reimbursable aid. The total amount allocated to Slovakia was SKK 62.5 billion, which amounts to EUR 1.64 billion at an exchange rate of SKK 38/ EUR 1. The overall commitments of funds in programming documents for the structural funds in the 2004–2006 programming period was SKK 44.8 billion as at 31.12.2006, which amount to EUR 1.2 billion at an exchange rate of SKK 38/ EUR 1.

2007–2013 programming period

In the 2007–2013 programming period, the amount allocated to Slovakia from the EU budget for the objective Convergence and the objective Regional Competitiveness and Employment was EUR 11.1306 billion at current prices, in the form of commitments. In order to make the most efficient use of the allocated funds, it is desirable that Slovakia should support profit-oriented SME projects not only through direct forms of assistance (standard grant schemes) but also through indirect forms – innovative financial instruments and financial engineering instruments. Article 44 of Regulation 1083/2006 establishes the following financial engineering instruments: guarantee funds, loan funds, venture capital funds and urban development funds.

Under task C.30 of Government Resolution No. 832 of 19.10.2005 (on the proposal for the National Strategic Reference Framework 2007–2013 (version 1)), the Ministry of Finance prepared “Proposal for innovative financial instruments for the National Strategic Reference Framework 2007–2013”, which was approved by Government Resolution No. 921 of 23.11.2005. The proposal was a conceptual document that laid the foundations for more detailed planning of innovative financial instruments. It dealt mainly with the following types of indirect assistance:

- guarantee schemes for loans to SMEs;
- schemes to support start-up businesses;
- subsidised loans;
- technical assistance in the design of PPP (public private partnership) projects.

Study of the money market and financial market in Slovakia and follow-up analysis showed that the markets functioned inefficiently in certain segments. The largest failure was in relation to newly established SMEs due to the difficult of establishing and documenting a business history and guaranteeing a return on investment, especially in the first years of investment. The commercial sector does not adequately cover the financial requirements of clients (in particular certain higher risk segments of clients) and is not willing to provide resources for sophisticated investments and production with a long repayment period or longer delays in the payment of the principal and interest. The above matters represent a high credit risk for commercial banks.

The market also fails in the case of small enterprises that request only very low exposure from the bank (up to a few million SKK). Commercial banks do not satisfy such clients because of the high transaction costs. The failure is especially pronounced with regard to the financing of the transfer of knowledge into production and the financing of the early stages of technology firms with a strong potential for growth and increased market share.

State interventions should not involve only direct assistance in the form of grants but also indirect assistance. Data from the report on the provision of state aid in Slovakia in the years 2001–2006 shows that state aid to the SME sector amounted to SKK 1 873.49 million. The largest volume, amounting to SKK 1 551.61 million, was provided in 2006 while in the years 2003–2004 no state aid was provided for the stated purpose. The state aid provided in 2006 was provided only in category A, which means in the form of a subsidy or through the tax system or social security system. Slovakia did not make use of the other forms of state aid – category B (share ownership), C (low-interest loans) and D (guarantees) in 2006.

On the basis of the above conceptual material, the Ministry of Finance submitted a document “Proposal of innovative financial instruments for the NSRF for the years 2007–2013 (stage II)” in a limited form without reference to the operational programmes. This document already contained a set of schemes for innovative financial instruments such as guarantees, convertible loans, proposals of venture capital funds, i.e. instruments in the same structure as is used in the JEREMIE initiative. The document was approved by Government Resolution No. 836 of 8.10.2006.

The EC’s Directorate General for Competition (DG COMP) and Directorate General for Regional Policy (DG REGIO) instructed EIF to carry out a study of market failures in the financing of the SME sector (the gap analysis) as a condition of the EC (DG COMP and DG REGIO) for the successful implementation of the JEREMIE programme. Such an analysis was also carried out for Slovakia at the end of 2006 and its results were presented on 15.12.2006. The analysis was then submitted for review and approved by all affected departments of state. The final version of the Gap Analysis can be obtained from the website of the Slovak Ministry of Finance. (discussed in more detail in part 3)

Government Resolution No. 1005 of 6.12.2006 approved the draft National Strategic Reference Framework (NSRF) for the 2007–2013 programming period, in which the matter of innovative financial instruments is mentioned in the section on coordination between the operational programmes and contributions from the EIB and other financial instruments and addressed in more detail in Annex 8. The proposals for the operational programmes for the 2007–2013 programming period were also approved in December 2006 and included indicative allocations for innovative financial instruments.

Overview of operational programmes amended in 2007 in connection with JEREMIE:

In the Operational Programme Informatisation of Society, EUR 50 million for innovative financial instruments from the European Regional Development Fund was proposed. The largest space for innovative financial instruments in OP Informatisation of Society is in priority axis 3 Improvement of Broadband Internet Access.

In the OP Bratislava Region it is expected that EUR 3 million will be allocated to innovative financial instruments from the ERDF. The largest space for innovative financial instruments in this OP is in priority axis 2 Innovation and Informatisation, to which up to EUR 25 million is allocated.

EUR 130 million from the ERDF was proposed for the Operational Programme Research and Development, priority axis 1 Research and Development and priority axis 2 Research and Development in Bratislava Region. The operational programme was amended, reducing the amount allocated to innovative financial instruments to EUR 80 million.

The document approved by the Slovak government proposed EUR 20 million from the ERDF for innovative financial instruments in the OP Environment for priority axis 2 Flood Protection and priority axis 5 protection and regeneration of Natural Environment and Landscape. When the OP was amended, this sum was withdrawn and the current draft of the OP does not include funding for innovative financial instruments. The funds were reallocated within the proposed OP and EUR 180 million is listed in priority axis 3 Air Protection and Minimisation of Adverse Effects of Climate Change. It has been proposed that innovative financial instruments could be supported using this money. The reason is the method through which the funds will be used – <u>it is important to be aware that innovative financial instruments do not affect the objectives of the OP that should be achieved but offer an alternative means by which the set objectives can be achieved</u>.

Procedure for the implementation of the JEREMIE initiative in Slovakia in the 2007–2013 programming period

Government Resolution No. 785 of 19.9.2007 approved "Draft procedure for the implementation of JEREMIE in Slovakia in the 2007–2013 programming period". In point C.1. of this government resolution, the minister of finance in cooperation with the deputy prime minister for knowledge society, European affairs, human rights and minorities, the deputy prime minister and minister of education, the minister of economy, the minister of construction and regional development and the minister of environment were instructed to develop options for the implementation of the JEREMIE initiative and to submit relevant implementation documents on the JEREMIE initiative by 31.1.2008.
This task was completed in December 2008, when the minister of finance submitted a proposal to the government for implementation through a holding fund based on the options for implementation of the JEREMIE initiative in Slovakia in the 2007–2013 programming period and the draft implementation documents for the JEREMIE initiative (www.vlada.sk).

EU legislation permits the implementation of JEREMIE by three means:

- by means of public procurement to select a manager for the holding fund (fund holder)
- by directly award management of the holding fund to the European Investment Fund as an EU institution or
- by enacting national legislation to establish a national financial institution eligible to draw funds from the EU as the fund holder.

<u>OPTION no. 1</u>

A public procurement procedure pursuant to Act No. 25/2006 Z.z. on public procurement and the amendment of certain acts, as amended (the Public Procurement Act)

This option clearly indicates the need to select a fund holder or intermediary for the specific financial instrument through the procedures set out in the Public Procurement Act. The transparency of this option would mean that the selection of the holding fund would not represent state aid under the European Commission's rules on state aid. In the event of an international tender it is possible to envisage the creation of a consortium of domestic financial intermediaries focussing on the area of guarantee schemes and venture capital in cooperation with a multinational manager (SZRB, NADSME, EIF, Kreditanstalt für Wiederaufbau and the like). It is important that in the event of the selection of a subject as the holding fund, responsibility to the managing authorities for the use of resources from the structural funds in this solution should be transferred to the successful applicant.

OPTION no. 2A

Direct award to the EIF – the holding fund will be an account of the Ministry of Finance in the State Treasury and the EIF will have right of disposal over it.

Option 2A was developed in cooperation with the Office of the Government. The implementation part of the option corresponds to the proposal developed under option 2B. This option differs mainly in the question of the relationship between the top management of the JEREMIE Holding Fund (JHF), i.e. the investment board, and the special purpose vehicle (SPV) and in the mechanism for the initial phase of the flow of money from the managing authorities through the EIF to the JHF.

In the case of option 2A documents and technical requirements for the JHF are provided only where they are not included in option 2B or have different content.

1. Position of the investment board

The investment board will represent a single partner for the EIF in strategic and operation matters in combination with the management of the JHF. The members of the investment board will be representatives of the managing authorities contributing to the JHF.
Preparation will take place in close cooperation with the EIF. In addition to the representatives of the managing authorities, the board will include experts on company management. The EIF may appoint up to two representatives to take part in meetings of the board as observers. The minister of finance shall carry out tasks for the establishment of the investment board in accordance with task C.2. of the draft government resolution, including the appointment of the members of the investment board.
The activity of the investment board shall be governed by its own constitution and rules of procedure, which will be set out in a separate annex.

Decisions of the investment board shall focus mainly on:

- the approval of business plans defining the general strategy and the instruments to be used in the management and implementation of the JHF, and amendments to such plans
- approval of the investment strategy in relation to financial intermediaries proposed by the EIF for the performance of obligations under the agreement,
- half-yearly evaluations of the progress and strategy of the JHF and approval of reports including a detailed breakdown of the activities and performance of the JHF,
- approval and amendments of directives on co-financing from other subjects,
- approval of management costs relating to services and activities carried out for current and expected activities.

Other tasks of the investment board include:
- monitoring the activities of the JHF and evaluating indicators against the business plan and the monitoring programme,
- recommending areas for future development to the EIF,
- preparing documents for the joint monitoring committee for the knowledge economy.

An executive secretariat shall be established to ensure quality in the performance of the tasks of the investment board. Its costs shall paid from the JHF and decided on and approved by the investment board. The seat of the secretariat of the investment board shall be the Ministry of Finance of the Slovak Republic. Such a solution is necessary to ensure synergy with joint monitoring committee for the knowledge economy. The purpose of creating a joint monitoring committee for three operational programmes (OP Competitiveness and Economic Growth, OP Research and Development and OP Informatisation of Society) is to improve coordination in the strategic priority of the NSRF the Knowledge Economy.

The investment board must be defined during the preparatory phase of the setting up of the JHF and for this purpose a preparatory committee must be established to prepare the necessary documents and the technical, organisational and other conditions for the board’s activity. If a mandate is given, the role of the preparatory committee will be performed by the secretariat of the investment board in cooperation with the authorised representatives of the managing authorities contributing to the JHF.

The JHF/SPV shall obliged to carry out decisions of the investment board; the mechanics of relations are elaborated in special regulations.

2. Funding Agreement

A funding agreement shall be concluded between the individual managing authorities and the EIF.
It shall set:
- the definitions and interpretation of terms
- the precise purpose and conditions

- the definition of the JHF,
- the method for the future financing of individual JHF products,
- the status of the investment board,
- the method of financing of the JHF system as a whole,
- a description of the investment strategy and planning,
- conditions for the preparation of the business plan,
- specification of activities and possibilities in relations with co-investors,
- specification of areas of eligible costs and the method for keeping accounts of them,
- specification of monitoring methods,
- procedures for the preparation of activity and audit reports,
- conditions for termination and the exit strategy,
- the date of entry into effect and other general conditions.

An integral part of the financing agreement shall be appendices detailing:

a) the investment strategy and the proposed method of implementation incorporated in the business plan
b) monitoring of implementation in accordance with the conditions in force
c) the method for preparing reports
d) the method for preparing the audit
e) the exit strategy in relation to fund itself and the operational programmes contributing to the fund

3. The conditions and mechanisms of financial flows

Under option 2A the basic accounting location will be at the level of the State Treasury, according to the conditions for the management of accounts in the State Treasury and right of disposal will be assigned to EIF in accordance with the conditions set by the investment board. The client and the owner of the account in the State Treasury will be the Ministry of Finance of the Slovak Republic and the EIF will have right of disposal on the account.
Each intermediary shall report allocations from the JHF in their liabilities as funds entrusted for the administration and management of products in accordance with business plans.

Financial flows shall be governed by the investment plan proposed by the EIF and approved by the investment board, which specifies:

- the structure of portfolio products,
- the system of financial transfers and transactions,
- the timetable for the use of each product in the fund,
- the implementation process for the selection of financial intermediaries,
- costs for implementation.

The option anticipates the direct participation of representatives of the managing authorities, the EIF, the Office of the Government and the Ministry of Finance in the bodies of the

JHF/SPV. Other relations between the JHF, the EIF and the intermediary institutions are the same as in option 2B.

OPTION no. 2B

Direct award for the EIF + the SPV as an independent legal subject owned by a national institution (SZRB a.s.)

In the case of direct award to the EIF, the holding fund will be the EIF and the SPV and the EIF as manager of the holding fund will have right of disposal over funds in the holding fund (the holding fund will be the EIF and a SPV with legal subjectivity – a limited company) defined by a framework agreement between the Slovak Republic and the EIF (an agreement on the delegation of the management of funds from the ERDF intended for the support of SMEs). The framework agreement shall also include an option to terminate it and end the legal relationship. The legal documentation that will govern the relations between the managing authorities, the SPV and the EIF is included in this material. As the manager of the SPV, the EIF would implement financial instruments approved by the managing authorities within the proposed portfolio using existing domestic institutions (e.g. SZRB a.s. and NADSME) with the financial involvement of the private sector. NADSME will provide funds to the holding fund as an investor. In this case the EIF (an EU institution) shall bear main responsibility to the managing authorities as the manager of the holding fund. In accordance with the note of the Commission services on financial engineering in the 2007–2013 programming period of 16 July 2007 the grant from operational programmes to holding funds implies no loss of responsibility by the relevant authorities for the resources of the holding fund and responsibility for the beneficiary as such, which is the holding fund. Such grants to holding funds, have no impact on the definition of the functions and exercise of responsibilities of the managing, certifying and audit authorities concerning investment in financial engineering instruments of contributions from operational programmes to holding funds, and the subsequent investment of such contributions in enterprises, primarily SMEs. In this context attention is drawn to the specific control and audit requirements set out by the Structural Funds regulations, with a view to ensuring the sound use of public funds. Audits will be performed by the audit authority, which carries out and provides for the performance of the tasks set out in article 62 of Regulation No. 1083/2006. The audit authority is a public authority instructed by the Slovak Republic to perform audits of relevant operational programmes in accordance with article 62 of Regulation No. 1083/2006. In the case of grant beneficiary, the managing authority bears responsibility for monitoring, evaluation and the submission of reports, in the case of a holding fund the manager of the holding fund is responsible to the managing authority for monitoring, evaluation and the submission of reports.

OPTION no. 3

A national financial institution established by law.

Award to a national financial institution, which should be pursuant to a law on the implementation of the JEREMIE initiative. Such an act would have to be compatible with the Treaty establishing the European Union. If this option is chosen it will be necessary to prepare and pass an act specifying procedures for the implementation of the JEREMIE initiative and designating the financial institution to carry out implementation e.g. an “Act on JEREMIE”. In the note of the Commission services on financial engineering in the 2007–2013 programming period of 16 July 2007, the Commission recommends that national authorities use such an act to designate a national financial institution to manage financial engineering which has sufficient experience and competence for the task both in relation to the market (experience of implementing financial engineering instruments) and in relation to the EU (submitting reports, monitoring and evaluation etc.). In addition to designating the competent financial institution the act must set out the public policy objectives <u>justifying the direct selection</u> and the award of the grant to the given institution. It must also justify the existence within the institution of the expertise necessary for the successful accomplishment of the holding fund tasks. Previous experience shows, however, that while Slovakia has institutions such as SZRB a.s., EXIMBANKA SR and NADSME which work with financial engineering instruments, none of these national institutions could implement financial engineering instruments in the full cycle of implementation to the final balancing with the European Commission budget and the audit of the final results. This shows that Slovakia cannot presently state that it has an institution to which it could award implementation of the JEREMIE initiative while complying with the above requirements. Regardless of the success of implementation, a Commission audit could challenge the legislation itself, which cannot, in view of the current situation in Slovakia, directly award implementation to a specific institution and could thus call into question the use of funds through such an institution. Such a Commission audit could take place as part of ongoing evaluation or ex post. The result of using this procedure could be that during implementation or until 2015 the competent Commission authorities could express doubts about the eligibility of the procedure established by national legislation (“the Act on JEREMIE”) and the risk that the use of funds could be declared illegitimate and that funds would have to be repaid to the European Commission is currently highly significant. <u>The national financial institution would bear responsibility to the managing authorities for implementation.</u>

The stated material was approved by Government Resolution No. 951 of 17.12.2008. At the same time the government adopted option 2B for the implementation of the JEREMIE initiative

5. REASONS FOR THE USE OF THE JEREMIE INITIATIVE IN THE OPERATIONAL PROGRAMME ENVIRONMENT

Under Government Resolution No. 752 of 21 October 2009 on the proposal to reallocate funds from the Operational Programme Informatisation of Society to the Operational Programme Competitiveness and Economic Growth and changes to the Operational Programme Environment for the implementation of the JEREMIE initiative and the draft Amendment No. 1 to the Framework Agreement on the Implementation of the JEREMIE Initiative in Slovakia concluded between the Slovak Republic and the European Investment Fund, the minister of environment was instructed to perform the following tasks:

- to prepare a proposal for the amendment of the Operational Programme Environment regarding the assignment of the allocation for the implementation of the JEREMIE initiative and to submit it for approval by the Monitoring Committee for the Operational Programme Environment *by 5 December 2009*
- to submit the proposal for the amendment of the Operational Programme Environment to the European Commission for approval *no later than 10 days after approval by the Monitoring Committee for the Operational Programme Environment*
- to sign a financing agreement with the European Investment Fund and provide for its performance *no later than 10 days from the signing of Amendment No. 1 to the Framework Agreement on the Implementation of the JEREMIE initiative in Slovakia by the Slovak Republic and the European Investment Fund*
- in cooperation with the minister of finance, to assign EUR 27 million from funds of the European Regional Development Fund and EUR 4 764 706 from funds of the state budget for co-financing to the European Regional Development Fund to innovative financial instruments for the 2007–2013 programming period within the area of the Operational Programme Environment.

The changes to the Operational Programme Environment relating to the implementation of the JEREMIE initiative are the direct result of the government resolution referred to above. The allocation of sums from OP ENV through the JEREMIE financial instrument must respect article 44 of the general regulation, under which expenditure may be financed in respect of an operation comprising contributions to support financial engineering instruments only from the structural funds. In the case of the OP Environment, the JEREMIE financial instrument can only be used in priority axes financed from the European Regional Development Fund, specifically in Priority axis 3 Air Protection and Minimisation of Adverse Effects of Climate Change, where support will also be provided for small and medium enterprises Priority axis 5 of OP ENV, Protection and Regeneration of Natural Environment and Landscape, is also financed from the ERDF but the character of the eligible activities mean that small and medium enterprises cannot be eligible beneficiaries and so use of the JEREMIE initiative cannot be considered. Government Resolution No. 752/2009 also laid down the financial amount that must be assigned from OP ENV for the implementation of the

JEREMIE initiative, which is why the proposed change to OP ENV is presented in only one variant.

Besides the government resolution, there are a number of benefits from implementing the JEREMIE financial instrument in the use of funds under the Operational Programme Environment.

Main benefits and reasons for assigning funds from OP ENV to small and medium enterprises:

- entrepreneurs can obtain support in JEREMIE even when they do not have any resources of their own
- through JEREMIE entrepreneurs can obtain financing immediately
- unlike grant assistance the JERMIE financial instrument is a revolving instrument, which means that it is possible to support an unlimited number of small and medium enterprises even after 2015
- JEREMIE activities do not deform the natural market environment
- Since financing provided from JEREMIE is reimbursable, it creates pressure for financial discipline and responsibility.

6. LIST OF AIR PROTECTION PROJECTS SUPPORTED IN THE 2004–2006 PROGRAMMING PERIOD IN OP BI IN TERMS OF ASSISTANCE TO THE SME SECTOR AS A PROPORTION OF OVERALL ASSISTANCE PROVIDED

In the Operational Programme Basic Infrastructure (OP BI), air protection was supported through measure 2.2 Improvement and development of infrastructure for air protection. The measure was designed to achieve compliance with the following EU directives: Council Directive 2001/80/ES on the limitation of emissions of certain pollutants into the air from large combustion plants directives 96/62/EC, 99/30/EC, 2000/69/EC and 92/72/EEC on air quality. The measure was intended to contribute to reduction of air pollution, in particular by solid pollutants and sulphur dioxide, as well as to the reduction of greenhouse gas emissions. The measure was also designed to improve the air quality in population centres by introducing technology to reduce air pollution, as well as by introducing low-emission technology in various areas of production.

The measure was implemented mainly through the following activities:

- changing the fuel base of energy resources, with an emphasis on low-emission and renewable resources;
- installation of technology to reduce the release of air emissions, including monitoring;

The objective of OP BI in the area of air protection was:

Reduction in emissions of primary air pollutants (SO_2, NO_x, CO, C_xH_y, solid emissions) and heavy metals, achievement of the Kyoto Protocol targets for reductions in greenhouse gas emissions, use of environmentally-friendly fuels and energy sources and support for greater use of renewable energy sources and efficient use non-renewable energy sources.

Medium-term objectives (2003–2007):

- to achieve a trend in greenhouse gas emissions by 2005 that will demonstrably lead to achievement of undertakings under the Kyoto Protocol;
- to complete the national emission inventory system (NEIS) to a level in accordance with the requirements of article 5 of the protocol and decision 1999/296 (Council Decision 1999/296/EC of 26 April 1999 amending Decision 93/389/EEC for a monitoring mechanism of Community CO2 and other greenhouse gas emissions) by 2004.

Long-term objectives (2008–2020):

- to reduce the contribution of Slovakia to climate change by reducing emissions of greenhouse gases in the period 2008–2012 in accordance with undertakings under the Kyoto Protocol: reductions in emissions of greenhouse gases in the period 2008–2012 by 8% in comparison with 1990. In absolute terms this means that aggregate emissions of greenhouse gases in Slovakia may not exceed 333.6 million tonnes in the five-year period 2008–2012;
- to create initial conditions for the expected second commitment period: achieving a further 5% reduction compared to the target for the Kyoto Protocol for the second target period (article 3(13) of the protocol).
- to achieve control over trends in the emission of greenhouse gases so that the trend towards growth is reduced and stabilised in the period after 2015. To develop suitably in advance a strategy for achieving a reduction in GHG emissions.

The main measurable indicators in OP BI were:

- reductions in emissions of pollutants and greenhouse gases
- reduction in per capita emissions
- achieving a set percentage degree for use of renewable energy sources,

The end beneficiaries of OP BI were:

- regional self-government authorities
- local self-government authorities
- the state administration
- business entities

In the case of business entities eligible to receive assistance under OP BI, assistance was provided to small and medium enterprises and to large enterprises through state aid schemes.

EUR 1 490 045 653.67 was paid out in grants to 35 projects approved and implemented under measure 2.2 of OP BI in the 2004–2006 programming period. SMEs were the beneficiaries of assistance in nine projects under measure 2.2. of OP BI with a total volume of grants amounting to EUR 232 833 402.73. The proportion of projects where SMEs were the beneficiary to the total number of grants provided was fifteen percent. The low proportion of SME projects to the total number of projects supported may be due to a number of factors. One of the main factors is the limited access that SMEs have to the financing necessary to co-finance projects. Another limitation affecting SMEs in the implementation of projects under the OP BI came from the demanding requirements for the preparation of projects and the excessively limiting contractual conditions that did not take into consideration the dynamic nature of the business environment. The maximum grant for projects in the public sector under OP BI was 95% of total eligible project costs. In comparison, the maximum grant for private sector projects was 65% of total eligible costs in the case of SMEs. These factors caused there to be many more public sector projects than private sector projects.

The advantage of supporting private sector (SME) projects compared to public sector projects is the potential for supporting a greater number of projects, which results from the lower percentage of financing from the ERDF and the state budget. Other benefits of support for SMEs is increased efficiency in the functioning of projects and the stronger potential for innovation of SMEs.

The stated factors show that the Operational Programme Basic Infrastructure failed to provide significant support for the SME sector.

7. IDENTIFICATION OF ACTIVITIES SUITABLE FOR USE IN JEREMIE, EVALUATION OF PROJECTS AND THE EFFECTS OF THE IMPLEMENTATION OF THE JEREMIE INITIATIVE ON THE ACHIEVEMENT OF THE OBJECTIVES FOR PRIORITY AXIS 3

The Operational Programme Environment supports air protection through priority axis 3 Air Protection and Minimisation of Adverse Effects of Climate Change.

The specific objective of priority axis 3 is to reduce emissions of basic and other pollutants, to minimise the adverse effects of climate change, including support for renewable energy sources in line with EU and Slovak legislation.

Operational objectives:

3.1 Air protection

This objective is primarily motivated by the need to achieve good air quality in the territory of Slovakia where specific pollutants do not exceed set limits. Another reason for it is the need to achieve the objectives of the Thematic Strategy on Air Pollution and requirements to comply with national emission limits set in line with EU legislation and international conventions.

The objectives of the Thematic Strategy on Air Pollution will be implemented through the transposition and implementation of EU regulations, achievement of the set technical conditions for the operation of sources of air pollution that limit the quantity of pollutants emitted. It is clear that in order to implement the said thematic strategy it will be necessary to further reduce to the concentration of pollutants in the air and the resulting health risks by measures exceeding the framework of current EU legislation.

EU legislation divides the issue of air protection into two parts – **air quality** and **emissions**. The same division is also used in the definition of the type of activities supported under this operational objective.

Air quality is defined as the concentration of certain substances in the air (in particular particulate matter PM_{10}, $PM_{2.5}$, NO_x, ozone, SO_2 and polycyclic aromatic hydrocarbons – PAHs). Achieving good **air quality** throughout Slovakia for all pollutants that have set limits or target values is one of the key, strategic tasks in air protection not only in Slovakia but in Europe as a whole.

The main air quality problems in Slovakia are excessive levels or levels at risk of becoming excessive of monitored pollutants (in particular particulate matter, PM_{10}, $PM_{2.5}$, NO_x, ozone, SO_2 and PAHs), levels of sulphur and nitrogen compounds exceeding critical load (high deposition) and levels of ozone exceeding critical levels. Solving this problem requires significant reductions in emissions of PM_{10}, $PM_{2.5}$, SO_2, NO_x, benzene, VOC – ozone precursors, NH_3, heavy metals and PAHs. Air quality is a complex problem. In order to achieve satisfactory or improved air quality it is necessary to address both stationary sources of air pollution (individual installations) but also mobile sources (forms of transport) and surface sources (busy roads, open spaces without vegetation in urban areas).

Emissions of pollutants from pollution sources are regulated by law. Compliance with these limits is essential for achieving better air quality. Replacement of obsolete technologies by the best available technologies, achievement of stricter requirements for the operation of sources and the installation of continuous monitoring of emissions are among the measures that need to be implemented in this area without delay.

The operational objective will be achieved through support for activities in the following areas:

- reductions in emissions of basic and other pollutants into the air, in particular particulate matter (PM_{10}, $PM_{2.5}$), SO_2, NO_x, benzene, VOC, NH_3, heavy metals and PAHs
- reduction in emissions from public transport, especially in areas requiring special air protection
- Solution for air quality and improvements and expert support for monitoring of emissions and air quality in line with EU requirements and improvement in the National Emission Information System (NEIS)

The main supported activities to ***reduce emissions of basic and other pollutants into the air*** will relate to projects in polluting establishments intended to progressively reduce emissions of pollutants into the air and thereby contribute to reductions in their concentrations in the air. This will help to bring levels of pollutants in the air within their limits that are current exceeded in order to comply with the requirements of the Thematic Strategy on Air Pollution. An example of this type of measure would be work on sources of air pollution (public and private) to prevent or reduce emissions into the air (e.g. substitution of raw materials containing or causing emission of fewer pollutants, change of the principle of the technology of production that leads to lower emissions, installation of more effective separators of particulate matter, desulphurisation equipment or equipment for removing NO_x from emissions in line with directives). In this case, support will focus on sources emitting pollutants of a kind whose limit is exceed in the given air quality management area. The effect that the given source of pollution has on air quality in the relevant area, i.e. the volume of emissions produced, will also be taken into consideration.

Support will also be provided for the implementation of activities for the management of air quality based on programmes for the improvement of air quality or action plans for reducing emissions developed by regional environment offices.

Support for the private sector will be provided in accordance with rules on state aid relating to the environment for projects providing reductions in emissions beyond the requirements of EU directives which are nevertheless necessary to achieve satisfactory air quality in a given area. Support will focus on achieving significantly lower emission levels in comparison with standard technologies in existing sources of air pollution; reducing emissions of VOC in installations subject to Directive 99/13/EC beyond the framework of the directive’s requirements (e.g. installation of catalytic or thermo-oxidation units, changeover to non-formaldehyde technology for low-temperature sterilisation etc.); limitation of the use of organic solvents in installations falling under Directive 2004/42/EC beyond the framework of the directive (e.g. implementation of production and use of water-soluble paints, varnishes and glues in production processes); the implementation of measures in existing facilities for the incineration of hazardous hospital waste exceeding the requirements of Directive 2000/76/EC (i.e. projects to reduce emissions significantly below the emission limits in force, implementation of continuous monitoring of emissions or its improvement etc.).

Priority shall be given to activities to reduce emissions of pollutants in public transport implemented in areas requiring special air protection, especially areas strongly affected by transport pollution. The reason for supporting these activities is that high levels of dust, NO_x and VOC are emitted by transport, i.e. mobile sources of pollution. Main areas of support will be adapting public buses (local and long-distance) to use gas and building CNG petrol stations; the replacement of public buses with trolleybuses or electric transport.

Support will also be provided to activities focussing on solutions for air quality and improvements and expert support for monitoring of emissions and air quality in line with EU requirements and improvement in the National Emission Information System (NEIS)

3.2 Minimisation of adverse effects of climate change including support for renewable energy sources

One of the reasons to include this operational objective in this priority axis is the need to meet requirements laid down in Slovakia’s ratified international obligations to reduce emissions of greenhouse gases. Another reason is activities (inventory and forecasting of greenhouse gas emissions) associated with the transposition and implementation of Directive 2004/101/EC amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol's project mechanisms.

In view of Slovakia's obligations to reduce emissions of greenhouse gases and also to improve air quality, support is provided under this operational objective for activities to reduce emissions of greenhouse gases and at the same time to reduce emissions of basic and other pollutants into the air, in particular particulate matter (PM_{10}, $PM_{2.5}$), SO_2, NO_x, benzene, VOC, NH_3, heavy metals and PAHs.

As one of the biggest sources of greenhouse gas emissions is the combustion of fossil fuels, an efficient means of reducing greenhouse gas emissions is to use renewable energy sources. In view of the fact that it reduces greenhouse gas emissions at the same time as reducing emissions of basic pollutants, support for such activities is one of the priorities in relation to the environment. Their implementation will make a better and more effective contribution to a positive impact on the environment. Because sources for heat generation (combustion processes in heating plants) including small sources (households) contribute significantly to the production of greenhouse gas emissions due to their extent and distribution, it is in the interest of the protection of air quality and preventing adverse effects of climate change to focus on the area of heat production.

The operational objective will be achieved through support for activities in the following areas:

- reductions in greenhouse gas emission combined with reductions in emissions of basic pollutants in the area of heat generation, including conversion of energy sources to use renewable energy sources.

- improvements in the quality of monitoring, inventory and forecasting of greenhouse gas emissions; studies of the impact of climate change on different parts of the environment, including analysis of economic costs; increasing public awareness and the level of knowledge of climate change, analysis of instruments to support horizontal cooperation on climate change and the promotion of resulting activities

The main activities supported in the area of ***reductions in greenhouse gas emission combined with reductions in emissions of basic pollutants in the area of heat generation*** are projects to convert energy sources to use fuels with lower carbon content or fuels from renewable sources (biomass, solar energy, geothermal energy) which reduce emissions of greenhouse gases and emissions of basic pollutants in heat production, including combination with cogeneration (projects may include measures to reduce the energy loss of buildings and projects to reduce emissions of basic pollutants from heating plants may include the construction or reconstruction of primary heat distribution systems for the central supply of heating if the heating plant and the distribution network are owned by one applicant).

Projects to install heat pumps to replace the production of heat and hot water from non-renewable sources will also be supported.

8. IDENTIFICATION OF ACTIVITIES IN PRIORITY AXIS 3 SUITABLE FOR USE IN JEREMIE

The Programme Manual of the Operational Programme Environment defines small and medium enterprises as eligible beneficiaries for the following activities under priority axis 3:

In the area of air protection

Group I: reductions in emissions of basic and other pollutants into the air, in particular particulate matter (PM_{10}, $PM_{2.5}$), SO_2, NO_x, benzene, VOC, NH_3, heavy metals and PAHs

- projects aimed at reducing emissions of pollutants into the air from stationary sources of pollution through the adoption of BATs (best available techniques) (not final technologies) which satisfy the stricter requirements of new EU regulations (e.g. conversion of installations to use more environmentally friendly fuel *(not a renewable energy source)*, conversion of plants to use fuel with lower pollutant content or fuel that produces less emissions, changes in the principle of production technology that results in lower emissions);
- projects for the application of progressive technologies and technical measures to reduce emissions of volatile organic compounds from pollution sources;

- measures of a technical character to reduce VOC contents in regulated products in line with Directive 2004/42/EC on the limitation of emissions of volatile organic compounds due to the use of organic solvents in certain paints and varnishes and vehicle refinishing products and amending Directive 1999/13/EC (e.g. changing over to the production of paints and varnishes containing fewer VOCs)

- technological measures supporting reductions in emissions of VOCs in installations falling under Directive 99/13/EC (in accordance with the definitions given in Annex No. 1 of the directive), e.g.:
    - changeover to the use of water-based paints, varnishes and glues in the production process and other measures satisfying the definition of an initial investment;

- BATs specified in an integrated permit for thermal power plants with nominal heat input from 20 MW to 50 MW for the purposes of compliance with Directive 96/61/EC concerning integrated pollution prevention and control and satisfying the definition of an initial investment.

In the area of the minimisation of adverse effects of climate change including support for renewable energy sources

Group I: Reductions in greenhouse gas emission combined with reductions in emissions of basic pollutants in the area of heat generation, including conversion of energy sources to use renewable energy sources.

The only projects suitable for support are projects of existing energy businesses whose main production programme is the production of heat and hot water for the purpose of reducing greenhouse gas emissions and emissions of basic pollutants as follows:

- project to convert installations to use renewable sources of energy (biomass including biogas, solar energy, geothermal energy) in the production of heat and warm service water in combination with cogeneration or without it;

- construction or modernisation of primary and remote distribution systems for central heat supply systems (i.e. improvements in the insulation of distribution pipes and reduced leakage of the heat-bearing medium including the modification of heat-exchanger stations) only as part of a project to convert fuel use (possibly in combination with cogeneration) subject to the condition that the heating plant and the distribution system are owned by the same subject, which is the applicant.

Based on the Programme Manual for OP ENV, all the above activities can be considered suitable for support using the JEREMIE financial instrument. Because JEREMIE has not yet been used to provide support to small and medium enterprises engaged in business activities that affect the air as such, the absence of experience means that it is not possible to define clearly which activities are most suitable for implementation.

A number of calls for grant applications have already been issued in priority axis 3 in the 2007–2013 programming period. 31 grant applications responding to these calls received support but only one of the beneficiaries was a small enterprise, which received a grant of EUR 3 647 618.71, which is 5.15% of the total amount for all approved projects. The total income of the project during the period covered by the financial analysis, i.e. the useful life of the project, is on the level of EUR 1 810 864.14. This indicates that small and medium enterprises have not yet shown enormous interest in grants. This is due mainly to the high administrative demands of satisfying the conditions for receiving assistance from the European Community through OP ENV and the long application process for the calls. It suggests that SMEs will be more interested in assistance provided through JEREMIE.

9. EFFECTS OF THE JEREMIE INITIATIVE ON THE ACHIEVEMENT OF THE OBJECTIVES OF PRIORITY AXIS 3

The use of innovative forms of financing in the structural funds is a promising means of accelerating the achievement of the objectives of priority axis 3 of OP ENV. The following forms of indirect state aid can be used in a JEREMIE initiative:

- guarantee schemes for loans to SMEs,
- schemes to support start-up businesses,
- advantageous loans,
- technical assistance in the development of PPP projects.

The JEREMIE initiative in no way calls into question the objectives that OP ENV seeks to achieve. Rather, it provides another way to achieve the set objectives.

One of the main functions of the JEREMIE initiative is to fill a gap in the availability of capital for small and medium enterprises resulting from market failure.

The advantage of the JEREMIE initiative is flexibility in the use of the financial resources in the holding fund. In practice this means that the holding fund can react flexibly to economic trends and support projects in areas of the economy where there is currently greatest need. Where necessary, the Holding Fund can support achievement of the objectives of priority axis 3 of OP ENV with a higher sum than the amount reallocated to the Holding Fund under the priority axis At this point it must be noted, however, that if the funds in the Holding Fund are used to support the objectives of other operational programmes, this will mean a smaller number of projects for the objectives of priority axis 3 of OP ENV receiving support.

An indubitable advantage of the JEREMIE initiative in comparison with a direct form of assistance provided through a state aid scheme is the fact that the assistance provided is reimbursable, which means that in one time period more projects for the objectives of the given priority axis can be supported.

Portfolio guarantee schemes for SMEs are expected to have an impact on the market that is up to 10–15 times greater than the size of the guarantee fund. The use of innovative financial instruments can be much more effective than the direct provision of resources for limited periods in limited volumes.

This shows that implementation of the JEREMIE initiative should have a strongly favourable effect on the achievement of the objectives of priority axis 3 of OP ENV.

10. EVALUATION OF THE IMPACT OF IMPLEMENTATION OF THE JEREMIE INITIATIVE ON THE ACHIEVEMENT OF THE INDICATORS FOR PRIORITY AXIS 3

The programme manual of the Operational Programme Environment defines the following indicators for priority axis 3:

Indicators at the level of operational objective 3.1

	Name of indicator	Definition	Information source	Unit of measure ment	Initial value in 2006	Target value in 2015
	Reduction in emissions of pollutants converted to reference tonnes of SO_2 (total for all supported projects)	Percentage reduction in emissions of pollutants converted to reference tonnes of SO_2	Ministry of Environment (MEnv)	%	45	30

Result indicators	Reduction in emissions of volatile organic compounds (total for all supported projects)	Percentage reduction in emissions of volatile organic compounds	MEnv and Slovak Hydro-meteorological Institute (SHMU)	%	0	20
	Reduction in emissions of particulate matter PM_{10} expressed in mass (g) per 100 km	Percentage reduction in mass equivalent of emissions per 100 km	MEnv	%	0	30
Output indicators	Number of supported activities promoting reduction in air pollution and the number of supported studies and analyses	Number of supported activities, studies and analyses	MEnv	number	32	62
	Number of projects intended to reduce emissions from public transport in areas requiring special air protection	Number of projects intended to reduce emissions from public transport in areas requiring special air protection	MEnv	number	0	8
	Number of modernised and new monitoring stations in the National Air Quality Monitoring Network	Number of modernised and new monitoring stations in the National Air Quality Monitoring Network	MEnv	number	0	25

Indicators at the level of operational objective 3.2

	Name of indicator	Definition	Information source	Unit of measure ment	Initial value in 2006	Target value in 2015
Result indicators	Reduction in emissions of greenhouse gases	Percentage reduction in emissions of greenhouse gases	MEnv	%	13	15
	Reduction in emissions of greenhouse gases converted to CO_2	Quantity of emissions of greenhouse gases converted to CO_2 equivalent	MEnv	thousand tonnes	124	234
	Increase in the proportion of energy from renewable sources	Percentage increase in the proportion of energy from	MEnv	%	0	10

	at the level of supported projects	renewable sources at the level of supported projects				
	Increase in energy efficiency at the level of supported projects	Percentage increase in energy efficiency at the level of supported projects	MEnv	%	0	15
Output indicators	Number of activities intended to reduce emissions of greenhouse gases or to convert installations to use renewable energy sources to produce heat and hot water and the number of supported studies and programmes	Number of activities intended to reduce emissions of greenhouse gases or to convert installations to use renewable energy sources to produce heat and hot water and the number of supported studies and programmes	MEnv	number	20	35

Implementation of the JEREMIE initiative should not automatically have a negative impact on the indicators for priority axis 3. The reallocation of funding to the JEREMIE initiative should contribute to the achievement of the indicators for priority axis 3 because it is reimbursable assistance, which means that it can be used to support a larger number of projects than direct assistance.

The largest risk resulting from the implementation of the JEREMIE initiative is the lack of experience in the use of financial engineering instruments in environment projects in the previous programming period. This means that it is not possible to estimate the level of small and medium enterprises' interest in using a reimbursable form of financing through the JEREMIE initiative. If interest is low, there is a degree of risk in changes to OP ENV designed to create conditions for the implementation of the JEREMIE initiative, which may lead to problems with achieving the indicators set for priority axis 3. This risk must be addressed in the contractual relationship with the EIF.

11. PROPOSED CHANGES TO OPE AND THE OP ENV PROGRAMME MANUAL RELATING TO THE IMPLEMENTATION OF THE JEREMIE INITIATIVE

The character of the changes to OP ENV resulting from implementation of the JEREMIE initiative does not affect the structure of the priority axes or the activities contained within them, the objectives or the indicators for OP ENV.

The changes involve the insertion of basic information on the JEREMIE initiative into the text part of OP ENV, Chapter 7.3.2 Synergy, complementarity with the other financing instruments of EC and amendment of relevant tables, where a new category will be added for the form of financing under code 04 Other Forms of Financing, with an indicative amount of funding from the European Regional Development Fund amounting to EUR 27 000 000 (in current prices). The change to the tables in OP ENV is based directly on Government Resolution No. 752 of 21 October 2009 which gave a direct instruction to assign EUR 27 000 000 from the European Regional Development Fund (ERDF) and EUR 4 764 706 from state budgetary co-financing to innovative financial instruments for the 2007–2013 programming period.

The change to the OP ENV is intended to make it possible to implement the JEREMIE initiative in accordance with Government Resolution No. 752/2009.

The changes to OP ENV relating to the implementation of the JEREMIE initiative are based mainly on the material on the proposal to reallocate funds from the Operational Programme Informatisation of Society to the Operational Programme Competitiveness and Economic Growth and changes to the Operational Programme Environment for the implementation of the JEREMIE initiative and the draft Amendment No. 1 to the Framework Agreement on the Implementation of the JEREMIE Initiative in Slovakia concluded between the Slovak Republic and the European Investment Fund, approved by Government Resolution No. 752/2009. From a financial point of view, the inputs are funds from the European Regional Development Fund (ERDF) and national co-financing from the state budget allocated to priority axis 3 of OP ENV, Air Protection and Minimisation of Adverse Effects of Climate Change with a total value of EUR 180 000 000 for the ERDF and EUR 31 764 706 from the state budget, from which EUR 27 000 000 from the ERDF and EUR 4 764 706 from the state budget will be used to provide reimbursable forms of assistance to small and medium enterprises in the 2007–2013 programming period as implementation of the JEREMIE initiative.

The following changes to OP ENV are necessary for the implementation of the JEREMIE initiative:

- *addition to the text part of OP ENV, Chapter 7.3.2 Synergy, complementarity with the other financing instruments of EC*, at the end of which, a reference to the use of the JEREMIE initiative in OP ENV shall be inserted.

OP ENV shall make use of the possibility established by article 44 of the general regulation for operational programmes to use structural funds (in the case of OP ENV the European Regional Development Fund) to finance expenditure for an operation that includes contributions to support financial engineering instruments, in particular for SMEs. In line with this legislative framework and materials drafted by the Ministry of Finance of the Slovak Republic, including the draft procedure for the implementation of the JEREMIE initiative in the Slovak Republic in the 2007–2013 programming period approved by Government Resolution No. 785 of 19 September 2007 and the proposal for the selection of an option for the implementation of the holding fund based on options for the implementation of the JEREMIE initiative in the Slovak Republic in the 2007–2013 programming period and the draft implementation documents for the JEREMIE initiative approved by Government Resolution No. 951 of 17 December 2008 and based on the proposal to reallocate funds from the Operational Programme Informatisation of Society to the Operational Programme Competitiveness and Economic Growth and changes to the Operational Programme

Environment for the implementation of the JEREMIE initiative and the draft Amendment No. 1 to the Framework Agreement on the Implementation of the JEREMIE Initiative in Slovakia concluded between the Slovak Republic and the European Investment Fund, approved by Government Resolution No. 752 of 21 October 2009, the JEREMIE financial engineering instrument will be implemented in the OP ENV.

- *The following changes shall be made to the tables in OP ENV*

- *in chapter 5.3 Priority axis 3 Air Protection and Minimisation of Adverse Effects of Climate Change*, in the table entitled Categorisation of the fields of intervention 2007 – 2013 – for priority axis 3 in the row "Form of finance" code 04 (indicating other forms of financing – in this case reimbursable financing through the JEREMIE initiative). Other data in the table shall not be changed;

- *in Chapter 8.3 Distribution of the Funds Contribution into Aid Categories at the OPE Level* in table 8.4 Indicative distribution of the Funds contribution into categories (following EC implementation regulation, Annex II) of the "Form of finance contribution" dimension, a new row shall be added with the code category 04, form of financing – Other forms of financing and the indicative amount of resources (EUR in current prices) within the category EUR 27 000 000. A corresponding reduction shall also be made in the indicative amount of resources (EUR in current prices) in category 01 – Non-repayable aid, making it EUR 1 773 000. The total amount of resources allocated within OP ENV shall remain unchanged at EUR 1 800 000 000.

12. CONCLUSION

The allocation of funds to the JEREMIE initiative will not have a negative effect on the objectives and indicators for priority axis 3 of the Operational Programme Environment. The JEREMIE initiative is a suitable instrument for balancing shortfalls in the availability of credit for financing the environmental projects of SMEs.

Provided that an appropriate design is chosen for its investment strategy, the JEREMIE initiative has the potential to be an effective instrument for achieving the objectives of priority axis 3 of the Operational Programme Environment, especially through use of the potential of small and medium enterprises. In combination with direct form of assistance (i.e. non-repayable aid) it can contribute to the faster fulfilment of Slovakia's obligations as a member of the European Union. The primary motivation for small and medium enterprises to implement environmental projects through the JEREMIE initiative (despite the fact that such projects are usually not profitable) is reduction in the cost of energy in their business activity and compliance with emission limits established by international conventions. The main advantage of the JEREMIE initiative for the achievement of the objectives and indicators in priority axis 3 of the Operational Programme Environment is the potential to support a larger number of environmental projects compared than is possible with direct forms of assistance.