



DEPARTMENT OF FINANCE & PERSONNEL

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16 February 1996

Dear *Jure*

**EU SPECIAL SUPPORT PROGRAMME FOR PEACE AND RECONCILIATION:
STATE AIDS**

I enclose a copy of a letter from the Department of Economic Development (DED) concerning the formal notification under the State Aids legislation of the Interest Relief Subsidy Scheme proposed under the Special Support Programme for Peace and Reconciliation. I would be grateful if you could lodge it formally with the European Commission on our behalf.

I understand that **Robin McMinnis** of DED has already been in contact with your colleague Anthony Murphy about the Scheme.

I am copying this letter to Robin Blake (DTI) and to Esben Poulsen (DGXVI).

Yours sincerely

LINDA WILSON (MISS)

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STATE AIDS NOTIFICATION

Under Measure 1 of Sub-Programme 5 (Productive Investment and Industrial Development) of the Special Support Programme for Peace and Reconciliation in Northern Ireland and the Border Counties of Ireland, approved by the European Commission in July 1995, the Commission and the European Investment Bank propose to introduce an interest relief subsidy scheme for new investment and related services and tourism projects within the areas eligible under the Programme.

The proposed scheme is outlined in the attached document and envisages the provision of an interest relief subsidy at 4% for a maximum of 5 years on approved loans for small and medium-sized enterprises. Under the terms of the Special Support Programme the United Kingdom is committed to making the necessary matching funding available (25%). It is estimated that the United Kingdom contribution to the scheme is unlikely to exceed £6 million in total; this will be dispersed over a considerable number of SMEs rather than be directed to a particular industry or project.

1. Objective:

The aim is to create a positive investment climate which will contribute to economic development growth and employment, especially in the most deprived areas and thereby facilitate reconciliation within Northern Ireland.



2. Member State:

United Kingdom

3. Structural Fund involved:

European Regional Development Fund

4. Region:

Northern Ireland

5. Title of Sub-Programme:

Productive Investment and Industrial Development

6. Title of Measure:

Investment Promotion

7. Title of Sub-Measure:

Not applicable

8. Name of the aid to be co-financed:

Interest Relief Subsidy Scheme

9. This aid falls within the provisions of Article 92-94 of the EEC Treaty and appears to the UK authorities to require formal notification.



The proposed scheme has been developed in consultation with DG XVI of the European Commission which has indicated its support for the Measure.

R. McManis

Department of Economic Development
Northern Ireland

14 February 1996



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(FIFTH VERSION)

Luxembourg, 15 November 1995
PM2/RP/AV/TB/amb

COMMUNITY INITIATIVE FOR PEACE AND RECONCILIATION IN NORTHERN IRELAND AND THE SIX BORDER COUNTIES

Outline of proposed Interest Subsidy Scheme¹

1. **CONCEPT:**
 - A scheme with comprehensive cross community and geographic coverage; to encourage a wide range of productive investment in industry and related services and tourism, in large and small urban centres and rural areas throughout Northern Ireland and the six border counties; with early launch, immediate impact and a limited period of availability in order to accelerate and stimulate investment activity.
 - The aim is to create a positive investment climate and mentality throughout the area, which will contribute to economic development, growth and employment (especially in the most deprived areas) and thereby facilitate reconciliation.
2. **AVAILABILITY PERIOD:** The scheme will be available for loans approved up to 31.12.98, a period which is sufficiently limited to stimulate early investment, but long enough to give project promoters time to prepare proper plans for projects.
3. **LEVEL AND DURATION OF SUBSIDY:**
 - The scheme should give sufficient incentive to make a difference, particularly to influence promoters to bring forward investment projects.
 - The level and duration should be enough to make a significant reduction in real interest rates, and therefore in financial charges, during the construction and early operating years of the investment projects.

¹ This note has been prepared by EIB to define the measure for "Interest Subsidies through EIB" under the priority "Productive Investment and Income Development". This revision includes modifications after further consultations with banks, the Commission and the National Authorities. Some aspects of the proposed scheme are still to be agreed between the responsible authorities.

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4. **BENEFIT OF SUBSIDY:** - The full benefit of the subsidy is to be passed to the borrower in the form of a reduction in financial charges. The EIB will provide funds to participating banks at standard EIB lending rates. The banks will lend the funds to promoters of approved projects applying an appropriate risk margin at the lending bank's discretion, and are required to show in detail the basis of the interest rate charged, the margin and the reduction for the subsidy. Participating banks are required to certify when submitting applications that their normal terms and conditions (including the interest rate basis) have been applied to the loans.

Project promoters may seek offers from and negotiate with a number of intermediary banks.

- In paying out the subsidy half-yearly to promoters, it is proposed to pay the bank intermediaries half-yearly the actual amount of subsidy required to reduce their interest charges on the qualifying loans over the relevant half-yearly period, thereby maintaining transparency and visibility for the subsidy.

5. **FIELD / CRITERIA / PRIORITIES:**

- Loans of up to 50% of project cost for projects in industry, related services and tourism, costing from ECU 40 000 to 12 000 000 (which may include additional working capital investment in stocks directly related to the project).
- New investment; expansion or development; rehabilitation / modernisation projects only - no refinancing of existing debt for investments already made prior to the start date.
- However, in order to discourage over-concentration of funds on larger projects, upper limits are set on the subsidised element of the qualifying loan finance for each project at:
- 1m in the Border Counties.
- In Northern Ireland priority will be given to projects which (a) benefit deprived areas
- In the Border counties priority will be given to projects involving (a) the tourism sector where the lending bank is satisfied that a significant contribution to the development of border county tourism will result (b) the development of non-displacing or

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innovative indigenous start-ups in services related to industry and (c) projects demonstrating a particular commercial linkage to the new peace environment.

6. QUALIFYING LOANS:

Qualifying loans may be advanced by banks under the usual conditions of standard EIB global loans for SMEs.

The interest subsidy is to be applied for the first five years of each qualifying loan.

However, to allow promoters and banks to structure the loan finance to the actual business situation of each project, there is flexibility on (a) the interest rate basis, (b) the duration of qualifying loans and (c) the repayment arrangements for the qualifying loans.

Interest rate: fixed or variable rate (note that intermediaries are required to give full information on the interest rate basis for each qualifying loan - see para 4).

Term: not less than 5 years and up to 15 years, with repayment of principal commencing not later than 2 years from first disbursement (note that the interest subsidy is to operate for the first 5 years only).

Repayment: The repayment arrangements from the promoter to the bank may be on a monthly, quarterly or half-yearly basis. The interest subsidy will be calculated on the basis of loans repaid in equal instalments of principal, on the same semi-annual basis as the underlying EIB finance and will be paid to bank intermediaries on a half-yearly basis for the immediate credit of promoters.

7. INTERVENTION RATE:

The subsidised loan finance is limited to no more than 50% of project cost, with the intermediary being free to lend more at its discretion on normal commercial terms.

8. DELIVERY MECHANISM AND INTERMEDIARIES:

A wide coverage is required - see para 1 "Concept" above. The delivery mechanism is in place as four main banks operating in NI and six operating in the Border Counties are already mobilised and ready to launch the scheme.

Competition within the scheme is desirable: promoters therefore have a choice of bank and can choose between different offers to provide finance for the project made in accordance with banks' normal criteria and credit approval procedures.

Only the agreed project proposal as approved by the selected bank should go forward (through the selected bank) for approval under the subsidy scheme.

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Eligibility for the subsidy is determined on the basis of the criteria in this note and the priorities agreed under para 5 above; the EIB and the agent will check individual transactions for conformity with the criteria and priorities.

A control system to monitor the utilisation of the subsidy will be put in place with the appointed agent.

9. LAUNCH:

A co-ordinated launch through the participating banks will be arranged for an early date after agreement of the final scheme details with the Authorities and the banks.

10. CO-ORDINATION WITH OTHER SCHEMES:

- The scheme must be marketed as a specific initiative and should not be merged into other products offered by the participating banks.
- Cumulation with other interest subsidy schemes is excluded but national measures for industry and investment may be availed of by promoters in the normal way.
- Promoters may opt for the AFS scheme in the border counties for projects meeting the criteria for it.

11. PROCEDURES:

- Separate agents will be appointed for Northern Ireland and the six Border Counties who will register applications from intermediary banks in chronological order, review them for compliance with the criteria and priorities, and control the level of commitment of the funds available under the scheme.
- The agents will in due course monitor and process the requests for subsidy received on a half-yearly basis from banks for the purpose of payment of the subsidy amounts.
- The agents will also conduct monitoring and other duties to be defined in an appropriate agency agreement.
- After approval of the respective qualifying loans the banks will transmit the applications for subsidised finance to the EIB and the agents on a monthly basis starting in January 1996.

The applications will include the standard information required for EIB global loan allocations together with additional elements required to cover the criteria and priorities specific to this scheme, and an estimate of the subsidy commitment for each loan or group of loans.