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Subject: Recording of EU transfers and national co-financing in the context of the JEREMIE initiative

Ref.: Your e-mail dated 22 March 2011

Dear Ms Atanasova,

Thank you for your e-mail sent to Mr Verrinder on the 22 March 2011. I would like to kindly ask you in future to write a letter to me (François Lequiller) here at Eurostat when you would like to request Eurostat to provide methodological advice.

Following your e-mail, I am in a position to give you the opinion of Eurostat on the appropriate statistical recording of the case you have presented.

The case

In 2010 the Bulgarian government transferred the Bulgarian leva equivalent of 199 million Euro to the European Investment Fund (EIF) under the JEREMIE initiative. The EU participation amounted to 85 % of this sum, whilst the remaining 15% represented national co-financing. JEREMIE is implemented in Bulgaria through a Holding Fund structure (SPV) established by the EIF. The EIF then transfers the received funds to the SPV as shareholder's equity. The SPV is a wholly-owned subsidiary of the EIF. The SPV invests the funds in financial assets for the purpose of supporting SMEs, under the control of the EIF. At the end of 2015, or if the Agreement is cancelled (under certain specific circumstances) before this date, the EIF must transfer 100% of its shares in the SPV to the Bulgarian government at no cost. All unspent EU funds and national contributions, must be re-used for the same activity.

The Bulgarian NSI proposes the EU part of the funds (85%), which is disbursed by the government to the EIF, to be recorded as transactions in F.7 "Accounts Receivable/Payable", and not as revenue and expenditure of the government.

Concerning the national co-financing, the Bulgarian NSI proposes two alternative ways of recording: 1) record the national co-financing as expenditure 2) record the national co-financing as a receivable against the EIF.

Finally, an alternative view was expressed to treat the Central Government as the final beneficiary under the JEREMIE initiative.

Documentation provided

- Funding Agreement between the Government of the Republic of Bulgaria and the European Investment Fund
- Methodological analysis and a proposal for a statistical recording of the EU transfers and the national co-financing

Methodological analysis by Eurostat

EU Member States implement the JEREMIE initiative by establishing a Holding Fund funded through their Structural Fund receipts from the EU and national contributions. In this particular case, the Holding Fund is set up as an SPV and is managed by the EIF. The SPV has no autonomy of decision and is not a separate institutional unit. Therefore, it must be classified with the unit which controls it — the EIF, which is part of the Rest of the World sector.

Under the JEREMIE initiative there could be 3 final beneficiaries: the Holding Fund, the financial intermediaries involved, or the beneficiary SMEs. Central government could not be considered as a final beneficiary in this context. We suggest to consider the EIF as the beneficiary of EU and government expenditure as this is the body responsible for initiating and implementing the relevant operations. Subsequent operations of the SPV would be recorded in national accounts, as appropriate, directly between the EIF (Rest of the World sector) and the financial intermediaries concerned.

In 2015 the transferred equity from the EIF to the government must be reinvested under the JEREMIE initiative. In this case we should apply the same recording as for JEREMIE operations observed in other EU Member States. That is, the main principle established in the Eurostat's decision on the treatment of transfers from the EU budget to the MS should be applied: "EU transfers should have no impact on government deficit/surplus regardless of the timing differences between the moment of government pre-financing and the moment of effective reimbursement by the EU".

In order to bring out the underlying economic relationships more clearly, the transfer of the EU funds should be viewed as a transfer directly from the EU (the principal) to the EIF. We agree that the transfer of these funds should be recorded as transactions in F.7 "Accounts Receivable/Payable", and not as revenue and expenditure of the government (see paragraphs 1.38, 1.41, ESA95, Chapter II.6, MGDD).

As to the national co-financing, the payment to the Holding Fund is to be treated as government expenditure and the time of recording should follow the relevant ESA rules (for D.92 – see paragraph 4.162, ESA95).

Applicable accounting rules

Paragraphs 1.38, 1.41, 4.162, ESA95.

Chapter II.6 "Grants from the EU Budget", MGDD.

Conclusion

- EU transfers (85%) should be considered as a transfer from the EU to the EIF (recorded through F.7 in the financial accounts of general government).
- The national co-financing element (15%) should be recorded as expenditure, according to the relevant time of recording for capital transfers.

Procedure

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on the Eurostat website. In case you have objections concerning this specific case, we would appreciate if you let us know before 11 April 2011.

Yours sincerely,

François Lequiller

Director