Supporting Innovation in Armenia

Yerevan, 2\textsuperscript{nd} June 2016
Welcome addresses:

Vache Gabrielyan

Vice Prime Minister,
RA Minister of International Economic Integration and Reforms
Welcome addresses:

Artsvik Minasyan

RA Minister of Economy
Welcome addresses:

Piotr Antoni Świtalski
Ambassador,
Head of Delegation of the European Union to Armenia
Overview of the EIB Group financing options

Heinz Olbers

Director, Neighbouring Countries Department,
European Investment Bank (EIB)
The EU bank

- Represents the interest of the EU;
- Owned by the 28 Members States of the EU;
- Working to implement EU policies, inside and outside the EU.

- Cooperation with the EU neighbouring countries: a priority
The EIB Group

Providing finance and expertise for sound and sustainable investment projects

EIB Group financing 2015

EIB in 2015: EUR 77.5bn

EIF in 2015: EUR 7bn

Record for the EIB Group: EUR 84.5bn

Leading developer of risk financing for innovative SMEs
# EIB at a Glance

**We are the world’s largest International Financial Institution**

<table>
<thead>
<tr>
<th>1958</th>
<th>Shareholders</th>
<th>Source of funds</th>
<th>AAA-rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established to support long-term investments primarily in the European Union.</td>
<td>Owned by the 28 Member States of the European Union.</td>
<td>We raise long-term funds on the international capital markets and as a non-profit organisation we pass favourable borrowing conditions to our clients.</td>
<td>We’re triple-A rated by all major rating agencies and have a sizeable callable capital of <strong>€221bn</strong>.</td>
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<td>50 years’ experience in financing sustainable projects.</td>
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EIB’s Locations

Our Luxembourg Headquarters are home to some 2,900 staff

Specialists
Among our staff we have bankers, engineers, sector economists, socio-environmental experts and lawyers.

Local offices
We have over 30 representative offices worldwide.
EIB lending breakdown in 2015

We focus on our key priorities:

**ENVIRONMENT**
EUR 19.6bn

**INFRASTRUCTURE**
EUR 18.9bn

**INNOVATION**
EUR 18.7bn

**SME**
EUR 29.2bn
EIB products

We help catalyse investment:

<table>
<thead>
<tr>
<th>LENDING</th>
<th>BLENDING</th>
<th>ADVISING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>Higher risk projects for innovation (InnovFin)</td>
<td>Prepare, evaluate and support the implementation of projects</td>
</tr>
<tr>
<td> <em>But also:</em> Guarantees (trade financing)</td>
<td>Combining EIB finance with EU budget</td>
<td>Support for public/private partnerships</td>
</tr>
<tr>
<td>Equity participation</td>
<td></td>
<td></td>
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</tbody>
</table>

Attracting FUNDING for long-term growth
## What is the EIF?

- **EIF** is an institution that provides risk financing to stimulate entrepreneurship and innovation in Europe.

- It’s part of the EIB Group.

### Shareholders
- 61.2% European Investment Bank (EIB),
- 26.5% European Commission (EC),
- 12.3% by 30 public and private financial institutions (FIs)

### Strong capital base
- of EUR 4.5bn

### AAA-rated
- by the three major rating agencies

### Over 20 years
- of market experience in SME financing
EIF in a nutshell

**HOW**
EIF offers a wide range of **targeted products to support SMEs and small midcaps**, ranging from venture capital to guarantees and microfinance.

**WHERE**
EIF works with financial intermediaries across the European Union and other countries, including **Non EU countries eligible under Horizon 2020 (InnovFin)**.

<table>
<thead>
<tr>
<th>Overall commitments</th>
<th>Mobilised resources</th>
<th>SMEs supported</th>
<th>Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>110,000 in 2015</td>
<td>400 banks, guarantee and promotional institutions</td>
</tr>
</tbody>
</table>
EIB outside the EU

90% of the lending is carried out within the EU...

...but as much as EUR 8bn is **lent outside the EU** each year.
EIB in the EU Neighbourhood

• The EIB operates under the External Lending Mandate, whose priorities are:
  ❖ Development of the local private sector;
  ❖ Development of social and economic infrastructure;
  ❖ Climate action projects.
EIB in the EU Neighbourhood

EIB in Armenia

- In Armenia since 2007;
- Loans totaling **EUR 271m**;
- Between 2014 and 2015 the Bank has financed 6 projects in Armenia in the transport, water, electricity, support to SMEs and solid waste sectors.

Signed amounts:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (EURm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>5.0</td>
</tr>
<tr>
<td>2011</td>
<td>15.0</td>
</tr>
<tr>
<td>2012</td>
<td>36.8</td>
</tr>
<tr>
<td>2013</td>
<td>65.0</td>
</tr>
<tr>
<td>2014</td>
<td>80.6</td>
</tr>
<tr>
<td>2015</td>
<td>18.0</td>
</tr>
<tr>
<td>2016</td>
<td>51.0</td>
</tr>
</tbody>
</table>
EIB in Armenia

- Sector exposure

Loans signed from 2007 to date (breakdown per main sector %)

- Transport: 52%
- SMEs and MidCaps access to finance: 24%
- Water and wastewater: 14%
- Energy: 3%
- Sustainable urban/inter-urban transport: 4%
- Other: 3%
EIB in Armenia

Lending objectives in Armenia:

- **Private sector development**
  - Potential *new Apex loan for SMEs/Mid-Caps* (amount to be determined) in cooperation with the Central Bank of Armenia;
  - Enhanced support to larger corporate clients through direct lending;

- **Development of social and economic infrastructure**
  - *Armenia School Seismic Safety Improvement* (EIB loan approx. EUR 80m) aiming at supporting ongoing efforts of the Government of Armenia to upgrade, reconstruct and build new schools buildings to higher earthquake resistant standards;
  - *Armenia Rural Framework Loan* (EIB loan up to EUR 50m) aiming at introducing an innovative approach to rural infrastructure;
  - *Upgrade transport corridors*

- **Climate change mitigation and adaptation**
  - *Yerevan Energy Efficiency* for the rehabilitation of municipal buildings of Yerevan (EIB loan up to USD 12m)
EIB in Armenia

• Types of **currently available** financing/instruments:

  ❖ Direct loans to Midcaps & Corporates;
  
  ❖ Intermediated loans to SMEs, Midcaps & Corporates;
  
  ❖ Public sector loans;
  
  ❖ Project finance;
  
  ❖ Technical assistance for project preparation and implementation (Neighborhood Finance Facility, Eastern Partnership Technical Assistance Trust Fund)
Innovfin in Armenia

- Armenia signed the Horizon 2020 Association Agreement on 19 May 2016;

- Once it enters into force, Armenia will become eligible to a wide range of Horizon 2020 funded actions, including InnovFin;

- **InnovFin** is a joint initiative launched by the European Investment Bank Group in cooperation with the European Commission under Horizon 2020;

- InnovFin consists of a series of financing tools and advisory services, covering the entire value chain of research and innovation (R&I) to support investments from the smallest to the largest enterprise;

- InnovFin is available across all eligible sectors under Horizon 2020;

- By 2020, InnovFin is expected to make over EUR 24bn of debt and equity financing available to innovative companies to support EUR 48bn of final R&I investments.
Objectives and Opportunities of the InnovFin Programme

Julia Taddei
Seconded National Expert, DG Research & Innovation, European Commission

Tomasz Kozlowski
Head of Innovation Programmes, European Investment Fund (EIF)

Marc D’hooge
InnovFin Programme Manager, EIB
InnovFin: A Quantum Leap

InnovFin builds on the success of RSFF but will be much larger and broader
InnovFin Product Overview

**SMEs**
- **InnovFin SME Guarantee**
- **InnovFin SME Venture Capital**

**Midcaps**
- **InnovFin MidCap Guarantee**
- **InnovFin MidCap Growth Finance**

**Large Caps**
- **InnovFin Large Projects**

**Thematic Finance**
- **InnovFin Energy Demo Projects**
- **InnovFin Infectious Diseases**

**Advisory**
- **InnovFin Advisory**

**Public and Private Sector Promoters**
- **Financial Advisory**

**Direct Products**
- SMEs and small Mid-Caps < 500 Employees
- Intermediated SME/Mid-Cap Financing

**Indirect Products**
- Mid-Caps < 3,000 Employees
- Large Caps Typically > 3,000 Employees
- SPV, Mid-Caps and Large Caps
- Direct Corporate Lending
- Project Finance and/or Direct Corporate Lending
## InnovFin Product Overview

<table>
<thead>
<tr>
<th>SMEs</th>
<th>Midcaps</th>
<th>Large Caps</th>
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<th>Advisory</th>
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<td><strong>InnovFin Advisory</strong></td>
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<td>SMEs and small Mid-Caps &lt; 500 Employees</td>
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<td>Intermediated SME/Mid-Cap Financing</td>
<td>Intermediated and/or direct Corporate lending</td>
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**direct products**

**indirect products**
InnovFin SME Guarantee

This guarantee instrument covers the risk related to losses of a portfolio.

- 50% guarantee rate
- Financial Intermediary
- New Loans/Leases
- Innovative SMEs and Small Mid-Caps

- Up to 50% loss coverage (Principal + Interest 90D)
- Full Delegation to Financial Intermediaries
- Automatic Coverage/Inclusion 2-3 yr period

- Attractive Guarantee Terms
- Favourable Capital Treatment
- Guarantee and Counter-Guarantee
Key Guarantee Terms

Direct Guarantees

- SMEs
- Small Mid-caps
- EU 28 & H2020 Associated Countries
- Innovative

Counter - Guarantees

- Amount: up to EUR 7.5m (EUR or LCY)
- Maturity: up to 10 years
- Loans, credit lines, bonds, leases

Transactions

(senior debt only)

- Tangible & Intangible Assets
- Working Capital
- Business Transfers

Purpose

Final Beneficiaries
Guarantee Fee

- **Guarantee Fee:**
  - SME: 0.50% p.a.
  - Small Mid-Cap: 0.80% p.a.

- Financial Intermediaries are required to transfer the Financial Benefit to SMEs & Small Mid-caps
Transfer of Benefit (indicative example)

Without InnovFin
Financing at 4%

- Cost of Risk: 1.5%
- Margin: 1.5%
- Fixed Costs: 0.5%
- Funding Costs: 0.5%

Total = 4%

With InnovFin
Financing at 3.5%

- Cost of Risk: 1.5%
- Margin: 1.5%
- Fixed Costs: 0.5%
- Funding Costs: 0.5%

Total = 3%

Reduction of Cost of Risk with InnovFin

Cost of the guarantee: 0.5% (or 0.8% for small midcap)
InnovFin SME Venture Capital – key features

TT, VC and BA Funds and co-investment Funds focusing on companies in Early Stage

Focus on Horizon 2020 objectives (e.g. ICT, life sciences, clean energy, technology)

Enterprises in pre-seed, seed, start up phases (seed & A rounds included)

Pari-passu, at least 30%* investment from private investors

Investment size up to EUR 30m up to 50%** of total commitments (CATALYTIC)

First 4 transactions signed as of February 2016. Open Call for Expression of Interest until 30/09/2020

* 10% in the case of BA Co-investment Funds
** Up to 70% in the case of BA Co-investment Funds, subject to conditions.
## InnovFin SME Venture Capital – EIF’s assessment

### Investment readiness

<table>
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<th>Team and Track Record (WHO)</th>
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<tbody>
<tr>
<td>Adequate skill-set</td>
</tr>
<tr>
<td>Track-record</td>
</tr>
<tr>
<td>Cohesion /stability/succession</td>
</tr>
<tr>
<td>Carry split</td>
</tr>
<tr>
<td>Team commitment</td>
</tr>
<tr>
<td>Governance structure: independence/ conflict of interests</td>
</tr>
<tr>
<td>Reputation (referencing)</td>
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### Market Opportunity (WHY)

- Deal flow/pipeline
- Competition

### Investment Strategy (HOW)

- Focus, deal flow and pipeline
- Value creation / Unique Selling Point
- Coherence with the market opportunity, the team and the fund parameters

### Fund Parameters (WHAT)

- Fund model: fund size / diversification / reserve policy / investment pace
- Terms and Conditions
- Management company budget
- Legal structure / compliance

### Fit with the mandate

- Value creation for beneficiaries
- Catalytic role no crowding out
- Multi-country focus
- Internationalisation of final beneficiaries
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Project Finance and/or Direct Corporate Lending

Public and Private Sector Promoters

Financial Advisory
How does the MidCap Guarantee work?

- 50% loss coverage for new mid-cap loans of up to EUR 50m not covered under InnovFin SME Guarantee
- Can be complemented with EIB funding (global loan)
- Pari-passu sharing of risk and pricing
- Full delegation to financial intermediaries
- Favourable capital treatment
How does MidCap Growth Finance work?

- Direct long term debt and mezzanine finance: EUR 7.5m – EUR 25m
- Loans can be structured as economic equity (silent participation)
- For innovative Mid-Caps and SMEs (eligible counterparty concept)
- EIB can finance up to 50% of all investments over 3 years
- Streamlined EIB approval process
Advantages

No crowding out. Complementary finance to house banks

EIB signaling effect to attract other banks & investors (quality stamp)

Long-term lending at attractive terms (no subsidised)

Growth finance without dilution of shareholders
How does InnovFin Large Projects work?

- Senior debt (pari-passu with other senior lenders)
- Eligible project required. EIB finances up to 50% of R&D and innovation investments
- Comprehensive due diligence including project due diligence (technical, financial, economic)
- EIB standard documentation
Advantages

- Long term loans at attractive terms (pari-passu)
- Signaling effect and quality stamp (technical expertise)
- Co-financing with house-banks preferred
- No cross selling & hold to maturity strategy
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Which projects can be supported?

- Pre-commercial stage; technology needs to be scalable
- Loan: EUR 7.5m – EUR 75m; EUR and local currency; maturity of max 15 years; EIB finances up to 50% of project costs.
- Comprehensive due diligence including project due diligence (technical, financial, economic)
- EIB standard documentation

Renewable energy

Fuel Cells, Hydrogen
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direct products
indirect products
Which projects can be supported?

- Projects which have passed pre-clinical stage and for which clinical validation is needed for further development
- Loan: EUR 7.5m – EUR 75m; EUR and local currency; Loan maturity of max 7 years; EIB finances up to 50% of project costs.
- Broad range of products - standard debt instruments (i.e. senior, subordinated, and mezzanine) to risk sharing instruments (RSL) with forgiveness options
- Comprehensive due diligence, including project due diligence (technical, financial, economic)
- EIB standard documentation
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**direct products**

**indirect products**
Innovation Finance Advisory - What do we do?

Enable maximum access to finance for innovative projects

**Projects Advisory**

- Improve bankability/investment readiness
- Enable earlier/faster access to finance
- Light Project Advisory

- Arctic Arc
- Fuel Cells and Hydrogen Joint Undertaking (H2M)
- Philips Health Continuum

**Horizontal Activities**

- Improve framework conditions for financing
- Develop “business case” for new financing mechanisms in RDI sectors
- Prepare studies on increasing effectiveness of financial instruments to address specific sector/RDI policy objectives

- Circular Economy (CE)
- Key Enabling Technologies (KETs)
- Infectious Diseases Financing Facility (IDFF)
- Bio-economy
- RTOs/EARTO

**Synergies between Projects Advisory and Horizontal Activities**
Visit www.eib.org/innovfin
Objectives and Opportunities of the InnovFin Programme

Question & Answer session
Case Study

Matching the needs of growth companies

Marc D’hooge,
InnovFin Programme Manager (EIB)
Case Study

Question & Answer session
Concluding remarks

Garen Mikirditsian
Acting CEO, Development Foundation of Armenia