Supporting Innovation in the Western Balkans: InnovFin SME Guarantee Facility

Belgrade, 28 November 2016
Vincent van Steensel
InnovFin SME Guarantee Facility

Main characteristics and track record
InnovFin SMEG – Product Overview

- **Responsible EC Service / Timeframe:** DG Research & Innovation / 2014-2020
- **Target** over EUR 10bn of financing to benefit innovative SMEs and small Mid-caps over the next 7 years

- **Guarantee rate:** Max 50%
- **Eligible recipients:**
  - SMEs
  - small Mid-caps

- **Loan/lease maturity:** 1 year – 10 years
- **Loan/lease amount:** EUR 25k – 7.5m

- **Guarantee fee:**
  - SME – 0.5% p.a.
  - SMC* – 0.8% p.a.

- **Financing purpose:** Investments, working capital and M&A

- **Financial Intermediaries** to transfer the financial benefit to SMEs and small Mid-caps (reduced interest rate)
- **Thanks to EIF multilateral development bank status, no capital charge on the covered part of the portfolio**

* SMC – means small Mid-caps
Eligible financing:

- New loans, credit lines, bonds (such as mini-bonds) and/or financial leases;
- to be originated within a **two-year period** by the selected intermediary (up to Dec. 2022 under H2020 programme)

Eligible debtors:

- SMEs (EC definition) and **small Mid-caps** (< 500 FTE employees);
- Operating in **EU-28 and H2020 Associated Countries**; and
- **Innovative**
  - invest in producing, developing or implementing innovative products, processes, services, delivery methods and/or organisational and process innovation and where there is a risk of technological or industrial failure; or
  - “innovative” SMEs/small Mid-caps, i.e. satisfying at least one of a list of pre-defined criteria; or
  - “fast growing enterprises”, measured by employment or by turnover: annual increase > 20%

**Can be combined with EIB funding facilities** (subject to specific criteria and transfer of benefit requirements)
InnovFin SMEG – Key Terms

- Up to 50% loss coverage (Principal + Interest 90days)
- Full Delegation to Financial Intermediaries
- Automatic Coverage/Inclusion
- Attractive Guarantee Terms
- Favourable Capital Treatment
- Guarantee and Counter-guarantee
InnovFin Financial Benefit Transfer

Without InnovFin Financing at 4%:
- Cost of Risk: 1.5%
- Margin: 1.5%
- Fixed Costs: 0.5%
- Funding Costs: 0.5%

Total = 4%
50% of financing

With InnovFin Financing at 3.5%:
- Cost of Risk: 1.5%
- Margin: 1.5%
- Fixed Costs: 0.5%
- Funding Costs: 0.5%

Total = 3%
50% of financing

Reduction of Cost of Risk with InnovFin: 0.5%
Cost of the guarantee: 0.5% (or 0.8% for small Mid-caps)
InnovFin Deployment in Europe

Status of InnovFin implementation: (as of mid-September-16)

- 97 applications
  - 85 for the direct guarantee
  - 12 applications for the counter-guarantee
- 84 guarantee agreements signed (multiple intermediaries under umbrella applications)
  - covering 31 countries
  - for a total guarantee amount of EUR 3.8bn
  - Enabling over EUR 8.5bn of loans/leases to innovative SMEs and small Mid-caps
### Signed guarantee transactions

<table>
<thead>
<tr>
<th>InnovFin Intermediary Names</th>
<th>Country</th>
<th>Guarantee (EURm)</th>
<th>Signature date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankinter</td>
<td>Spain</td>
<td>100.0</td>
<td>27-Oct-14</td>
</tr>
<tr>
<td>BPI</td>
<td>Portugal</td>
<td>100.0</td>
<td>27-Nov-14</td>
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<tr>
<td>Vaeksfonden</td>
<td>Denmark</td>
<td>67.5</td>
<td>28-Nov-14</td>
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<tr>
<td>Almi</td>
<td>Sweden</td>
<td>66.0</td>
<td>22-Jan-15</td>
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<tr>
<td>AWS</td>
<td>Austria</td>
<td>48.0</td>
<td>30-Jan-15</td>
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<tr>
<td>LHV</td>
<td>Estonia</td>
<td>20.0</td>
<td>12-Feb-15</td>
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<tr>
<td>Ceska sporitelna</td>
<td>Czech Republic</td>
<td>50.0</td>
<td>26-Mar-15</td>
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<tr>
<td>Komercni</td>
<td>Czech Republic</td>
<td>75.0</td>
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<td>Anthilia Capital Partners</td>
<td>Italy</td>
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<td>02-Apr-15</td>
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<td>BPfinance</td>
<td>France</td>
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<td>Credem</td>
<td>Italy</td>
<td>110.0</td>
<td>20-May-15</td>
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<td>ING Luxembourg</td>
<td>Luxembourg</td>
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<td>21-May-15</td>
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<tr>
<td>Idea Bank SA</td>
<td>Poland</td>
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<td>29-May-15</td>
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<tr>
<td>Santander UK</td>
<td>United Kingdom</td>
<td>70.0</td>
<td>12-Jun-15</td>
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<tr>
<td>Bellius</td>
<td>Belgium</td>
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<td>16-Jun-15</td>
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<tr>
<td>Bank of Ireland</td>
<td>Ireland</td>
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<td>KFW</td>
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<td>ProCredit Umbrella</td>
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Total signed 3,785.3
InnovFin Benefits and Selection

<table>
<thead>
<tr>
<th>Financial Intermediary (FI)</th>
<th>Beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced Capital Consumption</td>
<td>Enhanced Access to Finance</td>
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<tr>
<td>Increased Return on Capital</td>
<td>Flexible Funding</td>
</tr>
<tr>
<td>Competitive Loan Pricing</td>
<td>Reduced Cost of Funding</td>
</tr>
</tbody>
</table>

- Selection of FIs through a Call for Expression of Interest published on 4 August 2014 on EIF website.
- Application assessed on a «first come, first processed» basis by EIF.
- Selection procedure:
  - Pre-selection of Expression of Interest based on the evaluation criteria.
  - Due diligence exercise of pre-selected Applicants.
  - Transaction proposal.
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Appendix 1: Eligibility Criteria

Final Recipient
- Each of the criteria

SMEs
- Means a micro, small or medium-sized enterprise as defined by the European Commission
- Enterprise which has up to 499 employees
- is not an SME

Financial situation
- SME must not be an “undertaking in difficulty” within the meaning of the Block Exemption Regulation

Activities
- No illegal activities or any R&I Excluded Activities

Unlisted Status
- SME shall be unlisted (except on an alternative trading platform)

Small Mid-caps
- Enterprise which has up to 499 employees
- is not an SME

Sector
- No substantial focus on one or more Restricted Sectors

Jurisdiction
- Shall not be established in a Non-Cooperating Jurisdiction

Group
- Enters into the transaction on its own or on behalf of linked/partner entity

Newly originated
- Only newly originated Final Recipient Transactions are eligible for inclusion

Inclusion Period
- Transactions must be originated during the Inclusion Period of the instrument

Purpose
- Investment in tangible/intangible assets, working capital or business transfers

Loan/Lease
- Loans/Mini Bonds and Finance Leases are eligible

Repayment Schedule
- Must have fixed repayment schedule or maturity of up to 3 years if Revolving

Financial Benefit
- Customary risk spread shall be reduced by the level of Financial Benefit

Maximum Maturity
- Revolving: maximum 3 years
- Non-revolving: maximum 10 years

Amount
- Minimum: EUR 25k
- Maximum: EUR 7.5m
Appendix 2: Innovation Eligibility Criteria

**Innovation eligibility criteria**

1. **The Final Recipient intends to use the funds for innovative purposes**
   - At least one of the criteria
   - to invest in producing, developing or implementing new or substantially improved products, processes or services that are innovative
   - With a risk of technological or industrial failure as evidenced by an external expert
   - Includes innovative production or delivery method; and
   - Organisational or process innovation – business models

2. **The Final Recipient is a “fast-growing enterprise”**
   - operating in a market for less than 12 years following its first commercial sale
   - “Fast-growing enterprise” – average annualised endogenous growth in employees or turnover greater than 20% a year, over a 3-year period, and ten or more employees at the beginning of the observation

3. **R&I costs represent at least 5% of total operating costs**
   - The Final Recipient has been operating in the market for less than 7 years following its first commercial sale
   - R&I costs represent at least 5% of total operating costs in at least one of the 3 years preceding the loan application;

4. **The Final Recipient shall have significant innovation potential or be “R&I-intensive enterprise”**
   - Innovation potential or the status of an “R&I-intensive enterprise” is assessed through additional 11 sub-criteria
Appendix 2: Innovation Eligibility Criteria

Typical SME or small Mid-cap loan covered by InnovFin guarantee:

- Received grants/schemes form EU R&I schemes (Horizon 2020 or FP7);
- Are producing, developing or implementing innovative new products, processes or services;
- Had a venture capital/business angel investment;
- Is a fast-growing enterprise;
- Has annual R&I expenses equal/above 20% of the final recipient transaction; or
- Has satisfactory proportion of R&I Costs as % of total operating costs.

As of Q2 2016
Appendix 3: Inclusion Period

Final Recipient Transactions entered into during the Availability Period

Final Recipient Transactions entered into and first drawn during 6 months after the Availability Period, but approved during the Availability Period

Approval

Availability Period (24 months)

Availability Period + 6 months

Inclusion Period

1. Inclusion Period
   - The Guarantee covers Final Recipient Transactions that have been included in the Portfolio by the Intermediary in accordance with the Agreement.
   - To be validly included, the Final Recipient Transactions should:
     - comply with the Eligibility Criteria
     - must have been entered into during the “Inclusion Period”.

2. Availability Period
   - Final Recipient Transactions which have been entered into during the “Availability Period” (i.e. 24 months from the Effective Date*, unless otherwise agreed) may be included in the Portfolio.

3. 6 months following Availability Period
   - The Intermediary may also include Final Recipient Transactions which have been entered into during the six months’ period following the end of the Availability Period, in which cases they must however have been approved during the Availability Period and drawn for the first time during such six months’ period.

* When the agreement is entered into
Appendix 3: Inclusion Period - triggers

Portfolio Trigger Event

- Determination Date - Report Date* immediately following the middle of the Availability Period
- If on that date the aggregate amount of principal included in the InnovFin Portfolio (“Actual Portfolio Volume”) is lower than the “Portfolio Trigger Amount” (30% of the Agreed Portfolio Volume), then the Availability Period is terminated

In addition, the Guarantee Agreement includes another trigger mechanism providing that the Availability Period will end if on one or more specified date(s) the aggregate defaulted amounts exceed a predetermined level

* Report Date – means the date when the Intermediary sends a report containing information about the Final Recipient Transactions included under the Portfolio. Report Dates are 20 January, 30 April, 31 July and 31 October.
Appendix 4: Exclusion Process

Under certain circumstances Final Recipient Transactions shall or may be excluded from the InnovFin Portfolio and hence will no longer be covered by the Guarantee:

- If a Final Recipient Transaction included in the Portfolio does not comply or no longer complies with the Eligibility Criteria; and
- If any of the Portfolio Eligibility Criteria is not or no longer complied with.

Such transactions become “Non Eligible Final Recipient Transactions”

Transactions may become Non Eligible Final Recipient Transactions due to events which are:

**Within the control of the Intermediary**

- Such transactions are excluded from the portfolio
- Actual Portfolio Volume is adjusted/decreased for the excluded transaction
- Intermediary can replace excluded transaction up to earlier of Termination Date of 3rd Report Date after the exclusion

**Outside of the control of the Intermediary**

1. In case guarantee Payment Demand is already sent – the transaction will be covered by InnovFin
2. In case guarantee Payment Demand is not sent – the transaction will be covered by InnovFin only if:
   - Intermediary accelerates the payments or terminates the Final Recipient Transaction
<table>
<thead>
<tr>
<th>Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Defaulted Amounts</strong></td>
<td>➢ any amount of principal and/or interest (excluding late payment, default or capitalised interest and other costs or expenses and excluding any interest which accrued after a period of 90 days) due, payable and outstanding following a transaction default, acceleration, and/or restructuring.</td>
</tr>
<tr>
<td><strong>Recoveries</strong></td>
<td>➢ “Recovery” means each amount, net of recovery and foreclosure costs, recovered or received by the Intermediary in relation to a Defaulted Amount; &lt;br&gt;➢ the Intermediary is required to pay to the EIF 50% of all Recoveries;</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>➢ Euro is always the Base Currency of each InnovFin guarantee agreement, however, if multiple currencies are envisaged for a specific portfolio of transactions, these currencies may be specified as Additional Currencies; &lt;br&gt;➢ All amounts referred to and payments made by and to the EIF shall be in the “Base Currency” (Euro), except for payments in respect of a Defaulted Amount; &lt;br&gt;➢ The latter payment will be made, at the EIF’s discretion, either in the currency in which such Defaulted Amount has been incurred or in the Base Currency.</td>
</tr>
<tr>
<td><strong>Intermediary Exposure</strong></td>
<td>➢ The Intermediary must until the expiry of the Guarantee maintain an economic exposure of at least 20% of the outstanding principal amount of each Final Recipient Transaction included in the Portfolio.</td>
</tr>
</tbody>
</table>
Thank you