

**FOR DECISION**

EUROPEAN FUND FOR STRATEGIC INVESTMENTS  
STEERING BOARD

**EIF - SME Window Guarantee Facilities**

Adopted by Written Procedure with expiry date 31/07/2017

**EFSI Contribution to the “Guarantee Facilities” in the form of:**

**(i) an increase to**

- **InnovFin SME Guarantee Facility**
- **COSME Loan Guarantee Facility**
- **EaSI Guarantee Instrument**

**(ii) a new contribution to**

- **Cultural and Creative Sector Guarantee Facility**

Questions concerning this note should be referred to  
EFSI Secretariat: [EFISecretariat@eib.org](mailto:EFISecretariat@eib.org)

## EIF - SME WINDOW GUARANTEE FACILITIES

---

Each transaction under the SME Window of the EU Guarantee implemented by the European Investment Fund ("EIF") is subject to EIF's governing bodies' approval. However, SME Window products also have to be approved by the EFSI Steering Board, jointly with the Managing Director, after consultation with the EFSI Investment Committee (as these terms are defined in the EFSI Regulation).

Following:

1. the approval of the "EIF-SME Window Frontloading Products", approved by the EFSI Steering Board on 28 January 2016 (SB/09/16, Document 04/16); and
2. the approval of the "EIF-SME Window EaSI Guarantee Enhancement", approved by the EFSI Steering Board on 21 July 2017 (WP, Document 20/16); and
3. the signature on 30 June 2016 of a new delegation agreement for the purpose of increasing the access to finance for SMEs operating in the cultural and creative sectors,

the purpose of this note is to request approval from the aforementioned governing bodies for an EFSI contribution to the following facilities jointly referred to as the "Guarantee Facilities" in the form of:

(i) an increase to

- InnovFin SME Guarantee Facility ("InnovFin SMEG")
- COSME Loan Guarantee Facility ("COSME LGF")
- EaSI Guarantee Instrument ("EaSI GFI")

(ii) a new contribution to

- Cultural and Creative Sector Guarantee Facility ("CCS GF")

### 1. Background

In order to address the increasing market demand for SME debt financing, the frontloading products under EFSI (the "**EFSI Enhancement**") have been structured to make available to EIF already in 2015 the 2016-2020 investment capacity of InnovFin SMEG, amounting to EUR 750m; the same applied to COSME LGF (up to EUR 500m), and in 2016 for EaSI GFI (up to EUR 50m). Such frontloading of the EU contribution enabled EIF to continue originating transactions without waiting for the future annual budgetary allocation to be made available by the European Commission ("EC"). In this respect, EIF has the right to draw from the EFSI guarantee, through EIB, any amounts necessary to pay guarantee calls in excess of amounts paid by the EC under each separate financial instrument to date.

The approved transactions falling within the EFSI Enhancement remit as of end of April 2017 are expected to trigger indicatively EUR 46bn of mobilized investment volumes, contributing to more than 50% of the target mobilised investment volume of EUR 82.5bn set for the overall EFSI SMEW.

The CCS GF was launched in June 2016 and the EFSI Enhancement herewith proposed would be the first time EFSI supports this programme.

Under the original set-up, the EFSI guarantee in relation to such EFSI Enhancement was expected to be *pro tanto* reduced by each yearly appropriation of EC budget made available to EIF.

Under this newly proposed set-up, **the EFSI contribution to the Guarantee Facilities will be transformed into a permanent unfunded second loss piece.**

## 2. Description and key deliverables

Following the EFSI Enhancement of the InnovFin SMEG and COSME LGF introduced on 22 July 2015, and of the EaSI GFI, which was introduced on 16 December 2016, an increase of the EFSI participation in the Guarantee Facilities through the EFSI SMEW is foreseen to achieve overall levels as follows:

- In respect of **InnovFin SMEG**: up to EUR 880m<sup>1</sup> in the form of permanent unfunded second loss piece. Thanks to this and also an additional contribution of EUR 150 million of EU budget, the overall size of the facility will increase from EUR 1.06bn up to EUR 2.09bn, giving rise to indicatively EUR 9.8bn of guarantees, which in turn would generate up to EUR 20bn of loan financing for the benefit of innovative companies;
- In respect of **COSME LGF**: up to an amount of EUR 550m in the form of permanent unfunded second loss piece. As a result, the overall size of the facility will increase from EUR 0.9bn up to EUR 1.45bn, expecting to generate up to EUR 42bn of loan financing for the benefits of eligible SMEs;
- In respect of **EaSI GFI**: up to an amount of EUR 100m in the form of permanent unfunded second loss piece. As a result, the overall size of the facility will increase from EUR 96m up to EUR 196m, expecting to generate up to EUR 1.5bn of loan financing for the benefit of eligible micro-enterprises, micro-borrowers and social enterprises; and
- In respect of **CCS GF**: an enhancement by EFSI is foreseen for the first time by means of an additional EUR 60m of risk taking capacity, reaching a total facility size of approximately EUR 181m, expecting to generate more than EUR 1bn of loan financing for SMEs operating in the cultural and creative sectors. CCS GF operations that have been signed before the effective date of the EFSI Increase may be amended in order to reflect EFSI requirements and to be reported as EFSI operations.

**The aggregate EFSI participation in the Guarantee Facilities under the EFSI SMEW will amount to EUR 1.59bn and is expected to result in more than EUR 30bn of additional mobilized investments at the level of final recipients.**

The above constitute an amendment of the already approved EIF-SME Window Frontloading Products and are interlinked, and should thus be considered together.

The EIF Board of Directors approved the increase of these Guarantee Facilities on 15th May 2017.

## 3. Additionality

The additionality of the EFSI increase lays in the supplementary volume of financing that will be made available to EU policy areas identified as suffering from market failures. In particular EFSI will enable EU central instruments to scale up their financial support to a wide variety of final beneficiaries, ranging from micro-enterprises to SME, small midcaps and social enterprises, in a critical crisis period.

## 4. Risk sharing mechanism

The EFSI Increase will be implemented based on the principle of partial mutualisation of losses between the first loss piece provided by the EC central mandates and EFSI. The mechanism of dynamic substitution of guarantee calls between EFSI and EU contributions will ensure that the eligibilities set out under the respective legal bases will be respected while achieving the efficiency of use of underlying resources and facilitating rollout.

---

<sup>1</sup> A flexible allocation of EUR 100m is envisaged among the EFSI Equity Product Sub-window 2 and InnovFin SMEG, subject to the availability of additional budget provided by the Commission and the origination speed of the InnovFin Equity instrument.

As a result, the first loss pieces from Horizon 2020, COSME, EaSI, CCS will be used to pay all the guarantee calls from EFSI operations and non-EFSI operations while the EFSI second loss piece will effectively (as a result of a dynamic process) cover guarantee calls with respect to EFSI operations only.

## 5. Legal Structure

The EFSI Increase will be implemented through the amendments of the respective delegation agreements, the amendment of the EFSI Agreement and of the back-to-back agreement between the EIB and the EIF in respect of the EFSI guarantee and be subject to the approval of the EFSI Steering Board and of the EFSI Managing Director (after consultation with the EFSI Investment Committee).

## 6. Time horizon

The respective origination periods of the Guarantee Facilities will remain unchanged, save for the fact that the EFSI operations can be entered into by 30 June 2020 provided that they have been approved by EIF by 5 July 2019.

The increase of the EFSI contribution will become effective for each relevant financial instrument once the relevant delegation agreement, the EFSI agreement and the EIB/EIF guarantee agreement have been amended and the EFSI Steering Board together with the EFSI Managing Director (after consultation with the EFSI Investment Committee) have given approval.

### Overview of the sizes of the Guarantee Facilities after the EFSI Increase:

<b>Guarantee Facility</b>	<b>Size</b>	<b>Relevant Agreements: EFSI Agreement and the following Delegation Agreements</b>
<b>InnovFin SME Guarantee Facility ("InnovFin SMEG")</b>	up to EUR 2.09 <sup>2</sup> bn, out of which EFSI participation of EUR 880m	Delegation agreement entered into between the EU, the EIB and the EIF on 12 June 2014, as amended from time to time (the " <b>Horizon 2020 Delegation Agreement</b> ")
<b>COSME Guarantee Facility ("COSME LGF")</b>	up to EUR 1.45bn, out of which EFSI participation of EUR 550m	Delegation agreement entered into between the EU and the EIF on 22nd July 2014, as amended from time to time (the " <b>COSME Delegation Agreement</b> ")
<b>EaSI Guarantee Financial Instrument ("EaSI GFI")</b>	up to EUR 196m, out of which EFSI participation of EUR 100m	Delegation agreement entered into between the EU and the EIF on 22 June 2015, as amended from time to time (the " <b>EaSI Delegation Agreement</b> ")
<b>Cultural and Creative Sector Guarantee Facility ("CCS GF")</b>	up to EUR 181m, out of which EFSI participation of EUR 60m	Delegation agreement entered into between the EU and the EIF on 30 June 2016 (the " <b>CCS Delegation Agreement</b> ")

<sup>2</sup> Excluding the SME initiative, which is the same budgetary envelope with InnovFin SMEG but a separate financial instrument.