

**FOR  
DECISION**

EUROPEAN FUND FOR STRATEGIC INVESTMENTS  
STEERING BOARD

**EIF - SME WINDOW PRODUCTS**

Adopted by Written Procedure with expiry date 06/04/2020

*Joint proposal by EC, EIB and EIF*

STRICTLY CONFIDENTIAL

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

## EIF - SME WINDOW PRODUCTS

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The purpose of this note is to request approval from the aforementioned governing bodies with respect to:

1. an increase of the EFSI enhancement to InnovFin SMEG by EUR 200m for the purpose of COVID-19 support, leading the total EFSI contribution to the facility to EUR 1.4bn
2. an increase by EUR 214m the EFSI allocation to COSME LGF for the purpose of COVID-19 support, leading the total EFSI contribution to the facility to EUR 1.484m
3. a repurposing of EUR 100 million of EFSI enhancement to InnovFin SMEG and EUR 500 million of EFSI enhancement to COSME LGF, already approved by the EFSI governing bodies<sup>1</sup>, towards COVID-19 support.

A separate request has been submitted to the EFSI Steering Board in relation to the transfer of EUR 250m from the EFSI Infrastructure and Innovation Window ("IIW") towards the EFSI SMEW, which will result in an equivalent increase to the overall EFSI allocation to the EFSI SMEW, leading to a total EFSI SMEW allocation of EUR 6.75bn in line with Article 11(3) of the EFSI Regulation.

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<sup>1</sup> 17 October 2019 Document 23-2019

## 1. Background

With the execution of the Fifth Amendment to the EFSI Agreement, the EC contribution to the EFSI SMEW, totaling EUR 6.5bn<sup>2</sup>, has been entirely allocated to existing and new SMEW Products.

The figure below provides for the EFSI SMEW allocation further to the last approval granted by the EFSI Steering Board and Managing Director:

Overall EFSI contribution from the European Commission EUR 6.5bn	Total maximum EFSI allocation (EUR m)
<i>InnovFin SMEG</i>	1,200
<i>COSME LGF</i>	1,270
<i>EFSI SMEW Equity Product Sub-Window 1</i>	2,320
<i>EFSI SMEW Equity Product Sub-Window 2</i>	430
<i>EFSI Private Credit Tailored for SMEs</i>	350
<i>EaSI GFI</i>	300
<i>CCS GF</i>	130
<i>EFSI Combination Product</i>	150
<i>Skills &amp; Education Product</i>	50
<i>European Scale Up Action for Risk Capital (ESCALAR)</i>	300
<b>Total EFSI contribution to New Products</b>	350
<b>Total EFSI contribution allocated to date</b>	<b>6,500</b>

## 2. The role of EFSI in the COVID-19 response

The current market crisis triggered by the spread of Covid-19 has led to the biggest market decline since the financial crisis in 2008. Whilst the full impact on the global economic landscape can only be assessed once the virus spread has been contained and timeframes for lockdowns in countries across the world can be quantified, the anticipated damage to the ecosystem calls for an immediate response.

In this respect, the European Commission, EIB and EIF have identified the possibility to redirecting available EFSI resources towards existing guarantee instruments managed by EIF that can mobilise a significant financing volume to the benefit of hard-hit companies. For this purpose, approximately EUR 1bn will be allocated in aggregate to the Innovfin SME Guarantee (“InnovFin SMEG”) and the COSME Loan Guarantee Facility (“COSME LGF”), with a view to mobilise around EUR 8bn of additional financing.

The reallocation of EFSI resources for an amount of approximately EUR 1bn will be ensured as follows:

- a. **EUR 600m** under the EIF EFSI SMEW has become effective via the 5th Amendment to the EFSI Agreement<sup>3</sup>, which provides for an increase of the EFSI contribution to InnovFin SMEG and COSME LGF by EUR 100m and EUR 500m respectively. These top-ups were already approved by the EFSI governance bodies but the additional capacity made available will be re-focused on the COVID-19 response;

<sup>2</sup> The EFSI SMEW contribution allocated to date has been approved by the EFSI governing bodies on: (i) 21 July 2016, Document 21-2016, (ii) 10 July 2017, Document 10-2017, (iii) 18 October 2018, Document 36-2018, (iv) 17 October 2019 Document 23-2019

<sup>3</sup> “EFSI SB (23-2019) - EIF SME Window Products”, approved by EFSI Steering Board and EFSI Managing Director on 17 October 2019.

- b. **EUR 414m** will be made available within the 6th Amendment to the EFSI Agreement by (i) redirecting EUR 250m from the EFSI IIW towards EFSI SMEW (approval requested via a separate note), and (ii) reallocating unused amounts from existing SMEW products.

This budget will result in additional guarantee capacity of EUR 1.5 billion on the side of InnovFin SMEG and EUR 714 million of additional cap amount on the side of COSME LGF. It will be dedicated to covering working capital finance transactions for intermediaries established in EU Member States.

### 3. Guarantee Facilities & other amendments

The envisaged additional EFSI allocation will therefore increase the overall capacity of the Guarantee Facilities as well as the overall allocation to the EFSI SMEW as follows:

- a) The EFSI resources earmarked for existing SMEW products, namely the investor protection product under EFSI Private Credit Tailored for SMEs Product and of the EFSI Combination Product will be reduced from EUR 350m to EUR 250m and from EUR 150m to EUR 86m respectively, freeing up an aggregate amount of EUR 164m;
- b) EUR 250m will be transferred from EFSI IIW to SMEW (approval requested via a separate note)
- c) The sum of (a) and (b), i.e. EUR 414m, will be allocated as follows:
  - EUR 200m to increase the EFSI enhancement of the InnovFin SMEG, which will be complemented by an increase in EIF's risk taking via the senior tranche
  - EUR 214m to increase the EFSI enhancement of the COSME LGF

Further to such reallocation, the EFSI contribution to SMEW will increase by EUR 250m and the EFSI contribution to existing SMEW products distributed as follows:

Overall EFSI contribution from the European Commission	Allocated to date (EUR m)	New EFSI allocation (EUR m)	Total EFSI allocation (EUR m)
<i>InnovFin SMEG</i>	1,200	200	1,400
<i>COSME LGF</i>	1,270	214	1,484
<i>Skills &amp; Education Guarantee Pilot</i>	50		50
<i>EFSI Private Credit Tailored for SMEs</i>	350	-100	250
<i>EaSI GFI</i>	300	-	300
<i>CCS GF</i>	130	-	130
<i>EFSI SMEW Equity Product Sub-Window 1&amp;2</i>	2,750		2,750
<i>EFSI Combination Product</i>	150	-64	86
<i>ESCALAR</i>	300		300
<b>Total EFSI contribution</b>	<b>6,500</b>	<b>250</b>	<b>6,750</b>

Furthermore, with a view to optimize the use of the EU Guarantee, a reallocation mechanism is foreseen for ESCALAR pilot, based on which, should the EFSI contribution not be allocated to potential ESCALAR operations in full by 30 June 2020, then the unused amount shall be transferred to COSME LGF Enhancement, unless otherwise agreed between the EC, the EIB and the EIF.

#### **4. *Additionality***

COSME LGF and InnovFin SMEG shall continue to provide support to SMEs and innovation and digitalisation driven SMEs and Mid-caps respectively. Furthermore, as part of the policy response to address the economic disruption caused by COVID-19, EFSI is dedicating additional resources to support working capital finance, as further set out in the H2020 and COSME delegation agreements.

In addition to the expected impact of about EUR 5bn related to the EUR 600m already foreseen in the 5th Amendment to the EFSI Agreement, this further top-up in SMEW Products is expected to mobilise about EUR 3bn of investment lending, bringing the total to the announced up to EUR 8bn as COVID-19 response.

Therefore, the additionality of the EFSI contribution lies in supplementary volume of financing that will be made available via InnovFin SMEG and COSME LGF to scale up their financial support to a wide variety of final beneficiaries heavily affected by the current economic crisis.

The implementation of these additional resources will also entail an enhanced credit risk coverage of working capital financing to final beneficiaries thanks to a higher guarantee rate, which in turn will translate in a lower multiplier effect of the two facilities.

#### **5. *Risk sharing mechanism***

The respective risk sharing mechanisms for the Guarantee Facilities will remain unchanged vis a vis the existing provisions:

- As regards of Innovfin SMEG, EIF will increase its risk taking given the EUR 200m increase in the credit enhancement coming from EFSI
- With respect to COSME LGF, there is no EIF contribution, i.e. the risk is 100% borne by the combination of COSME budget and EFSI.

#### **6. *Legal Structure***

The SMEW increase will be implemented through:

- the amendments of the respective delegation agreements in the case of the Innovfin SMEG and COSME LGF;
- 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 EIF Board of Directors, the EIB Board of Directors, the EFSI Steering Board and of the EFSI Managing Director (after consultation with the EFSI Investment Committee).

#### **7. *Time horizon***

The EIF shall be entitled to enter into EFSI operations during the EFSI investment period ending on 31st December 2022, provided that they have been approved by EIF by 31st December 2020. Further timing restrictions may apply to the deployment of the specific COVID-19 specific measures, as further specified in the COSME and InnovFin delegation agreements. The increase of the EFSI contribution will become effective for each relevant Guarantee Facility once the relevant delegation agreement, the EFSI agreement and the EIB/EIF SMEW 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.