

EUROPEAN INVESTMENT BANK

SB/09/16

28 January 2016

Document 04-2016

EUROPEAN FUND FOR STRATEGIC INVESTMENTS
STEERING BOARD

EIF – SME Window Frontloading Products

Joint proposal by EC and EIF

Questions concerning this note should be referred to
EFSI Secretariat: tel: +352 4379 82130; e-mail: EFISecretariat@eib.org

EIF - SME Window Frontloading Products

The SME Window implemented through EIF is governed by EIF's governing bodies for each transaction approval. However SME Window products have to be agreed by the EFSI Steering Board, jointly with the Managing Director, after consultation with the Investment Committee.

The purpose of this note is to describe the first two products under the EFSI SME Window (“COSME Loan Guarantee Facility Enhancement” and “InnovFin SME Guarantee Enhancement”) and to seek their approval by the EFSI Steering Board, jointly with the EFSI Managing Director, after consultation with the EFSI Investment Committee, as required by the EFSI Regulation and the EFSI Agreement for such products and the coverage by the EU Guarantee of the relevant transactions.

1. Background

The Investment Plan for Europe (IPE) is a policy initiative presented by European Commission President Jean-Claude Juncker in November 2014 that aims to break the vicious circle of declining investment-spending in Europe and thereby contribute to a stronger European economy going forward.

The Plan has several elements - calling on EU governments to pursue economic reforms and fiscal consolidation, to lift barriers to investment and complete the Single Market, establishing an European Investment Advisory Hub (EIAH) – but also includes an important financial component: a new European Fund for Strategic Investments (EFSI) to be deployed by the EIB Group.

The EFSI's EIB contribution of EUR 5bn and the EU guarantee of EUR 16bn should result in a total investment volume in strategic projects of at least EUR 315bn due to EFSI's potential to mobilise private and public investment. Within this framework, the EIF will work to improve access to risk finance for SMEs (SME Window) and mid-caps, while the EIB will focus on operations under EFSI's infrastructure and innovation window.

Under EFSI, EU budgetary resources will be committed to guarantee eligible financing projects originated by the EIB and the EIF (the EU Guarantee).

The EFSI SME Window initially consists of up to EUR 2.5bn provided by the EIB under its own risk (to increase the RCR mandate), and up to EUR 2.5bn provided by the EIB under EFSI and backed by the EU guarantee) to support a number of products to be implemented through the EIF. The total financing under the SME Window will support an investment volume of at least EUR 75bn for the benefit of SMEs and mid-caps.

The first deployment phase of the EFSI SME Window comprises the following actions:

- a) Make available to EIF already in 2015 the 2016-2020 budget capacity of COSME LGF and InnovFin SMEG (by deploying EUR 1.25n of the EU guarantee which would however gradually be released from 2016 onwards when EU budget commitments under these two programmes become available); and
- b) Increase the RCR mandate by EUR 2.5bn (from EUR 7 to EUR 9.5bn).

Additional new products forming the 2nd phase of the EFSI SME Window shall be developed in the course of 2016 and 2017 (so that the overall EU guarantee exposure at any time stays below EUR 2.5bn).

Approval is sought for the COSME Loan Guarantee Facility Enhancement and InnovFin SME Guarantee Enhancement as set out in the EFSI Agreement and summarized below.

2. Leveraging COSME LGF and InnovFin SMEG under the SME Window of EFSI

2.1 COSME LGF and InnovFin SMEG

The investment and guarantee scope foreseen under COSME LGF and InnovFin SMEG are within EU's core policy to support EU-28 SMEs by improving their access to finance through a wide range of selected financial intermediaries.

COSME LGF and InnovFin SMEG delegation agreements were signed in the summer of 2014 between EIF and the European Commission.

Through COSME LGF, EIF offers capped guarantees and counter-guarantees free of charge, to selected financial intermediaries (e.g. guarantee institutions, banks, leasing companies) to help them to provide loans and leases to SMEs with limited access to finance. The guarantee covers up to 50% of any final loss on a new eligible loan, lease or guarantee, subject to the cap rate, that is granted during, typically, a two to three-year period. By sharing the credit risk, the COSME guarantees allow the financial intermediaries provide finance to more risky SMEs and offer more risky debt financing than they would otherwise do and, accordingly, enhance access to finance. The detailed terms of COSME LGF can be found here:

http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/call/Annex%20III-%20COSME%20COEI-%20Guarantee%20Term%20Sheet%20-%20final.pdf

Under InnovFin SME Guarantee, EIF provides EU-supported guarantees or counter-guarantees to selected financial intermediaries to cover for potential losses on a portfolio of SME loans. The guarantee covers up to 50% of the loss on each new eligible loan, bond or lease that is originated typically during a two-year period. Thanks to the reduced credit risk and lower capital consumption achieved through the guarantee, EIF encourages financial intermediaries to extend new debt financing to innovative enterprises on more attractive terms. The guarantee is offered on favourable terms and financial intermediaries are therefore required to transfer part of the financial benefit to their clients. The detailed terms of InnovFin SME Guarantee can be found here:

http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/call/Annex%20II%20Indicative%20Guarantee%20Termsheet.pdf

2.2 Frontloading of COSME LGF and InnovFin SMEG under the SME Window of EFSI

The high demand by financial institutions under the two financial products would create stop-and-go situations every year if EIF's origination had to stop and wait for the annual EU budget to be committed under the respective programmes. As of March 2015, EIF had received 24 applications in 17 countries under InnovFin SMEG and 25 applications in 17 countries under COSME LGF, which would have consumed the EC budget before mid-year 2015. In practice, in the absence of frontloading thanks to EFSI, applications received would not have resulted and could not result in transaction approvals until the EC provides the next annual budget to EIF under the respective programmes. Thanks to the EU guarantee under EFSI, the frontloading of 2016-2020 investment

capacity under both COSME LGF and InnovFin SMEG enables an accelerated implementation in a period of market failures, especially over the years 2015-2018.

The 2016-2020 budget frontloading of COSME LGF amounts to EUR 500m ("COSME LGF Enhancement"). The 2016-2020 budget frontloading of InnovFin SMEG amounts to EUR 750m ("InnovFin SMEG Enhancement"). The frontloading amounts will gradually decrease as further EU budget will be committed. The released EU guarantee capacity under EFSI will be used for other products under the EFSI SMEW window.

2.3 Additionality

Such frontloading of InnovFin SMEG and COSME LGF, ensuring speeding-up and additional financing made available to EU policy areas identified as suffering from market failures would not have been possible without the EU Guarantee under EFSI. By intervening when the COSME LGF and InnovFin SMEG budgets were exhausted, EFSI has enabled additional SMEs and midcaps to be financed at a critical crisis period.

3. EIF risk warehousing

By decision of the EIF Board of Directors (Board) of 20 April 2015, the Board approved the implementation of COSME LGF Enhancement and of InnovFin SMEG Enhancement as first products to be deployed by EIF under EFSI with the coverage of the EU Guarantee.

It was further decided to anticipate the deployment of these products pending the finalisation of the EFSI Regulation and contractual framework. For this purpose, the Board authorised a temporary risk warehousing by EIF for COSME LGF and InnovFin SMEG under EFSI up to an amount of respectively EUR 150m and EUR 350m and until 31 December 2015, when the coverage under the EFSI EU Guarantee was initially expected to be in place, provided for by decisions of the Commission under Article 24 of the EFSI Regulation. By decision of 18 December 2015, the Board further extended the approval of the risk warehousing by EIF until 31 March 2016, when the full coverage under the EFSI EU Guarantee is now expected to be in place.

As the amount of EFSI eligible deals was increasing fast, European Commission decisions extending the EFSI EU Guarantee coverage have been adopted. Up to the date, three Commission Decisions covering 11 COSME LGF transactions and 18 InnovFin SMEG transactions were adopted. The remaining Commission Decisions are undergoing the internal approval procedure.

4. Drawing(s) under EFSI/EIB Guarantee

For such frontloading, EIF would have the right to draw from the EIB (under a guarantee granted to EIF documented in the EFSI Agreement and the back-to-back EIB-EIF EFSI Agreement) any such amounts as may be needed to pay guarantee calls in excess of the amounts cumulatively received from the EC under the annual EU budget appropriations of COSME LGF and InnovFin SMEG. EIB in turn is covered by the EU Guarantee contained in the EFSI Agreement. Such a drawdown from EFSI resources may happen but is considered to have a low likelihood, as the respective EU programme resources paid in (budgetary payment appropriations) should be exhausted first.

The EU Guarantee in relation to such frontloading is expected to be reduced by each yearly appropriation of EU budget made available to EIF under COSME LGF and InnovFin SMEG.

It is also expected that any drawing under the EIB-EIF EFSI Guarantee and the EU Guarantee would be repaid from the upcoming yearly COSME LGF and InnovFin SMEG appropriations.

5. Legal Structure

The EFSI Regulation defines the conditions under which the EU budget is made available to support the EFSI investments through the EIB Group. The detailed terms of the EU Guarantee (and therefore the terms under which EIB makes financing/risk cover available to EIF for EFSI actions and including the detailed descriptions of the two products hereby presented for) have been set out in the EFSI Agreement signed between the EIB and the EC on 22 July 2015.

On the same day, EIB and EIF have entered into a back-to-back EIB-EIF EFSI Agreement detailing the terms under which EIF delivers EFSI actions for the SME Window and benefit from the coverage of the EU Guarantee for the SME Window.

Also on the same day, the amended Delegation Agreements for COSME LGF and InnovFin SMEG for the purpose of the frontloading have been signed between EC and EIF (and EIB for InnovFin).

The SME Window implemented through EIF is governed by EIF's governing bodies for each transaction approval. However SME Window products have to be agreed by the EFSI Steering Board, jointly with the Managing Director, after consultation with the Investment Committee.

6. Key deliverables

The overall volume of investments triggered by such frontloading shall reach potentially up to EUR 24bn in the EU-28 Member States once the EFSI SME Window is fully deployed under COSME LGF and InnovFin SMEG.

As of 31 December 2015, EIF had signed 18 COSME LGF Enhancement and 21 InnovFin SMEG Enhancement requiring an EFSI support of EUR 413m (out of EUR 1.25bn) in 18 countries¹ expected to mobilize investments of EUR 10.5bn (i.e. a leverage of 25x the EFSI resources) and benefit to more than 80,000 SMEs and small mid-caps. The list of transactions signed is set out in Annex.

The pipeline remains strong and a full utilization of COSME LGF Enhancement and InnovFin SMEG Enhancement capacity is expected before end 2017.

7. EFSI specifics into COSME LGF and InnovFin SMEG

The frontloading of COSME LGF and InnovFin SMEG brings no modifications to the products, save for the geographical focus, time horizon and the visibility requirements.

EFSI geographical focus is EU-28 Member States only. However, InnovFin SMEG and COSME LGF existing geographical focus (which extends beyond EU-28 Member States) shall remain unchanged and only transactions with intermediaries in EU-28 will be reported under EFSI and will benefit from the EU Guarantee under EFSI.

With regard to time horizon, there was no change compared to InnovFin SMEG and COSME LGF, with the following caveat: EFSI supported transactions shall be approved at the latest until July 2019, i.e. 4 years after EFSI Regulation entering into force, and signed at the latest until July 2020; any further transactions under InnovFin SMEG and COSME LGF signed after such date (until 30 June

¹ Belgium, Bulgaria, Czech Republic, Denmark, Estonia, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, United Kingdom

2022 for InnovFin SMEG and 30 June 2021 for COSME LGF as per the respective delegation agreements) shall therefore not count in EFSI supported transactions.

Lastly, transactions under COSME LGF Enhancement and InnovFin SMEG Enhancement have additional visibility requirements, in the sense where financial intermediaries have to mention the combined EU and EFSI support in the contractual documentation with beneficiaries.

ANNEX : list of transactions signed under InnovFin SMEG Enhancement and COSME LGF Enhancement (as of 31 December 2015)

EURm

Report as of: Dec 2015

InnovFin SMEG Financial Intermediaries

Name	Signature Date	Country / Region	Signature	of which EFSI*	Max Portf. Volume	Mobilized Investments (est.)	Multiplier	
Ceska Sportelna IFSMEG 2015	Mar 2015	Czech Republic	50.0	10.0	100.0	140.0	14.0	**
Komerční Banka IFSMEG 2015	Mar 2015	Czech Republic	75.0	15.0	150.0	210.0	14.0	**
Bpifrance financement start-up IFSMEG 2015	Apr 2015	France	40.0	8.0	100.0	140.0	17.5	
Bpifrance financement PI FEI IFSMEG 2015	Apr 2015	France	160.0	32.0	320.0	448.0	14.0	
CREDEM IFSMEG 2015	May 2015	Italy	110.0	22.0	220.0	308.0	14.0	
ING Lux IFSMEG 2015	May 2015	Luxembourg	25.0	5.0	50.0	70.0	14.0	**
Idea Bank InnovFin 2015	May 2015	Poland	9.7	1.9	19.4	27.1	14.0	**
Belfius IFSMEG 2015	May 2015	Belgium	50.0	10.0	100.0	140.0	14.0	**
Santander UK IFSMEG 2015	Jun 2015	United Kingdom	69.0	13.8	138.0	193.2	14.0	
Bank of Ireland IFSMEG 2015	Jun 2015	Ireland	50.0	10.0	100.0	140.0	14.0	**
BANIF - IFSMEG 2015	Jun 2015	Portugal	10.0	2.0	20.0	28.0	14.0	
BIL Luxembourg IFSMEG 2015	Jun 2015	Luxembourg	30.0	6.0	60.0	84.0	14.0	
BPER - IFSMEG 2015	Jul 2015	Italy	50.0	10.0	100.0	140.0	14.0	
Novo Banco IFSMEG 2015	Jul 2015	Portugal	100.0	20.0	200.0	280.0	14.0	
Sowalfin IFSMEG 2015	Sep 2015	Belgium	10.0	2.0	20.0	40.0	20.0	
BCP Millennium IFSMEG 2015	Sep 2015	Portugal	100.0	20.0	200.0	280.0	14.0	
Barclays UK IFSMEG 2015	Sep 2015	United Kingdom	68.1	13.6	136.1	190.6	14.0	
MCTAA - IFSMEG 2015	Oct 2015	Italy	15.0	3.0	30.0	42.0	14.0	
Inveready IFSMEG 2015	Nov 2015	Spain	3.3	0.7	6.6	9.2	14.0	
ING Belgium - IFSMEG 2015	Dec 2015	Belgium	50.0	10.0	100.0	140.0	14.0	
CDP SACE IFSMEG 2015	Dec 2015	Italy	150.0	30.0	300.0	840.0	28.0	
TOTAL (21)			1,225.1	245.0	2,470	3,890	15.9	

- Counter-guarantees

* Estimate : 20% of guaranteed amount

** EFSI-eligible signed transactions pending from executing their contract amendments.

EURm

Report as of: Dec 2015

COSME LGF Financial Intermediaries

Name	Signature Date	Country / Region	Signature	of which EFSI	Max Portf. Volume	Mobilized Investments (est.)	Multiplier	
BGK - COSME LGF (SMEG 2014)	Jul 2015	Poland	8.7	8.7	193.4	338.4	>28	
GE Capital Equipment Finance - COSME LGF (SMEG 2014)	Jul 2015	France	11.4	11.4	440.0	616.0	>28	
Idea Bank - COSME LGF (SMEG 2014)	Jul 2015	Poland	4.7	4.7	84.7	118.5	25.5	
CREDEM - COSME LGF (SMEG 2014)	Jul 2015	Italy	13.8	13.8	550.0	770.0	>28	
CMZRB - COSME LGF (SMEG 2014)	Jul 2015	Czech Republic	5.7	5.7	114.6	229.2	>28	
CIBANK - COSME LGF (SMEG 2014)	Jul 2015	Bulgaria	4.1	4.1	102.3	143.2	>28	
Qredits - COSME LGF (SMEG 2014)	Sep 2015	Netherlands	1.6	1.6	25.0	26.3	16.2	*
Sowalfin - COSME LGF (SMEG 2014)	Sep 2015	Belgium	3.7	3.7	70.0	196.0	>28	
KfW 2 - COSME LGF (SMEG 2014)	Sep 2015	Germany	64.0	64.0	1,000.0	1,400.0	21.9	
Bürgerschaftsbanken - COSME LGF (SMEG 2014)	Sep 2015	Germany	18.0	18.0	400.0	933.3	>28	
Flemish Participation Fund - COSME LGF (SMEG 2014)	Oct 2015	Belgium	3.4	3.4	40.0	56.0	16.5	
RLPL - COSME LGF (SMEG 2014)	Nov 2015	Poland	3.2	3.2	133.9	187.4	>28	
SEF - COSME LGF (SMEG 2014)	Nov 2015	Slovenia	8.1	8.1	180.0	387.7	>28	
KredEx - COSME LGF (SMEG 2014)	Nov 2015	Estonia	4.5	4.5	120.0	336.0	>28	
iwoca - COSME LGF (SMEG 2014)	Nov 2015	United Kingdom	1.4	1.4	56.8	79.5	>28	
Vaekstfonden - COSME LGF (SMEG 2014)	Dec 2015	Denmark	3.6	3.6	36.2	67.6	18.7	
K&H - COSME LGF (SMEG 2014)	Dec 2015	Hungary	2.4	2.4	96.3	134.8	>28	
CDP Group - COSME LGF (SMEG 2014)	Dec 2015	Italy	6.0	6.0	200.0	560.0	>28	
TOTAL (18)			168.3	168.3	3,843	6,580	>28	

- Counter-guarantees

* Qredits: Mobilized Investments show only 75% regarding EIF, as a 25% belongs to the EIB co-investment.