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Implementation of the new CIP financial instruments

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The presentation was prepared by EIF. The information included in this presentation is based on figures available for mid-February 2008. They are subject to change and should not be considered as a guarantee of accuracy or completeness. EIF may change the data without notice.

**EIF at a glance**

EU specialised financial institution for SMEs, acting through: Venture Capital (fund-of-funds), Guarantees for SME portfolios and financial engineering

AAA/Aaa/AAA

- MDB (multilateral development bank) status
- 0% weighting (CRD/Basile II)

Subscribed capital: EUR 3 bn

- EIB: 66 %
- EU: 25 %
- Fin. institutions: 9 %

Aaa-rated European institution with MDB status  
Need to generate return on equity

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**EIF geographic reach**

- EU Member States
- Members of EFTA (Norway, Iceland, Liechtenstein, Switzerland)
- Candidate and Potential Candidate Countries (Currently: Turkey, Western Balkans...)

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**Resources and objectives**

European Investment Bank, European Union, 3rd Party Mandates

Venture capital funds and guarantees

and generate adequate return on equity

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**The challenge: financing SMEs in Europe**

99% of businesses in the EU are SMEs

- 32m SMEs account for 55% (EU15) and 72% (new EU MS) of employment
- 91% are micro-enterprises
- Support to SMEs: one of the top six EIB Group priorities
- Participate to EU common goal to enhance growth, employment, innovation and competitiveness

Small enterprises: 7%, 1%, 1%

Micro enterprises: 91%

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**How did EIF get the CIP mandate?**

- October 2006: European Parliament and Council Decision 1639/2006/EC establishes the Competitiveness and Innovation Framework Programme (CIP)
- September 2007: EC mandates the management of the CIP financial instruments to EIF
- Under the mandate agreement, EIF acts for the EC - all operations are funded with the CIP budget (total envelope for VC and Guarantees: EUR 1.1 bn)

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## Competitiveness and Innovation Framework Programme (CIP)

### Venture Capital

- High Growth Innovative Companies Scheme
  - Early- and expansion-stage VC funds
  - Co-investments in side-funds with business angels
  - Eco-Tech equity window
- Capacity Building Scheme (Seed Capital Action and partnership with international finance institutions)

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## Competitiveness and Innovation Framework Programme (CIP)

### Guarantees

- 4 different guarantees products
  - Loans and leases
  - Micro credit
  - Equity and quasi equity
  - Securitisation

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## CIP GIF

- Action to support, improve, encourage and promote
  - Access to finance for startup and growth of SMEs
  - All forms of innovation, including
  - All forms of innovation, including eco-innovation
  - Cross-border cooperation between SMEs
  - Entrepreneurship and innovation culture
- Reduction of equity gaps and risk capital market gaps

Venture Capital

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## COUNTRIES COVERED BY CIP GIF

5 DEALS SIGNED (March 2009)

Baltic States  
Benelux  
Finland  
France  
Germany  
Ireland  
Italy

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## CIP GIF investment policy

- Focus
  - SMEs in Participating Countries
- Core to the programme
  - Definition of Eligible Final Beneficiary (EFB)
    - Innovative SME with high growth potential.
    - Established and operating in participating country.
    - Established or operating for less than 10 years (GIF 1), or no age limit (GIF 2)
  - EIF investment based from % to Eligible Final Beneficiary

Tech Transfer/ Incubators	Business Angels Side Funds, Pre Seed	Seed Stage	Early Stage	Expansion Development Capital	Mid Stage	Later stage Buy out	Stock Exchange/ Public Equity
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GIF1 INVESTMENT FOCUS      GIF2 INVESTMENT FOCUS

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## GIF 1 – Early stage

- May include Technology Transfer, co-investment with funds linked to business angels
- EIF investment = 25% if fund 100% to EFBs. Min. 10%, max. 50%
- Four investments made to date, covering Benelux, Finland, France, Germany, Ireland, Italy, and including one eco-innovation fund

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## GIF 2 – Expansion stage

- Funds with focus on expansion capital for innovative SMEs (avoiding MBOs/asset stripping)
- EIF investment = 15% if fund 100% to EFBS. Min. 7.5%, max. 25%
- One investment made to date, covering the Baltic States

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## CIP SME Guarantee Facility 1/2

**Guarantees & Securitisation**

- WHO?
  - Implementation via guarantee schemes, banks and leasing companies
  - Committed to SME financing and
  - Able to comply with the requirements under the Facility, especially enhanced access to finance
  - Select intermediaries with wide geographical cover in each country so that as many SMEs as possible have access
  - Minimum selection criteria (min. size, geographical reach, etc.)
  - Priority to national coverage

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## CIP SME Guarantee Facility 2/2

- WHERE?
  - EU Member States
  - Norway, Iceland and Liechtenstein
  - EU Candidate and Potential Candidate Countries (as and when necessary CIP agreements with the EC are concluded)

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## CIP SMEGF PARTICIPATING COUNTRIES

30 APPLICATIONS RECEIVED (March 2008)

Austria  
Belgium  
Bulgaria  
Czech Republic  
Finland  
France  
Germany  
Greece  
Hungary  
Ireland  
Italy  
Lithuania  
Slovenia  
Spain  
Sweden  
UK

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## Loan Guarantee Window (SMEs)

- Typically investment loans, leasing for tangible, intangible assets, business transfers
- Loan maturity: priority to financing above 18 months; 10 years of guarantee cover
- EIF Guarantee Rate: up to 50%
- Ranking: pari passu
- Guarantee Cap Rate: up to 10%
- Enhanced Access to Finance!
- Special rules for public schemes

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## Micro Credit Window (micro-enterprises)

- Investment finance, working capital (mainly for start-ups)
- Minimum loan maturity: typically 12 months; max. 5 years of guarantee cover
- Maximum loan amount: EUR 25,000
- EIF Guarantee Rate: up to 75%
- Guarantee Cap Rate: up to 20%
- Technical support: up to EUR 50 k
- Enhanced Access to Finance!
- Special rules for public schemes

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### Equity/Quasi-Equity Guarantee Window (SMEs)

- Mezzanine finance, quasi equity or equity to SMEs, with special focus on subordinated debt financing
- Maximum guarantee amount (the investment itself may be larger): EUR 500,000 (Equity Window)
- SMEs in seed or start-up phase, or operating for less than 10 years
- EIF Guarantee Rate: up to 50%
- Guarantee maturity: final maturity of up to 10 years
- Guarantee Cap Rate: up to 20%
- Enhanced Access to Finance!
- Special rules for public schemes

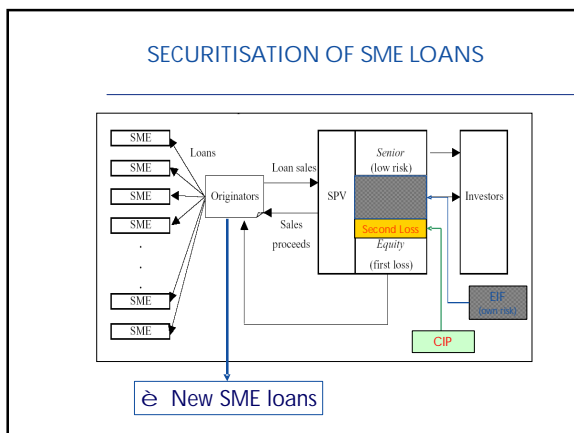
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### Securitisation Window (SMEs)

- SME Guarantee Facility covers securitisation for the first time
- Securitisation of SME loan portfolios:
  - cover for mezzanine and junior tranches
  - co-investment with EIF own resources possible
  - focus on smaller banks, new markets, multi-country and multi originator transactions
  - Cash / synthetic transactions
- Term: up to 10 years
- Guarantee fees will be charged
- Enhanced access to finance: to provide new loans to SMEs
- EU Requirements apply to the newly created ("Additional") Portfolio (reporting, visibility, audit rights etc)

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### Different structures: direct guarantee

- Promotional banks, commercial lenders, leasing companies, micro-lending institutions...
- Enhanced access to finance: possibility to launch new products (such as for eco innovation, start-ups, business transfer)

The diagram shows the 'Direct Guarantee' structure. An 'EIF Direct Guarantor' provides a '75% / 50% Guarantee' to a 'Lender Or Micro organisation'. The lender then provides a 'Loan / Lease' to an 'SME'.

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### Different structures: counter-guarantee

- Longer „chain“, more institutions involved
- Losses are reported with delay through long chain

The diagram shows the 'Counter-guarantee' structure. An 'EIF Counter Guarantor' provides a '50% Guarantee' to a 'Guarantee System'. The 'Guarantee System' then provides a '30-80% Guarantee' to 'Banks Lender', who in turn provides loans to 'SME'.

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### How to apply

- Interested institutions must send a formal application in line with the requirements
- All information available on [www.eif.org](http://www.eif.org)
- The website will be updated with further information (in case of new EU requirements, further news, announcements etc)

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## Conclusion

- n CIP is open for business until 2013
- n Innovative finance to finance innovation
- n SMEGF: sharing risk with Financial Institutions to help SMEs

## Contact

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[www.elf.org](http://www.elf.org)  
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## Q&As

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Thank you!