

## ANNEX 4 to the Call for Expression of Interest

### State aid schemes

#### I General provisions

1. These Regulations lay down conditions for granting state aid in the field of technology transfer (the seed capital funds) and in the field of risk capital (the start-up capital funds and risk capital funds):

- 1.1. financing and term of activity;
- 1.2. financial intermediaries, fund investors and funds;
- 1.3. unsupported sectors;
- 1.4. supported activities;
- 1.5. fund investments and investment receivers;
- 1.6. financial intermediary evaluation criteria;
- 1.7. aid cumulation rules.

2. Financing for the seed capital funds is granted in accordance with the Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid (published in the Official Journal of the European Union in 28 December 2006, No L 376) (hereinafter – the Commission Regulation No 1998/2006).

3. Financing for the start-up capital funds and risk capital funds is granted in accordance with the Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation) (published in the Official Journal of the European Union in 9 August 2008, No L 214/3) (hereinafter – the Commission Regulation No 800/2008).

4. According to Article 44 of the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, the established Holding fund will operate as a public investor in several newly-established funds (hereinafter – the funds).

5. According to the agreement signed on 16 July 2008 between the Government of the Republic of Latvia and European Investment Fund on implementation of the European Union structural fund holding fund (hereinafter – the Agreement on holding fund implementation), European Investment Fund implements the Holding fund.

6. In the seed capital funds, the Holding fund's investment amount will not exceed 6 300 000 *euro* (4 430 000 LVL at the Latvian Central bank currency exchange rate – 0,702804 LVL/*euro*), what corresponds to approximately 1 260 000 *euro* (890 000 LVL) per year, if the investments are divided equally during the whole investment period.

7. In the start-up capital funds, the Holding fund's investment amount will not exceed 16 200 000 *euro* (11 390 000 LVL at the Latvian Central bank currency exchange rate – 0,702804 LVL/*euro*), what corresponds to approximately 3 240 000 *euro* (2 280 000 LVL) per year, if investments are divided equally during the whole investment period.

8. In the risk capital funds, the Holding fund's investment amount will not exceed 42 420 000 euro (29 810 000 LVL at the Latvian Central bank currency exchange rate – 0,702804 LVL/euro), what corresponds to approximately 8 480 000 euro (5 960 000 LVL) per year, if investments are divided equally during the whole investment period.

9. Investments in the funds and investments in micro, small and medium enterprises can be made till 31 December 2013.

10. Within the seed capital funds, the responsible for calculation and granting procedure of *de minimis* aid granted to the investment receivers is the financial intermediary, who implements it in accordance with the regulatory enactments in the field of *de minimis* aid calculation and granting procedure, according to the Agreement with European Investment Fund.

11. For the purpose of these Regulations, micro, small and medium enterprises are persons who correspond to the definition set in Annex 1 of the Commission Regulation No 800/2008. For the purpose of these Regulations, partner persons correspond to the definition of partner enterprises set in Annex 1 of the Commission Regulation No 800/2008.

## **II Unsupported sectors**

12. Within the seed capital funds, aid is granted to all sector projects, excluding the following sectors and projects:

12.1. retail and wholesale;

12.2. insurance and financial intermediation;

12.3. commercial services (activities with real estates; lease of vehicles, machines and equipment, objects of individual-use, utilitarian objects and equipment);

12.4. gambling and betting;

12.5. manufacture, supply and trade of arms, tobacco, beer and alcoholic beverages;

12.6. banking services;

12.7. fishery and aquaculture covered by the Council Regulation (EC) No 104/2000 of 17 December 1999 on the common organization in fishery and aquaculture products;

12.8. primary production of agricultural products as listed in Annex I of the Treaty establishing the European Community;

12.9. processing and marketing of agricultural products as listed in Annex I of the Treaty establishing the European Community, in the following cases:

12.9.1. when the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the enterprises concerned;

12.9.2. when the aid is conditional on being partly or entirely passed on to primary producers;

12.10. export-related activities towards third countries or Member States, namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current expenditure linked to the export activity;

12.11. aid contingent upon the use of domestic over imported goods;

12.12. enterprises active in the coal sector, covered by the Council Regulation (EC) No 1407/2002 of 23 July 2002 on State aid to the coal industry;

12.13. for the acquisition of road freight transport vehicles granted to enterprises performing road freight transport for hire or reward;

12.14. enterprises in difficulty, as defined in Article 1 (7) of the Commission Regulation No 800/2008;

12.15. enterprises which are subject to an outstanding recovery order following a previous Commission Decision declaring an aid illegal and incompatible with the common market.

13. Within the start-up capital funds and risk capital funds, aid is granted to all sector projects, excluding the following sectors and projects:

13.1. retail and wholesale;

13.2. insurance and financial intermediation;

12.3. commercial services (activities with real estates; lease of vehicles, machines and equipment, objects of individual use, utilitarian objects and equipment).

13.4. gambling and betting;

13.5. manufacture, supply and trade of arms, tobacco, beer and alcoholic beverages;

13.6. banking services;

13.7. export-related activities towards third countries or Member States, namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current expenditure linked to the export activity;

13.8. aid contingent upon the use of domestic over imported goods;

13.9. processing and marketing of agricultural products as listed in Annex I of the Treaty establishing the European Community, in the following cases:

13.9.1. when the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the enterprises concerned;

13.9.2. when the aid is conditional on being partly or entirely passed on to primary producers;

13.10. enterprises active in the coal sector, covered by the Council Regulation (EC) No 1407/2002 of 23 July 2002 on State aid to the coal industry;

13.11. enterprises which are subject to an outstanding recovery order following a previous Commission Decision declaring an aid illegal and incompatible with the common market;

13.11. enterprises in difficulty, as defined in Article 1 (7) of the Commission Regulation No 800/2008.

### **III Financial intermediaries, fund investors and funds**

14. European Investment Fund will select the financial intermediaries in an open and transparent selection, ensuring free competition, as well as equal and fair treatment, complying with the Agreement on holding fund implementation.

15. European Investment Fund will select the financial intermediaries for the seed capital and start-up capital funds, using the evaluation criteria “Financial intermediary evaluation criteria in the field of technology transfer” (Annex 1).

16. European Investment Fund will select the financial intermediaries for the risk capital funds, using the evaluation criteria “Financial intermediary evaluation criteria in the field of risk capital” (Annex 2).

17. According to the criteria referred to in Article 15 and 16, European Investment Fund will evaluate the financial intermediaries’ fund management capability and suitability to undertake fund management task, as well as determine the level of fund management costs. In addition, for the financial intermediaries of the start-up capital funds and risk capital funds, European Investment Fund will evaluate capability to attract private financing.

18. The financial intermediaries will establish the funds as new, specially established legal persons. The fund’s capital will be used only for the purposes laid down in these Regulations.

19. The financial intermediaries will manage the funds, based on commercial principles. The aim of the start-up capital funds and risk capital funds is to profit.

20. The financial intermediaries and fund members (the fund investors) will sign agreements, which will stipulate that remuneration of the financial intermediary is linked to the fund’s business results, as well as stipulate the fund’s objectives, time schedule of fund investments and other conditions, as defined in the Agreement on holding fund implementation.

21. European Investment Fund will be the only investor in the seed capital funds, and other private investors will not be attracted. European Investment Fund will provide 100 per cent of the funds’ capital.

22. In the start-up capital funds and risk capital funds:

22.1. each financial intermediary will attract private investor capital in the amount of at least 30 per cent of the fund’s total amount;

22.2. each fund will invest at least 70 per cent of its investments in micro, small and medium enterprises in equity capital (ownership in enterprise as investor shares) or in the form of quasi-equity investments (financial instruments which holder’s profit is mainly dependant on enterprise’s profit or loss and which don’t have a collateral in case of default).

23. For the duration of the fund, fund management costs can not exceed, on a yearly average, 3 per cent of the capital contributed, unless a higher percentage proves necessary after a competitive tender.

24. Investor representatives will take part in the process of decision making, for example, being engaged in investor or consultative committee.

25. In fund management, the financial intermediaries will use best practise and perform control prescribed in the regulatory enactments, inter alia considering guidelines developed by European Private Equity and Risk Capital Association.

26. The funds will exist until all investments are realised, but not longer than as fixed by European Investment Fund.

27. The start-up capital funds' and risk capital funds' revenues will be distributed sequentially as follows:

27.1. proportionally among all the investors, until they will receive their initial investment, including the fund management costs;

27.2. proportionally, until the investors will receive 6 per cent yearly profit;

27.3. remaining will be divided among the private investors and financial intermediary.

#### **VI Seed capital funds' investments and investment receivers**

28. The aim of the seed capital funds is to improve technology transfer sector in Latvia.

29. Within the seed capital funds, investments can be received by micro, small and medium enterprises. The enterprises can not be registered in the Commercial register for longer than five years.

30. The primary place of business of the investment receivers has to be in Latvia.

31. Investments are made in the form of loan.

32. Investments are made to provide financing for research, evaluation and development of initial concept of product or business idea.

33. The fund investments can not exceed 100 000 euro per one enterprise. This amount will be reduced, if necessary, to ensure that *de minimis* aid received by an enterprise during any three financial years does not exceed 200 000 euro and 100 000 euro for enterprises that operate in transport sector.

34. The financial intermediaries will make investment decisions based on initial concept description of product or business idea.

#### **V Start-up capital funds' investments and investment receivers**

35. The aim of the start-up capital funds is to improve risk capital sector in Latvia.

36. Within the start-up capital funds, investments can be received by micro, small and medium enterprises.

37. The primary place of business of the investment receivers has to be in Latvia.

38. Investments are made for product development and initial marketing in enterprises that have not yet commercially sold their goods or services and do not profit.

39. Within the start-up capital funds, investments in one enterprise can not exceed 1 000 000 euro.

40. The financial intermediaries will make investment decisions based on each investment's business plan that contains product description, turnover and profitability calculations and forecasts, previous assesment of project viability, as well as each investment's clear and real exit strategy. The definition of exit strategy is provided in Article 28 (7) of the Commission Regulation No 800/2008.

#### **VI Risk capital funds' investments and investment receivers**

41. The aim of the risk capital funds is to improve risk capital sector in Latvia.

42. Within the risk capital funds, investments can be received by micro, small and medium enterprises.

43. The primary place of business of the investment receivers has to be in Latvia.

44. Investments are made:

44.1. for product development and initial marketing in enterprises that have not yet commercially sold their goods or services and do not profit.

44.2. for development and expansion of operation by improving production capacity, expanding markets and products or attracting additional working capital, in enterprises that can or can not work without losses or profitably.

45. Within the risk capital funds, investments in one enterprise can not exceed 1 500 000 euro during any period of twelve month. During the fund's operation, investments in one enterprise can not exceed 3 000 000 euro.

46. The financial intermediaries will make investment decisions based on each investment's business plan that contains product description, turnover and profitability calculations and forecasts, previous assesment of project viability, as well as each investment's clear and real exit strategy. The definition of exit strategy is provided in Article 28 (7) of the Commission Regulation No 800/2008.

### **VII Aid cumulation**

47. Enterprises that will receive financing within the start-up capital funds and risk capital funds will be able to receive other types of aid, with the following restrictions:

47.1. during the first three years after receiving the first risk capital investment, for aid within the Commission Regulation No 800/2008, the maximum eligible aid amount in assisted areas shall be reduced by 20 per cent for target enterprises located in assisted areas (the whole territory of the Republic of Latvia is considered as assisted area). The reduction shall not exceed the total amount of risk capital received. This reduction shall not apply to aid for research, development and innovation according to Articles 31 and 37 of the Commission Regulation No 800/2008.

47.2. during the first three years after granting aid, aid for young innovative enterprises may not be cumulated with other aid under the Commission Regulation No 800/2008, except the aid mentioned in its Articles 29, 31 and 37;

47.3. aid received within the funds can not be cumulated with any other aid exempt according to the Commission Regulation No 800/2008 or with *de minimis* aid that is compatible with the Commission Regulation 1998/2006 or with other Community's financing, to cover all or part of the same eligible expenses, if, in the result of summing, the aid sum has been exceeded according to the conditions of these Regulations.

48. Within the seed capital funds, *de minimis* aid can not be cumulated with state aid in regard to one and the same expenses, if, in the result of such cumulation, aid intensity exceeds what is fixed in the specific circumstances of each case by a block exemption regulation or decision of the European Commission.