

**Annex 2 to the Call for Expression of Interest No JER-004/1
Risk Capital Fund Financial Instrument: Description and Selection Criteria**

Part I: Risk Capital Fund Financial Instrument Description

Legal background	Investments are subject to the state aid according to 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) enforced by the Order of the Minister of Economy No 4-45 on the Risk Capital Fund State Aid Scheme of 5 February 2009 (Official Gazette No 15-608 of 7 February 2009, EC registration Number of the aid scheme No X191/2009. Full text could be found under the following address: http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=336959&p_query=&p_tr2=
Public Investor	According to Article 44 of the Council Regulation (EC) No 1083/2006 ¹ , and according to the Funding Agreement between the Ministry of Economy and the Ministry of Finance of the Republic of Lithuania and European Investment Fund the established JEREMIE Holding Fund will operate as a public investor in one or several newly-established Risk Capital Funds (hereinafter – the funds).
Total amount of funding foreseen	Euro 23.2 million The amount could be changed due to the nature/strategy of the selected proposals
Duration of the investment scheme	Investments in the funds and investments in SMEs can be made till 31 December 2013, or if the new regulation replacing Regulation No 800/2008, is issued or Regulation No 800/2008 period is extended, investments period is prolonged till is 31 December 2015.
Fund manager	Financial Intermediary selected by JHF
Selection of Financial Intermediaries and conditions	European Investment Fund will select the Financial Intermediaries in an open and transparent selection, ensuring equal and fair treatment, in line with the evaluation criteria approved by the SF Monitoring Committee. European Investment Fund will evaluate the Financial Intermediaries' fund management capability and suitability to undertake the fund management tasks, as well as evaluate the level of fund management costs. In addition, European Investment Fund will evaluate capability to attract private financing.

¹ 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

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	<p>The Financial Intermediaries will manage the funds, based on commercial principles. The aim of the risk capital funds is to profit.</p> <p>The Financial Intermediaries and fund members (the fund investors) shall sign an agreement, providing that remuneration of the financial intermediary is linked to the fund's performance, as well as setting out the fund's objectives, time schedule of fund's investments and other conditions.</p> <p>Investor representatives shall be appointed in appropriate advisory committee structures to review inter alia fund corporate governance.</p> <p>In the management of funds the financial intermediaries shall apply best practices and perform control prescribed in the regulatory enactments, inter alia considering guidelines developed by European Private Equity and Venture Capital Association (EVCA).</p>
Supported enterprises	Investments are provided to SMEs as defined in the Annex 1 of EC Regulation No. 800/2008, as implemented by the Law of the Republic of Lithuania on Small and Medium-sized Business Development No VIII-935
Supported sectors	<p>Investments can be made in projects in all sectors of the economy, except:</p> <ul style="list-style-type: none"> a. the sectors provided in Article 1 parts 2-6 of the Regulation No. 800/2008; b. Gambling; c. The manufacture, supply or trade in arms, tobacco, alcohol; d. Human Cloning. <p>The above sectors are excluded in accordance with the investment policy principles of EIF; these principles may vary from time to time.</p>
Supported activities	Investments in SMEs with high growth potential in the form of equity (ownership in enterprise as investor shares) or quasi-equity (financial instruments which holder's profit is subordinated to other finance instruments and the return of which may be mainly dependant on enterprise's profit or loss) during their early growth stages (seed, start-up and expansion phases)
Investment amount into an enterprise	Within the Risk capital funds investments in one enterprise can not exceed 1 500 000 <i>euro</i> during any period of twelve month. During the fund's operation, investments in one enterprise typically will be limited to 3 000 000 <i>euro</i> .
Fund's due diligence before investments	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 assessment 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.
Fund's investments	Up to 4-5 years

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period	
Fund duration	10 years with the possibility to extend for 2 years
Required private investor capital into a Fund	Not less than 30 percent
Management cost of Fund	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.
Place of business of SMEs	Risk capital funds can invest only into SMEs whose primary place of business is in Lithuania.
Funds' distribution cascade	<ol style="list-style-type: none"> 1. First, distributions will be made to all investors until they receive their initial investment, including the fund management costs; 2. Investors will receive returns up to a 6 per cent yearly hurdle rate; 3. The remaining distributions will be divided between the private investors and Financial Intermediary.
Reporting	Financial Intermediaries shall provide the EIF with periodical information in a standardised form and scope.
Monitoring and Audit	Financial Intermediaries and the relevant SMEs (final beneficiaries) shall agree to allow and to provide access to documents related to the relevant Financial Instrument for the representatives of the Ministries, the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Financial Intermediaries shall also include appropriate provisions in each agreement with the SMEs.
Publicity	Financial Intermediaries will have to carry out adequate marketing and publicity campaigns as will be specified in the Operational Agreement, focussed in the relevant territory as appropriate, aimed at making the JEREMIE initiative known to the SMEs in Lithuania in line with applicable law.

Part II: Risk Capital Fund Financial Instrument Selection Criteria

1. ELIGIBILITY CRITERIA		System of appraisal
		Yes/ No
1.1.	Applicant and its senior management is not in any situation of exclusion (as per template provided in Appendix 5 to the Expression of Interest).	
1.2.	Applicant's ability to work and communicate in Lithuanian and English	
1.3.	Applicant's absence of conflict of interest (as per template provided in Appendix 4 to the Expression of Interest)	
1.4.	The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided.	
1.5.	The Expression of Interest is duly signed	
1.6.	The Expression of Interest is completed and submitted in English	
1.7.	The Expression of Interest is submitted both by registered mail and e-mail	
1.8.	The Expression of Interest is submitted within the Deadline	
1.9.	The Expression of Interest specifies at least the items included in Article 43.2 of EC Regulation 1828/2006	
1.10.	The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions, set out in the relevant parts of the Financial Instrument description (Part I of this Annex)	
2. QUALITY ASSESSMENT CRITERIA		
2.1.	<p>Applicant's Management Capability.</p> <p>2.1.1. Evaluation of proposed investment strategy, including viability of fund size;</p> <p>2.1.2. Evaluation of the management team, management team's stability, and ability to implement the instrument;</p> <p>2.1.3. Assessment of operational, financial, technical and VC competences;</p> <p>2.1.4. Track record of management team;</p> <p>2.1.5. Capability of members of boards and/or committees of an investment and/or advisory nature.</p>	
2.2.	<p>Applicant's Suitability for Task/Project.</p> <p>2.2.1. Evaluation of Applicant's investment processes, including dealflow generation, ability to invest, added-value strategy post investment and exit strategy ;</p> <p>2.2.2. Management company organisation, structure and long-term viability;</p> <p>2.2.3. Assessment of corporate governance in place;</p> <p>2.2.4. Assessment of legal structures and independence.</p>	
2.3.	<p>Co-financing Aspects and costs.</p> <p>2.3.1. Terms and conditions, including management fee and profit share arrangements;</p> <p>2.3.2. Demonstration of ability to raise private sector money;</p> <p>2.3.3. Applicant own investment in fund, and assessment of alignment of interests.</p>	