

SME GUARANTEE FACILITY
COMPETITIVENESS AND INNOVATION FRAMEWORK PROGRAMME
(CIP) 2007 to 2013

Information for Applications to the Micro-Credit Window (counter-guarantees):

1. Pre-Selection Procedure (pp. 2-3)
2. Guarantee Policy and Operational Guidelines for Micro-Credit (pp. 4-10)
3. Minimum Information Requirements for Lending institutions (pp. 11-14)

Competitiveness and Innovation Framework Programme (CIP) 2007 to 2013

SME GUARANTEE FACILITY

PRE-SELECTION PROCEDURE: information on How to Apply

1. Introduction

Pursuant to Decision 1639/2006/EC of the European Parliament and of the Council of 24 October 2006, establishing the Competitiveness and Innovation Framework Programme (2007 to 2013) (the "CIP"), details on the implementation of the SME Guarantee Facility (the "Facility") have been published in the Official Journal of the European Communities of 26th September 2007 (reference 2007/C 226/02).

The European Investment Fund ("EIF") has been mandated by the European Commission (the "Commission") to implement and manage the financial instruments under the CIP. On a continuous basis for the duration of the Facility, EIF and the Commission will select eligible financial institutions to become Intermediaries under the Facility.

This notice is addressed and restricted to financial institutions committed to SME¹ financing having the capacity to operate at nation-wide or at least regional level, established and operating in a Participating Country².

The Facility comprises of four product "windows":

- Loan Guarantee Window
- Micro-Credit Window
- Equity Guarantee Window
- Securitisation Window

Each window has a specific focus – please see www.eif.org for more details.

The following application information relates to the **Micro-Credit Window** and is directed at **Guarantee institutions**.

¹ As defined in Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36).

² "Participating Countries" means the Member States of the European Union and those Member States of the European Free Trade Agreement ("EFTA") which are members of the European Economic Area ("EEA"), accession countries and candidate countries benefiting from a relevant pre-accession strategy, countries of the Western Balkans in accordance with the relevant framework agreements and any other country included in the list of Participating Countries as published from time to time in the Official Journal.

2. Application Procedure

Interested institutions should compile an application to the EIF to become an Intermediary under the Facility. The application should follow the Minimum Information Requirements (below, page 11 *et seq.*), and should place particular emphasis on:

1. The expected added value of the Facility for SMEs;
2. The envisaged actions for the implementation and the management of the Facility, particularly with regard to its launching (timing, changes to the underlying legal documentation, etc.);
3. The estimated absorption capacity;
4. The envisaged procedures for the collection and data processing for the reporting requirements;
5. The envisaged marketing/promotional strategies existing/to be put in place to satisfy the EU Promotion and Visibility requirements (please see the Guarantee Policy and Operational Guidelines for Micro-Credit, below, page 4 *et seq.*).

Interested institutions should send their application, in two copies and in English, to EIF at the following address:

European Investment Fund
CIP SME Guarantee Facility
Call for Expression of Interest
43, Avenue J.F. Kennedy
L-2968 Luxembourg

3. Selection Procedure

Applications will be considered by EIF for pre-selection, in chronological order of receipt, fairly and in conformity with best business practices, avoiding any conflict of interest. EIF will evaluate the proposals according to the criteria set out in the Guarantee Policy and Operational Guidelines for Micro-Credit (below, page 4 *et seq.*). Satisfactory applications will be followed up with onsite due diligence visits. In addition to financial and operational matters, the due diligence meetings will also cover points such as your ability to duly inform Micro-Enterprises about the EU support, your ability to provide a link to a specific dedicated web-site, your ideas on how to best market the EU support.

Subject to the satisfactory outcome of a due diligence, the EIF shall propose the acceptance of the application to the European Commission. EIF has no obligation to enter into an agreement with a pre-selected institution. The participation of any institution will depend, *inter alia*, on the outcome of the negotiations with the institution and on the budget allocations finally made available for the Facility.

The final decision of the proposal of a pre-selected institution is taken by the European Commission.

CIP

SME GUARANTEE FACILITY

GUARANTEE POLICY AND OPERATIONAL GUIDELINES FOR

MICRO-CREDIT

The Guarantee Facility for SMEs created in the framework of the Competitiveness and Innovation Programme (2007-2013) (the "SME Guarantee Facility") is funded by the European Community and is operated by the European Investment Fund ("the EIF") on behalf of the European Commission.

Purpose

In the framework of the micro-credit guarantee window of the SME Guarantee Facility, (the "Micro-Credit Window") the EIF supports micro-enterprises³("Micro-Enterprises") with particular focus on entrepreneurs starting up their businesses by providing counter-guarantees co-guarantees or direct guarantees ("EU Guarantees") to cover portfolios of debt instruments or guarantees ("Portfolios") to micro-enterprises with insufficient security ("Final Beneficiaries").

The objective of the Micro-Credit Window is to encourage intermediaries ("Intermediaries") to provide financing to Micro-Credit Enterprises ("Micro-Credit Financing") and to assist in mitigating the fact that Micro-Credit Financing typically involves proportionately higher unit handling costs. In addition to EU Guarantees, Intermediaries may receive grants in the form of technical support to partially offset the high administrative costs inherent in Micro-Credit Financing.

EU Guarantees are provided by the EIF on behalf of the European Commission and cover part of the risk of the Intermediary relating to the relevant Micro-Credit Financing.

³ For the purpose of this window and in accordance with the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million and which conforms to the criterion of being an "autonomous enterprise" defined in the Recommendation. The reference year to be considered is the last approved accounting period. Any subsequent modification of the Recommendation will be taken into account in relation to the CIP Guarantees provided after the date of adoption of such a Recommendation.

Selection of Intermediaries

- Intermediaries: Intermediaries shall be established and be operating in one or several of the Participating Countries⁴ and will be selected among guarantee schemes within the public or private sector, including mutual guarantee schemes, microfinance institutions and any other relevant financial institutions.
- Selection process: Intermediaries shall be selected in conformity with best business and market practices in a fair manner, avoiding any conflict of interest. On the basis of a call for expression of interest⁵, proposals will be examined by the EIF, on a continuous basis, using professional analysis and judgment taking into account these Guarantee Policy and Operational Guidelines.
- Proposals will be considered for approval by the EIF and the Commission, after satisfactory evaluation and pre-selection by the EIF, within the constraints of the available Community budget allocations.
- Selection criteria: Intermediaries shall be selected having regard to the following selection criteria, in no particular order of priority:
- the financial standing and the operational capability of the Intermediary and its ability to manage risk and to comply with the terms and conditions of the SME Guarantee Facility;
 - where appropriate, whether the Intermediary guarantees Micro-Credit Financing extended by a wide range of lenders;
 - the extent to which the Intermediary has the possibility to provide mentoring schemes and/or business support; and
 - the willingness to accept the criteria for Enhanced Access to Finance.
- State aid: Intermediaries have to comply with applicable State aid rules.

⁴ "Participating Countries" means the Member States of the European Union and those Member States of the European Free Trade Agreement ("EFTA") which are members of the European Economic Area ("EEA"), accession countries and candidate countries benefiting from a relevant pre-accession strategy, countries of the Western Balkans in accordance with the relevant framework agreements and any other country included in the list of Participating Countries as published from time to time in the Official Journal.

⁵ To ensure transparency the call for expression of interest will be published in the Official Journal and will remain open until 31 December 2013 or any later date as a result of any subsequent prolongation, subject always however, to the availability of budgetary funds.

Eligibility Criteria

- Final Beneficiaries:** A Micro-Enterprise is an enterprise that meets the eligibility criteria as at the date of the respective agreement, and evidencing the relevant Micro-Credit Financing that is established or is to be established in a Participating Country. Particular attention should be given to the financing of entrepreneurs starting up their businesses. Each Final Beneficiary can benefit more than once from the Micro-Credit Window and other windows made available under the SME Guarantee Facility.
- Portfolios:** A Portfolio covered by an EU Guarantee may include guarantees or Micro-Credit Financing provided for the benefit of Micro-Enterprises
- The eligibility criteria for the instruments covered by an EU Guarantee shall be determined by the EIF individually for the relevant Portfolio, in agreement with the Intermediary, and with the aim of reaching as many Final Beneficiaries as possible. These criteria shall reflect market conditions and practices in the relevant country or region.
- In addition, each Portfolio must have a composition which allows it to be treated as a Portfolio from a risk management perspective and shall show sufficient diversification and homogeneity so as to have a loss expectation that may be predicted with reasonable accuracy.
- Purpose of financing:** The instruments forming part of a Portfolio may cover investment financing, working capital and financing for the acquisition of tangible and intangible assets, including innovation activities, technological development and the acquisition of licences.
- In addition to EU Guarantees, Intermediaries may receive technical support to partially offset the high administrative costs inherent in Micro-Credit Financing as further specified below.
- Amount:** The maximum amount of principal for any Micro-Credit Financing shall be EUR 25,000.
- Loan Maturity:** Micro-Credit Financing covered by an EU Guarantee shall have a minimum maturity of six months. Priority shall be given to medium-term financing, i.e. instruments with maturities of at least twelve months.
- Technical Support:** Intermediaries may receive technical support in the form of a lump sum for Micro-Credit Financing with maturities of at least twelve months, to partially offset the relatively higher administrative costs inherent in Micro-Credit Financing. The technical support shall not exceed EUR 200 per instrument covered by an EU Guarantee and shall be payable to the Intermediary only once for each Final Beneficiary.

The maximum aggregate amount of technical support payable to any one Intermediary shall be capped at EUR 50,000.

The EU Guarantee

Nature: The individual EU Guarantee can be a guarantee, a co-guarantee or a counter-guarantee and shall be provided for the benefit of an Intermediary.

“Enhanced Access to Finance”:

The EU Guarantee shall provide coverage for each instrument in the relevant Portfolio at an agreed guarantee rate, provided that the obligation under the EU Guarantee to cover a share of the losses relating to the relevant Portfolio shall be capped to a pre-set amount and that losses in excess of such amount shall not be covered under the EU Guarantee.

In consideration of the EU Guarantee, the Intermediary shall undertake to provide enhanced access to finance to Micro-Enterprises as set out below (“Undertaking in respect of Enhanced Access to Finance”).

The contractual arrangements between the EIF and the Intermediary shall be established having regard to the following criteria and taking into account the purpose of these Guarantee Policy and Operational Guidelines:

- the effect on the volume of financing taking into account the purpose of financing (debt, equity or quasi-equity) made available to Micro-Enterprises: increased volume of guarantees or, as applicable, financing extended by the Intermediary; and where applicable
- the effect on Micro-Enterprises' access to finance: enhanced access to guarantees, or where appropriate, debt and equity financing through less stringent acceptance criteria (e.g. with regard to young and start-up companies, investment in intangible assets, extended maturities or reduced cost of finance to Micro-Enterprises); and/or
- the effect on risk-taking in Micro-Enterprise financing by the Intermediary: acceptance of higher risks (e.g. increased share of losses covered by the Intermediary or relaxed security requirements).

This will be for each Intermediary translated into specific target volumes.

Availability Period:

Each agreement evidencing an EU Guarantee will stipulate an availability period during which eligible debt financing may be included in the Portfolio for cover (the “Availability Period”).

Such inclusion shall become effective upon receipt by the EIF of an inclusion notice submitted by the relevant Intermediary in the form set out in the EU Guarantee.

Guarantee Rate:	<p>A risk-sharing arrangement shall be established between the EIF and the Intermediary.</p> <p>Each EU Guarantee will provide partial cover to the commitment of the relevant Intermediary (directly or indirectly) with regard to Micro-Credit Financing included in the relevant Portfolio (“Guarantee Rate”).</p> <p>The Guarantee Rate shall be determined individually for each Portfolio having regard to the risk-sharing arrangements and the maximisation of the effect of the Community funds in increasing the availability of debt finance to SMEs.</p> <p>The Guarantee Rate will not exceed 75% of the commitment by the Intermediary.</p>
Guarantee Cap:	<p>The obligation of the EIF to pay a portion of the losses relating to a specific Portfolio will be capped to a pre-set amount (the “Guarantee Cap”). The obligation to pay amounts subject to this Guarantee Cap will be effective until the cumulative amount of net payments made equals the Guarantee Cap, above which no further payments shall be made under the relevant EU Guarantee.</p>
Guarantee Cap Rate	<p>In respect of a Portfolio, the aggregate amount of Losses for which the EIF is liable under an EU Guarantee, such amount expressed as a percentage of the product of the total size of the relevant Portfolio and the respective Guarantee Rate.</p> <p>The standard guarantee cap rate shall not exceed 20% of the guarantee commitment under the relevant EU Guarantee. The guarantee cap rate shall be the rate determined by the EIF individually for each Portfolio, having regard to:</p> <ul style="list-style-type: none"> • the expected loss rate of the Portfolio, taking into account the expected default rate and expected recovery rate of the Portfolio, to be established and documented on the basis of historical data and/or forward-looking estimations; • the risk premium charged by the relevant Intermediary; and • the requirements as to enhanced access to finance as detailed above.
Pari passu clause:	<p>Subject to the relevant Guarantee Cap, the EIF will rank pari passu with the Intermediary, with regard to loss payments. Loss recoveries may be taken into account by an estimated loss recovery rate for the individual Portfolio set ex-ante and, where applicable, deducted from the payments to be made by the EIF against guarantee calls, which may lead to a deviation from the pari passu rule.</p>

Term: EU Guarantees will have a term of up to five years, provided that the guaranteed instruments may have longer terms.

Fees: Given the weaker financial structure of specialised microfinance institutions, the EU Guarantees will be provided without charging a guarantee fee.

Reporting

Each Intermediary shall provide the EIF with periodical information as and when required in the agreement evidencing the relevant EU Guarantee.

Monitoring and audit

Intermediaries, sub-intermediaries and Final Beneficiaries must agree to allow and to provide access for the European Commission's agents and the European Court of Auditors to adequate information to enable them to discharge their duties with respect to monitoring, control and auditing of the correct use of the Community funds. To that effect, the EIF, Intermediaries and sub-intermediaries will include appropriate provisions in each agreement relating to the SME Guarantee Facility, using the exact wording:

"The counter party acknowledges that the Court of Auditors of the European Community (the "ECA") and the agents of the Commission including OLAF (the "Agents") shall have the right to carry out controls and to request information in respect of the Agreement and its execution. The counter party shall permit inspections by the ECA and the Agents of its business operations, books and records. As these controls may include on the spot controls of the counter party, the counter party shall permit access to its premises to ECA and the Agents during normal business hours.

Promotion

Intermediaries are encouraged to actively promote the Micro-Credit Window.

Intermediaries will be required to ensure that their specific promotional material, specific promotion campaigns and information on their webpage(s) relating to the financing supported by the Micro-Credit Window include the EU logo (twelve yellow stars on a blue background) and a statement that the supported debt financing "benefits from a guarantee issued under the European Community's Competitiveness and Innovation Framework Programme". Intermediaries shall display the European logo at least as prominently as their own logo.

A portion of the cost incurred in connection with the design, implementation and maintenance of the specific webpage(s) and promotion campaigns, giving adequate visibility to the EU support, maybe reimbursed in accordance with the agreement evidencing the relevant EU Guarantee.

Visibility

Intermediaries will be required to include or, as the case may be, request in the contracts with the Final Beneficiaries the inclusion of a statement that the relevant Micro-Credit Financing "benefits from a guarantee issued under the European Community's Competitiveness and Innovation Framework Programme".

[END OF POLICY AND OPERATIONAL GUIDELINES FOR MICRO-CREDIT]

Structure of an application for a guarantee institution (private or public) under the CIP 2007 to 2013 for Micro-Credit Guarantees

Minimum Required Information: The points below list the headings for the minimum information needed. Please add relevant information that might have an impact on your application (specific market environment, product related, specifics regarding your institution, etc)

N.B.: All information required concerning the activity of the applicant institution and its products must be provided, specifically and in detail, for:

1. Guarantees for loans with a maximum amount of EUR 25,000
2. Guarantees for medium term loans (final loan maturity of at least 12 months); and
3. Autonomous Micro-Enterprises according to the EU Definition (Commission Recommendation 2003/361/EC)

1. INTERMEDIARY'S ACTIVITY

1.1. General: description of your institution (date of establishment, number of employees, shareholders etc.), legal status, regulatory framework and applicable regulations, rating (if applicable; please add reports of rating agencies to the Application, if available)

1.2. State Aid compliance: documentation evidencing the qualification (private / public scheme) of the product to be covered under an EU Guarantee with regard to State Aid (notification procedures, aid intensity, etc.)

1.3. Guarantee products offered to Micro-Enterprises: type of underlying financing, borrowers, purpose of financing, sectors, maturity of loan, rate of financing (as % of total financing needs), maximum amount, etc.

1.4. Nature of guarantees issued (type of risk covered (principal, interest), guarantee rate, security sharing, loss payment procedure, time of payment, etc.)

1.5. Geographical area of operation

1.6. Direct and indirect network: number, type of financial institutions

1.7. Mentoring services provided (please explain what is offered, by whom, at which cost for the client)

2. FINANCIAL STANDING

2.1. Annual reports for the last three years (to be annexed to the proposal)

2.2. Guarantee capacity: current gearing, maximum gearing limits, solvency ratio, counter-guarantees available etc

2.3. Available funds (amount and nature of resources for the guarantee activity): equity funds, risk funds and other provisions to cover outstanding contingent liabilities

2.3.1. Grants and other contributions, either for operating expenses or capital subsidies or risk funds, including funds managed on a trust basis

For institutions that manage guarantee programmes on behalf of the State or other public entities (such as regional or local authorities), where losses are covered in full or in part by the State or other public entities further information and statements are requested:

- State resources (budgetary resources) available for the SME related activity (guarantee or lending activity, not limited to the product proposed under the EU Guarantee for cover);
- Planned budgetary resources for SME related activities (guarantee or lending activity, not limited to the product proposed under the EU Guarantee for cover)
- Are the budgetary resources allocated specifically to different products?
- How and when is the budget fixed?
- Are there budgetary limitations?
- Please be aware that a statement will be requested, to the effect that the EU Guarantee would not be substituting any State spending.

3. OPERATING PRINCIPLES

3.1. Credit policy: internal procedures and guidelines

3.1.1. Eligibility criteria: sectors, borrowers (i.e. start-ups, unemployed people, etc.)

3.1.2. Origination and approval procedure

3.1.3. Risk assessment procedures (internal rating/scoring system)

3.1.4. Delegation system

3.1.5. Collateral requirements

3.1.6. Monitoring

3.1.7. Guarantee calls and Recovery procedures (what steps are taken and when; which departments are involved)

3.2. Risk management: methods (if any) utilised for loss forecasting, provisioning and credit risk management on portfolio level

4. GUARANTEE VOLUMES (over the past 5 years, if available) under the relevant micro-guarantee programme and comparable programmes to a similar target group (by product, purpose, maturity)

4.1. Annual number and volume guarantees issued and loans guaranteed

4.2. Total number and volume of loans and guarantees outstanding at year-end

5. POSITION IN THE MARKET

6. FEE STRUCTURE AND REMUNERATION

6.1. Current fee structure (by product, purpose, maturity, risk category, up-front-fees, etc.)

6.2. Information on calculation of risk related margin

6.3 By whom are the fees paid?

7. TRACK-RECORD (for the past 5 years, if available), always with regard to the product to be covered and/or comparable programmes to the same target group (if available: by product, purpose, maturity)

7.1. Non-performing guarantee rates (defaulted loans /outstanding loan amount)

7.2. Detailed analysis of losses incurred

- Details on annual gross (before recoveries) and net (after recoveries) losses.
- Net cumulative defaults and/or losses, with break-down by guarantee portfolio (year of issue): e.g. annual and cumulative losses incurred with regard to guarantees issued in the years 2002, 2003 etc.

EXAMPLE TABLE:

Guarantee details		losses occurred after 0, 1, 2 ... years								Total loss in EUR
year of issue	Amount in EUR	0	1	2	3	4	5	6	7	
2000		%	%	%	%	%	%	%	%	
2001		%	%	%	%	%	%	%	%	
2002		%	%	%	%	%	%			
2003		%	%	%	%	%				
2004		%	%	%	%					
2005		%	%	%						
2006		%	%							
2007		%								
							Total loss in EUR ----->			

7.3. Average time lags between the granting of the loan, the payment default by the borrower and the establishment of the final loss

8. PROPOSED MEASURES TO ENHANCE ACCESS TO FINANCE FOR MICRO-ENTERPRISES UNDER THE FACILITY:

8.1. Proposed product to be covered under CIP

- Is this a new programme? How does it differ from micro-guarantee products your institution might already offer?
- Envisaged guarantee volumes with an EU Guarantee over a period of 3 years; please provide the basis for such estimate

- Implementation strategy: internally (necessary procedures, systems etc) and externally (liaising with partners, etc). Please also provide an estimate of the expected timing for implementation

8.2. Marketing and Promotion of EU support:

- Please provide information on how you would inform your intermediaries and Micro-Enterprises about the EU support provided for the product to be covered under CIP
- Please consider that the European Commission wishes to receive information on success stories on borrowers under the Facility that will be published

9. IT SYSTEM

9.1 Ability to comply with the Reporting requirements linked to the EU Guarantee