



SME GUARANTEE FACILITY GUARANTEE POLICY FOR Equity Guarantees Guarantee schemes

The “SME Guarantee Facility” is funded by the European Community and is operated by the European Investment Fund (EIF) on behalf of the European Commission.

Purpose

In the framework of the “SME Guarantee Facility”, the Equity Guarantee window supports own funds investments in small- and medium sized enterprises (SMEs)¹ with growth potential, in order to reduce the particular difficulties which SMEs face because of their weak financial structure.

Selection of Intermediaries and Eligibility Criteria

Intermediaries: Intermediaries operating in the Participating Countries². They are selected among financial institutions that offer equity guarantees or intend to implement such product (primarily guarantee schemes within the public or private sector).

Selection process: Intermediaries will be examined and selected by the EIF on a continuous basis in conformity with best business and market practice in a fair and transparent manner.

Intermediary proposals will be considered for approval by the EIF and the Commission, after satisfactory evaluation by the EIF, within the limits of the available Community budget allocations. Furthermore, the EIF will endeavour to achieve an overall adequate geographic balance.

¹ According to the Commission Recommendation 96/280/EC of 3 April 1996 (OJ L 107 of 30 April 1996), SMEs are defined as enterprises which have fewer than 250 employees, and have either an annual turnover not exceeding EUR 40 million or an annual balance-sheet total not exceeding EUR 27 million, and conform to the criterion of independence. 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 EIF Guarantees provided after the date of adoption of such a Recommendation.

² “Participating Countries” means the Member States of the European Union, Norway, Iceland and Liechtenstein. Accession countries might become eligible at a later stage.

- Selection criteria: Intermediaries shall be selected having regard to the following criteria:
- the financial standing and the operational capability of the intermediary, its ability to manage risk and its willingness to accept contractual terms complying with the requirements of the Facility;
 - whether the intermediary provides or will provide equity guarantees to cover investments by venture capital funds, corporates or individuals in the equity of eligible SMEs;
 - the extent to which the intermediary has a wide geographic coverage of SMEs either in the relevant country, or if the intermediary operates on a regional basis in the region concerned;
 - the extent to which the portfolio includes or will include SMEs with a high risk profile;
 - the overall risk-sharing arrangements;
 - the willingness to accept the additionality criteria; and
 - the compliance with the state aid rules.
- Final Beneficiaries: Directly, investors in SMEs; indirectly, SMEs whose equity benefits from the guarantee.
- Selected portfolios: A portfolio may include equity guarantees extended to cover own funds investments in eligible SMEs.
- The eligibility criteria shall be determined by the EIF individually for each selected portfolio, in agreement with the intermediary and with the aim of reaching as many SMEs as possible. These rules shall reflect market conditions and practices in the relevant territory.
- However, the intermediary's portfolio should aim at reaching a composition which allows it to be treated as a portfolio from a risk management point of view, and, as applicable, comply with the following criteria:
- a) sufficient homogeneity so as to have a loss expectation that may be predicted with reasonable accuracy;
 - b) sufficient number of individual investments.
- Maximum guaranteed amount: The EIF cover per individual investment in an SME shall not exceed EUR 500,000.
- Purpose of the guarantee: Investments guaranteed must provide additional long term equity or quasi-equity capital.

The EIF Guarantees

- Nature:** Co- or counter-guarantees for eligible guarantee schemes.
- Each EIF Guarantee agreement shall comprise an undertaking that the guaranteed portfolio will be constituted of eligible investments exclusively in enterprises who, at the date of the respective investment agreement evidencing the participation, constitute SMEs established or to be established in the Participating Countries.
- There shall be always a risk-sharing arrangement between the EIF and the intermediary.
- Additionality:** The EIF guarantee shall be made available against appropriate undertakings by the intermediary to take specific action to ensure that the risk borne by the EIF will be additional to the risk that the intermediary would have underwritten in the normal course of its business during the availability period. The additionality of the EIF guarantee shall be measured having regard to the following criteria and, where relevant, the effect of any risk premium charged by an intermediary:
- (i) volume of guarantees extended by the intermediary in respect of the same type of risk taking as is covered by the EIF guarantee; and/or
- acceptance of higher risk.
- Availability Period:** The guarantee agreement between the EIF and each intermediary will stipulate an availability period during which eligible investments may be included in the portfolio for cover.
- Such inclusion shall become effective upon receipt by the EIF of an inclusion notice submitted by the intermediary.
- Guarantee Rate:** The EIF guarantees will provide partial cover to the intermediaries' commitments (directly or indirectly) with regard to eligible investments included in a specific selected portfolio.
- The EIF 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 equity to eligible SMEs.
- The EIF guarantee rate should normally not exceed 50% of the intermediary's commitment in the case of guarantee schemes.
- Guarantee Cap:** The EIF's obligation to pay its share of losses under a specific portfolio will be capped to a pre-set amount. The obligation will remain as long as the cumulative amount of payments made, reduced where appropriate, by the aggregate amount of corresponding proceeds, reaches such pre-agreed amount, above which the EIF shall have no further liability.

Where appropriate, the EIF loss cover might also be limited with regard to individual investments.

The guarantee cap rate shall in principle not exceed 25% of the EIF's guarantee commitment.

The guarantee cap shall be determined by the EIF individually for each portfolio, having regard to

- expected loss rate of the portfolio, to be established and documented on the basis of historical data and/or forward looking estimations; and
- additionality requirements.

Pari passu clause: Subject to the guarantee cap, the EIF will usually rank pari passu with the intermediary, with regard to loss payments.

Maturity: The EIF guarantees will have a final maturity of up to 10 years.

Fees: The EIF will issue the guarantees under the Facility free of charge for the intermediary. However, where appropriate and in order to encourage utilisation, during the availability period the EIF may charge commitment fees on the unutilised amount of the EIF guarantee commitment according to a pre-agreed schedule.

Reporting

Intermediaries will be required to supply to the EIF, promptly, in reasonable detail and in an electronic form acceptable to the EIF the agreed periodical information with regard to the operations made under the Facility.

Monitoring and audit

Intermediaries must agree to allow the European Commission's agents and the European Court of Auditors to have access 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. Intermediaries will be required to undertake to perform all such acts and take all measures required to provide such access to the Court of Auditors of the European Communities and the agents of the Commission. Intermediaries will include appropriate provisions in each guarantee agreement to that effect, and, where relevant, obtain undertakings from each final beneficiary that it will comply with the relevant written provisions

These controls may include on the spot controls.

Promotion

Intermediaries will be required to incorporate in their promotional material drawn up specifically for the selected portfolio a reference to the support provided by the European Community and to ensure that each final beneficiary is made aware in writing of the origin of this support.