SME GUARANTEE FACILITY
GUARANTEE POLICY FOR LOANS

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 Loan Guarantee window supports small and medium-sized enterprises (SMEs)[1] with growth potential. Under this window, the EIF issues partial guarantees (directly or indirectly) to cover portfolios of loans. Its objective is to reduce the particular difficulty such enterprises face in having access to financing because of the relatively higher risk they represent (e.g. small or newly-established companies) and the insufficient security.

Selection of Intermediaries and Eligibility Criteria

Intermediaries:	Intermediaries operating in the Participating Countries[2]. They are selected among – primarily guarantee schemes within the public or private sector, including mutual guarantee schemes; and whenever possible, guarantee schemes set up primarily to help finance loans that the banking system would not readily provide without guarantee cover; and – any other appropriate financial institution.
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.

1 For the purpose of this window and in accordance with the Council Decision 2000/819/EC (OJ L 333, 29.12.2000, p.84), SMEs are defined as enterprises which have between 0-100 employees, and comply with the other criteria of the Commission Recommendation 96/280/EC of 3 April 1996 (OJ L 107 of 30 April 1996) (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.

	Intermediary proposals will be considered for approval by the EIF and the Commission, after satisfactory evaluation by the EIF, within the constraints of the available Community budget allocations. Furthermore, the EIF will endeavour to achieve an overall adequate geographic balance.
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; – where appropriate, whether the intermediary guarantees loans extended by a wide range of lenders to 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 loans with less security than is customary for commercial SME lending; – the overall risk-sharing arrangements; – the willingness to accept the additionality criteria; and – the compliance with the state aid rules.
Final Beneficiaries:	Small and medium-sized enterprises with up to 100 employees.
Selected portfolios:	A portfolio may include guarantees, or as the case may be, loans. 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 final beneficiaries as possible. These rules shall reflect market conditions and practices in the relevant territory. However, each portfolio must have 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) homogeneity between the borrowers and between the maturity of loans.
Purpose of financing:	Loans supporting the development of final beneficiaries: typically investment loans[3]. Particular attention shall be given to the financing of intangible assets.
Loan Maturity:	Priority shall be given to medium and long term financing, i.e. loans with maturities longer than 18 months.

3 Investments are defined in article 2 and eligible costs in article 4.5 of the Commission Regulation 2001/70/EC of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises.

The EIF Guarantees

Nature: Guarantees for guarantee schemes and direct loan guarantees in case of any other appropriate intermediary.

Each EIF guarantee agreement shall comprise an undertaking by the intermediary to lend or allow lending exclusively to final beneficiaries who, at the date of the respective loan agreement evidencing the loans, constitute SMEs established or to be established in the Participating Countries.

There shall always be 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:

- volume of guarantees or, where appropriate, loans extended by the intermediary in respect of the same type of risk taking as is covered by the EIF guarantee; and/or
- enhanced access to debt finance for SMEs through less stringent eligibility criteria (e.g. with regard to start-up companies, investment in intangible assets, loan maturities, professional qualifications) or reduced cost of finance to SMEs; and/or
- acceptance of higher risk (e.g. increased share of losses covered or reduced security requirement).

Availability Period: The guarantee agreement between the EIF and each intermediary will stipulate an availability period during which eligible loans 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 individual loans 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 debt finance to eligible enterprises.

The EIF guarantee rate should normally not exceed 50% of the intermediary's commitment. In duly justified circumstances, it may be higher but it shall not exceed 75%.

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 recoveries, reaches such pre-agreed amount, above which the EIF shall have no further liability. The guarantee cap rate shall in principle not exceed 20% 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:	The EIF will usually rank pari passu with the intermediary, with regard to loss recoveries: following payment by the EIF, the intermediary will pay back to the EIF its share of recoveries.
Maturity:	The EIF guarantees will have a final maturity of up to 10 years, whereas the guaranteed loans might have longer maturities.
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 lender 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.