



The Deep and Comprehensive Free Trade Area Initiative East Guarantee Facility – Phase 1

OPEN CALL FOR EXPRESSION OF INTEREST TO SELECT FINANCIAL INTERMEDIARIES UNDER THE GUARANTEE FACILITY

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The objective of this Open Call for Expression of Interest (the “Call”), launched by the European Investment Fund (“EIF”), is to select eligible financial institutions to become Financial Intermediaries under The Deep and Comprehensive Free Trade Area (“DCFTA”) Initiative East Guarantee Facility (the “Guarantee Facility”) as further described below.

All applications for guarantees under the Guarantee Facility to be submitted to EIF should conform to this Call.

1. Background

The DCFTA Initiative East aims to strengthen economic development in the countries which have signed an association agreement with the EU – namely Georgia, Republic of Moldova and Ukraine (the “DCFTA East Countries”) – by providing targeted financial and technical support to small and medium-sized enterprises (“SMEs”) in these three countries.

The EIB Group joins forces with the EU’s Neighbourhood Investment Facility (“NIF”) to provide a comprehensive package of instruments that will support the DCFTA East Countries to address the market needs and underpin the objectives of the DCFTA agreements, with a view of progressively removing barriers and creating the necessary conditions to align the SME sectors in DCFTA East Countries with EU standards.

The main objective of this initiative is to support economic growth and employment-generating activities in the DCFTA East Countries. It will also enhance access to finance by improving lending terms and conditions and providing first loss SME portfolio guarantees, enabling financial institutions to take on more risk and reach out to underserved segments of the economy.

The initiative will strengthen the capacity of the private sector, in particular SMEs, to compete in local and international markets, by:

- Supporting local micro-enterprises by providing financing to local microfinance institutions;

- Providing technical assistance to counterpart financial intermediaries (including microfinance institutions) via institutional and capacity-building activities and advisory services to the SMEs at regional and local level by promoting rural development with particular focus on agri-food value chain development; and
- Offering guarantees and counter-guarantees to local banks and other financial intermediaries via EIF, enabling them to improve lending terms and conditions and thus providing wider access to finance for SMEs.

The EU contribution forms part of the European Commission’s wider EU4Business initiative, which brings together EU-funded programmes supporting SME development and improving the business environment in the Eastern Partnership region.

Taking into account the experience, financial capacity and track record of EIF, EIB took the decision to entrust EIF with the implementation and management of the Guarantee Facility, in particular to select the Financial Intermediaries and manage the guarantee agreements to be entered into between EIB, in its capacity as guarantor (the “Guarantor” or the “Counter-Guarantor”), EIF, in its capacity as transaction agent (the “Transaction Agent”) and Financial Intermediaries.

The Guarantee Facility amounts to up to EUR 50 million of which EUR 40 million are earmarked for Ukraine.

2. Eligible Financial Intermediaries

EIF, on behalf of EIB, shall select Financial Intermediaries to benefit from the Guarantee Facility in accordance with the procedure described further below. The selection of Financial Intermediaries shall be made on a continuous basis until the Deadline (as described below) and shall be based on a specific set of criteria.

This Call is addressed and restricted to public or private credit or financial institutions, in each case, duly authorised to carry out lending, leasing and/or guarantee activities according to all applicable legislation, established and operating in one or several of the DCFTA East Countries.

Financial Intermediaries shall represent that they are not, and have not at any time during the previous 5 years been, in any of the exclusion situations, as further described in the Annex I to the Call.

Financial Intermediaries shall comply with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud to which they may be subject and shall not be established, and shall not maintain business relations with entities incorporated in any Non-Cooperating Jurisdictions.

The EIF Anti-Fraud Policy shall apply to the Guarantee Agreements under the Guarantee Facility (please refer to http://www.eif.org/attachments/publications/about/Anti_Fraud_Policy.pdf).

3. Definitions and Interpretation

In this Call, capitalised terms and expressions shall have the meaning attributed to them below or as elsewhere defined in this document and its Annexes, unless the context requires otherwise.

Applicant	Means an entity applying to this Call as a potential, future Financial Intermediary.
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Agreed Volume	Means the maximum aggregate amount of principal of newly originated Eligible SME Transactions to be included in the Portfolio, as further described in Annex II (Indicative Terms and Conditions of the Guarantee).
SME Transaction	Means a debt financing provided directly by a Financial Intermediary to an SME.
Financial Intermediary	Means a financial or credit institution duly authorised, if applicable, to carry out lending, leasing and/or guarantee activities according to the applicable regulatory framework, as defined in Annex II (Indicative Terms and Conditions of the Guarantee).
Guarantee	Means a guarantee (in the form of a direct guarantee or counter-guarantee, as applicable) provided under the Guarantee Facility on the terms of the relevant Guarantee Agreement.
Guarantee Agreement	Means a guarantee (or a counter-guarantee) agreement, as applicable, entered into between a selected Financial Intermediary, EIB and EIF in connection with the Guarantee Facility.
Deadline	Means 31 December 2017 or such other date as published on both EIF's and EIB's website.
Eligible SME Transaction	Means an SME Transaction that complies with all the Eligibility Criteria.
Eligibility Criteria	Means as defined in Annex II (Indicative Terms and Conditions of the Guarantee).
Expression of Interest	Means an application to this Call submitted to EIF within the Deadline, conforming with the provisions of Annex I to this Call.
Non-Cooperating Jurisdiction	Means any jurisdiction classified as "non-compliant" by the Organisation for Economic Cooperation and Development (OECD) and its Global Forum on Transparency and Exchange of Information for Tax Purposes, from time to time, unless otherwise notified by the Transaction Agent.
Participating Entities	Means, in case a joint application to the Call is submitted covering the Applicant and at least one additional potential future Financial Intermediary, each and every additional potential future Financial Intermediary covered by such joint application.
Portfolio	Means the portfolio of Eligible SME Transactions originated by the Financial Intermediary and covered by a Guarantee Agreement.

4. Application procedure

Financial institutions interested in applying to this Call shall, by the Deadline, submit to EIF an application to be considered as a potential Financial Intermediary under the Guarantee Facility.

In accordance with Annex I to this Call, the application should include (i) the Applicant's identification and (ii) the information requirements (as further specified in the Appendix 3 to the Annex I) with supporting documents placing particular emphasis on:

- a) Envisaged actions for the implementation of the Guarantee Facility, particularly with regard to its launch (timing, target customers, promotional activities, type of products, changes to the underlying legal documentation, etc.);
- b) Estimated absorption capacity in terms of expected volumes of SME Transactions to be included in the Portfolio and geographical coverage;
- c) The proposed improvements to the terms offered to SMEs (e.g. pricing reduction or reduction of the requested level of collateral), as compared to standard lending conditions for SMEs;
- d) Origination and credit risk management process;
- e) Expected composition and characteristics of the Portfolio (split per rating, industry, borrower size, type of collateral and level of collateralisation etc.).

Note on joint applications

Financial institutions may submit a joint Expression of Interest. In this case, the Expression of Interest has to specify which of the Participating Entities will act as the Applicant. The Applicant shall apply in the name and on behalf of the Participating Entities and shall indicate in writing to EIF the basis for the joint Expression of Interest. Following selection of such joint Expression of Interest and an agreement on all terms and conditions, one Guarantee Agreement may be signed with the selected Applicant on its own behalf and on behalf of the other Participating Entities; alternatively, separate Guarantee Agreements may be signed with the selected Applicant and each of the Participating Entities. The ultimate decision on the form of the agreement(s) shall be made at the discretion of EIF.

All information required under Appendix 3 to the Annex I must be provided for the Applicant and each Participating Entity covered by the joint Expression of Interest.

5. Language and governing laws

The Expression of Interest shall be prepared in English.

The Guarantee Agreement shall be in English. The Guarantee Agreement shall indicatively be governed by the laws of England.

6. Submission of Expression of Interest

The Expression of Interest shall be submitted by the Deadline both by (i) email and (ii) registered mail or professional courier service. The Expressions of Interest sent by registered mail or professional courier service shall consist of a closed single package and shall contain the Expression of Interest, together with its attachments, in paper form and in removable electronic storage medium (e.g. CD-ROM, USB). Annual reports requested should be provided only on the removable electronic storage medium or by email.

The Deadline is set on the **31 December 2017** provided that EIF may, at its sole discretion, determine that the Deadline will end on an earlier date or will be extended, depending, inter alia, on the availability of the budgetary resources for the Guarantee Facility. Any change in the Deadline will be announced officially on EIF's and EIB's website.

The Deadline refers to (i) (in the case of emails) to the date of receipt by EIF and (ii) in the case of registered mail or professional courier service to the date of dispatch proven by the post office stamp or a dispatch receipt.

The Expressions of Interest shall indicate the name of the Applicant and be sent to the following address:

**European Investment Fund
DCFTA Initiative East Guarantee Facility – Expression of Interest
Guarantees, Securitisation & Microfinance
37B, Avenue JF Kennedy
L-2968 Luxembourg**

The electronic version of the Expression of Interest should be sent to: dcfta_east_gf@eif.org stating in the subject of the email, as appropriate: “DCFTA Initiative East Guarantee Facility – Expression of Interest: [name of the Applicant]”.

An acknowledgement of receipt will be sent to the Applicants by EIF via e-mail, which shall state the following:

- unique application identifier (Expression of Interest number);
- confirmation that the Expression of Interest was received before the Deadline.

The acknowledgement of receipt does not constitute a declaration of completeness of the Expression of Interest and the documents submitted therewith, nor any other kind of assessment or acceptance of the same.

An Applicant may withdraw its Expression of Interest at any stage of the selection process, by sending an email to the above-mentioned addresses.

7. Selection procedure

Financial Intermediaries will be selected in due consideration of the general principles of transparency, equal treatment and non-discrimination, in compliance with EIF’s policies, rules, procedures and statutes and in conformity with best business and market practices (and relevant EIB policies, where relevant).

The Expressions of Interest for the Guarantee under the Guarantee Facility shall be subject to the uniform selection process.

EIF shall assess, on a continuous basis, the Expressions of Interest received pursuant to the selection process outlined herewith. This process comprises of the following steps, provided that each step was concluded with a positive result:

1. Pre-selection
2. Due diligence
3. Selection

Following the pre-selection based on the Expression of Interest, EIF shall perform a due diligence process of the pre-selected Applicant, as a result of which EIF will decide whether or not to propose for approval the entering into of a Guarantee Agreement under the Guarantee Facility. The contractual negotiation process may not be considered concluded prior to the approval of the Guarantee Agreement, and in any

case not concluded until EIB, EIF and the Applicant(s) have agreed on all relevant terms and conditions of the Guarantee Agreement.

In any phase of the selection process until and prior to entering into a legally binding agreement with an Applicant, EIF and EIB reserve themselves full discretion to consider or not Applicants (and Participating Entities in case of joint Expressions of Interest) and no Applicant or Participating Entity has any claim or other right or may expect to be ultimately selected as Financial Intermediary under the Guarantee Facility. No negotiations of terms and conditions of a Guarantee Agreement shall oblige either EIB or EIF to enter into a Guarantee Agreement with a Financial Intermediary. EIB and EIF shall also have sole discretion to decide on the allocation of available amounts to Financial Intermediaries, including proposing a reduction of the Portfolio amount requested by the Financial Intermediary.

EIF will send a rejection notice to each Applicant whose Expression of Interest is rejected during the selection process. EIF may, but is not obliged to, provide reasons of such rejection. Failure by EIF to send such a rejection notice shall not oblige EIF or EIB to accept an Expression of Interest or to re-evaluate such Expression of Interest.

Each Applicant whose Expression of Interest has been rejected shall have the right to submit a written complaint by e-mail and registered mail or professional courier service, to the same address used for the submission of the Expressions of Interest above. Such written complaint shall be submitted within thirty (30) days of receipt of the rejection notice. Any complaints shall be dealt with within the framework of and in accordance with the EIB Group complaints policy. For further information please visit:

<http://www.eib.org/about/accountability/complaints/index.htm>

7.1. Pre-selection

Applications for the Guarantee will be assessed by EIF for pre-selection on a “first come, first assessed” basis. When assessing the application, EIF will use its professional analysis and judgment.

The pre-selection comprises:

1. Pre-selection stage 1: Formal assessment of the Expression of Interest;
2. Pre-selection stage 2: Assessment of the Expression of Interest’s quality;
3. Pre-selection stage 3: Assessment of the contribution of the Expression of Interest to the overall Guarantee Facility.

Only Expressions of Interest that pass pre-selection stage 1, as further described in the section 7.1.1. below, will go through to the pre-selection stage 2, i.e. the quality assessment process.

During the quality assessment (further described in section 7.1.2.), EIF will evaluate the overall quality of the Expression of Interest. All criteria listed under section 7.1.2. are assessed at the discretion of EIF, giving a pre-defined weight to each criteria. Based on the quality assessment, EIF shall assign the “quality score” to the Expression of Interest, being A, B or C.

EIF will also assess the likely impact of the expected Portfolio indicated in the Expression of Interest on the aggregate Guarantee Facility, according to the section 7.1.3. Based on this assessment EIF shall assign the “portfolio score” to the application, being 1, 2 or 3.

Only Expressions of Interest with combined “quality” and “portfolio” scores A1, A2 or B1 are pre-selected. Expressions of Interest with combined scores C1, C2 or C3 are not pre-selected. Applications with combined scores A3, B2, B3 are included in a reserve list, which remains valid for one year after the Deadline.

The Expression of Interest classification table below summarizes possible pre-selection outcomes:

A1	B1	C1	<ul style="list-style-type: none"> Pre-selected On the Reserve list Not pre-selected
A2	B2	C2	
A3	B3	C3	

All Applicants will be sent a notification about the result of the pre-selection process. Pre-selected Applicants are advanced to the due diligence phase of the selection process as referred to in section 7.2. Applicants on the reserve list may be considered for pre-selection depending upon the availability of the budgetary resources.

EIF may suspend or abandon the pre-selection process at any time and no Applicant may claim any right to be pre-selected or included on the reserve list as described above.

7.1.1. Formal assessment

EIF shall assess whether the Expression of Interest has been prepared in accordance with the provisions of this Call according to the formal criteria:

1. The Applicant (and each Participating Entity in case of joint Expressions of Interest):
 - a. is established and operating in one of the DCFTA East Countries;
 - b. is authorised to carry out its business under the applicable regulatory framework;
 - c. is not established in a Non-Cooperating Jurisdiction;
 - d. is not, and has not been in the 5 previous years, in the situation of exclusion, as validly represented in the form outlined in Appendix 2 of Annex I to the Call;
 - e. does not perform any illegal activities according to the applicable legislation of the country of establishment of the Applicant (or Participating Entity), as validly represented in the Expression of Interest;
 - f. complies with the EIB Group’s standards in terms of integrity, transparency and governance, as well as all applicable anti money laundering and counter terrorist financing policies.
2. The Expression of Interest has been submitted and prepared in accordance with the Call and that all required representations, information and supporting documentation required thereunder are provided (in the form requested, where specified).

The Expressions of Interest that do not conform to the formal criteria shall be rejected. If the Applicant or any Participating Entity covered by a joint Expression of Interest does not comply with the formal criteria, the entire Expression of Interest shall also be rejected.

7.1.2. Quality assessment

After successful assessment of the formal criteria, and after having obtained any additional information or clarifications from any Applicant, if necessary, EIF will pre-select the Applicants (and any Participating Entities in case of joint Expressions of Interest) on behalf of EIB according to the criteria set out below, in no particular order of priority:

1. Quality and plausibility of the Guarantee Facility implementation proposal, with particular focus on: implementation and rollout strategy, marketing and publicity of the Guarantee Facility, strategy of the branch network (including incentives for sales force), proposed volumes, financial products used under the Guarantee Facility, expected SME Transaction size and previous experience working with International Financial Institutions;
2. Financial standing and financing capacity of the Applicant (and any Participating Entities in case of joint Expressions of Interest) as evidenced by its external credit rating and/or by EIF financial analysis of the Applicant/Participating Entity;
3. Operational capability of the Applicant (and any Participating Entities in case of joint Expressions of Interest) and its ability to assess and manage;
4. Proposed improvements to the terms offered to SMEs (e.g. pricing reduction or reduction of the requested level of collateral) as compared to standard lending conditions for SMEs;
5. Ability to provide the required data for EIF to properly conduct its analysis and assessment of the Applicant's (and any Participating Entities in case of joint Expressions of Interest) track record and future activity;
6. Experience and ability of the Applicant (and any Participating Entities in case of joint Expressions of Interest) to enter into SME Transactions within a predefined timeframe. This shall be assessed by EIF based inter alia on: track record of financing SMEs and the business plan for building a Portfolio;
7. Envisaged composition of the Portfolio, including its credit quality, granularity and diversification;
8. Ability of the Applicant (and any Participating Entities in case of joint Expressions of Interest) to comply with the specific reporting requirements; and
9. Ability to originate SME Transactions in the agriculture sector (for the avoidance of doubt, the Applicant shall not be bound to present an offer focused solely on the agriculture sector).

7.1.3. Facility and Portfolio assessment

EIF will also consider, inter alia, the impact of the Expression of Interest in terms of the expected contribution of the proposed Portfolio to the current and expected aggregate Guarantee Facility portfolio, including, but not limited to by reference to new financing volumes to be generated, number of SMEs in the Portfolio, geographical distribution in the DCFTA East Countries, adequate credit risk profile, granularity and diversification of the overall portfolio. The credit risk contribution of the proposed Portfolio to the Facility shall be confirmed at the selection stage (see 7.3.) based on the results of the due diligence stage (see 7.2.).

EIF shall have the discretion to decide on the Portfolio amount allocated to the Financial Intermediary,

including, to reduce the amount requested in the Expression of Interest.

7.2. Due diligence

Pre-selected Expressions of Interest will be followed up with the due diligence process, carried out in accordance with EIF's internal rules and procedures, where financial and operational matters relating to the Guarantee Facility's implementation shall be analysed in more detail. The aim of the due diligence is to assess, inter alia, the ability to build up the envisaged Portfolio, the proposed improvements of lending requirements to SMEs, the risk profile of the envisaged Portfolio, the quality of origination, marketing and publicity of the Guarantee Facility strategy for the branch network (including incentives to sell for sales force), risk management, collection recovery/workout processes, systems and ability to comply with the reporting requirements. The due diligence may comprise an on-site visit, which shall be at the discretion of EIF. The due diligence process does not comprise legal negotiations.

7.3. Selection

Based on the results of the pre-selection and the outcome of the due diligence, EIF may request approval for a Guarantee Agreement to be entered into with the selected Financial Intermediary, at which point the Applicant is considered to be 'Selected'.

EIB or EIF shall not, under any circumstances, be obliged to enter into a Guarantee Agreement with a (pre-) selected Applicant.

7.4 Potential reallocations during the implementation of the Guarantee Facility

With a view to maximising the efficient use of the resources of the Guarantee Facility, EIF shall have sole discretion to allocate any available amounts to Financial Intermediaries that out-perform initial expectations on the build-up of the relevant Portfolio.

In addition, Portfolios may be reduced and funds re-allocated between Financial Intermediaries in order to target an efficient use of the Facility during the build-up of the relevant Portfolios.

8. Publishing of information on the Financial Intermediaries¹

Each year EIF and EIB shall publish on their websites a list of Financial Intermediaries and SMEs supported through the programme, which shall include:

- a) for each Financial Intermediary the name and address of the Financial Intermediary with which EIB and EIF have signed a Guarantee Agreement, as well as an indication of the Guarantee Cap Amount. Furthermore, the list shall provide an indication of the type of financing that is being made available through the portfolios covered by the Guarantee;
- b) a list of SMEs which receive financing where the SME Transaction that is covered by a Guarantee exceeds the threshold of EUR 60,000 (or non-euro equivalent) containing for each SME the name and address and country of establishment (in the case of natural persons the address shall be replaced by NUTS² level 2 codes) and type of financing received under the Guarantee Facility.

¹ EIF shall also publish the information on the SMEs reached, as further detailed in the Annex II to this Call.

² Nomenclature of territorial units for statistics (<http://ec.europa.eu/eurostat/web/nuts/overview>).

The Financial Intermediary and SMEs may, prior to receiving financial support under the Guarantee Facility, declare in writing (including by a representation in the relevant agreement) that the publication requirement set out above risks harming its commercial interests or risks threatening the rights and freedoms of individuals concerned as protected by the Charter of Fundamental Rights of the European Union, on the basis of a written justification. In addition such publication shall not be required if it would be illegal under the applicable laws and regulations³.

³ As substantiated by an intermediary with a legal opinion.