

**Clarification Document to the Call for Expression of Interest – C-FOF-RO 2016/01 to select Financial Intermediaries that will receive resources from the Competitiveness Fund-of-funds Romania to implement the following Financial Instruments: Entrepreneurship Accelerator and Seed Fund(s)**

The aforementioned Call for Expression of Interest (further “CEOI”) stipulated that: “Requests for clarifications from Applicants shall not receive individual replies. Instead, answers to relevant requests for clarifications received within the relevant deadline will be published together in a Clarification Document to be posted on the website [www.eif.org](http://www.eif.org), at latest on 3 February 2017”.

In accordance with this provision, we hereby present such a clarification document. Capitalised expressions utilised below shall have the meaning attributed to them in the CEOI, unless otherwise defined below or the context requires otherwise.

Questions may appear as they have been received without any editing by EIF and in a random order. Page numbers indicated in the questions are assumed to refer to the published CEOI.

Q1	“Place of business of SMEs” (p. 21): with respect to the indicated “place of business” criteria, does this refer to the registered corporate seat (in Romanian, “sediul social”) or the location (city, county) where the target is carrying out the majority of its activities/has its primary office (i.e., where the majority of its employees are located/its management team is located)? In any event and for the avoidance of any doubt, please do kindly provide the definition of “place of business” applicable to the current call for expression of interest
A1	The place of business of SMEs should be established based on the corporate seat listed in the registration certificate, as to be demonstrated by each recipient of funding by means of a written certificate (“certificat constatator”) issued by the Romanian Trade Registry or through a similar official document.
Q2	“Fund’s distribution cascade” (p. 23): relating to Seed Stage investments, please kindly provide the respective amounts to be received by the Fund Manager as carried interest, on the basis of the following example: a total of EUR 1.5 million has been invested (40% invested by private investors, and 60% invested from the ESIL capital commitments/Fund Manager’s commitment), with the exit at EUR 2 million (meaning a EUR 500,000 gain)
A2	Please note that the provided example does not mention the timing of making the respective investment and divestment, nor the fees paid to the Fund Manager up until this moment, therefore making it extremely inaccurate to provide an example without detailed cash flows. Please refer to section “Fund’s distribution cascade” in Annex II of the CEOI for more information.
Q3	“Fund’s distribution cascade” (p. 23): since during the Seed Stage private financing/investment will also be required (10%, 40% or 60% as indicated in “Private investors contribution” (p. 19)), would the carried interest due to the Fund Manager by the EIF be paid upon the finalization of a respective exit/occurrence of a particular liquidity event or upon the winding up of the Fund?
A3	The Carried Interest will be paid to the Fund Manager following the sequence (steps) stated in “Fund’s distribution cascade” section in Annex II of the CEOI.

Q4	“Fund’s distribution cascade” (pp. 23 - 24, Point 2 of Seed Stage cascade): is the Hurdle Rate of 4% applicable to the total committed capital or the actual overall invested amount?
A4	It applies to total contributions drawn down and not yet returned.
Q5	“Fund’s distribution cascade” (p. 24, Point 4 of Seed Stage cascade): Does the EIF see any asymmetric returns for Private Investors? And if so, then please kindly illustrate with an example.
A5	Yes, the returns between FoF and Private Investors are asymmetric, in the sense that both investor classes are non pari-passu with the returns mechanism skewed to favour Private Investors. Please refer to section “Fund’s distribution cascade” in Annex II of the CEOI for more information.
Q6	Page 14: Independence of Mgmt Team: please detail.
A6	For information on the required level of independence, please see section “Fund Manager” of the CEOI. In this respect, it is of specific importance that the fund manager should be able to take management and investment decisions independently, in particular without the influence of investors, sponsors or any other third party which is not integrated in the Fund structure. This should also be reflected in the shareholding of the fund management company.
Q7	Page 18: Private Investors: please confirm that the definition does not exclude potential investors which invested / co-invested / participated into syndication of investments in previous periods into startup companies or other entities in which members of the Fund Management teams have also invested / co-invested / participated into syndication or had / have advisory or executive roles for such entities.
A7	Please note that “Private Investors shall be deemed to be any investors which (i) <u>are economically and structurally independent from the fund manager, and from any entities and/or individuals connected thereto</u> , (ii) are economically and structurally independent from the eligible beneficiaries where an Investment is made, and from any entities and/or individuals connected thereto ( <u>for avoidance of doubt, in the case of a follow-on investment, the existing shareholders that are not founders of a company may be considered</u> )”.
Q8	Page 22: Base Remuneration: Current formulation indicates as basis to apply the calculations only the programme contributions committed and there is no mentioning of Private Investors contributions committed directly at fund level. Can you clarify if Base Remuneration can include components calculated using as basis also the Private Investors contributions committed directly at fund level?
A8	It is reminded that in this case there is no requirement for the private investment to be raised prior to fund first closing. However, should the commitment of private investors be secured, the remuneration would take into consideration all the investors into the fund, according to market practices.
Q9	Page 23: Management Fee and Cost Cap: does the 20% apply only to the ESIF commitment, or will it apply to all LPs, ESIF commitment plus Private Investors commitments directly at fund level?
A9	The management fee and cost cap applies to the total fund commitments including such of Private Investors.
Q10	Page 23-24: Fund’s Distribution Cascade: How are the two cascades interconnected? More specifically, how does the interconnection of the two cascades influence the returns towards the Private Investors committed directly at fund level but only to the Seed compartment?
A10	Please note that the distribution cascades for the Acceleration stage and Seed stage are not per se interconnected, as the proceeds from Acceleration stage investments and Seed stage investment follow different and separate distributions patterns as set out in section “Fund’s distribution cascade”.
Q10(cont.)	Page 24: Fund’s Distribution Cascade: From Seed Stage: 4: the 80% refers only to Private Investors that committed on a fund level. There is no reference to EIF at this step of distribution. Please confirm.
A10(cont.)	Please refer to the answers provided above.
Q11	You mention that the due diligence process may require a site visit. Do you anticipate

	that the fund is set up and startup costs are incurred prior to being selected as the financial intermediary by you?
A11	The intended fund structure and all related entities must be described (i.e. legal structure, governing laws and whether regulated or not), but not necessarily established, at the point of submission of the expression of interest.
Q12	Composition of the Fund Manager team's. a. Will you allow legal entities to be shareholders of the General Partner of the Fund or will the team need to be comprised only of individuals? b. Would you allow non-Romanian citizens to be part of the General Partner of the Fund? How about non-EU citizens?
A12	a. There is no expectation regarding the shareholding, so long as the requirements regarding the independence of the fund management team are met. b. There is no expectation regarding the nationality of the members of the fund management team.
Q13	Please confirm that the 10% private money participation can take place both at the SME to be funded level and at the Fund level.
A13	This is correct. At the same time, given the distribution cascade in the Seed Stage which favours Private Investors, EIF would appreciate that such investors commit at Fund level at least in the Seed Stage.
Q14	In terms of private funds, and in addition to funds of the Competitiveness Fund-of-Funds Romania, do you envisage funds originating from EIF, EIB, EBRD, IFC or any other IFIs as private funds?
A14	There will be no additional commitment from EIF into any fund set up as a result of this Call. The fundraising process of private funds is to be led by the fund management team.
Q15	Is investing 55% of the funds awarded within two years an absolute requirement in terms of investment strategy or will you allow this percentage to deviate in the investment strategy presented as part of the submission? In case the investment strategy is such that each SME receives up to 199,999 to satisfy state-aid rules, then an extremely high number of SMEs will need to be funded in the first two years, potentially diluting the quality of the investments made and the returns. Would you please comment on this on whether an applicant can deviate from this rule?
A15	As stated in the Call and in accordance with Reg. 1303/2013 <sup>1</sup> , art. 42 para. 3, funds which were set up before the end of 2017 and for which 55% of the resources have been invested before <u>the end of the eligibility period</u> , may reserve up to 20% of the resources into a dedicated escrow account for investment after the end of the eligibility period. For clarification, the end of the eligibility period is defined by art. 65 of the Reg. 1303/2013 as 31/12/2023, as reflected in the CEOI, Annex 2.
Q16	Your call mentions that the Selection will be approved by EIF. Will the Romanian government have any role in selecting, recommending, or advising EIF on the right candidates? Will it be requested to approve the selection of EIF's Board?
A16	The selection of a fund manager will be made solely upon EIF's decision and will undergo the usual internal phases for approval of the EIF, including the Approval of the EIF Board.
Q17	Performance-based remuneration. a. Can you please explain further performance-based remuneration. Such remuneration is not standard in funds. It also does not belong in the concept of management cost as equity stakes are not able to cover the costs of operation of a fund. What is the rationale of performance-based remuneration when carried interest is available? b. If a company is invested on the first month of the fund and is divested on the 10th year, just before liquidation, will performance-based remuneration amount to 25% of the amount invested by the fund on the first month (2.5% per year times 10 full years)? c. Given you allow "more suitable market-terms" regarding Management Costs, would you allow removing the performance-based remuneration from any proposed management cost structure altogether in an alternative proposal or is it a necessary proposal?

<sup>1</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1303>

A17	<p>a. The performance-based remuneration follows the provisions in Commission Delegated Regulation (EU) No 480/2014 but is indeed not market standard for equity funds;</p> <p>b. Your assumption is only partially correct as the performance-based remuneration of 2.5% is only applicable <u>until the end of the eligibility period, 31 December 2023</u>, and not throughout the fund’s duration; “Management costs and fees to be paid after 31 December 2023 shall not exceed 1.5 % per annum of the invested capital, calculated pro rata temporis from 31 December 2023 until repayment of the investment, the end of the recovery procedure in the case of defaults or 31 December 2029, whichever is earlier”</p> <p>c. As stated in section “Management Costs of the Fund – basis for calculation” if deemed more suitable vis-a-vis market terms and the type of product to be implemented, applicants could propose different thresholds than the ones listed above in line with Delegated Act Art 13 (6).</p>
Q18	Carried interest. Is proposing a different structure for carried interest allowed just like it is for management costs?
A18	The proposed distribution waterfall has been set in section “Fund’s distribution cascade” and cannot be changed.
Q19	<p>As a matter of policy, could you specify what criteria EIF is already using (i.e. as part of already disbursed funds, e.g. Jeremie funds) or will be using (for the financial instrument or Fund at hand), beyond pure financial return criteria, to assess the longer term impact or success of the financial instrument?</p> <ul style="list-style-type: none"> <li>• How does EIF measure the instrument’s contribution in creating a sustainable and successful Start-up Ecosystem?</li> <li>• Does EIF have specific figures in mind regarding the number of teams to accelerate/provide seed capital for?</li> <li>• Does EIF have a rough estimate for the number of successful companies it hopes will result from the Financial Instrument that go on to become large, profitable businesses?</li> <li>• Does EIF have a specific example in mind for a successful area/region/city where such a Start-up ecosystem was established with EU/national funding?</li> </ul>
A19	<ul style="list-style-type: none"> <li>• The quality assessment criteria according to which EIF will assess the potential applications have been listed in detail in the CEOI;</li> <li>• This matter is entirely left at the discretion of the Fund Manager and its respective investment strategy;</li> <li>• This matter is entirely left at the discretion of the Fund Manager and its respective investment strategy;</li> <li>• There are already some good examples where EU/national funding has led to the development of the local start-up ecosystems throughout Europe, such as in the Baltics, the Western Balkans, Bulgaria etc.</li> </ul>
Q20	<p>The “Place of Business” section of the term-sheet limits the Fund to only “invest into enterprises that are established in Romania”. What are EIF’s thoughts about startups outside of Romania that apply to the acceleration/seed programme? Would the fund be prohibited to accelerate such teams? Would the fund be prohibited to invest at the seed stage, if the investee company has no Romanian presence?</p> <ul style="list-style-type: none"> <li>• How does EIF define “established in Romania”? Does an investee company need a full registered corporate subsidiary or HQ, or is a branch office, or a representative office sufficient?</li> </ul>
A20	See A1.
Q21	<p>Basis of calculation of Management Costs: what is the definition of “programme contributions committed under the relevant funding agreement to the financial instrument” please?</p> <ul style="list-style-type: none"> <li>• Is the interpretation correct, whereby the Base Remuneration is calculated as a percentage of the total funds committed by EIF throughout the life of the fund up to the cap, or are the funds invested into startups subtracted from the calculation basis of the Base Remuneration?</li> </ul>

	<ul style="list-style-type: none"> <li>In other words, is the total sum upon which the full Management Costs are calculated a combination of Base Remuneration based on the the original committed Fund size regardless of the funds deployed (with Base Remuneration rates of 2.5% and later 1%) plus the Performance-based remuneration at a rate of 2.5% for funds invested? Or does the calculation basis for the Base Remuneration get reduced over time by the amount invested into startups?</li> </ul>
A21	<ul style="list-style-type: none"> <li>The Base remuneration is to be based on the total programme contributions committed to a Fund, i.e. total funds committed, which basis holds <u>until the end of the eligibility period</u>; Thereafter “Management costs and fees to be paid after 31 December 2023 shall not exceed 1.5 % per annum of the invested capital, calculated pro rata temporis from 31 December 2023 until repayment of the investment, the end of the recovery procedure in the case of defaults or 31 December 2029, whichever is earlier”</li> <li>This is correct; the Base remuneration takes the total committed capital as a basis whereas the Performance-based remuneration takes into account the invested capital, until the end of the eligibility period.</li> </ul>
Q22	<p>Fund’s distribution cascade</p> <ul style="list-style-type: none"> <li>Given the outlined proposed distribution cascade, does EIF assume no third party private investors are will invest in investee startups during the acceleration stage?</li> </ul>
A22	<p>This observation is correct, hence the split of the distributions in the Acceleration and Seed stage. Nevertheless, third party investors are not excluded to co-invest alongside the fund in this stage.</p>
Q23	<p>Where do you see the fund management company being based legally? Does EIF prefer the Fund Manager to have a legal entity in Romania, or in Luxembourg, or is it indifferent?</p>
A23	<p>It is up to the Fund Manager to propose appropriate legal structure at the point of submission of the expression of interest.</p>
Q24	<p>Questions to the Selection Criteria:</p> <ul style="list-style-type: none"> <li>Re 2.1.: In assessing the quality of the applicants, how does the EIF selection committee evaluate the Fund Manager team’s experience?</li> <li>Re 2.2.: Does the Applicant’s own investment in the fund have to come exclusively from own sources? The term-sheet mentions “to be assessed against the economic wealth of the team” - can you please elaborate? Does the Applicant’s own investment have to be evidenced upfront and parked in an account or can it be contributed on a deal by deal basis?</li> <li>Re 2.3.: <ul style="list-style-type: none"> <li>Regarding legal structures mentioned in 2.3.4. - does EIF expect these to be in place already at the time of the application, or is the plan for a formation of a management company, etc. sufficient?</li> <li>We note the Appendix 1 of the Expression of Interest has under “1.1 Applicant Identification” a corporate legal form. Should an already existing entity submit the application, or can a team of individuals do that with the relevant corporate entity to be registered at a later stage?</li> <li>2.3.7.: We would expect these to be discussed and agreed with EIF as part of the DD process. Please elaborate on reporting expectations as part of the application.</li> </ul> </li> </ul>
A24	<ul style="list-style-type: none"> <li>2.1: The team’s experience is assessed by applying the relevance of the presented experience by the prospective Fund Manager to the expectations &amp; requirements of the respective Financial Instrument;</li> <li>2.2: It is expected that the team’s own investment will come to the extent possible exclusively from own sources, also bearing in mind the expectation of the team to act independently. “To be assessed against the economic wealth of the team” suggests that the absolute amount of the team’s commitment will be assessed against its overall economic wealth in order to ensure sufficient alignment of interest. The ability of the team to meet its own commitment shall be evidenced by its economic wealth and will be assessed. However, such a</li> </ul>

	<p>commitment will be committed and called in proportion together with the commitments of all the other investors;</p> <ul style="list-style-type: none"> <li>• 2.3: The intended fund structure and all related entities must be described (i.e. legal structure, governing laws and whether regulated or not), but not necessarily established, at the point of submission of the expression of interest;</li> <li>• Please refer to the answer above.</li> <li>• 2.3.7. Reporting shall follow a standardised form and scope as per Invest Europe (formerly known as EVCA) guidelines as well as relevant ESIF regulations which are to be specified in detail in the operational agreement with the Fund Manager.</li> </ul>
Q25	<p>Translation of Formal Documents</p> <p>There are several formal documents which are required to be attached to the EoI, e.g. Copy of Applicant’s registration Certificate or Evidence of Signatory Powers.</p> <p>The original documents are in our case in Romanian language. On the other hand, your instructions require the EoI to be in English.</p> <p>Is it necessary to provide translation into English of these formal documents?</p> <p>Such translation needs to be provided by a licensed translator?</p> <p>These translations have to be notarised?</p>
A25	In the case of documents submitted in the Romanian language, copies of original documents as well as uncertified translations in English would be sufficient.
Q26	<p>Definition of the Eligibility Period</p> <p>What is the definition of the eligibility period? Does it coincide with investment period of the fund?</p>
A26	See A15
Q26	<p>Fees After Investment Period</p> <p>It is not clear to us what is proposed in the Call as fees for the management company after the end of the investment period. Or is it up to the applicants to propose their own fee structure?</p>
A26	Management costs and fees to be paid after 31 December 2023 shall not exceed 1.5 % per annum of the invested capital, calculated pro rata temporis from 31 December 2023 until repayment of the investment, the end of the recovery procedure in the case of defaults or 31 December 2029, whichever is earlier.
Q27	<p>Fee Structure</p> <p>In Annex 2, it is mentioned that “...applicants could propose different thresholds than the ones listed above in line with Delegated Act Art 13 (6).” It is not clear to us how “thresholds” may be interpreted. Specifically, please clarify:</p> <p>Should we understand that we can propose our own fee structure, regardless of what has been proposed in the Call?</p> <p>Should we understand we should keep the same fee structure with Base Remuneration &amp; Performance Remuneration but we can propose different percentages?</p> <p>Should we understand we should keep the same fee structure and percentages but at Base Remuneration we can propose a different timeline between the period with 2.5% and the period with 1.0%?</p>
A27	If considered more applicable vis-a-vis market terms and the type of product to be implemented, applicants could propose higher management costs and fees thresholds or different combination of thereof than the ones listed in the CEOI, in line with Art 13 (6)

	of Commission Delegated Regulation (EU) No 480/2014.
Q28	Another important question on fees is the following: can an applicant be rejected at Pre-selection Phase due to its fee proposal? If yes, in what circumstances? Or there will be no rejection based on fee and such fee discussions will take place at next phase?
A28	Please note that level of fee referred to as pricing in the Qualitative Investment Criteria is only one part of the criteria to be assessed, whilst the overall assessment will be based on the entire list of criteria provided in the CEOI.
Q29	<p>Place of Business of SMEs</p> <p>In the Call (Appendix 2) it is mentioned that applicants should describe their “Strategy to attract foreign entrepreneurs to develop their businesses in Romania”. On the other hand, the fund must invest in enterprises that are established in Romania.</p> <p>We assume that if a foreign entrepreneur establishes its firm in Romania then it will be eligible to receive an investment from the fund. Are there additional specific restrictions, e.g. in terms of assets or revenues in Romania versus abroad, for eligibility of such Romanian firm established by a foreign entrepreneur?</p> <p>Another issue we would like to ask is that we noted there is a ceiling in respect of investment in companies based in Bucharest – Ilfov region. We assume that Accelerator activities can take place in Bucharest even for companies that have their place of business in another region of Romania. This will be better as there is more availability of mentors/ advisers in Bucharest as opposed to other places. Please confirm.</p>
A29	There are no set expectations regarding the nationality of entrepreneurs or the location of the fund management team and accelerator. The only geographical criteria are the ones mentioned in the CEOI.
Q30	<p>Fund Structure</p> <p>In the Call, at Fund’s distribution cascade, there are different schedules from the Acceleration Stage and Seed Stage respectively. Furthermore, private investors are referred to only for Seed stage.</p> <p>Does this imply there should be two separate sub-funds or maybe even two separate funds, one for seed and one for acceleration respectively? This may impact the cost structure.</p>
A30	The intended fund structure is entirely left at the discretion of the prospective Fund Managers along with the mechanics of the different distributions cascades in the Acceleration and Seed stages. However, such a split shall not be perceived as a requirement to structure separate sub-funds or separate funds.
Q31	<p>Capital Commitment</p> <p>We assume the 1% minimum capital commitment by the management team will be disbursed at capital calls similarly to other investors. Therefore, it is not necessary to provide the full amount at the time of Fund establishment. Please confirm.</p>
A31	Please refer to answer A24 (p2.2)