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STEERING BOARD

SME Window
Cassa Depositi e Prestiti
EFSI Thematic Investment Platform for Italian SMEs

Adopted by Written Procedure with expiry date 23.09.2016

Proposal by the EIF

Questions concerning this note should be referred to
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SME Window - Cassa Depositi e Prestiti

EFSI Thematic Investment Platform for Italian SMEs

Based on the “Rules applicable to operations with Investment Platforms and National Promotional Banks or Institutions”, approved by the EFSI Steering Board in February 2016 (SB/10/16), the purpose of this note is to, following consultation with the EFSI Investment Committee on 20th September 2016, request approval from the EFSI Steering Board jointly with the EFSI Managing Director for the Cassa Depositi e Prestiti EFSI Thematic Investment Platform for Italian SMEs (hereinafter “the IP”) as framework for future risk-sharing agreements between Cassa Depositi e Prestiti S.p.A. (hereinafter “CDP”) and EIF involving EFSI SMEW resources (e.g. COSME LGF, InnovFin SMEG, etc.). Such IP structure would allow CDP to mobilise additional Italian national resources from the Ministry of Economy and Finance (hereinafter, the “MEF”) dedicated to support the Investment Plan for Europe (hereinafter “IPE”) specifically through EFSI IPs.

Such IP, if approved, may also be used for further EFSI SMEW risk-sharing transactions between EIF and CDP with different features, e.g. under InnovFin¹. EFSI governing bodies would be kept informed of any additional transaction signed bearing the label of the IP.

This IP proposal is linked to a new EFSI SMEW guarantee transaction with CDP under the COSME Loan Guarantee Facility (“COSME LGF”). This COSME guarantee is expected to be presented to the EIF Board for approval on 21 September 2016.

1. Background

The Regulation (EU) 2015/1017 of the European Parliament and of the Council dated 25 June 2015 on the European Fund for Strategic Investments (“the EFSI Regulation”) and the “Agreement on the Management of the European Fund for Strategic Investments and on the granting of the EU Guarantee” (“the EFSI Agreement”) - signed between the European Union (“EU”) and the European Investment Bank (“EIB”) on 22 July 2015 - contemplate the creation of investment platforms to play a prominent role in the support of EFSI objectives.

The EFSI Agreement defines Investment Platform as “a special purpose vehicle, managed account, contract-based co-financing or risk-sharing arrangement or arrangement established by any other means by which entities channel a financial contribution in order to finance a number of investment projects. Investment platforms may include: (i) national or sub-national platforms that group together several investment projects on the territory of a given Member State; (ii) multi-country or regional platforms that group together partners from several Member States or third countries interested in projects in a given geographic area; or (iii) thematic platforms that group together investment projects in a given sector”.

In January 2016 the SME Window frontloading products were approved by the EFSI Steering Board and the EFSI Managing Director², after consultation of the EFSI Investment Committee, authorising the frontloading of the COSME LGF and the InnovFin SMEG 2016-2020 budget.

¹ E.g. capped or uncapped guarantees, targeting SMEs or also Small Mid-Caps or other eligible enterprises under the EFSI SMEW supported risk-sharing programmes, different debt financing products etc.

² Document 04-2016

2. Overview of the Proposal

CDP is a National Promotional Institution whose mandate has expanded over time into developing and supporting the Italian economy also by enhancing access to finance for SMEs.

CDP's support to SMEs is currently provided through funding schemes available to all banks operating in Italy. Since 2009, through these schemes and in cooperation with intermediary banks, CDP has provided EUR 21.5bn of financing on-lent to more than 100,000 SMEs. During the first 6 months of 2016, CDP has disbursed approximately EUR 1.4bn for the origination of SME loans through its intermediary banks. CDP so far has not taken any direct SME credit risk exposure.

Approval is requested for the creation of an IP to be managed and sponsored by CDP and that would host multiple risk-sharing arrangements between several stakeholders involved in SME lending in Italy that would allow for the combination of:

- CDP own resources;
- EFSI SMEW resources (e.g. COSME LGF, InnovFin SMEG); and
- National resources dedicated to support IPE specifically through EFSI IPs (from the MEF)

achieving the envisaged higher impact and leverage for EFSI SMEW resources (increase of at least 25% compared to a stand-alone EFSI SMEW transaction³).

The first proposed EFSI SMEW transaction under the framework of the IP will be a guarantee with CDP under COSME LGF which is expected to be presented to the EIF Board for approval on 21 September 2016.

In July 2016, CDP submitted a COSME LGF application to EIF proposing to launch, for the first time, a risk sharing arrangement among several stakeholders involved in SME lending in Italy. CDP would provide capped (counter-)guarantees, with a guarantee rate of up to 80%, on eligible new SME debt financing supported or provided through sub-intermediaries.

COSME support under the framework of the IP would enable higher SME risk taking capacity for CDP, thanks to a combined counter-guarantee of 80% to CDP (50% COSME and 30% MEF with *pari-passu* ranking), and, in turn, for the sub-intermediaries (counter-)guaranteed by CDP. Therefore, it would result in higher impact and leverage for the EFSI SMEW funds, thus effectively addressing a well-known market failure in respect of SME access to finance.

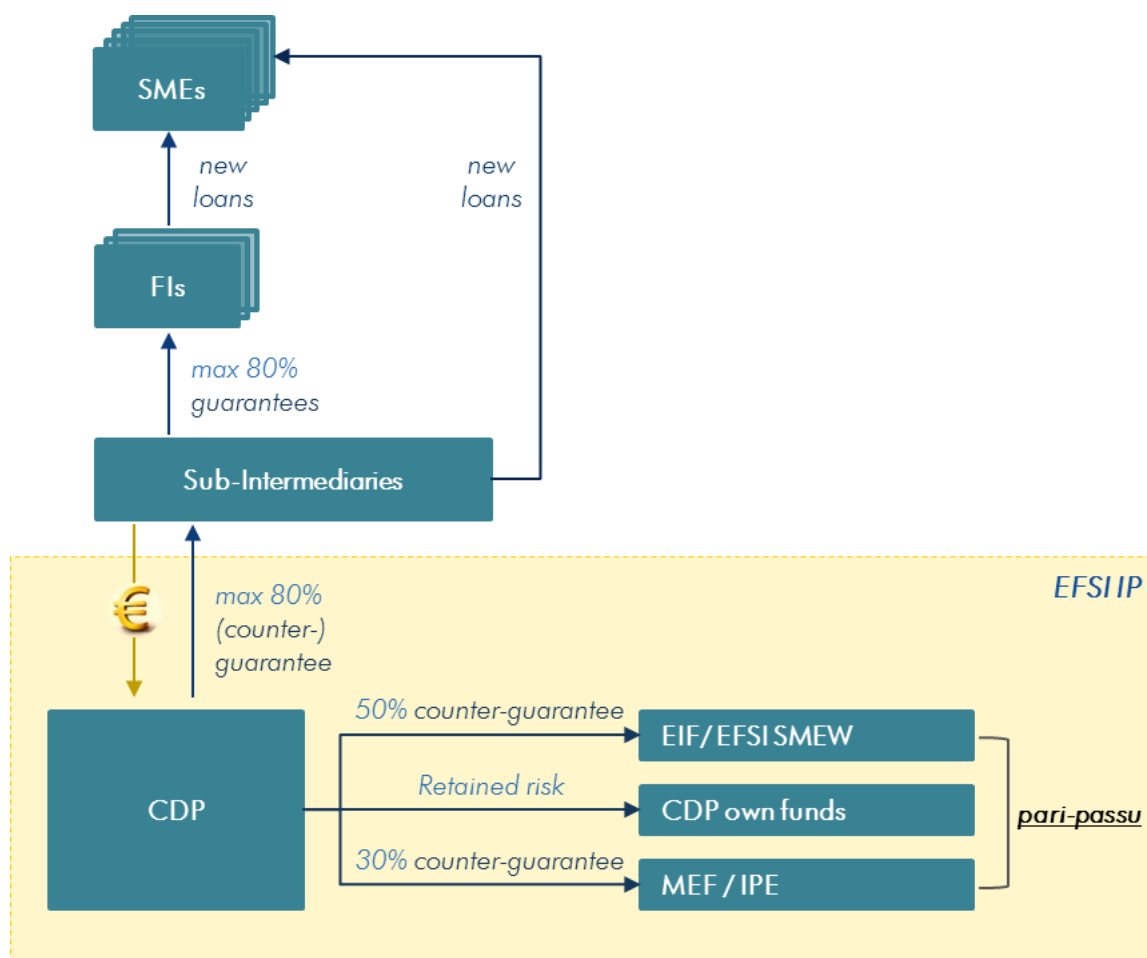
The launch of such new guarantee product by CDP is subject to it being under the IP and supported both by COSME LGF and additional Italian national resources dedicated to EFSI IPs.

3. Structure

The proposed IP would host multiple risk-sharing agreements between several stakeholders involved in SME lending in Italy and among them, between CDP and EIF in the form of EFSI SMEW stand-alone transactions (e.g. COSME LGF, InnovFin SMEG). CDP would be the manager and sponsor of the IP.

The risk allocation between the various parties involved in a final recipient transaction under the IP would, substantially, be as follows:

³ Based on a 50% counter-guarantee rate provided to CDP by EFSI SMEW resources and a maximum 80% (counter-)guarantee rate provided by CDP to the sub-intermediaries.



(a) Risk allocation among the parties

Parties	Risk retention with respect to a covered SME loan ⁴	
	CDP provides direct-guarantees	CDP provides counter-guarantees
Italian Financial Institutions (FIs)	n/a	20%
Sub-Intermediaries	20%	16%
CDP	16%	12.8%
<u>pari-passu</u>	MEF	19.2%
	EIF	32%

⁴ The SME loans will be provided by either FIs (CDP counter-guarantee) or Sub-Intermediaries (CDP direct guarantee). For avoidance of doubt, such loans would not be necessarily linked to the on-lending programmes.

(b) Leverage effect

Scenario ⁵	CDP provides direct-guarantees	CDP provides counter-guarantees
WITH IP	35	50
WITHOUT IP	28	40

Assuming the maximum 80% (counter-)guarantee rate provided by CDP, the set-up of the IP as described in this note provides for a leverage increase of 25% compared to EFSI SMEW stand-alone transactions.

4. Principles applying to the IP

The IP hereby proposed would facilitate cooperation between several stakeholders involved in SME lending in Italy, including between EIF and CDP under EFSI SMEW. The IP is based on the following principles/characteristics:

(a) Focus on market failures and crowding-in

SME guarantees continue to be the most widely used and effective instrument to ease SME access to finance and to alleviate related market failures⁶.

Thanks to the IP structure, the proposal would, in addition to the EFSI SMEW resources, crowd-in additional funds from the MEF, as well as from Italian financial institutions which would retain part of the SME risk exposure.

(b) Geographic scope

National coverage in Italy.

(c) Thematic scope

The IP is a thematic investment platform with mono-sector focus on SMEs⁷, in accordance with article 5(c) of the “Rules applicable to operations with Investment Platforms and National Promotional Banks or Institutions” approved by the EFSI Steering Board in February 2016 (SB/10/16).

(d) Type of products

Under the IP, any eligible risk-sharing agreement between EIF (EFSI SMEW) and CDP could be covered. Such risk-sharing agreements will, in turn, support new eligible debt financing transactions as defined under the EFSI SMEW supported risk-sharing programmes.

⁵ Based on a 50% counter-guarantee rate provided to CDP by EFSI SMEW resources, an 80% (counter-)guarantee rate provided by CDP to the sub-intermediaries, an assumed average 70% guarantee rate provided by the sub-intermediaries to the FIs (if applicable) and a 10% cap rate.

⁶ EIF Working Paper 2016/35 - European Small Business Finance Outlook, June 2016

http://www.eif.org/news_centre/publications/EIF_Working_Paper_2016_35.htm

⁷ As defined under the EFSI SMEW supported risk-sharing programmes, including e.g. Small Mid-Caps for InnovFin risk-sharing transactions.

(e) Type of EFSI financing and proportion of the total investment platform provided

No EFSI SMEW resources are requested for approval by the EFSI Steering Committee to set up the proposed IP.

The first transaction under the framework of such IP, if approved, would envisage EFSI SMEW support through COSME LGF, via a counter-guarantee agreement between EIF and CDP. Additional national resources dedicated to EFSI IPs, provided by the MEF, would also be mobilised with a 30% counter-guarantee, alongside the 50% counter-guarantee under COSME LGF.

The expected leverage provided in respect of the EFSI SMEW contribution under COSME LGF is estimated at 55.6 times. A contribution from COSME LGF of EUR 112.5m⁸ is expected to support a portfolio of EUR 6.2bn of SMEs investments to the benefit of more than 67,000 Italian SMEs over a period of 2 years.

(f) Sponsor

The sponsor of the IP is CDP.

(g) Manager

CDP would also be the manager of the IP.

(h) Other non-EFSI providers of funding

EFSI SMEW transactions require risk retention by the counterparty in line with the relevant supported risk-sharing programme.

In case of COSME LGF, financing to SMEs will be provided by financial institutions.

(i) Legal form

No new legal entity or vehicle would be foreseen for the IP. The IP will be set-up as “an arrangement established by any other means”. EIF will send a letter to CDP confirming the approval of the IP by the EFSI Steering Board and that the relevant EFSI SMEW transaction, as approved by the EIF Board of Directors, falls within, and is complementary to, the framework of this IP.

The COSME LGF transaction, as well as all future relevant EFSI SMEW transactions between CDP and EIF, will be based on standard contractual risk sharing arrangements in line with the relevant mandate (e.g. COSME LGF, InnovFin SMEG) and EFSI SMEW requirements.

(i) Approval process

In parallel to the consultation with the EFSI Investment Committee on the IP and the request for approval of the IP to the EFSI Steering Board and the EFSI Managing Director, the COSME LGF guarantee transaction with CDP will be submitted for approval to the EIF Board of Directors on 21 September 2016.

(k) Reporting, Accountability and Evaluation, anti-fraud and excluded activities:

All the requirements hereby referred to will be fulfilled in accordance with the relevant mandate (e.g. COSME LGF, InnovFin SMEG) and EFSI SMEW provisions.

⁸ Amount of guarantee coverage (cap amount) foreseen in the counter-guarantee agreement between EIF and CDP - current estimate based on a cap rate of 9%. The final terms of the guarantee will be determined by EIF as part of the selection process.

5. Conclusion

The CDP - EFSI thematic investment platform for Italian SMEs would facilitate the mobilisation of additional national resources, thanks to it being linked to EFSI SMEW risk-sharing transactions, which is essential for CDP to take SME credit risk for the first time providing for a leverage increase of at least 25% compared to EFSI SMEW stand-alone transactions. The first transaction will be under COSME LGF. Further EFSI SMEW risk-sharing transactions may be added under the proposed IP, if approved, with a view to mobilising further national resources dedicated to EFSI IPs and achieving higher impact and leverage for EFSI SMEW resources.