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STEERING BOARD

EIF – EUR 500m Increase of the SME Window

Adopted by Written Procedure with expiry date 21/07/2016

Joint proposal by EC, EIB and EIF

Questions concerning this note should be referred to
EFSI Secretariat: tel: +352 4379 82130; e-mail: EFISecretariat@eib.org

EIF – EUR 500m Increase of the SME Window

The purpose of this note is to describe the EUR 500m increase of the EFSI SME Window which aims at mobilizing investments in EU Member States SMEs and small midcaps, and to seek its approval by the EFSI Steering Board. Specific requests for approval covering each new product to be created under the EFSI SME Window will be submitted separately, in accordance with Article 7(3) last subparagraph of the EFSI Regulation.

1. Background

The current size of the EFSI SME Window is EUR 5bn. It is proposed to increase it to EUR 5.5bn, including EUR 3bn (initially EUR 2.5bn) guaranteed by the EU and EUR 2.5bn contributed by EIB.

The EFSI SME Window ("EFSI SMEW") is regulated by the EFSI Agreement between the EU and the EIB signed on 22 July 2015 ("EFSI Agreement") and in particular by its Schedule VII and relevant annexes thereof. The EFSI Agreement also sets out the terms and conditions of the guarantee provided by EU to EIB for the implementation of EFSI SMEW ("EFSI EU Guarantee").

The EFSI SMEW, which initially amounts to EUR 5bn, aims at creating EUR 75bn of mobilised investment volumes (15x leverage) by 4 July 2018. With the proposed EUR 500m increase, this level of mobilised investment will be exceeded within the same deadline.

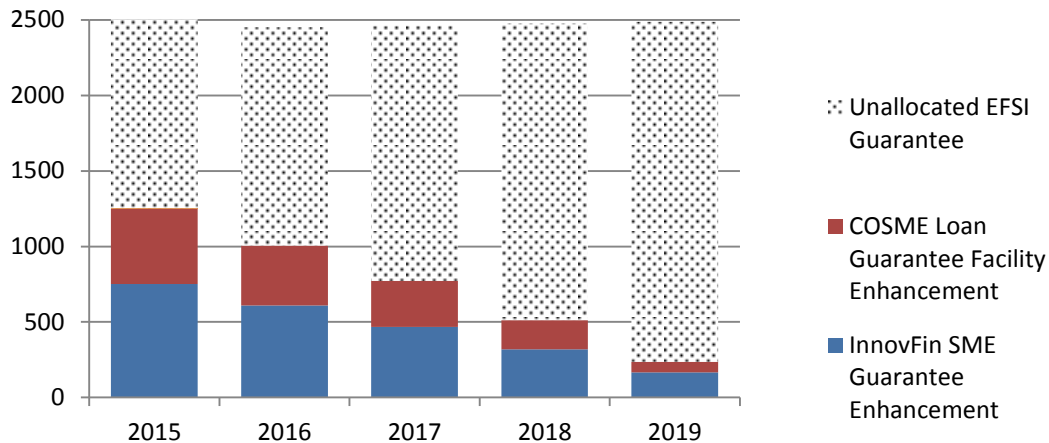
2. Rationale

The deployment of the EFSI SMEW is structured as follows:

- Phase 1 was approved by the Board of Directors in April 2015 and signed in July 2015, composed of:
 - EUR 2,500m from the EIB to increase the existing equity mandate RCR (without EFSI EU Guarantee);
 - EUR 750m to enable the frontloading of InnovFin SMEG 2016-2020 budget ("InnovFin SMEG Enhancement");
 - EUR 500m to allow the frontloading of COSME LGF 2016-2020 budget ("COSME LGF Enhancement").
- Phase 2 is composed of new products yet to be designed, approved and signed, as described below in this note.

As 30 June, after one year of EFSI SMEW deployment, 185 transactions have been committed in 26 Member States (Malta and Cyprus still missing) reaching the full EFSI-RCR envelope and 80% of the EFSI resources for InnovFin SMEG and COSME LGF Enhancement. EUR 48.5bn of mobilized investments (or 65% of the EUR 75bn target) will result from such transactions.

Under Phase 1, InnovFin SMEG enhancement and COSME LGF enhancement benefit from the EFSI EU Guarantee, which however amortizes as described in the table below along with the budget received annually from H2020 and COSME.



Under Phase 2, all new products will benefit from the EFSI EU Guarantee. As exposed below, **projections shows a need to increase the EFSI SMEW by EUR 500m** as foreseen in the EFSI Regulation and in the EFSI Agreement.

Following discussions with and subject to further discussions with the EIB and the European Commission, the following new products are envisaged under EFSI SMEW in Phase 2, which would bring the total amount required for these new products under the EFSI EU Guarantee above EUR 2.5bn – amounts below are still indicative at this stage:

- InnovFin SMEG Enhancement turned into **InnovFin SMEG top-up**, which means no annual release of the EFSI EU Guarantee, but full increase of such programme by **EUR 880 to 900m** (i.e. from EUR 1.06bn to 1.94bn or 1.96bn). EFSI is proposed to provide a second loss cover above the portion covered by the InnovFin SMEG budget; EUR 150m indicatively would also be allocated to expand the coverage of InnovFin SMEG towards subordinated loans to innovative SMEs and small midcaps;
- COSME LGF Enhancement turned into **COSME LGF top-up**, which means no annual release of the EFSI EU Guarantee, but full increase of such programme by **EUR 500 to 550m** (i.e. from EUR 690m to 1.19bn or 1.24bn). EFSI is proposed to provide a second loss above the portion covered by the COSME LGF budget;
- EaSI Guarantee Enhancement to be turned into **EaSI Guarantee top-up**, which entails an increase of such programme by **EUR 50 to 100m** (i.e. from EUR 96m to 146m or 196m). EFSI is proposed to provide a second loss above the portion covered by the EaSI Guarantee budget;
- **EUR 1,270m for the SMEW Equity** product (launched in parallel with the NPI equity platform); the coverage benefitting from the EFSI EU Guarantee will increase overtime along with the budget provided under H2020.
- **EUR 70 to 100m** indicatively for a new uncapped guarantee product under EaSI, which would complement the existing EaSI capped guarantee to serve the microfinance and social entrepreneurship market;
- **EUR 100m or more** indicatively for securitization (developed in parallel with the NPI securitization platform);
- The remaining, if any, depending on the usage of the EFSI EU Guarantee for the above products, could provide either front-loading of the Culture and Creative Sector Guarantee or second-loss guarantee above ESIF first-loss guarantees (yet to be discussed with DG REGIO) or additional capacity for the social impact products envisaged under the SMEW Equity product, and/or any other new product.

These additional products are currently discussed with the Commission and subject to positive outcome, as well as approval from EFSI governance, they would entail to provide further access

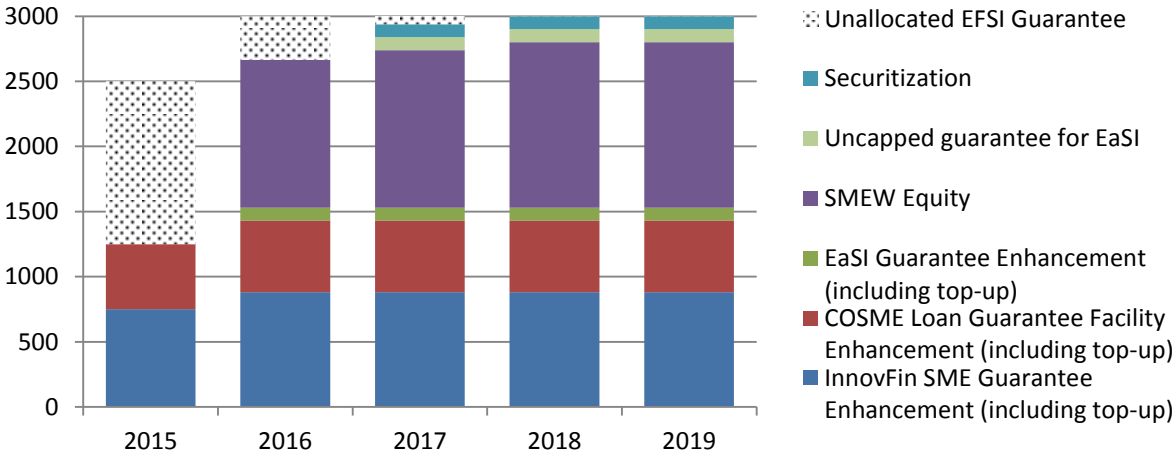
to finance to SMEs and small mid-caps in EU-supported policies in accordance with EFSI policy objectives. Two products (Easi Guarantee Enhancement and SMEW Equity Product) are presented to the Steering Board and the Managing Director’s approvals (following Investment Committee’s consultation) at the same time as this request.

The cumulative usage of the EFSI EU Guarantee between 2015 and 2019 is reflected in the table and graph below (figures approved by EIF Board but yet subject to revisions following discussions with the EIB and the European Commission):

| EUR 2.5bn EFSI Guarantee cover over time | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------------|-------------|-------------|-------------|-------------|
| InnovFin SME Guarantee Enhancement (including top-up)* | 750 | [880] | [880] | [880] | [880] |
| COSME Loan Guarantee Facility Enhancement (including top-up) | 500 | [550] | [550] | [550] | [550] |
| EaSI Guarantee Enhancement (including top-up) | 0 | [100] | [100] | [100] | [100] |
| SMEW Equity** | 0 | 1136 | 1208 | 1270 | 1270 |
| Uncapped guarantee for EaSI** | 0 | 0 | [33] | [67] | [100] |
| Securitization | 0 | 0 | 100 | 100 | 100 |
| Other initiatives | 1250 | [334] | [129] | [33] | [0] |
| Total | 2500 | 3000 | 3000 | 3000 | 3000 |

* Including the expansion of InnovFin SME Guarantee towards the coverage of subordinated loans to innovative SMEs and small midcaps

** The usage of the EFSI EU Guarantee is growing annually for these 2 products, in parallel with the annual contribution provided by the Commission under the 3 central programmes (InnovFin Equity, EaSI and InnovFin SMEG).



The amounts required for these new products under the EFSI EU Guarantee would exceed the limit of EUR 2.5bn, hence the need to request a EUR 0.5bn reallocation of the EFSI EU Guarantee from the EFSI Infrastructure & Innovation window to the SMEW as foreseen in the EFSI Regulation and in the EFSI Agreement.

It is proposed that the next amendment of the EFSI Agreement, expected to be signed at the end of July 2016 comprises the SMEW Equity product and the EaSI Guarantee Enhancement. The other new products listed above (the InnovFin SME Guarantee top-up, the COSME Loan Guarantee Facility top-up and the EaSI Guarantee top-up) are expected to be presented in Q3/Q4 2016. Additional products are intended to be presented at the end of the year, subject to the priorities indicated by the European Commission.