|  |  |  |
| --- | --- | --- |
| ***Disclaimer:*** *This is a draft fiche for a financial product under the EU compartment of the InvestEU Fund based on features included in the draft investment guidelines. The financial product fiche is intended to facilitate discussion with the potential Implementing Partners. It has not been adopted or endorsed by the European Commission. Any views expressed are the preliminary views of the Commission services and may not in any circumstances be regarded as stating an official position of the Commission. The information transmitted is intended only for the entity to which it is addressed for discussions and may contain confidential and/or privileged material. This financial product fiche is meant to serve as an example for the financial product herein described. It shall not pre-empt policy prioritisation or any other aspects related to InvestEU Financial Products. An implementing partner can focus on one or more policy areas targeted by this financial product. The financial product fiches should be read in combination with the policy cover notes per policy window* | | |
| **1.** | **Policy Window(s)** | Sustainable Infrastructure window  Research, Innovation and Digitisation window  SME window  Social Investment and Skills window |
| **2.** | **Policy Objective(s)** | The policy objective is to improve the competitiveness of enterprises by facilitating access to and the availability of finance predominantly to SMEs and also selected small midcaps which are perceived by financial intermediaries as being high risk or lacking sufficient collateral.  Within this target group of final recipients, enhanced support shall be provided to final recipient transactions which focus on intangible assests, engage in risky innovation or transformative digitalisation activities, and for entities in the cultural and creative sector. [Please note that enhanced support for the financing of sustainability activities is under consideration].  The InvestEU guarantee shall not be provided for covering a portfolio of transactions that the financial intermediary or Implementing Partner would be able to generate under its existing credit risk policy (i.e. within the existing risk appetite of the financial intermediary) or for which coverage would be available under an existing national or regional public scheme. |
| **3.** | **Product Name** | **InvestEU SME guarantee** |
| **4.** | **Rationale, Objectives and Expected Impact** | Small and medium-sized enterprises (SMEs) are the backbone of the European economy. There are over 23 million enterprises in the EU but without SMEs the EU economy would consist of only 45 000 firms. The EU´s SMEs employed 93 million people in 2016, accounting for 67% of total private-sector employment and generated 57% of value added in the EU28 non-financial business sector. About 85% of newly created jobs in the EU are accounted for by SMEs.    SMEs are heavily reliant on external sources of finance as internal funding is generally insufficient to meet their financing needs. The bulk of SME external financing is based on bank loans and leasing and financial intermediaries enabling such finance are therefore one avenue for the provision of more SME financing. Providing alternatives for such finance, which can be debt or equity-based, is important and has to be developed further.  Following the financial crisis, higher capital requirements and the need for banks’ deleveraging negatively impacted banks’ willingness and ability to lend and to accept risk. This had a major negative effect on available SME bank finance across the EU. Credit standards tightened considerably and, as a consequence, SMEs experienced a credit crunch. While the situation has recovered, there are still considerable differences among Member States.  The 2018 OECD scoreboard on Financing SMEs and Entrepreneurs notes that "new lending to SMEs depicts a more negative picture than in previous years". Growth in new SME loans in 2016 was negative in 15 out of 25 countries covered by the OECD scoreboard. The decline in new lending can be attributed to several factors, often depending on national circumstances. In some countries this can be attributed to lower demand linked to weak investment dynamics. In other countries, such as Greece, Slovenia and Portugal, financial institutions appeared to have become more risk-averse when lending to SMEs.  This market environment results in an access to finance gap for SMEs[[1]](#footnote-2) that have a perceived higher risk profile or insufficient collateral, which is independent of their sector of operation. Despite the strong support of the SME debt financing market through public support schemes at regional, national and EU-level, EU27 still suffered from a substantial debt financing gap, peaking at €42 billion in 2014, which has subsequently seen a reduction to less than €30 billion in 2017. The figures show an overall improvement of the conditions for accessing loan financing at EU27 level compared to earlier years.  While financing through equity is often regarded as the appropriate source of funding for highly innovative firms, the limited size of the European venture capital industry and the ‘bank culture’ predominant in the Member States leads to the fact that many highly innovative firms rely on ‘classic’ debt financing. Furthermore, innovative and other high-risk activities, which are poorly understood by finance providers, results in low credit scores and leads to high interest charges to compensate for the perceived risk, provided that a finance provider is willing to offer the finance at all, rather than reject the application outright.  The digital transformation by European SMEs across all sectors is essential for Europe to remain competitive in a global marketplace. Currently, there is a substantial disparity in terms of the integration of digital technologies into industries and companies across Europe. While there are several factors that lead to a low digitalisation rate (including the willingness of traditional SMEs to adapt due to their insufficient knowledge- and skill-base), limited access to finance is one of the elements that negatively affects the possibility for traditional SMEs to digitalise. Specific attention shall therefore be paid to supporting digital transformation projects of SMEs in order to make them more competitive, help them expand to new markets and adjust to structural changes.  With 6.7 million jobs, accounting for 4.2%[[2]](#footnote-3) of the overall GDP, the cultural and creative sector (CCS) is the third largest source of employment[[3]](#footnote-4) in the EU. CCS also enables innovation and technological development in other parts of the economy. The social role CCS plays is important in preserving and transmitting cultural, creative and linguistic diversity, and thus in strengthening European identities and social cohesion. Research has indicated that access to funding is one of the key barriers encountered by entrepreneurs, SMEs and other organisations working in CCS. This relates to the range and fragmentation of CCS activities, the nature of CCS organisations and entrepreneurs, and the market conditions faced by the sector. CCS funding is characterised by a series of barriers which are more pronounced than in other sectors. These include: the intangible nature of many of the CCS assets (difficult to evaluate), one of a kind/uniqueness of products, lack of collateral and business track record, limited transferability of assets, information failures between finance providers and companies, difficulties in assessing business models, and lack of relevant expertise in financial intermediaries to assess these specific risks. The ‘finance gap’ for CCS enterprises was estimated in 2013 at between €8 and €13bn for the period 2014 to 2020[[4]](#footnote-5) and, despite EU initiatives in thie area, there is a continued market gap.[[5]](#footnote-6)  *[PLACEHOLDER FOR SUSTAINABILITY]*  While women are more than half of the population and create roughly a third of companies, female entrepreneurs have more difficulties to rise finance for their ventures then men. Women businesses are often under-capitalised and use less external financing, instead relying on personal savings and spousal funds.  The InvestEU SME Guarantee facility will aim to cover a part of the above mentioned market gaps and sub-optimal investment situations, while at the same time being additional to existing public or private schemes addressing the same areas.  *Indicators: (to be further developed)*   1. *Expected target leverage: XX* 2. *Expected number of SMEs to be supported within the overall population of final recipients: XX* 3. *Start-ups to be supported within the overall population of final recipients: XX* 4. *% of high-risk innovation transactions within the overall volume of financing supported: at least XX* 5. *% of digitalisation transactions within the overall volume of financing supported: XX* 6. *% of CCS transactions within the overall volume of financing supported: XX* 7. *[Indicator for sustainability]* 8. *Female-led businesses to be supported within the overall population of final recipients: XX%* |
| **5.** | **New /existing product** | New product  **Continuation and evolution** of existing products  [ to be developed by the implementing partner based on their experience ]  The complementarity with instruments established at regional or national level will be strengthened and verified as part of the policy check to be undertaken by the European Commission.  The EU guarantee shall only be provided to public and private financial intermediaries as last resort and shall not crowd-out existing instruments established at national or regional level. |
| **6.** | **Targeted Sectors** | The product may in principle cover any of thesectors of the economy indicated as eligible in Annex II to the InvestEU Regulation regarding the SMEW, but will foresee enhanced risk-sharing for the following areas of higher policy value:   * High-risk innovation transactions * Transformative Digitalisation transactions * Transactions with businesses from the Cultural and Creative sectors * [Sustainability]   The Implementing Partner shall proposewhich particular area of the SME population and sector it would want to target to ensure complementarity with its existing product range and additionality under InvestEU.  See criteria in section 11. |
| **7.** | **Targeted Recipients** | Predominantly SMEs[[6]](#footnote-7), in the case of areas of enhanced risk-sharing also small midcaps mayl be eligible. |
| **8.** | **Targeted Geography** | All EU MS  Selected MS *(please specify)*  Other countries in accordance with Article 5 of InvestEU Regulation (Third countries associated to the InvestEU Fund).[*to be discussed*]  The Implementing Partner shall propose which particular geography it would want to target to ensure complementarity with its existing product range and and additionality under InvestEU. |
| **9.** | **Implementation Period** | In line with Article 10 (2) of the InvestEU Regulation, implementation period of financing and investment operations under the financial product:  Approval until 31 December 2027  Signature until 31 December 2028. |
| **9.** | **Type of financing** | Direct financing *of Targeted Recipients* by Implementing Partners  Intermediated financing through financial intermediaries |
| **10.a** | **Eligible Financial Intermediaries** *(if applicable)* | Any type of financial intermediary, including other publicly owned intermediaries, commercial banks, leasing companies, guarantee socities, alternative lenders such as crowdfunding platforms/Fintechs, etc.) targeting to generate new portfolios of higher risk SME financing transactions.  Exclusion criteria according to the Financial Regulation shall apply. |
| **10.b** | **Financial Intermediaries’ Financial Needs** *(if applicable)* | Liquidity  Risk protection  Other *(please specify)* |
| **10.c** | **Type of product provided by the Implementing Partner to the Financial Intermediary** *(if applicable)* | Loan (Senior / Subordinated)  (Counter-)Guarantee (capped guarantee, uncapped guarantee)  Equity and quasi-equity *(please specify)*  Other  *–* on-lending guarantees  **Capped portfolio guarantees** covering expected losses of the portfolio to be built up.  **Uncapped portfolio guarantees** can be provided to the financial intermediary if the implementing partner is engaging with its own resources for the mezzanine and senior risk (i.e. any risk exceeding the expected losses);  [*In case the financial intermediary would request risk coverage exceeding the expected losses, part of the mezzanine risk may also be covered by the EU guarantee but will require risk remuneration – to be discussed*] |
| **10.d** | **Type of product provided by the Financial Intermediary to Final Recipients**  *(if applicable)* | Loan  Equity and quasi-equity (please specify)  Other : leases, working capital facilities, subordinated loans, etc.  Eligibility of the proposal by a financial intermediary/implementing partner in case of direct debt financing shall be determined in relation to its existing business activities and its credit risk policy.  The EU guarantee shall lead to the financial intermediary/implementing partner in case of direct debt financing broadening its business activity by establishing a new portfolio of financing transactions which it would not have financed in the absence of the EU guarantee due to the higher risk profile or size of such portfolio, whereby the increased risk taking shall be measured through the expected losses of the new portfolio to be set up. The minimum increase in expectred losses shall be at least: 30%. Portfolios whith a cap rate of less than 5% shall not be eligible for support.  Examples of such higher risk portfolios include portfolios made up of:   * Financing transactions which are currently not provided to start-ups (or provided to certain categories of start-ups, or to previously excluded start-ups); * Financing transactions which are provided with existing features but cover previously excluded categories of recipients where such categories of recipients are excluded for credit risk reasons); * Financing transactions which are provided with new features (such as increased maturities and/or reduced collateral requirements); * Financing transactions on a subordinated basis which have previously not been offered due to their higher credit risk.   Within such portfolios, a higher guarantee rate shall be granted for financing transactions fulfilling the following criteria which are additional to the ones on the general financing:   1. Additional criteria indicating high risk innovation activities: as per Annex I 2. Additional criteria relating to digitalisation transactions: [*to be further developed once first experiences from the digitalisation pilot und the COSME LGF are available]* 3. Criteria relating to transactions in the cultural and creative sector: Financing should be available for small and medium-sized enterprises (SMEs) or small mid-cups in the cultural and creative sectors, provided that they are involved in projects or activities based on cultural values and/or artistic and other creative expressions, either market or non-market-oriented, including the development, the creation, the production, the dissemination and the preservation of goods and services which embody cultural, artistic or other creative expressions, as well as related functions such as education or management. The cultural and creative sectors include architecture, archives, libraries and museums, artistic crafts, audiovisual (including film, television, video games and multimedia), tangible and intangible cultural heritage, design, festivals, music, literature, performing arts, publishing, radio and visual arts. 4. [Criteria relating to sustainability – to be developed]   Further product features:   * The financial intermediary/implementing partner in case of direct debt financing shall be obliged to retain a minimum risk exposure of 20% of each financing transaction for the purpose of alignment of interest. * The financing transactions covered by the portfolio guarantee shall rank pari passu with the financial intermediary or with the implementing partner in case of direct debt financing with regard to loss recoveries provided that if an amount of the losses exceeds the guarantee cap amount a corresponding amount of loss recoveries may firstly be allocated to more senior exposures. * Transactions eligible for inclusion into the portfolios: Working capital and investment financing, guarantees, subordinated financing, bank guarantees (such as performance and bid bonds, rental guarantees), leasing transactions, trade finance facilities, senior and subordinated debt issuance loans and convertible loans provided that the minimum tenor of such transactions is 12 months. |
| **11.** | **Type of product provided by the Implementing Partner to Final Recipients (direct financing)**  *(if applicable)* | Loan  Equity and quasi-equity (plese specify)  Other : leases, working capital facilities, subordinated loans, etc.  Please see conditions in section 10. |
| **12.** | **Amounts / maturity per final recipients** | [under development – max € 5 – 7.5 million, alignment with GBER envisaged to simplify State Aid application] |
| **13.** | **Blending** | Yes  No |
| **14.** | **Size of the Product** | *(to be discussed)* |
| **15.** | **Pricing (only relevant for debt/guarantee products)** | Free of charge – no risk pricing for capped guarantees (administrative charge to be applied for each transaction)  Partially priced – in the case of uncapped guarantees  Fully priced |
| **16.** | **Guaranteed Amounts** | Each transaction included in the new portfolio to be established shall typically be covered by a 50% guarantee rate. A guarantee rate of up to 70% shall be applicable for transactions of particular policy value as outlined in section 6 above.  For each financing and investment operation the Implementing Partner shall establish the expected losses of the new portfolio to be built up. The cap rate shall be set at the level of the expected losses, shall not be lower than 5% and shall not exceed 25%.  In line with Article 16 (2) of the InvestEU Regulation, the EU guarantee shall cover principle and all interest and amounts due to the implementing partner but not received by it in accordance with the terms of the financing operations until the event of default, restructuring losses and losses arising from currency fluctuations other than the euro in markets where possibilities for long-term hedging are limited. |
| **17.** | **EU Guarantee coverage provided to the Implementing Partner** | First Loss Contribution  Pari-passu  Other arrangements *(please specify)*  [In case the Financial Intermediary would request risk coverage exceeding the expected losses, part of the mezzanine risk may also be covered by the EU guarantee but will require risk remuneration] |
| **18.** | **Risk Sharing with the Implementing Partner** | Risk-sharing of First Loss piece:  Residual Risk Tranche ('Second Loss Piece'): In case of **uncapped portfolio guarantees**, implementing partner to cover the senior risk and where there is a mezzanine tranche, at least a part of this mezzanine tranche .  Pari-passu for the whole instrument  Other arrangements *(please specify)* Mandate to the Implementing Partner to implement a first-loss **capped portfolio guarantee** |
| **19.** | **Structure / Features (relationship between implementing partner and financial intermediary(ies))** | Capped portfolio guarantees:    [uncapped – tbd] |
| **20.** | **Currency** | EUR or any other EU currency. |
| **21.** | **Events triggering the use of the EU Guarantee** | To be determined in the guarantee agreement, in accordance with Article 14.2 and Article 16 of the InvestEU regulation. |
| **22.** | **State Aid considerations** | In accordance with Article 209 (1) (c) of the Financial Regulation, the financial product described has to be consistent with State Aid rules.  In case of state resources intervening in the implementation of the product described in this fiche, the dedicated GBER part will apply. |
| **23.** | **Reporting** | Indicators [to be developed] |
| **24.** | **Other** | *Additional elements will be added at the later stage of the work of the product, such as:*  *- Selection and approval process by Implementing partner (will there be an open or closed call, what will be the main selection criteria)*  *- Definitions (specific to the product)*  *- Funding (if needed – i.e. for equity products)*  *- Treatment of revenues/repayments*  *- Timing / absorption capacity* |

**Annex I**

Final Recipient must comply with at least one of the **innovation eligibility criteria**:

1. The Final Recipient is an SME or a Small Mid-cap that intends to use the Final Recipient Transaction to invest in producing or developing or implementing new or substantially improved (i) products, processes or services, or (ii) production or delivery methods, or (iii) organisational or process innovation including business models that are innovative[[7]](#footnote-8) and where there is a risk of technological or industrial or business failure and where two thirds of the costs are intangible and cannot be collateralised for a loan as evidenced by an evaluation carried out by an external expert , or
2. The Final Recipient is a “fast-growing enterprise”, which is an SME or a Small Mid-cap operating in a market for less than 12 years following its first commercial sale and with an average annualised endogenous growth in employees or in turnover greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period, or
3. The Final Recipient is an SME or a Small Mid-cap that shall have a significant innovation potential or be an “R&I-intensive enterprise”, by satisfying at least one of the following conditions:
   * 1. The Final Recipient’s R&I annual expenses are equal or exceed 20% of the Final Recipient Transaction amount as per Final Recipient’s latest statutory financial statements, under the condition that the Final Recipient’s business plan indicates an increase of its R&I expenses at least equal to the Financial Recipient Transaction amount; or
     2. The Final Recipient undertakes to spend an amount at least equal to 80% of the Final Recipient Transaction amount on R&I activities as indicated in its business plan and the remainder on costs necessary to enable such activities ; or
     3. The Final Recipient has been formally awarded grants, loans or guarantees from European R&I support schemes[[8]](#footnote-9) or through their funding instruments[[9]](#footnote-10) over the last thirty-six (36) months, under the condition that the Final Recipient Transaction is not covering the same expense ; or
     4. The Final Recipient has been awarded over the last twenty-four (24) months an R&D or Innovation prize provided by an EU institution or an EU body; or
     5. The Final Recipient has registered at least one technology right (such as patent, utility model, design right, topography of semiconductor products, supplementary protection certificate for medicinal products or other products for which such supplementary protection certificates may be obtained, plant breeder’s certificate or software copyright) in the last twenty-four (24) months, and the Final Recipient Transaction purpose is to enable, directly or indirectly, the use of this technology right; or
     6. The Final Recipient is an early stage SME and has received an investment over the last twenty-four (24) months from a venture capital investor or from a business angel being a member of a business angels network; or such venture capital investor or business angel is a shareholder of the Final Recipient at the time of the Final Recipient's application for the Final Recipient Transaction; or
     7. The Final Recipient requires a risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50% of its average annual turnover in the preceding 5 years; or
     8. The Final Recipient’s R&I costs represent at least 10% of its total operating costs in at least one of the three years preceding Final Recipient's application for the Final Recipient Transaction, or in the case of an enterprise without any financial history, as per its current financial statements; or
     9. The Final Recipient is a Small Mid-cap and its R&I costs represent:
        1. Either, at least 15% of its total operating costs in at least one of the three years preceding the Final Recipient's application for the Final Recipient Transaction
        2. Or, at least 10% per year of its total operating costs in the three years preceding the Final Recipient's application for the Final Recipient Transaction; or
     10. The Final Recipient has incurred R&I expenses qualified in the past 36 months as part of general support measures approved by the European Commission and designed to incentivize companies to invest in R&I, provided that i) such body or institution is independent of the Financial (Sub-)Intermediary and the Final Recipient and ii) the Final Recipient Transaction covers incremental expenditure as indicated in the Final Recipient’s business plan and iii) the Final Recipient Transaction is not covering the same eligible costs already supported by aforementioned measures; or
     11. The Final Recipient has been designated in the past 36 months as an innovative company by an EU Institution or body, provided that in each case
         1. the designation is based on the publicly available criteria where such criteria:

* shall not be limited to or otherwise favour any particular industry or sector, and
* shall reflect at least one of the criteria referred to in article 5.2 except article 5.2.(c).4) [*this reference needs to be reworked*], or shall reflect the substance of at least one of these criteria but shall not be less stringent; and
  + - 1. the body or institution is independent of the SMEG Financial (Sub) Intermediary and the SMEG Final Recipient; and
      2. the SMEG Final Recipient Transaction covers incremental expenditure as indicated in the SMEG Final Recipient’s business plan.

[NB: National and regional research or innovation support schemes could be included under the MS Compartment. National and regional institution or body could be included under the MS Compartment.]

1. An SME financing gap can be defined as a “mismatch between the demand and the supply [...] in the different types of financial instruments for SMEs in a given area of the EU”. It is a situation where firms that would merit financing cannot get it due to market imperfections. [↑](#footnote-ref-2)
2. https://www.eif.org/what\_we\_do/guarantees/cultural\_creative\_sectors\_guarantee\_facility/ccs-market-analysis-europe.pdf [↑](#footnote-ref-3)
3. EC (2017) Report from the Commission to the European Parliament and the Council. Mid-term evaluation of the Creative Europe programme (2014-2020) [↑](#footnote-ref-4)
4. IDEA (2013) Survey on access to finance for cultural and creative sectors: Evaluate the financial gap of different cultural and creative sectors to support the impact assessment of the Creative Europe programme. Report for the EC [↑](#footnote-ref-5)
5. EC (2019) Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the Cultural and Creative Sectors. [↑](#footnote-ref-6)
6. As defined in the Annex to Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422) and as amended from time to time. In the cultural and creative sector, 'SME' shall also mean micro, small and medium-sized enterprise not complying with the SME definition exclusively because of detention of shares of the SME by public bodies which exceeds the limits defined in Art 3.4 of the Commission Recommendation 2003:361/EC (OJ L124, 20.05.2003, p.36) ("Public Enterprise") [↑](#footnote-ref-7)
7. As defined in the paragraphs 15(y) and 15 (bb) of 1.3 Definitions of the Communication from the Commission C(2014) 3282 of 21 May 2014 on the Framework for state aid for research and development and innovation [↑](#footnote-ref-8)
8. e.g., Horizon 2020 or FP7 [↑](#footnote-ref-9)
9. e.g., Joint Technology Initiatives or Eurostars [↑](#footnote-ref-10)