

InnovFin

SME Guarantee

THE GUARANTEE AND COUNTER-GUARANTEE FACILITY UNDER HORIZON 2020
FRAMEWORK PROGRAMME WITH RESPECT TO RESEARCH & INNOVATION DRIVEN
SMEs AND MID-CAPS

DISCLAIMER

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-FREQUENTLY ASKED QUESTIONS-

updated on 6th April 2020

In accordance with the provisions of the [Call for Expression of Interest](#) published on the EIF's website on 4 August 2014 to select Financial Intermediaries under the InnovFin SME Guarantee, you will find here below a list of some of the most commonly asked questions. Please read through these FAQs before contacting the EIF. This document is complemented by specific [COVID-19 FAQ](#) with respect to COVID-19 support measures implemented under InnovFin SME Guarantee.

If your question is not answered below and you believe it would be a good addition to the FAQ list, please send your suggestions by [email](#).

Unless defined otherwise in this FAQ, all capitalized expressions used in this document shall have the meaning attributed to them in the above mentioned Call for Expression of Interest¹.

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1. What is the InnovFin SME Guarantee? (amended)

The InnovFin SME Guarantee is a facility, under which EIF provides guarantees and counter-guarantees on debt financing to Financial Intermediaries in order to improve access to finance for Research and Innovation (“R&I”) driven SMEs and Mid-caps (“Final Recipients”). InnovFin SME Guarantee has been recently expanded to cover digitalization needs of SMEs and Mid-caps and COVID-19 support measures. Thanks to the InnovFin SME Guarantee, Financial intermediaries selected by the EIF will be able to provide debt financing on more favorable terms in Participating Countries.

The InnovFin SME Guarantee is part of the InnovFin - EU Finance for Innovators Programme which is a joint European Investment Bank (EIB) Group and European Commission (EC) initiative under Horizon 2020, the EU framework for Research and Innovation (R&I) 2014-2020. InnovFin – EU Finance for Innovators offers a range of tailored financing products and advisory services to companies of different sizes ranging from SMEs to large corporations and other entities.

The InnovFin SME Guarantee builds on the success of the pilot Risk-Sharing Instrument (RSI) developed under the Seventh EU Framework Programme for Research and Technological Development (FP7), which for the period 2012-2013 featured a total guarantee amount of EUR 1.6 billion, covering 18 countries and enabling over EUR 3.2 billion of loans/leases to innovative SMEs and Small Mid-caps.

2. How can a company benefit from the InnovFin SME Guarantee?

Under InnovFin SME Guarantee, EIF supports enterprises, not directly, but through providing:

- a) direct financial guarantees to banks, debt (loan) funds and other financial intermediaries who extend loans , financial leases or bondsⁱⁱ to the Final Recipients (“the Guarantee”), and
- b) financial counter-guarantees to guarantors, who issue guarantees to banks and other financial intermediaries in respect of loans, financial leases or bonds to the Final Recipients (“the Counter-Guarantee”), together with the Guarantees referred to as “(Counter-) Guarantees”.

Thanks to the InnovFin SME Guarantee, more risk finance is available to Final Recipients at a reduced interest rate (please refer to question 26 below).

3. Can you clarify the definition of “Small Mid-cap”?

For the purposes of InnovFin SME Guarantee, Small Mid-caps are defined as enterprises, as defined in Article 1 of the Title I of the Annex of the Commission Recommendation 2003/361/EC where the following cumulative conditions need to be fulfilled:

- a) They have a number of employees up to 499 where the staff headcount is calculated in accordance with Articles 3, 4, 5 and 6 of the Title I of the Annex of the Commission Recommendation 2003/361/EC;
- b) They are not micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC.

For the avoidance of doubt, criteria relating to balance sheet total or turnover are not relevant in the context of this Small Mid-cap definition. This definition is applied to the Final Recipient at the time of the signature of the Final Recipient Transaction.

4. What is the InnovFin SME Guarantee’s geographical coverage? (amended)

The InnovFin SME Guarantee targets Financial Intermediaries and Final Recipients established in the EU- Member States as well as the Horizon 2020 Associated Countries. The InnovFin COVID-19 Sub-window is dedicated to Financial Intermediaries and Final Recipients established and operating in the EU Member States. As of the date of publication of the update of this FAQ, the following countries are Associated Countries: Iceland, Norway, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia, Turkey, Israel, Moldova, Switzerland, Faroe Islands, Ukraine, Tunisia, Georgia and Armenia. (for up-dates please always consult the relevant Horizon 2020 Participation Portal: http://ec.europa.eu/research/participants/docs/h2020-funding-guide/cross-cutting-issues/international-cooperation_en.htm) . Other countries may become associated during the course of Horizon 2020.

5. How does the InnovFin SME Guarantee work for the Financial Intermediaries? (amended)

The InnovFin SME Guarantee is implemented by the EIF, the EIB Group’s specialist arm in providing risk financing for entrepreneurship and innovation.

Financial Intermediaries wishing to partner with the EIF under InnovFin SME Guarantee need to apply as specified in the [Call for Expression of Interest](#).

Applications will be assessed on a first-come, first-assessed basis. Applications which meet the formal criteria will be subject to EIF’s selection procedure, as further described in the Call for Expression of Interest.

Financial Intermediaries will provide (or guarantee, in the case of a Counter-Guarantee) loans or financial leases or invest in bonds, for the purpose of financing investments in assets (tangible or intangible), working capital or business transfers.

EIF will provide to selected Financial Intermediaries, in return for a fee, a Guarantee (or as case may be a Counter-guarantee) covering a portion of new loans, leases or bonds (or guarantees, as in the case of the Counter-Guarantee) originated by the Financial Intermediary.

For each Defaulted Amount incurred by the Financial Intermediary on the underlying eligible loan/lease/bonds (or guarantee, as in the case of the Counter-Guarantee) included in the Portfolio, the Financial Intermediary would receive up to 50% of that amount (with respect to COVID-19 support measures up to 80%, as further described in the COVID-19 FAQ). However, any Recoveries realised by the Financial Intermediary, where EIF paid amounts under the (Counter-) Guarantee with respect to such Defaulted Amounts, are to be shared *pari passu* with EIF.

The EIF will enter into individual (Counter-) Guarantee Agreements with selected Financial Intermediaries. Under the terms of each (Counter-) Guarantee Agreement, the Financial Intermediary shall commit to originate a portfolio of eligible loans/leases/bonds (or guarantees, in the case of a Counter-Guarantee) to R&I intensive SMEs and/or Mid-caps. Eligibility of the Final Recipients and loans/leases/bonds (or guarantees, in the case of InnovFin SME Counter-Guarantee) will be examined by the Financial Intermediary on a fully delegated basis in accordance with the specific eligibility criteria contained in the (Counter-) Guarantee Agreement.

6. Will financial standing be an important selection criterion?

Although the (Counter-) Guarantee is an unfunded financial instrument, EIF aims at selecting reliable and financially sound Financial Intermediaries, able to originate, service and report on the portfolio throughout the life of the (Counter-) Guarantee.

In order to allow EIF to assess the Financial Intermediaries' financial strengths, applicants are requested to submit appropriate financial information, such as annual reports, rating information, etc.

7. How can a financial institution become a Financial Intermediary under the InnovFin SME Guarantee?

A financial institution may be selected as a new Financial Intermediary under InnovFin SME Guarantee provided that:

- a) It complies with formal criteria as described in the section 7.1.1. of the [Call for Expression of Interest](#).

- b) It completes and submits its “Expression of Interest” accordingly to the provisions outlined in the Call for Expression of Interest within the Deadline.
- c) It is selected by the EIF as Financial Intermediary under InnovFin SME Guarantee following the selection procedure outlined in the Call for Expression of Interest
- d) The (Counter-) Guarantee operation with the selected Financial Intermediary receives the European Commission’s and EIF Board of Directors’ approval.
- e) It has entered into the relevant (Counter-) Guarantee Agreement with EIF.

8. How do the InnovFin SME Guarantee eligibility criteria work?

The overall eligibility criteria under the InnovFin SME Guarantee comprise elements related to:

In respect of the Guarantee:

- a) the core objective of the InnovFin SME Guarantee (Innovation and digitalisation eligibility criteria);
- b) the nature of the Final Recipients (Final Recipient eligibility criteria);
- c) the characteristics of the underlying transactions with Final Recipients (Final Recipient Transaction eligibility criteria);
- d) the features of the Portfolios originated by Financial Intermediaries (Portfolio eligibility criteria).

In respect of the Counter-Guarantees:

- a) all the criteria listed above applicable to Guarantees criteria);
- b) The requirements applicable to the Financial Sub-Intermediaries (Financial Sub-Intermediary eligibility); and
- c) the characteristics of the guarantees as issued by the Financial Intermediary for the benefit of the Financial Sub-Intermediaries (Intermediary Transaction eligibility criteria).

Eligibility Criteria will be set out in the (Counter-) Guarantee Agreements entered into with the selected Financial Intermediaries. Pursuant to the terms of the (Counter-) Guarantee Agreement the Financial Intermediary or Financial Sub-Intermediary will have to ensure that a Final Recipient, a Final Recipient Transaction or, as the case may be, an Intermediary Transaction meets the Eligibility Criteria prior to including them in the Portfolio covered by the (Counter-) Guarantee.

9. What are the transactions that can be covered under the InnovFin SME Guarantee?

- Eligibility criterion

Only Final Recipient Transactions and Intermediary Transactions meeting the Eligibility Criteria can be covered by, respectively, the Guarantee or the Counter-Guarantee.

- Form

Final Recipient Transactions (senior and subordinated) which are loans that may take the form of a term loan or a revolving facility. In case of leases, only Finance Leases are eligible. In the case of bonds, only Mini Bonds are eligible.

Intermediary Transactions that take the form of guarantee instruments issued by a Financial Intermediary.

- Purpose

Final Recipient Transactions may finance tangible or intangible assets (including goodwill), working capital or business transfers (see question 17 for reference).

Intermediary Transactions cover (directly or indirectly) Final Recipient Transactions.

- Time

All the Final Recipient Transactions and Intermediary Transactions must be entered into within the relevant Inclusion Period.

10. How is the “undertaking in difficulty” defined?

The ‘undertaking in difficulty’ is defined in accordance with Article 2 (18) of the General Block Exemption Regulationⁱⁱⁱ. It is an undertaking in respect of which at least one of the following circumstances occurs:

- (a) In the case of a limited liability company (other than an SME that has been in existence for less than three years or, for the purposes of eligibility for risk finance aid, an SME within 7 years from its first commercial sale that qualifies for risk finance investments following due diligence by the selected financial intermediary), where more than half of its subscribed share capital has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital. For the purposes of this provision, ‘limited liability company’ refers in particular to the types of company mentioned in Annex I of Directive 2013/34/EU^{iv} and ‘share capital’ includes, where relevant, any share premium.
- (b) In the case of a company where at least some members have unlimited liability for the debt of the company (other than an SME that has been in existence for less than three years or, for the purposes of eligibility for risk finance aid, an SME within 7 years from its first commercial sale that qualifies for risk finance investments following due diligence by the selected financial intermediary), where more than half of its capital as shown in the company accounts has disappeared as a result of accumulated losses. For the purposes of this provision, ‘a company where at least some members have unlimited liability for the debt of the company’ refers in particular to the types of company mentioned in Annex II of Directive 2013/34/EU.

- (c) Where the undertaking is subject to collective insolvency proceedings or fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors.
- (d) Where the undertaking has received rescue aid and has not yet reimbursed the loan or terminated the guarantee, or has received restructuring aid and is still subject to a restructuring plan.
- (e) In the case of an undertaking that is not an SME, where, for the past two years:
 - (1) The undertaking's book debt to equity ratio has been greater than 7,5 and
 - (2) The undertaking's EBITDA interest coverage ratio has been below 1,0.

In the case of SMEG COVID-19 Support Final Beneficiary Transactions, the Final Beneficiary shall not be an “undertaking in difficulty” provided that Final Beneficiaries that have entered into a SMEG COVID-19 Support Final Beneficiary Transaction and were an “undertaking in difficulty” as at the signing date due to the impact of COVID-19 disruption are deemed to comply with the applicable eligibility criterion if they were not an undertaking in difficulty as at 31 December 2019¹.

11. Can a refinancing loan be included in the Portfolio? (amended)

Only new loans/leases/bonds entered into within the Inclusion Period can be covered by the (Counter-) Guarantee (please see question 9 above).

Such loans/leases/bonds shall exclude any transactions entered into:

- a) As novation or restructuring of pre-existing debt of the Final Recipient.
- b) For the purpose of refinancing an existing loans prior to its scheduled maturity.

However, it is permissible to refinance an existing loan/lease/bond i.e. repaying the existing loans/lease/bond with the proceeds of the new loan/lease/bond to be covered by the (Counter-) Guarantee, provided that the existing loan/lease/bond is already covered under the (Counter-) Guarantee and that such refinancing is made at maturity or within three (3) months prior to its maturity (as further set out in COVID-19 FAQ).

Refinancing of existing loans/leases/bonds which do not benefit from the (Counter) Guarantee is not permitted. However, a new loan/lease/bond entered into with an existing Final Recipient can be covered by the (Counter-) Guarantee if its effective date starts after the existing loan/lease/bond has been fully repaid at its scheduled maturity, provided that such repayment is not made with the proceeds of the new loan/lease/bond covered by the (Counter-) Guarantee) and that such new loan/lease/bond satisfies all the Eligibility Criteria.

¹ In line with C(2020) 1863 final, Communication from the Commission - Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak, 19 March 2020

12. Can a Financial (Sub-) Intermediary reschedule the maturity of a term loan covered by the (Counter-) Guarantee? (amended)

The rescheduling of the maturity of an existing term loan covered by the (Counter-) Guarantee is allowed if:

- (i) its purpose is to improve the collectability of the claims under the loan and
- (ii) is made according to the credit policy of the Financial Intermediary or Financial Sub-Intermediary, as applicable.

Any prolongation of maturity date, changing repayment schedule of a loan covered by the (Counter-) Guarantee made by the Financial (Sub-)Intermediary in the context of the COVID-19 crisis shall be deemed to meet the above conditions.

13. Can a loan included in the Portfolio be covered by an additional guarantee or similar credit protection arrangement? (amended)

Financial Intermediaries shall maintain an economic exposure of at least 20% of each eligible Transaction (being in the case of the Guarantee: Final Recipient Transaction, and in the case of the Counter-Guarantee: Intermediary Transaction) included in the Portfolio (in the event that the eligible Transaction is entered into during the COVID-19 Support Period, such percentage can be reduced to 10%, as further detailed in the COVID-19 FAQ) and shall not enter into any credit support contract, guarantee or other credit risk transfer arrangements with respect to this retained portion. For the avoidance of doubt any collateral, security or guarantee payable to the Financial Intermediary and forming part of recoveries shared with EIF under the (Counter-)Guarantee Agreement shall not be taken into account for this purpose (see question 14).

14. Are there any collateralisation requirements with respect to transaction to be covered under InnovFin SME Guarantee?

A Financial Intermediary is required to transfer the Financial Benefit to Final Recipients (see question 26). However, in terms of collateral requirements EIF usually defers to the credit policy of a Financial Intermediary. EIF and the Financial Intermediaries shall rank *pari passu* with respect to Recoveries. It is required that the Financial Intermediaries are *pari passu* with their Financial Sub-Intermediaries.

15. Could you please explain the application of the threshold to the publication of the names of Final Recipients? (amended)

In the case where the (counter-) guaranteed portion of the principal amount of a single Final Recipient Transaction is equal to or exceeds an equivalent of 500,000 euros, then the name of the Final Recipient, address (NUTS code, in the case of natural persons) and the purpose

of the financing shall be published by EIF on its website unless the Financial Intermediary, Financial Sub-Intermediary or Final Recipient objects in writing to such a publication on certain grounds.

16. What is the early detection and central exclusion database (the EDES database)? What actions is a Financial Intermediary supposed to take in this respect?

The Early Detection and Exclusion System (EDES) database² was established by the Commission to reinforce the protection of the Union's financial interests and to ensure sound financial management. The EDES database gathers all the entities – companies, organisations or natural persons - which have been excluded from EU funding to protect EU financial interests. Reasons for exclusion include:

- bankruptcy and insolvency situations;
- non-payment of taxes or social security contributions;
- grave professional misconduct;
- fraud, corruption, participation in a criminal organisation etc.;
- serious breach of contract;
- irregularity;
- entities created with the intent to circumvent fiscal, social or other legal obligations (creation of shell companies).

In the context of InnovFin SME Guarantee, inclusion in the EDES database constitutes a condition of exclusion. Therefore, such applicants shall not be selected as Financial Intermediaries, and such Final Recipients and Financial Sub-Intermediaries shall be deemed as ineligible.

In this respect, Financial Intermediaries have to represent (and obtain the same representation from the Final Recipients and Financial Sub-Intermediaries, as applicable) that they are not, to their knowledge, included in the EDES database at the time of entering into the relevant transaction (i.e. (Counter-) Guarantee Agreement and Final Recipient Transaction, respectively).

In addition to the above, the EIF, as Implementing Partner of the EU Budget, verifies that Financial Intermediaries are not included in the EDES database as part of its due diligence measures.

² https://ec.europa.eu/info/strategy/eu-budget/how-it-works/annual-lifecycle/implementation/anti-fraud-measures/edes_en

17. Could you please clarify the eligibility requirements for a business transfer transaction? (amended)

In the case of business transfers (e.g., a change of ownership through the buyout of the existing company's shareholders), a Final Recipient Transaction may finance up to 100% of the purchase price of a target company, including any resulting goodwill, provided that it is combined with a commitment by any party of the business transfer transaction to inject new capital into the target company for an aggregate amount which is not less than 50% of the Final Recipient Transaction, be it in a form of equity, quasi equity or debt financing (an exception applies with respect to Final Recipient Transactions subject to COVID-19 support measures, where such condition is waived, as further detailed in the COVID-19 FAQ).

The other conditions for eligible business transfers are the following:

- a) the borrower shall qualify as an SME or a Mid-cap as a result of such transfer
- b) the borrower or the target shall comply with at least one of the Innovation Eligibility Criteria.

18. Can a holding company enter into a Final Recipient Transaction on behalf of one or more companies in the group?

Final Recipient Transactions shall be entered into with SMEs or Mid-caps that meet at least one of the Innovation Eligibility Criteria. However, it is allowed that a Final Recipient Transaction is entered into with a holding company that acts as a funding vehicle for other operating companies in a group, if these operating companies benefiting from the financing:

- a) are partner or linked enterprises in the meaning of the Commission Recommendation 2003/361/EC, and
- b) at least one of such enterprises meets at least one of the Innovation Eligibility Criteria (some of these criteria are to be met on a group basis)

19. Is the Counter-Guarantee *look-through* with respect to the Financial Sub-Intermediaries?

The Counter-Guarantee is issued by EIF for the benefit of Financial Intermediaries. It covers guarantees issued by those Financial Intermediaries in respect of eligible Final Recipient Transactions entered into with Final Recipients by Financial Sub-Intermediaries. For any payment claims arising from defaults of the Final Recipient Transactions a Financial Sub-Intermediary shall address the Financial Intermediary only and the Financial Sub-Intermediary may not claim any counter-guarantee amounts from the EIF directly, including in the case of insolvency, bankruptcy or other events of default of the Financial Intermediary.

20. What do you mean by risk finance investment in view of entering a new product or geographical market?

For the purpose of the application of this eligibility criterion, a risk finance investment means equity or quasi-equity investments, loans (including leases), guarantees, or a mix thereof that is required to be made by a Final Recipient to develop a new product or enter a geographical market as described in its business plan.

21. Is the company that was financed under the RSI eligible under InnovFin SME Guarantee?

A company that benefited from a (counter-) guarantee under the Risk Sharing Instrument over the last thirty-six (36) months from the date of the application for the Final Recipient Transaction under the InnovFin SME Guarantee, is eligible if such company meets the Innovation Eligibility Criterion under the InnovFin SME Guarantee and if the relevant Final Recipient Transaction to be covered directly or indirectly by the (Counter-) Guarantee does not cover the same investment or expense as the one covered under RSI.

22. What types of revolving loans are eligible under the InnovFin SME Guarantee? (amended)

Final Recipient Transactions in the form of a loan, including a credit line or overdraft line of credit, are eligible. However, that excludes loans resulting from utilisation of credit card limits. For avoidance of doubt, carving out a portion of a credit line for the purpose of satisfying a paying obligation resulting from the letter of credit is considered an utilisation of the credit line, rather than a separate Final Recipient Transaction.

23. Who can act as an external expert for the purpose of evaluation of the risk of technological or industrial failure of the innovative products, processes or services that are to be financed by a Final Recipient Transaction? (amended)

In this context an external expert is any private or public body independent of the Final Recipient, including the Financial Intermediary, Financial Sub-Intermediary, which during its course of business is able to professionally evaluate the technological or industrial risk profile of the project to be financed under the Final Recipient Transaction.

With respect to a Transaction that is entered into in the COVID-19 Support Period, the requirement to resort to an external expert is replaced with a self-declaration of the Final Recipient, as further set out in the COVID-19 FAQ.

24. One of the eligibility criteria relating to a technology right stipulates that a Final Recipient Transaction's purpose is to enable directly or indirectly the use of this right. Could you please elaborate on this requirement?

The registration of a technology right by a Final Recipient does not make the Final Recipients Transactions eligible for the (Counter-)Guarantee unless the purpose of the Final Recipient Transaction is to finance any investment or activity that leads to the internal or external exploitation of such technology right (e.g. resulting in protecting products or processes of the Final Recipient, out-licensing or cross-licensing activities, starting spin-offs or joint ventures or building strategic alliances with other organizations).

25. Will a (Counter-) Guarantee reduce the Financial Intermediaries' risk weighted assets (RWA) with respect to Final Recipient Transactions included in the Portfolio?

The realisation of the capital relief and the extent of its reduction of RWA in a particular jurisdiction is subject to the respective regulatory authorities' assessment exercised in the course of their supervisory process.

EIF will not provide any advice and will not participate in any discussions with respective supervisory authorities on behalf of Financial Intermediaries.

26. What is the expected Financial Benefit to be passed by the Financial Intermediary to SMEs and Small Mid-caps? (amended)

The Financial Benefit shall mean:

- a) In the case of a Guarantee: the level of the reduction of the interest rate (through a reduced Final Recipient Transaction's risk spread) that the Financial Intermediary charges to the Final Recipients under Final Recipient Transactions; or
- b) In the case of a Counter-Guarantee: the level of the reduction of the guarantee fee rate that (i) the Financial Intermediary charges to Final Recipients or (ii) the Financial Intermediary charges to Financial Sub-Intermediaries and is ultimately transferred to Final Recipients in the form of a reduced interest rate.

The details of the Financial Benefit shall in each case be reflected in the (Counter-) Guarantee Agreements.

The Financial Benefit shall be determined separately for SMEs and Small Mid-caps.

In the Financial Benefit determination, Financial Intermediaries should take into account the applicable (Counter-) Guarantee rate and the cost of the (Counter-) Guarantee.

The Financial Benefit shall typically be the product of the applicable (Counter-) Guarantee rate and the difference between the customary credit risk spread (or in case of the Counter-

Guarantee, the guarantee risk premium) applicable to each transaction^v (prior to the cover by the (Counter-) Guarantee) and the cost of the (Counter-) Guarantee, in particular the (Counter-) Guarantee Fee.

For example, if the credit risk spread (or as case may be the Guarantee risk premium) is 300 basis points p.a. and assuming that the only cost of the (Counter-) Guarantee is the (Counter-) Guarantee Fee, then the Financial Benefit should typically be computed in the manner described below (this example is provided assuming 50% as applicable guarantee rate):

1. For SMEs, the Financial Benefit should be;
 - a) with respect to senior loans: $125 = (50\% * (300 - 50))$ basis points p.a., where 50% is the (Counter-)Guarantee rate, and 50 basis points p.a. is the (Counter-)Guarantee Fee rate if the Final Recipient is an SME.
 - b) with respect to loans in the form of Subordinated Debt: $100 = (50\% * (300 - 100))$ basis points p.a., where 50% is the (Counter-)Guarantee rate, and 100 basis points p.a. is the (Counter-)Guarantee Fee rate if the Final Recipient is an SME.

2. For Small Mid-caps, the Financial Benefit should be:
 - a) with respect to senior loans: $110 = (50\% * (300 - 80))$ basis points p.a., where 50% is the (Counter-) Guarantee rate, and 80 basis points p.a. is the (Counter-) Guarantee Fee rate if the Final Recipient is a Small Mid-cap.
 - b) with respect to loans in the form of Subordinated Debt: $85 = (50\% * (300 - 130))$ basis points p.a., where 50% is the (Counter-) Guarantee rate, and 130 basis points p.a. is the (Counter-) Guarantee Fee rate if the Final Recipient is a Small Mid-cap.

Please note that under the COVID-19 support measures, a higher (Counter-) Guarantee Rate may alter the above calculations and result in an increased Financial Benefit.

Finally, note that the requirements on Financial Benefit do not apply to Final Recipient Transactions (or Intermediary Transactions covering Final Recipient Transactions) entered into with Final Recipients that are Large Mid-caps (see question 40).

27. What are the conditions under which payment is made under the InnovFin SME Guarantee?

The payment under InnovFin SME (Counter-) Guarantee will be made within a maximum of 60 days from the date the valid payment demand has been submitted to the EIF. The payment demand shall comprise the proper notice of claim (to be sent by the Financial Intermediary within the period set out in the (Counter-) Guarantee Agreement) as well as the details on defaulted Final Recipient Transactions, with regard to which the Financial Intermediary incurred a loss.

28.If a defaulted transaction is in a non-euro currency, in which currency EIF will be making the guarantee payments?

Any payment owed by the EIF to the Financial Intermediary in respect of a Defaulted Amount shall be made in the currency in which such Defaulted Amount has been incurred (as specified in the relevant payment demand sent by the Financial Intermediary to EIF) or, at the discretion of the EIF, in the Base Currency. In the latter case, the FX rate used to translate the Defaulted Amount to the Base Currency shall be a current FX rate, meaning not earlier than from 4 business days prior to the settlement of the Defaulted Amount by EIF to the Financial Intermediary.

The Base Currency shall be EUR if the Portfolio consists of Final Recipient Transactions denominated in EUR and other Participating Country's currency (please refer to question 4 on the geographical coverage). If the Portfolio consists of Final Recipient Transactions denominated only in a currency other than EUR, such currency shall be designated as the Base Currency.

29.What is the price of the counter-guarantee provided by EIF under InnovFin SME Guarantee? (amended)

With respect to loans other than Subordinated Debt, the (Counter-) Guarantee Fee rate is 0.50% per annum with respect to SMEs and 0.80% per annum in the case of Small Mid-Caps. With respect to loans to Large Mid-caps the guarantee fee percentage will equal to the actual risk spread percentage charged by the Financial Intermediary, floored at 0.80% per annum.

With respect to loans that are Subordinated Debt, the (Counter-) Guarantee Fee rate is 1% per annum with respect to SMEs and 1.30% per annum in the case of Small Mid-Caps. No loans in the form of Subordinated Debt to Large Mid-caps are permitted under the Counter-guarantee.

The Counter-Guarantee Fee may be charged periodically (based on the (counter-) guaranteed portion of the actual outstanding nominal amount of each non-defaulted Final Recipient Transaction) or up-front (at inclusion of a Final Recipient Transaction in the Portfolio based on its contractual amortisation schedule). Up-front guarantee fee mechanism will however not be available for Guarantee Agreements where Subordinated Debt guarantee is applicable.

The aggregate of (Counter-) Guarantee Fees with respect to Final Recipient Transactions shall be payable in the Base Currency in arrears on a quarterly basis.

30. According to the Call for Expression of Interest, there is a different Agreed Portfolio Volume limit for financial institutions belonging to the same group. How is a group defined for this purpose?

For the purpose of the Call for Expression of Interest, a group means an ultimate parent (holding) company and the companies: i) controlled directly or indirectly by the ultimate parent (holding) company or ii) of which more than 50% of their voting capital is owned directly or indirectly by the ultimate parent (holding) company. "Control" for this purpose means the power to govern financial and operating policies of the entity whether through the ownership or voting capital by contract or otherwise so as to obtain benefit from its activities.

Notwithstanding the above, companies which are consolidated at the level of the ultimate parent (holding) company are deemed to belong to the same group.

31. Does the InnovFin SME (Counter-) guarantee constitute state aid?

The InnovFin SME (Counter-) guarantee does not constitute State aid because its resources are from the EU budget and not national State resources, and is managed by the Commission and the entity entrusted by the Commission, without any discretion of a Member State^{vi}.

32. What is meant under the term "process innovation"?

'Process innovation'³ means the implementation of a new or significantly improved production or delivery method (including significant changes in techniques, equipment or software), excluding minor changes or improvements, increases in production or service capabilities through the addition of manufacturing or logistical systems which are very similar to those already in use, ceasing to use a process, simple capital replacement or extension, changes resulting purely from changes in factor prices, customisation, localisation, regular, seasonal and other cyclical changes and trading of new or significantly improved products.

33. How would you define "organisational innovation"?

'Organisational innovation'⁴ means the implementation of a new organisational method in an undertaking's business practices, workplace organisation or external relations, excluding changes that are based on organisational methods already in use in the undertaking, changes in management strategy, mergers and acquisitions, ceasing to use a process, simple capital replacement or extension, changes resulting purely from changes in factor prices,

³ In accordance with paragraph (bb) of section 1.3 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

⁴ In accordance with paragraph (y) of section 1.3 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

customisation, localisation, regular, seasonal and other cyclical changes and trading of new or significantly improved products.

34. Can you provide a definition of a Venture Capital and Business Angel?

According to EVCA⁵, venture capital is a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

A business angel is a private individual or a non-institutional investor undertaking equity or equity types investments in enterprises, primarily with own money. For the purposes of InnovFin SME Guarantee, such business angel investor has to be a part of a network or association of business angels as may be documented by a membership listing or similar registry.

35. What is an “early stage SME”?

An early stage SME can be defined as an SME at its first phase of development which includes the proof of concept stage, (pre-) seed-stage, start-up stage and other early stage:

- Proof of concept stage – pre-corporate stage, where the assessment of the feasibility concept is made, viability of translating R&D results into innovative applications, validating if a certain product/technology/process may be used for commercialisation, including via licensing and sale of Intellectual property (IP). This includes investigation of technical feasibility, economic viability of research results, demonstration activities such as late stage clinical trials, prototyping and incubation;
- (Pre-) seed stage – financing is provided for research and development of initial concept;
- Start-up stage – the enterprise may not be set up or is in business for a short period, but requires additional funds to initiate commercial sales;
- Other early stage – the first phase of development of an enterprise, where financing is provided to companies that have completed the product development and require further funds to initiate commercial manufacturing and/or sales.

36. Can Students be included in the calculation of endogenous growth in employees to assess if the Final Recipient is a “fast growing enterprise”?

According to the SME definition⁶, apprentices or students who are engaged in vocational training and have apprenticeship or vocational training contracts; employees on maternity or parental leave are not included in the staff headcount, and therefore may not be included for calculating endogenous growth in employees.

⁵ <http://www.investeurope.eu/media/78722/guide-on-private-equity-and-venture-capital-2007.pdf>

⁶ http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

37. For the purpose of calculating average annual turnover for a company, are companies with less than 5 years of operations eligible under the innovation criterion d(7)?

If a company is active in the market for less than 5 years, such data should be based on data since inception. Notwithstanding that, in cases of start-up companies, there are additional innovation criteria that may be considered.

38. Can companies that get the Commission's or national equivalent Seal of Excellence (SoE) labels be eligible under the facility?

Indeed, companies that have the Commission's or a national equivalent SoE may be eligible under innovation criteria d(3) and/or d(11). The names of the support schemes and/or funding instruments published in the indicative term sheet under innovation criterion d(3) are not exhaustive. Please note that the SoE⁷ is awarded under the SME Instrument programme of Horizon 2020, which is a funding instrument of the European Commission targeting and supporting innovative companies. Please refer to [this link](#)⁸ for further details.

39. Can you clarify a definition of a Large Mid-cap? (new)

For the purposes of InnovFin SME Guarantee, Large Mid-caps are defined as enterprises, whose number of employees is between (and including) 500 and 3,000 (with staff headcount calculated in accordance with Articles 3, 4, 5 and 6 of the Title I of the Annex of the Commission Recommendation).

For the avoidance of doubt, criteria relating to balance sheet total or turnover are not relevant in the context of this Large Mid-cap definition. This definition is applied to the Final Recipient at the time of the signature of the Final Recipient Transaction to be included in the Portfolio.

40. What do you mean by Digitalisation, how do digitalisation criteria work? (new)

The scope of the eligibility criteria have been expanded to include digitalisation needs of the Final Recipients. In the context of InnovFin SME Guarantee, digitalisation refers to the process of employing digital technologies and information to transform business operations or business models.

In order to be eligible under InnovFin SME Guarantee, a Final Recipient must meet at least one of the innovation OR digitalisation eligibility criteria. For avoidance of doubt, a Final Recipient that meets at least one of the digitalisation eligibility criteria but none of the

⁷ <https://ec.europa.eu/research/regions/index.cfm?pg=soe>

⁸ http://ec.europa.eu/research/participants/portal/desktop/en/funding/sme_participation.html

innovation eligibility criteria shall be eligible under InnovFin SME Guarantee. The criteria are applied at the time of signature of the Final Recipient Transaction.

41. How is Financial Benefit calculated with respect to loans to Large Mid-caps? (new)

No Financial Benefit is calculated for Final Recipient Transactions (or Intermediary Transactions covering Final Recipient Transactions) entered into with Large Mid-caps as in this case the guarantee fee is set at the level of the credit risk spread charged by the Financial Intermediary. If the credit risk spread changes over the life of the Transaction the guarantee fee rate shall be adjusted accordingly. In any time, a guarantee fee rate with respect to a Large Mid-cap Transaction may not be lower than 0.80 % per annum.

42. How do Financial Intermediaries determine and report the level of digitalisation of Final Beneficiaries? (new)

The digitalisation level of Final Recipients can be determined based on (i) a self-declaration by such Final Recipient and (ii) Financial Intermediary's assessment. In this respect, Final Recipients or Financial Intermediaries can choose the option which best reflects the present state of the company's digitalisation level by ticking the appropriate grey box in the questionnaire below:

Current digitalisation level of the business Areas of uptake within your business	Beginner		Intermediate		Advanced	
Digital awareness	No or low awareness about digital solutions in all parts of your business		Awareness about digital solutions exists but not necessarily in all of your business areas		High awareness across all of your business areas	
Infrastructure and reorganisation of business processes	Most of your business processes are manual		A significant number of your business processes are digital		All of your major business processes are digital	
Customer and business partner engagement	Interactions with customers and business partners are primarily manual but you start to use digital channels		Your business uses digital channels to interact with customers and business partners but not in all business areas		Your customer relations and supply chains are digitalised across all business areas	
Digitalisation of Products and Services	If at all, only a few of your products and service areas are digitalised		Most internal products and services areas (e.g. accounting/finance) are digitalised, but externally facing products and services (towards clients and customers) are not digitalised		Most internal and externally facing products and services are digitalised	
Development of new strategy or business model	Your business does not have a digital strategy		Parts of your business are implementing a digital strategy		Your digital strategy is aligned with the overall business strategy	
People and digital skills	Digitalisation is not a main concern for your management and staff; the skill set is very limited; new recruits are not required to have digital skills		Your business provides management and staff with training on digital tools		Your business rewards staff that have advanced digital skills or participate in advanced training courses	

In case of doubt, please choose the option which best characterizes the uptake of digitalisation in the relevant Final Recipient's business based on the explanations provided for different business areas.

43. What is a Sanctioned Person?(new)

"Sanctioned Person" means any person who is a designated target of Sanctions or is otherwise a subject of Sanctions (including, without limitation, as a result of being (i) wholly or majority owned or otherwise controlled directly or indirectly by any person or entity which is a designated target of Sanctions, or (ii) organized under the laws of, or a citizen or resident of, any country that is subject to general or country-wide Sanctions).

A "person" includes any person, firm, company, corporation, government, state or agency of a state or any association, group, organisation (including without limitation, terrorist organisation), trust or partnership (whether or not having separate legal personality) or two or more of the foregoing, or any other entity or body of any description.

44. Is there a register of Sanctioned Persons?(new)

There is no register of Sanctioned Persons. There is however a sanctions list which is publically available: "Sanction List" means

any economic, financial and trade restrictive measures and arms embargoes issued by the European Union pursuant to Chapter 2 of Title V of the Treaty on European Union as well as Article 215 of the Treaty on the Functioning of the European Union, as available in the official EU websites: <https://data.europa.eu/euodp/fr/data/dataset/consolidated-list-of-persons-groups-and-entities-subject-to-eu-financial-sanctions> sanctions, as amended and supplemented from time to time or on any successor page.

45. What actions is a Financial Intermediary supposed to take in respect of Sanctions?(new)

The EIF, as part of the EIB Group, is legally required to comply with Sanctions imposed by the European Union.

Similar to the controls applied by the EIF on its selected Financial Intermediaries, EIF expects that (i) selected Financial Intermediaries perform *ex ante* and *ex post* monitoring (e.g. sanctions screening) on its Final Recipients (ii) the selected Financial Intermediaries shall procure to take appropriate measures to ensure the Final Recipients as Sanctioned Person be excluded (to the extent not prohibited by applicable law) and (iii) to inform the EIF within a reasonable timeframe of Final Recipient becoming a Sanctioned Person.

Control and assessment by the Financial Intermediaries on its Final Recipients have to be done *ad minima* with the sanctions lists provided above.

The above requirements shall be reflected into the contractual arrangements between EIF and the selected Financial Intermediaries

NOTES

ⁱ Save for the term “Final Beneficiary” and relating expressions that have been replaced by the term “Final Recipient”.

ⁱⁱ Purchase of bonds will be considered subject to an evaluation of the feasibility on a case by case basis.

ⁱⁱⁱ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty

^{iv} Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

^v In certain justified cases the transfer of the Financial Benefit may be calculated on the portfolio basis.

^{vi} However, please note that if a Financial Intermediary combines State resources with the InnovFin (Counter-) guarantee, the relevant State aid rules with respect to such State resources shall be observed. The qualification of the InnovFin SME (Counter-) guarantee as no aid is independent of the assessment whether the financing provided to the Final Recipient by the Financial Intermediary alongside the InnovFin SME (Counter-) guarantee constitutes State aid, in particular where the Financial Intermediary is publicly owned, has a public service mission and its activities constitute State aid.