

InnovFin **SME Guarantee**

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

-FREQUENTLY ASKED QUESTIONS- INNOVFIN SMEG COVID -19 SUPPORT MEASURES published on 6th April 2020 and updated on 15 December 2020

DISCLAIMER

This document provides some information on the terms of the COVID-19 Support Measures implemented under InnovFin SME Guarantee and its related documentation. This document is not, and should not be construed as, a binding document. It does not provide a detailed description of any party's rights and obligations under the InnovFin SME Guarantee documentation and should not be used to construe any of the terms set out thereunder. This document is qualified in its entirety by the terms and conditions contained in the relevant InnovFin SME Guarantee documentation. This document does not constitute an offer of any nature whatsoever and does not create any binding obligations on the EIF to enter into a contract with any third party in relation to the InnovFin SME Guarantee or otherwise.

In accordance with the provisions of the [Call for Expression of Interest](#) published on the EIF's website to select Financial Intermediaries under the InnovFin SME Guarantee, you will find here below a list of some of the most commonly asked questions with respect to the **COVID-19 Support Measures** implemented under InnovFin SMEG. Please read through these FAQs before contacting the EIF. This document covers only **COVID-19 Support Measures** and complements the frequently asked question document published [here](#) with respect to general implementation of InnovFin SMEG.

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](#), including in the title of the email "FAQ – COVID"

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 are the COVID-19 Support Measures under InnovFin SMEG?

The Call for Expression of Interest introduces the InnovFin COVID-19 Sub-window, a specific guarantee envelope under InnovFin SME Guarantee dedicated to support working capital finance.

In addition to this additional budgetary envelope that has been made available under the InnovFin COVID-19 Sub-window, certain terms and conditions under the Guarantee Facility have been modified to enable Financial Intermediaries to better respond to the extraordinary circumstances (the **“COVID 19 Support Measures”**).

The addendum to the indicative InnovFin SME Guarantee Term sheet and InnovFin SME Counter-Guarantee term sheet (the **“COVID -19 Addendum”**) published [here](#) set out the COVID-19 Support Measures.

These measures will be effected on the request of the Financial Intermediaries and will include, inter alia:

- Possibility of an increase in (counter-) guarantee coverage of transactions covering working capital in terms of (counter-) guarantee rate;
- Lowering risk retention requirement for Financial Intermediaries;
- Explicitly allowing for postponement, rescheduling or credit holiday periods;
- Extending the coverage of the interest of the transactions;
- Allowing for inclusion of short term bridge finance (tenors of 6 months+);
- Adaptation, simplification and lifting of certain constraints and eligibility requirements;
- Other technical and operational improvements.

2. Who can benefit from the COVID-19 Support Measures?

All new and existing InnovFin SMEG Financial Intermediaries established in the EU Member States as well as in the Horizon 2020 Associated Countries¹ may benefit from COVID-19 Support Measures.

However, the additional budgetary envelope established under the InnovFin COVID-19 Sub-window is dedicated to new and existing Financial Intermediaries established in EU Member States with respect to new loans supporting the working capital needs of Final Recipients established in EU Member States.

Financial Intermediaries established in the Horizon 2020 Associated Countries will continue to have access to the InnovFin SME Guarantee outside of the InnovFin COVID-19 Sub-window, as further set out in the Call for Expression of Interest.

¹ please consult the relevant Horizon 2020 Participation Portal:
http://ec.europa.eu/research/participants/docs/h2020-funding-guide/cross-cutting-issues/international-cooperation_en.htm

3. How can a financial institution access COVID-19 Support Measures under InnovFin SMEG?

Existing Financial Intermediaries that wish to take advantage of the COVID-19 Support Measures are requested to execute an amendment to their (Counter-) Guarantee agreements in accordance with the instructions that are set out in the Notice to Financial Intermediaries which is published [here](#). No additional application process is required.

Existing Financial Intermediaries that wish to increase their (Counter-) Guarantee amount must apply using Annex IB as provided in the Call for Expression of Interest. Financial intermediaries will need to elect if they are applying under the InnovFin COVID-19 Sub-window.

New applicants that wish to become Financial Intermediaries under InnovFin SMEG, including with respect to the InnovFin COVID-19 Sub-window, will need to apply by using Annex IA, as further set out in the Call for Expression of Interest. Applicants will need to select if they are applying under the InnovFin COVID-19 Sub-window.

4. What about applicants who applied already for InnovFin SME Guarantee but who have not yet managed to sign the (Counter-) Guarantee Agreement? What about applicants who intend to apply for a (Counter-) Guarantee outside of the COVID-19 Sub-window?

In order to access the InnovFin COVID-19 Sub-window, applicants must apply using Annex IA or Annex IB, as explained in question 3 above. This includes applicants who have applied for InnovFin SMEG already but who have not managed yet to sign a (Counter-) Guarantee Agreement.

Applications to InnovFin SMEG outside the InnovFin COVID-19 Sub-window may not be granted guarantee capacity under the InnovFin COVID-19 Sub-window. Such applications will be processed by the EIF in due course and subject to general budgetary availability under the Facility. Such applications may avail of the COVID-19 Support Measures, as further set out in the [COVID-19 Addendum](#)

5. What is the maximum (counter-) guarantee rate a Financial Intermediary can obtain under the COVID-19 Support Measures? To which loans may this be applied?

There is a possibility for a Financial Intermediary to elect a (counter-) guarantee rate higher than 50% for all new Final Recipient Transactions or Intermediary Transactions included in the Portfolio in the COVID-19 Support Period. Such rate may be set at the level of 50%, 60%, 70%, or 80% (as per election of the Financial Intermediary) with respect to Final Recipient Transactions (or Intermediary Transactions covering Final Recipient Transactions) whose financing purpose includes working capital. Once the (counter-) guarantee rate is selected, the same (counter-) guarantee rate will apply to all such working capital transactions originated during the COVID-19 Support Period (the Financial Intermediary will have discretion to elect a specific start date which falls within the COVID-19 Support Period for the applicability of such enhanced guarantee rate).

6. **As of 15 December 2020 existing Financial Intermediaries will have the possibility to extend the COVID-19 Support Period. What is the process for extending the COVID-19 Support Period and when will the COVID-19 Support Period now end? (new)**

Existing Financial Intermediaries may extend the COVID-19 Support Period until 30 June 2021 (included) by accepting the **NEW COVID-19 Support Period Amendment Offer** published on the EIF's website. In case the Financial Intermediary does not accept the [NEW COVID-19 Support Period Amendment Offer](#), the COVID-19 Support Period applicable to their (Counter-)Guarantee Agreement will remain unchanged, ending on 31 March 2021 (included).

The latest date for receipt by the EIF of the executed acceptance to the **NEW COVID-19 Support Period Amendment Offer** is 15 February 2021 (included).

7. **The new budget under the InnovFin SMEG COVID-19 Sub-window is dedicated to support working capital. Can Financial Intermediaries include investment loans in the Portfolios?**

The Financial Intermediaries can include investment loans/leases/bonds (or Intermediary Transactions covering loans/leases/bonds) under their current (Counter-Guarantee Agreements). However, the (counter-) guarantee rate for such transactions will be limited to 50%. The Financial Intermediaries that have increased their (counter-) guarantee rates under the InnovFin SMEG COVID-19 Sub-window will only be able to use the increased (counter-) guarantee amount to include loans/leases/bonds (or Intermediary Transactions covering loans/leases/bonds) supporting working capital during the COVID-19 Support Period. Should the Financial Intermediary not originate loans/leases/bonds (or Intermediary Transactions covering loans/leases/bonds) up to the entire (counter-) guarantee amount during the COVID-19 Support Period, it will be able to continue to originate after the COVID-19 Support Period ends, provided that the applicable inclusion period has not ended. The limitation to working capital loans will not apply after the end of the COVID-19 Support Period.

8. **Can Financial Intermediaries combine the InnovFin SMEG with national programmes aimed at fighting the COVID-19 crisis?**

InnovFin SME Guarantee continues to function as a guarantee programme supporting innovation and digitalisation driven enterprises. Recognising the implications of the COVID-19 crisis, certain support measures are now introduced in the InnovFin SME Guarantee without affecting the core purpose of the programme. Therefore, it continues to be delivered in conjunction with any national programmes, provided that the Financial Intermediary retains on its own risk at least the minimum required portion of the exposure of Final Recipient Transactions (please see Question 17).

9. What criteria must Final Recipients comply with to benefit from the COVID-19 Support measures? Is the support restricted to certain sectors?

The Final Recipients must meet all eligibility criteria as per the terms of InnovFin SME Guarantee. In particular, Final Recipients must meet at least one of the innovation and digitalisation criteria. The EIF and the European Commission have introduced certain simplifications to the application of these criteria to facilitate new inclusions to be made by the Financial Intermediaries during the COVID-19 Support Period as further set out in the [COVID-19 Addendum](#). There are also further simplifications introduced, such as related to business transfers, as set out in question 18 or related to eligible type of transactions (see questions 10, 12).

There is no limitation in terms of sector or region, in which a Final Recipient may operate.

10. What types of working capital are permitted under the COVID-19 Support Measures?

Final Recipient Transactions may cover any form of working capital finance including revolving credits (both credit lines and overdrafts line of credit), term working capital loans, bridge finance loans, purchase of receivables and invoice discounting (if done with recourse to the Final Recipient). However, loans resulting from utilisation of credit card limits remain excluded.

Final Recipient Transactions that cover working capital finance may be made in the form of Subordinated Debt. In this case, the Permitted Additional Interest features of Subordinated Debt apply, as specified in the InnovFin SMEG Indicative Guarantee Term sheets. With respect to such COVID-19 Support Subordinated Debt Transactions, the Financial Intermediary shall act with the due care and skills that would be exercised by a reasonable and prudent international lending institution of good credit standing in respect of debt similar to such Subordinated Debt Transaction and without regard to the Financial Intermediary's interests under any debt obligation that is senior to such Subordinated Debt Transaction.

11. Are loans with maturities of less than twelve (12) months eligible?

Yes, Final Recipient Transactions where the purpose is to provide bridge finance for Final Beneficiaries are permitted, provided that scheduled maturity of such transactions is at least six (6) months.

12. Will there be an extension of the Inclusion Period in the existing guarantee agreements?

In principle, the EIF will strive to extend Inclusion Periods at least until the end of the COVID-19 Support Period. Any decision on the extension of the Inclusion Period will, however, not be automatic and will be made by the EIF depending, inter alia, on the situation of the Financial Intermediary, including in particular the current origination status and the status of the Portfolio ramp-up.

13. Can a refinancing operation be eligible under the COVID-19 Support measures?

In principle, only new loans/leases/bonds (or Intermediary Transactions covering new loans/leases/bonds) entered into within the Inclusion Period can be covered by the (Counter-) Guarantee. However, it would be permissible to refinance an existing loan/lease/bond i.e. repaying the existing loans/leases/bonds with the proceeds of the new loan/lease/bond to be covered by the (Counter-) Guarantee, provided that the existing loan/lease/bond (or Intermediary Transactions covering the existing loan/lease/bond) has already been covered under the (Counter-) Guarantee and that such refinancing is made at maturity or within three (3) months prior its maturity.

Refinancing of existing loans/leases/bonds of the Financial Intermediary 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.

14. Can a Financial Intermediary restructure the payment schedule or extend the maturity of loans covered by the (Counter-) Guarantee? Are there any limits? Would it require EIF prior approval?

The rescheduling of payment schedule or maturity of an existing loan covered by the (Counter) Guarantee is allowed if:

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

EIF agrees voluntarily and as a matter of commercial consideration, any prolongation of maturity date, changing repayment schedule of a loan/lease/bond covered by the (Counter) Guarantee made by the Financial (Sub-)Intermediary in the context of the COVID-19 crisis, mandated by laws or regulations applicable to the Financial Intermediary in the relevant Member States, shall in principle be deemed to meet the above conditions and would not require EIF further prior approval. Any postponement of the final maturity of loan would need to be reported to the EIF as a Permitted Beneficiary Transaction Amendment.

In order for a Financial Intermediary to benefit from the (Counter-) Guarantee for the entire duration of the Final Recipient Transaction, the extended maturity of the Final Recipient Transaction shall not fall on the date, which is later than ten (10) years plus the end of availability period.

However, if the resulting change causes the loan maturity date to fall beyond the termination date of the (Counter-) Guarantee, any defaulted amounts incurred after the Final Payment Demand Date will not be covered by the EIF.

15. Would events of default under the (Counter-) Guarantee be adjusted to cover for loan repayment moratoria?

The credit events under the InnovFin SMEG Guarantee, which entitle the Financial Intermediary to call under the (Counter-) Guarantee, are not expected to be modified. The terms of the (Counter-) Guarantee will enable prolongations and rescheduling of loans (please see question 13). In addition, the EIF will extend the cover of accrued interest for senior loans, (please see question 16).

16. Will Financial Intermediaries be paying (counter-) guarantee fees on restructured loans?

As the (Counter-) Guarantee will follow rescheduling / postponement of maturity of underlying Final Recipient Transactions as a result of a Permitted Transaction Amendment (please see question 13), in order to continue to benefit from the (Counter-) Guarantee, the Financial Intermediaries shall be required to continue paying the (counter-) guarantee fees on each and every performing loan/lease/bond included in the Portfolio.

17. How would extension of the (counter-) guarantee cover on the accrued interest work?

The treatment of the cover of accrued interest on senior loans/leases/bonds is described in the [COVID -19 Addendum](#). In the case where a Financial Intermediary, as a result of a Permitted Final Recipient Transaction Amendment which occurred in the COVID-19 Support Period, does not accelerate a loan/lease/bond nor declare a default with respect to the eligible Final Recipient, the Defaulted Amounts will include accrued, capitalised or deferred nominal interest up to a maximum period of 360 days. This exceptional interest coverage is in addition to the coverage of up to 90 days of interest already provided under the (Counter-) Guarantee

18. What is the portion of exposure that must be retained by the Financial Intermediary?

In principle, Financial Intermediaries shall maintain economic exposure of at least 20% of each eligible Transaction (being in the case the Guarantee: Final Recipient Transaction, and in the case of the Counter-Guarantee: Intermediary Transaction) included in the Portfolio.

However, in the case of eligible Final Recipient Transactions entered into during the COVID-19 Support Period, such minimum retained portion is reduced to 10%.

19. Could you please clarify what are the changes to the eligibility of business transfer transactions?

In the case of business transfers, a Final Recipient Transaction may finance up to 100% of the purchase price of a target company, including any resulting goodwill. The condition to inject new capital into the target company for an aggregate amount which is not less than 50% of the Final Recipient Transaction is not required with respect to Transactions entered into during the COVID-19 Support Period.

NOTES

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