



European Investment Fund: Documentary Finance Guarantee Facility

30 October 2019, Sofia

EIF enabling access to finance for SMEs across Europe



Resources

Institution

Intermediaries

Beneficiaries



Member States and Regional Governments

Public Institutions

Third party private investors



Intermediaries and Counterparts

- Fund Managers
- Commercial Banks
- Development and Promotional Banks
- Guarantee Institutions
- Leasing Companies
- Microfinance Institutions
- Business Angers
- Universities



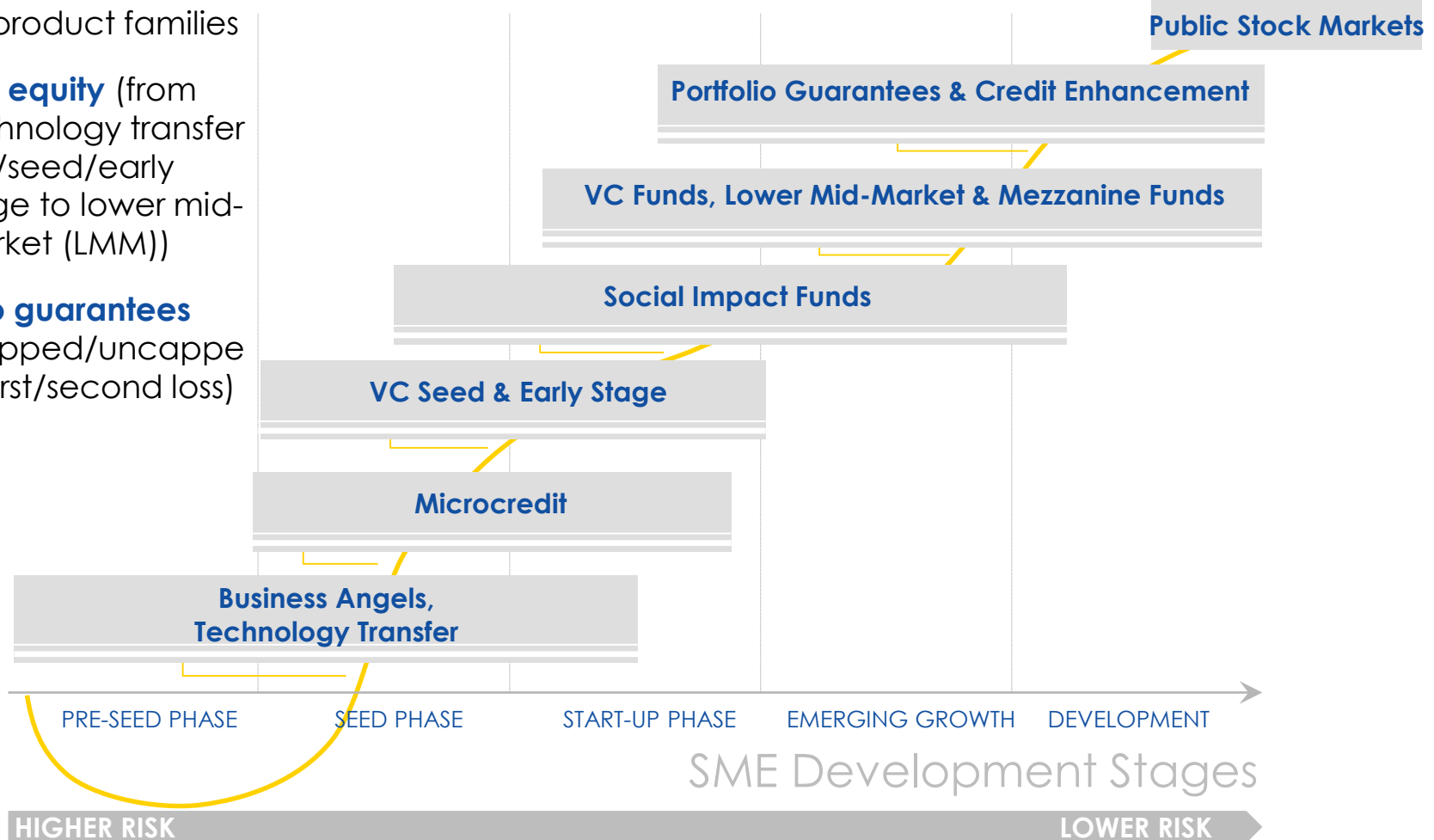
micro- and social enterprises, SMEs, small mid-caps

Helping businesses at every stage of their development

Two main product families

Indirect equity (from technology transfer (TT)/seed/early stage to lower mid-market (LMM))

Portfolio guarantees (capped/uncapped; first/second loss)

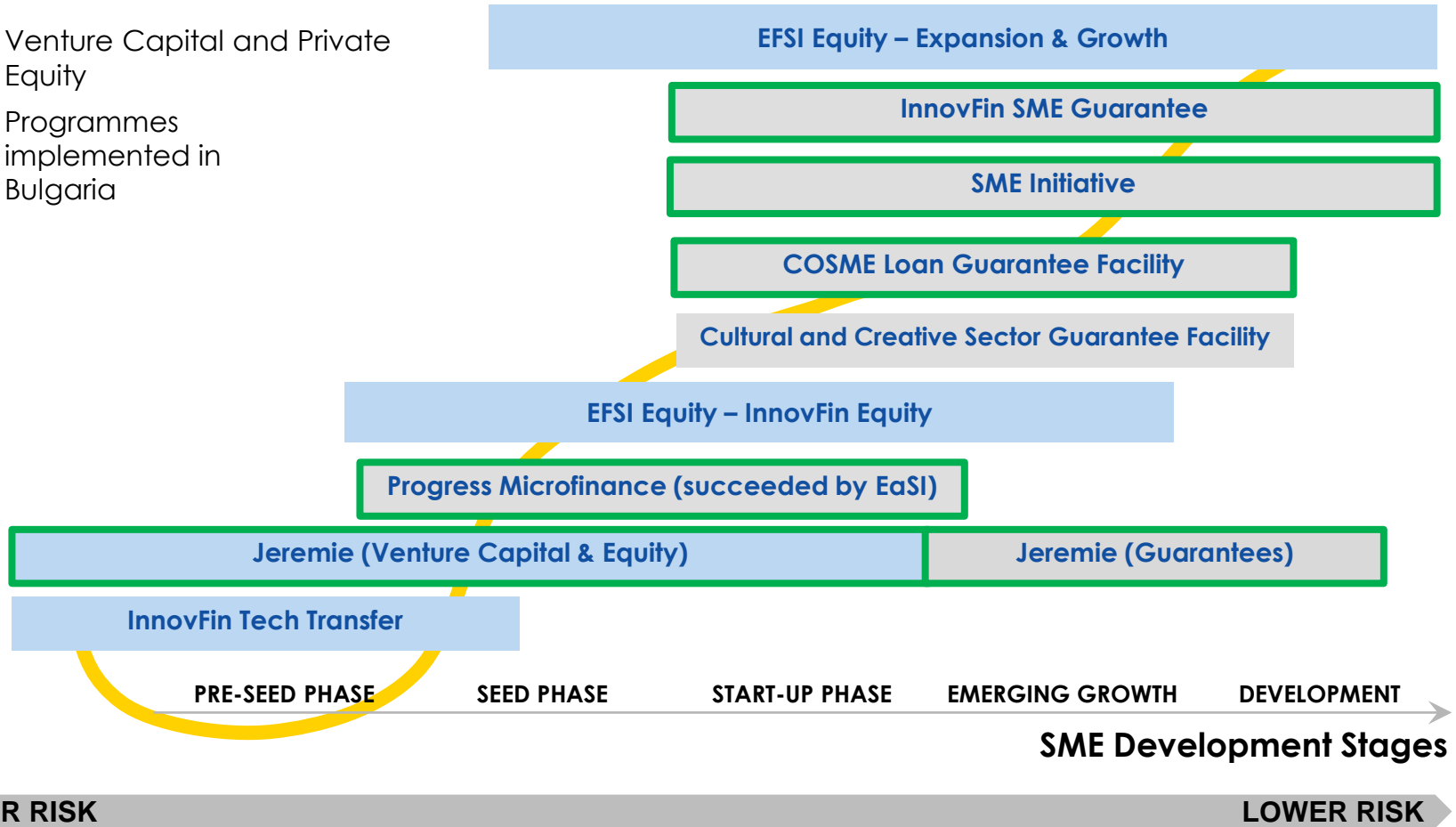


Programmes helping SMEs at every stage across sectors and geographies

Guarantees & Debt

Venture Capital and Private Equity

Programmes implemented in Bulgaria



Strong presence in Bulgaria

Equity – targeting companies in early development stage; key role in creating the start-up ecosystem in Bulgaria

- 7 Venture Capital funds, investments in 250 young companies, incl. 180 start-ups

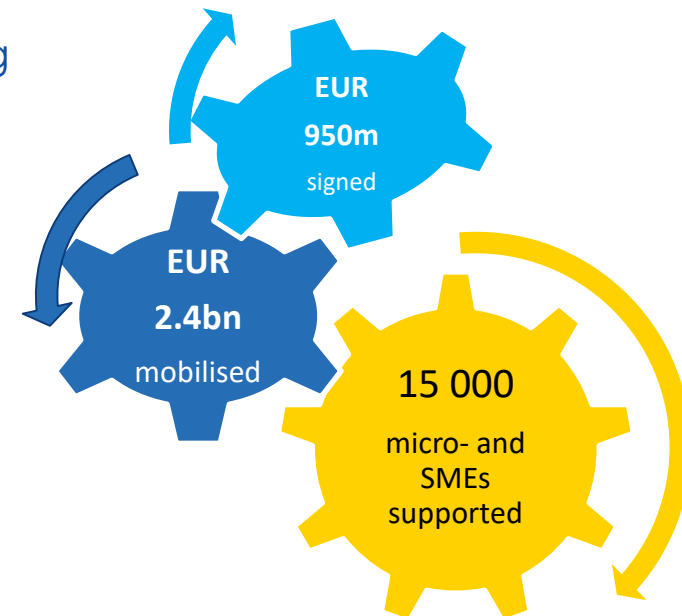
Guarantees – targeting innovation, growth and employment

- More than 14,000 credits to SMEs and small mid caps so far

Microfinance – targeting micro-enterprises with up to 10 employees

- EUR 23m mobilized until 2018

EIF's support for business 2012 – 2018

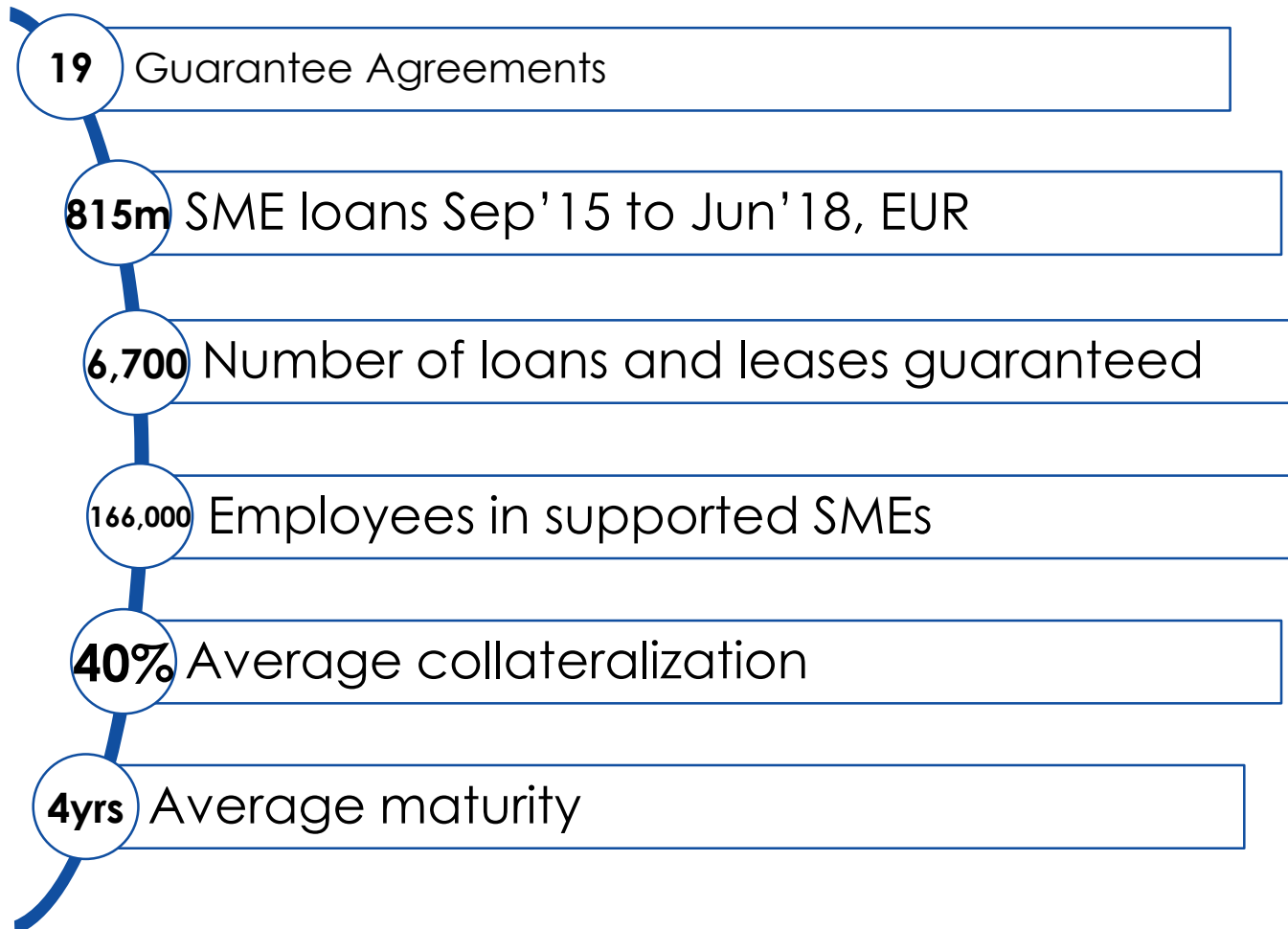


Investment Plan for Europe SME Window

Bulgaria ranks third in mobilised investments per EURm of GDP

SME Guarantees in Bulgaria 2015-2018

EIF's support to lending in Bulgaria: SMEi, Cosme, InnovFin



Documentary Finance Gtee Facility: Key concepts

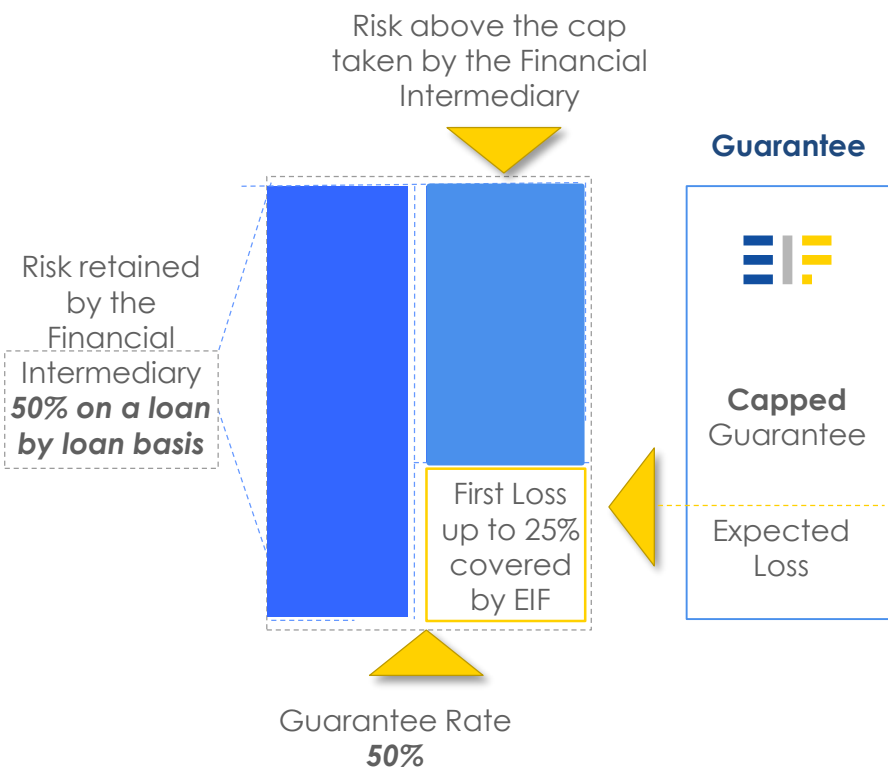


- **Upon agreement with the Ministry of Economy EIF launched a pilot documentary finance guarantee product in Bulgaria in late-2018**
 - A budget of up to EUR 30mn JEREMIE reflows is committed to documentary finance products that are not well covered under current guarantee facilities
 - Covers bank guarantees, letters of credit, performance bonds, factoring, etc
- **Key objectives**
 - Better access to finance for SMEs and Small MidCaps through **capital relief** and **loss protection** to banks
 - Enables banks to offer better terms on documentary finance products, e.g. reduced collateral requirements
- **Assessment of Bulgaria trade finance market**
 - **EUR 1.2 – 1.5bn** per annum of short term credit (3mo to 12 mo); over 80% of total volume is related to support for **trade export, purchasing of assets and participation in tenders**
 - Market failure: No natural collateral for these business operations, **cash collateral** required for most transactions
 - Benefits from guarantee facility: helping companies meet **collateralization requirements** without tying up cash collateral (if such is at all available)

Main product features

- **Capped portfolio guarantee**
 - Guarantee for free – losses capped to cover expected loss at portfolio level
 - Credit approval and servicing fully delegated to the bank
 - Transactions are automatically covered once reported to EIF, if they fit with the criteria set out in the guarantee agreement
- **Covering principal and interest until default**
- **Guarantee rate of 50%**
 - Payment on first demand basis upon transaction default
- **Transfer of Benefit mechanism**
 - Reduced collateral requirements or reduced pricing
- Important difference from EIF's standard guarantee mechanics: portfolio is revolving and expired/closed transactions may be replaced with new ones so that the outstanding amounts is within the Maximum Portfolio Volume (limit)
- Limit available for replenishment for 3 years

Product terms in Bulgaria



- **Guarantee** capped at 25% expected loss
- **50% guarantee rate** with no guarantee fee:
 - **First Loss** risk covered for free by EIF
- Total portfolio of at least **EUR 200mn** with up to **36 months** inclusion period
- Indicative budget contribution in the range of **EUR 25-30mn**
- Documentary credit products covered:
 - Letter of Credit
 - Bank guarantees
 - Short-term credit lines
 - Multipurpose loans
 - **Factoring**
- Target beneficiaries: SMEs and small mid-caps
- Economic Sectors: Generalistic facility (excluding primary agriculture)

■ Main criteria

- SMEs or Small MidCaps (499 employees)
- Bank guarantees (payment guarantees, advanced payment guarantees), letters of credit, confirmed letters of credit, performance bonds, etc.
- Possibility of inclusion of factoring transactions in the portfolio is analysed by EIF
- Multi-purpose loans also eligible up to **25% of the portfolio**
- No minimum maturity, maximum maturity at **5 years**
- Maximum transaction amount **EUR 3m** (or as set individually)

■ Some portfolio limits also possible, for example:

- Industry
- Lowest rating class

■ Example 1: Advance Payment Guarantee

- Business activity: **construction services**, building construction
- Purpose: guarantees the advance payment for initial stage of construction
- Tenor: 12 months
- Main features: facilitates timely receipt of advance payment from the owner of the contracted construction. The guarantee is utilized under a credit line for bank guarantees against hard collateral

■ Example 2: Advance Payment Guarantee

- Business activity: **manufacturing and export**
- Purpose: guarantees that the buyer will receive an advance payment back if the manufacturer fails to meet contractual obligations
- Tenor: 6-12 months
- Main features: facilitates timely receipt of advance payment from foreign buyer. The guarantee might require 100% cash collateral

■ Example 3: Payment Guarantee

- Business activity: **wholesale trade**
- Purpose: secures the “deferred payment risk” of the wholesaler
- Tenor: 12 months
- Main features: agreed payment terms 90 days from invoice date. The guarantee is utilized under a framework agreement against hard collateral

■ Example 4: Letter of Credit

- Business activity: **import and wholesale**
- Purpose: LC is issued to secure the deal and the payment. The LC will have deferred payment of 90 days after invoice date
- Tenor: 3-12 months
- Main features: facilitates international trade. The LC is utilized under a credit line for bank guarantees and LCs against hard collateral