

NEW EDITION

## Supporting Europe's SMEs

European Investment Fund's Guarantee Instruments:  
Fact sheet for the European leasing industry



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### → About the European Investment Fund (EIF)

EIF's central mission is to support Europe's small and medium-sized enterprises (SMEs) by helping them to access finance. EIF designs and develops guarantee instruments and venture capital products which specifically target this market segment. In this role, EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth, and employment.

EIF is an AAA rated European institution with Multilateral Development Bank status. As of the end of 2014, EIF's outstanding portfolio of guarantees and securitisation transactions amounted to EUR 5.6bn, positioning it as a major European SME guarantee actor and a leading micro-finance player.

EIF partners include leasing companies, promotional and commercial banks as well as guarantee and microfinance institutions; private equity and venture capital funds, among others, acting as financial intermediaries (FIs) providing finance to SMEs. EIF's geographical focus is the EU 28, Member States of EFTA and EEA, Candidate and Potential Candidate Countries (Turkey, Croatia, Western Balkans)<sup>1</sup>.

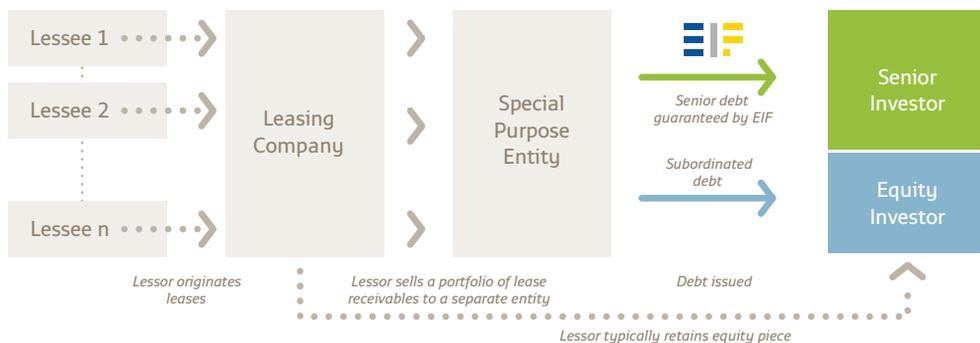
### → How This Fact Sheet Can Help You

The purpose of this fact sheet is to describe several **EIF guarantee products** that are available to help the leasing industry support European SMEs. The fact sheet focuses on those products where the EIF uses its own resources to fulfil its central mission to support Europe's SMEs, as well as where the EIF operates mandates to channel EU and governmental funding to SMEs through financial instrument programmes such as COSME and InnovFin. Further options for leasing companies under new mandates at European, national and regional levels can be expected in the future. More information on these programmes can be found on our website [www.eif.org](http://www.eif.org).

*1. Concerning the specific country eligibility criteria of each of the presented programmes here, please refer to the relevant web pages given.*

# Structured Finance

Find an alternative source of funding



→ EIF, via the securitisation instrument, can help leasing companies find an alternative source of funding. An originated portfolio of leases can be sold to a separate bankruptcy-remote entity and funds can be raised in the capital market via the issuance of debt. EIF can facilitate the placement of debt with third party investors by guaranteeing the timely payment of debt's interest and the payment of principal at legal maturity date. The diagram above illustrates a plain vanilla structure; however EIF can offer more complex and bespoke solutions.

## Target Originators

EIF targets financial institutions committed to SME financing. This includes leasing originators of all types and sizes, such as:

- Banks' leasing subsidiaries;
- Banks;
- Independent leasing companies, including smaller, unrated companies typically funded through bank lending.

EIF typically guarantees senior debt sized between EUR 60m and EUR 325m.

## Benefits to Leasing Companies

EIF can help leasing companies find financing in challenging times. EIF has a pool of investors keen to invest in products guaranteed by EIF with an attractive all-in cost for the originators.

The confidence given by EIF's participation in a transaction as a guarantor could also make it easier to find third party investors.

EIF will be involved in the early stages of any transaction and will help guide first-time issuers through the process.

## Requirements

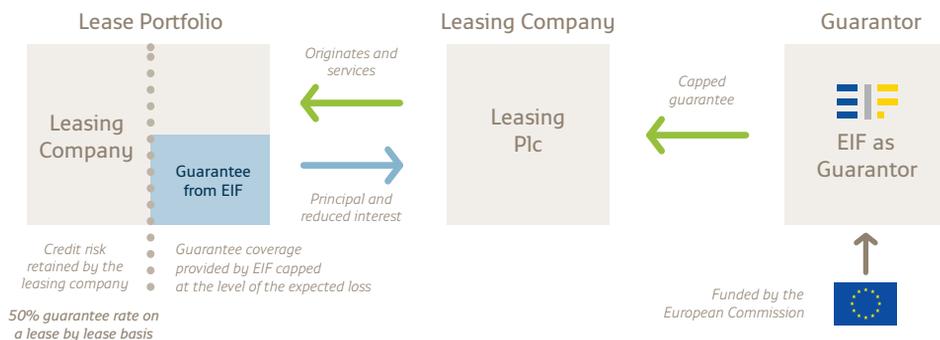
EIF has a flexible approach aimed at facilitating deal execution. The EIF Guarantee is charged at a market rate, dependent on the risk taken by EIF. EIF will require an eligible portfolio and will also request a letter from the leasing company committing to lend a certain amount to SMEs as a function of the Guarantee. EIF will always perform its own due diligence and require certain data from leasing companies in order to assess the risk of the transaction.



For more information on the Structured Finance products please visit our website [here](#).

# COSME Loan Guarantee Facility

Share your additional credit risk in the SME sector free of charge



→ The EU programme for the Competitiveness of Enterprises and SMEs (COSME) aims at improving access to finance for more risky SMEs. Through the COSME Loan Guarantee Facility (LGF), EIF provides a free of charge capped portfolio guarantee for additional SME risk-taking to leasing companies, with up to a 50% portfolio guarantee rate and a guarantee cap rate set at the level of expected losses. Thanks to the budget of EUR 700m of loss cover, COSME is expected to support up to EUR 18bn of SME financing across the Programme Countries. The diagram above illustrates the structure of the EU guarantee.

## Mechanics of the Guarantee

The origination, credit analysis, decision process and servicing, are fully delegated to the leasing company based on pre-set eligibility criteria of the free of charge portfolio guarantee.

The guarantee covers leases at a guarantee rate of 50% of any principal and interest loss. The Guarantee cap rate is fixed at the level of expected losses (e.g. 5%). Leases of up to EUR 150,000 purchase value and at least 1 year maturity are eligible, although larger lease amounts can be covered under certain conditions.

The Guarantee can be called after the default of the lease, with a pro-rata sharing of recoveries, at the end of the work-out procedure or anytime in between.

The leasing company reports new leases granted on a quarterly basis.

Applications under COSME can be submitted to EIF until 30 September 2020.

## Benefits to Leasing Companies

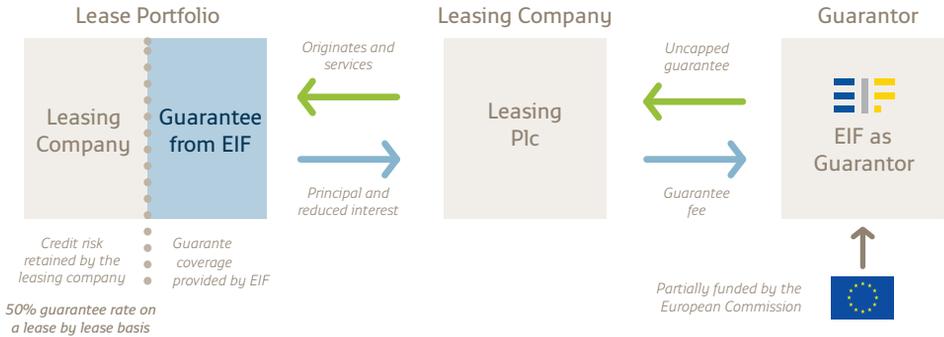
Thanks to COSME support, leasing companies can increase leasing volumes to the higher risk portion of their SME portfolio and/or e.g. focus on riskier asset classes with lower resale values as 50% of the expected losses are covered by COSME. This presents an opportunity for leasing companies to reach out to more risky clients or asset classes.



For more information on COSME LGF please visit our website [here](#).

# InnovFin SME Guarantee Facility

Share your risk in the innovative SME sector



→ InnovFin, a successor of the Risk Sharing Instrument, is a guarantee scheme sponsored by the European Commission to support innovative SMEs and Small Mid-caps. It enables leasing companies to share their risk with EIF on their new leasing activity, in exchange for an attractive fixed fee. Under InnovFin, EIF provides uncapped guarantees to leasing companies (including those mentioned under Structured Finance) on 50% of each eligible lease. The diagram above illustrates how the scheme operates.

## What is an Innovative SME or Small Mid-Cap?

InnovFin supports SMEs and Small Mid-caps (companies with fewer than 500 employees) that have innovation potential or a focus on R&D. These are defined as companies that meet one of the following criteria:

- They invest in producing or developing innovative products, processes and/or services that present a risk of technological or industrial failure; or
- They are innovation-driven “fast growing enterprises”, i.e. their workforce or turnover has increased by at least 20% p.a. over the last 3 years; or
- They are “R&I-intensive” enterprises, i.e. satisfying at least one “innovation criterion” out of a set of pre-defined eligibility criteria (e.g. recently registered a patent, received investment from venture capital/business angels, etc.)

## Mechanics of the Guarantee

The origination, credit analysis, decision process and servicing, are fully delegated to the leasing company based on eligibility criteria set ex ante.

The Guarantee covers leases for 50% of any principal and interest loss and can be structured either as an automatic process, whereby payments under the Guarantee will be made upon default, with a pro-rata sharing of recoveries, or as a payment of the net loss at the end of the recovery work-out process.

EIF has developed a lean and pragmatic quarterly reporting system.

Applications under InnovFin can be submitted to EIF until the end of 2020.

## Benefits to Leasing Companies

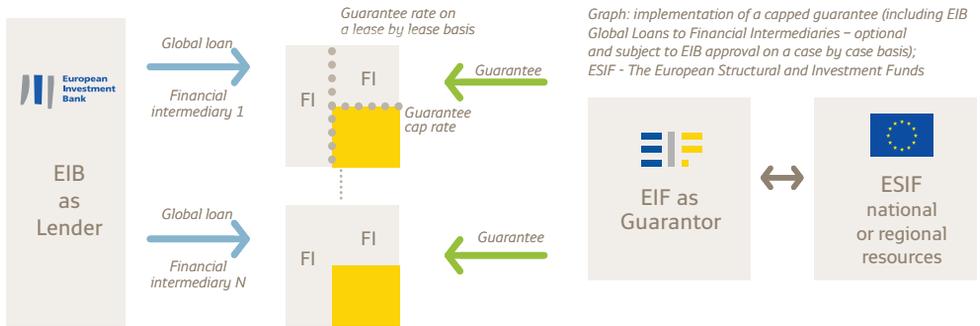
By sharing risk, leasing companies can reduce their risk margins and increase both competitiveness and market share. Leasing companies not active or less active in the innovative SME & Small Mid-Cap space can venture into this area, with the knowledge that losses can be minimised with the help of InnovFin.



For more information on InnovFin SMEG please visit our website [here](#).

# First Loss Portfolio Guarantee under Regional Mandates (FLPG)

Share your risk and provide financing to SMEs at favourable conditions



→ The FLPG is a financial instrument, implemented under National/Regional Mandates, providing credit risk coverage to leasing companies, better access to finance for SMEs and a high leverage on the use of public funds. Under the FLPG, leases to SMEs are supported by a partial guarantee covering losses up to a predefined cap. The benefit that the leasing company derives from the FLPG is then passed on to the SMEs (as a pricing and/or collateral reduction). The diagram above illustrates how the scheme operates.

## Mechanics of the Guarantee

The origination, credit analysis, decision process and servicing, are fully delegated to the leasing company based on pre-set eligibility criteria.

The FLPG is structured as a first loss portfolio guarantee providing credit risk coverage on a lease by lease basis to facilitate the creation of a portfolio of new SME leases. It covers losses incurred by the leasing company for each defaulted SME lease at the guarantee rate, with aggregate portfolio losses not exceeding the cap amount. The guarantee and cap rates depend on individual mandates (typically around 70-80% guarantee rate and 20-30% cap rate).

Payments under the FLPG are made upon SME lease default, with a pro-rata sharing of recoveries. The FLPG may also be combined with other EIB financing facilities.

EIF implements the FLPG on behalf of various mandators (usually national or regional public governments or entities) who provide the financial resources used to finance this guarantee. Each mandate has its own legal and eligibility framework defining the purpose of the financing (it may support general entrepreneurship or have a specific focus such as innovation, start-ups, specific sectors etc.). EIF usually requires quarterly reporting by the financial intermediary.

Calls for Expression of Interest, under which leasing companies can submit their applications, are published on EIF's webpage.

## Benefits to Leasing Companies

With the help of this guarantee facility, leasing companies can expand their portfolio while reducing their credit risk. Increased leasing to SMEs, a very important client base, is further facilitated through decreased cost of funding. Benefiting from its multilateral development bank status, EIF guarantees also potentially offer capital relief (subject to the Regulator's approval).

For more information on the regional activities please visit our website [here](#).



The Calls for Expression of interest can be accessed [here](#).

## → EIF Working Paper Series

EIF has designed its Working Paper Series to make selected topics and studies in relation to EIF's business available to a wider readership. The Working Papers are edited by EIF's Research & Market Analysis (RMA) unit. They are typically authored or co-authored by EIF staff and are usually published in English and in electronic format (PDF). In addition, RMA contributes to third-party publications. Three examples of RMA's work are mentioned below with a brief synopsis.



To be informed when a new EIF Working Paper is available, subscribe to our mailing list [here](#).

## → "The importance of leasing for SME financing"

*Euromoney's World Leasing Yearbook 2014*

The article was written by two authors from EIF's Research & Market Analysis team and published in the Euromoney World Leasing Yearbook in January 2014. The aim was to enhance awareness of leasing and its importance as an additional financing technique for SMEs which expands access to short- and medium-term financing for capital equipment. The authors also describe a range of leasing-related EIF guarantee products that are available to support European SMEs.



You can find the article [here](#).

## → "The importance of leasing for SME finance"

*EIF Working Paper 2012/15*

The Working Paper was released in August 2012. The paper puts a spotlight on the importance of leasing as an integral part of the tool-set for SME finance, also against the background of market weaknesses for SME lending. It explains the mechanics and logic of SME leasing and provides latest available market information. Furthermore, the paper explains in the form of three short EIF case studies how SME leasing can be supported via credit enhancement/guarantee techniques.



You can find the EIF Working Paper on SME leasing [here](#).

## → EIF Research & Market Analysis

Research & Market Analysis (RMA) is a key element of EIF's strategic development. RMA supports EIF's strategic decision-making, product and mandate development processes through applied research and market analyses. RMA works as internal advisor, participates in international fora and maintains liaison with many organisations, universities, and institutions.

## → "European Small Business Finance Outlook"

*EIF Working Paper*

This Working Paper is published twice per year. It provides an overview of the main markets relevant to EIF. It includes a discussion of the general market environment, a look at main aspects of SME debt and equity finance and the SME Securitisation market. It also contains important aspects of microfinance in Europe.



You can find the latest issue of the EIF European Small Business Finance Outlook [here](#).

## → Contact Details

If you would like more information or to discuss any of EIFs product range please contact

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