



# The fi-compass quasi-equity model financial instrument for SMEs

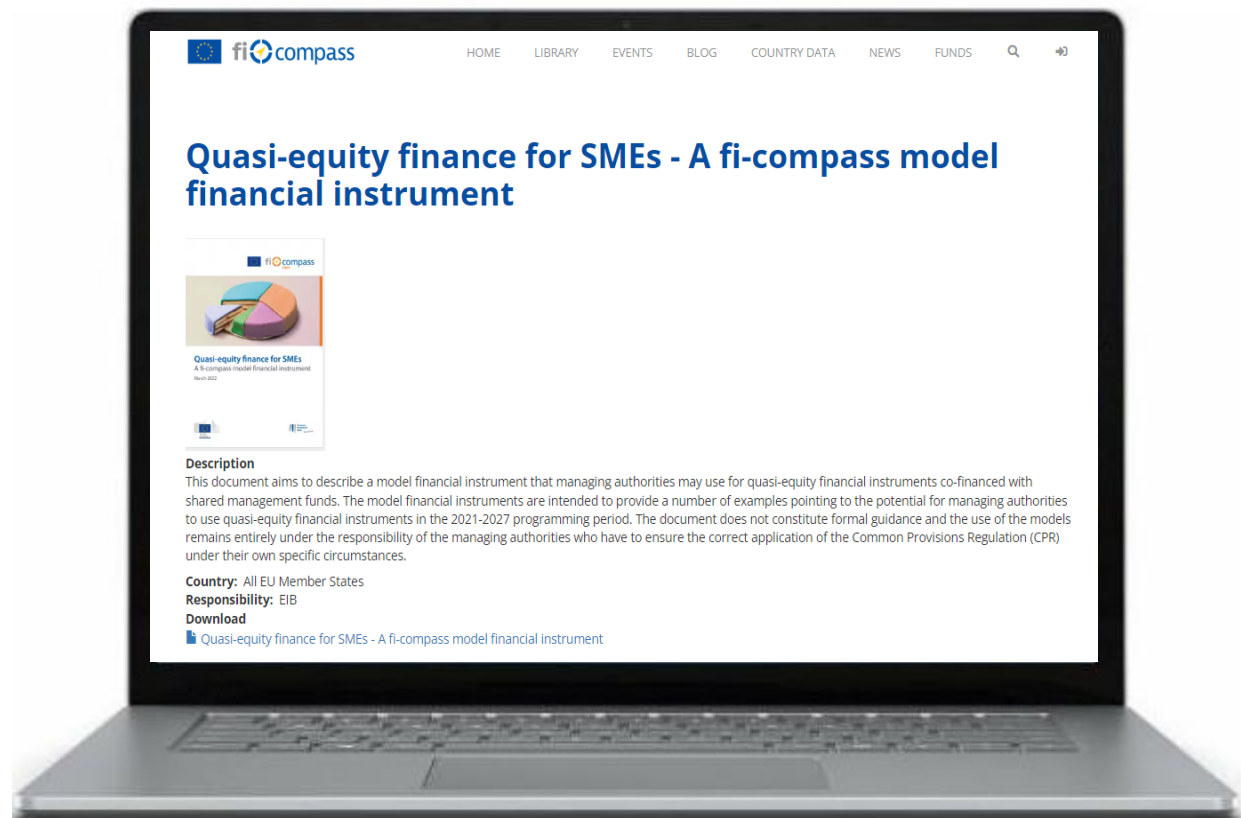
**Sara Dagostini**, Policy officer, DG REGIO, European  
Commission



#ficompass  
#ERDF20212027



# The fi-compass model financial instrument: quasi-equity finance for SMEs



<https://www.fi-compass.eu>





## Definition of quasi-equity

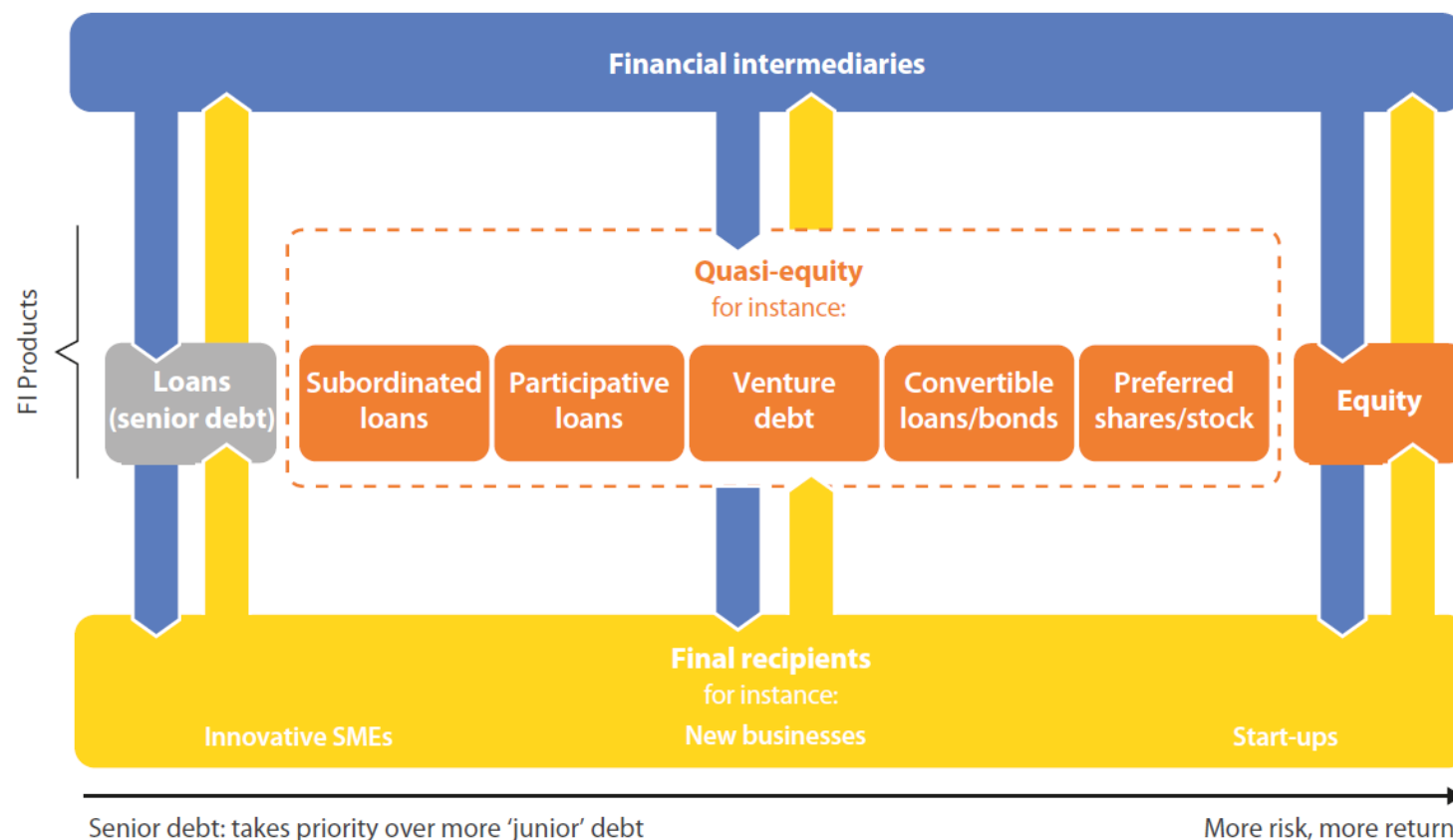
Quasi-equity investments are defined in Article 2 of the General Block Exemption Regulation (Commission Regulation (EU) No 651/2014 of 17 June 2014) (GBER) as follows, as follows:

*'quasi-equity investment' means a type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity and whose return for the holder is predominantly based on the profits or losses of the underlying target undertaking and which are unsecured in the event of default. Quasi- equity investments can be structured as debt, unsecured and subordinated, including mezzanine debt, and in some cases convertible into equity, or as preferred equity.*

# Quasi-equity is ...



- A '**financial product**' under Article 2(17) CPR 2021/1060 that can be provided through a financial instrument
- **Risk financing aid** under Article 21 GBER 651/2014
- A range of **different types** of products with a risk/return profile between loan and equity products



# Examples of quasi-equity products

A flexible concept to meet different needs



## Venture Debt

- Aligned with venture capital investment
- Later fund-raising rounds
- Large ticket size – EUR 7.5 - 50 million
- Equity kicker

## Convertible loans

- Initial investment structured as debt
- Debt repaid or converted to stock
- Predetermined conversion rate
- Conversion at option of investor



## Prêt participatif

- French statutory QE model
- Base and variable interest rate
- Variable rate linked to revenue/profit
- Bullet repayments on milestones

## Preferred shares

- Fixed dividend ranking above ordinary shareholders
- Priority repayment in the event of liquidation
- Limited voting rights at GMs



#ficompass  
#ERDF20212027

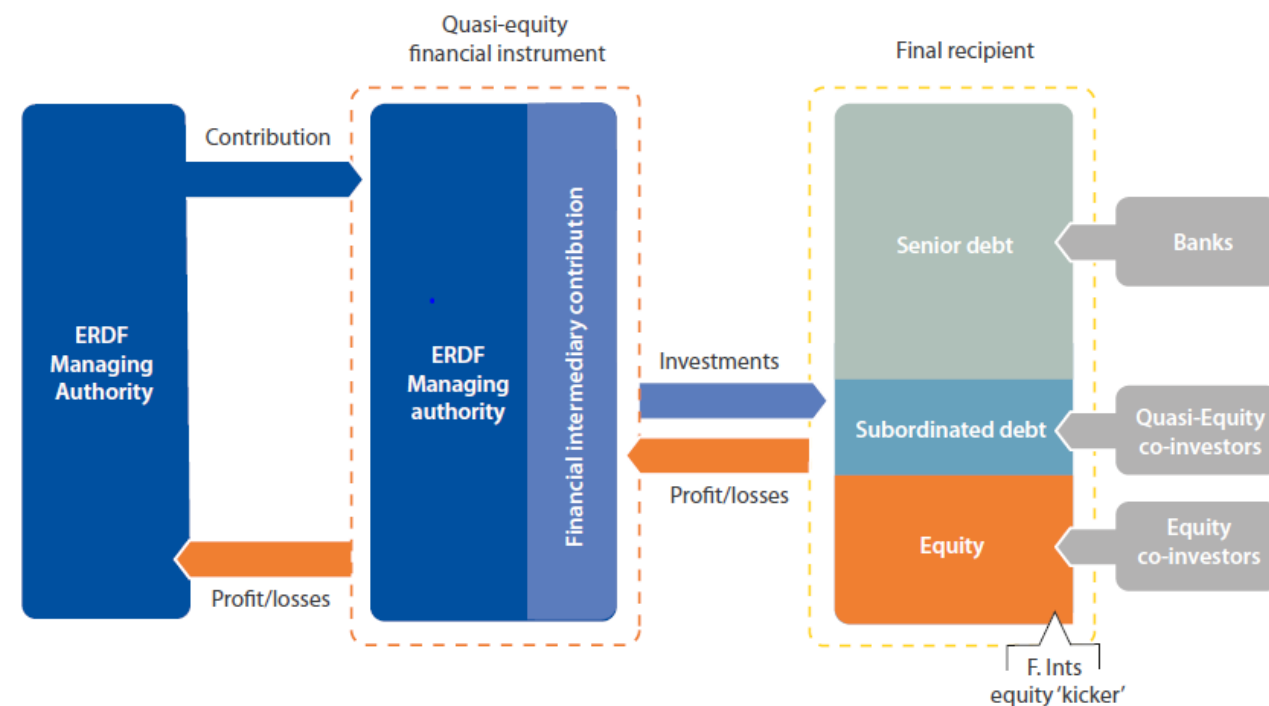




# Structure of the financial instrument



- ERDF resources committed either direct by managing authority or via Holding Fund
- Combined with the financial intermediary's own resources and other private co-investment
- Subordinated loans to eligible SMEs made by the financial intermediary
- Target innovative SMEs in the start-up, early growth and expansion phases of development
- Complementary with equity investment

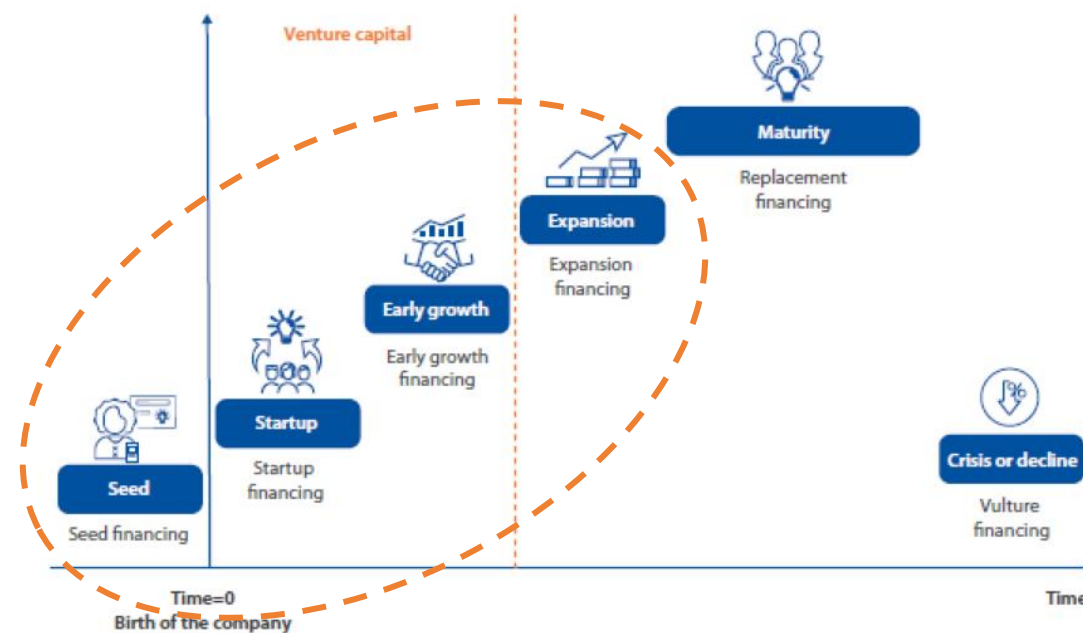


# Aims of financial instrument

## Subordinated loans

Typically to fund specific investment projects – solution orientated finance including

- Establishment of new enterprises
- Early stage-capital (seed capital and start-up capital)
- Expansion capital
- Capital for the strengthening of the general activities of an enterprise
- Realisation of new projects and/or
- Penetration of markets or new developments by existing enterprises



Long-term patient capital, often replaced by less expensive finance in the medium term

# Financial Product

## Structure of subordinated loan for innovative enterprises



- Duration – typically 5-10 years – long term patient capital
- Collateral – either no collateral or second charge over assets
- Ranking subordinated to senior debt

Both interest and capital repayments rank behind senior lenders Interest/capital repayments – may be

- amortised (subject to grace period) or
- ‘rolled-up’ and repaid as balloon payment(s) at the end of period (or achievement of milestones)
- Disbursement – may be up-front or phased





# Pricing and management costs and fees

## Passing on the benefit to final recipient



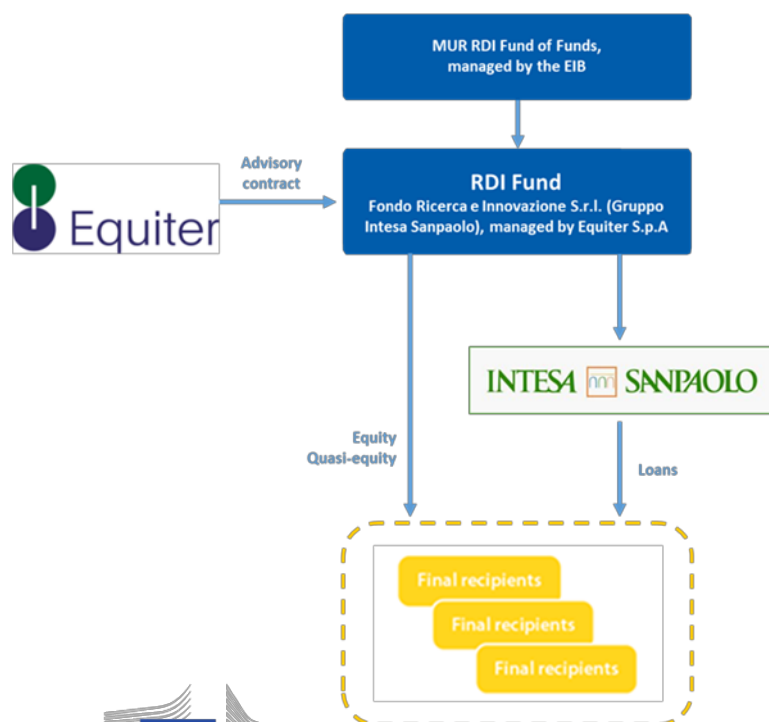
- Pricing/terms – benefit of the ERDF resources passed on to final recipient
- Including through discounted interest rates, increased duration and/or reduced collateral.
- Reliance on competitive selection process to demonstrate pass on of benefit
- Management cost and fees – set by competitive selection or in the case of direct award
  - Holding Fund including a quasi-equity financial instrument up to 7%
  - Specific quasi-equity financial instrument up to 15%



# Quasi-equity is ...



## Supporting Research and Innovation in Southern Italy – Equiter RIF - MUR



#ficompass  
#ERDF20212027

## Meeting liquidity needs of SMEs in Occitanie, France



- Prêt participatif FOSTER TPE-PME
- Working capital and tangible/intangible investments
- Portfolio guarantee – subordinated loans





**Thank you!**

[www.fi-compass.eu](http://www.fi-compass.eu)

Follow us:



fi-compass is provided by the European Commission in partnership with the European Investment Bank  
Copyright © European Investment Bank 2022  
[events@fi-compass.eu](mailto:events@fi-compass.eu) | [www.fi-compass.eu](http://www.fi-compass.eu)

