



# JSC Development Finance Institution Altum Financial Instruments 2014-2020

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# ALTUM: GENERAL INFORMATION



- ▶ 100% state-owned financial institution
- ▶ Access to finance, areas prioritised by the government, where other market players don't act
- ▶ The state policy in the national economy
- ▶ Moody's – Baa1



## SHAREHOLDERS



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# ALTUM

## MISSION

We help Latvia grow

## VISION

To be a partner  
and financial expert  
in economic development

## VALUES

Team  
Excellence  
Responsibility



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# ALTUM BUSINESS MODEL



- ▶ Long-term profitability
- ▶ Extra credit risk covered by public funding – Risk coverage reserve and Portfolio loss reserve
- ▶ Guarantees issued by ALTUM have EUR 250M back-up guarantee from the Latvian state
- ▶ No dividend payments by law



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\* Data on 31.12.2017

TENDENCIES

Modest growth

LOANS

Steep growth

GUARANTEES

Modest growth

VENTURE CAPITAL

# FUND OF FUNDS



## SUPERVISORY BODIES:

Managing Authority – Ministry of Finance

Responsible Authority – Ministry of Economics

Intermediate Body - Central Finance and Contracting Agency

## ALTUM - Fund of Funds Manager

*As Venture Capital fund manager:*

- to select financial intermediaries; to conclude the funding agreements, to invest public resources in funds;
- to monitor the implementation of programmes/funds
- to collect and verify data submitted by fund managers; to prepare reports on the implementation of the financial instruments for supervisory bodies; to collect data on resources paid back to financial instruments;
- to invest and manage interest generated by ESIF.

## ALTUM – Investment Fund Manager

*As Loan and Guarantee fund manager:*

- to design and implement the State aid framework;
- to evaluate the business projects;
- to monitor the implementation of programmes/funds/business projects;
- to collect data; to prepare reports on implementation of financial instruments for supervisory bodies; to collect data on resources paid back to financial instruments;
- to invest and manage interests generated by ESIF.



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# FINANCIAL INSTRUMENTS 2014 – 2020



480 mEUR

93 m €

ERDF

51 m €

ALTUM

336 m €

Private Investors

**Venture Capital**  
104 mEUR

45 mEUR 30 mEUR 29 mEUR

**Loans**  
63 mEUR

10 mEUR 21 mEUR 32 mEUR

**Guarantees**

38 mEUR → 275 mEUR

**Acceleration Funds**

16 mEUR

13 mEUR

2 mEUR

1 mEUR

Investments up to 50/250 KEUR per SME

**Seed Funds**

10 mEUR

9 mEUR

1 mEUR

Investments up to 250 KEUR per SME

**Venture Funds**

28 mEUR

8.2 mEUR

12.8 mEUR

7 mEUR

Investments up to 2.1 mEUR per SME

**Expansion Funds**

50 mEUR

15 mEUR

15 mEUR

20 mEUR

Investments up to 3.75 mEUR per SME

**Micro/Start-up Loans**

16 mEUR

4 mEUR

12 mEUR

1.6 mEUR (deal level)

Loans up to 25/250 KEUR per SME

**Co-financing Loans**

15 mEUR

5.8 mEUR

9.2 mEUR

30 mEUR (deal level)

Loans up to 5mEUR per SME

**Guarantees**

38 mEUR

38 mEUR

Guarantees up to 3 mEUR per SME

NATIONAL DEVELOPMENT PLAN 2020



EUROPEAN UNION  
European Regional Development Fund

# PERFORMANCE



480 mEUR

93 m €

ERDF

51 m €

ALTUM

336 m €

Private Investors

## Venture Capital 104 mEUR

45 mEUR 30 mEUR 29 mEUR

### Acceleration Funds

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Investments up to 2.1 mEUR per SME

### Expansion Funds

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15 mEUR

20 mEUR

Investments up to 3.75 mEUR per SME

## Loans 63 mEUR

10 mEUR 21 mEUR 32 mEUR

### Micro Loans

Loans for creation and/or growth of SMEs

Max 25kEUR

Interest rate 6-8%

Period 5Y

Collateral private guarantee

### Start-up Loans

Loans to SMEs together with commercial banks, when own collateral is insufficient, low equity relative to the enterprise's assets, and/or high credit risk

Max 250kEUR

Interest rate 6-8%

Period 10Y/15Y

Collateral private guarantee /from 74% of loan amount

### Co-Financing Loans

Loans to SMEs together with commercial banks, when own collateral is insufficient, low equity relative to the enterprise's assets, and/or high credit risk

Number of transaction: 535

Volume: 11.7 mEUR

Number of transactions: 14

Volume: 6.7 mEUR

## Guarantees

38 mEUR → 275 mEUR

### Guarantees

Guarantees to SMEs for creation and/or growth of business when own collateral is insufficient to attract the necessary amount of credit resources

Number of transactions: 373

Volume: 63 mEUR

NATIONAL DEVELOPMENT PLAN 2020



EUROPEAN UNION  
European Regional Development Fund

# IMPLEMENTATION OF FINANCIAL INSTRUMENTS (1)



## MICRO/START UP LOANS

- + there is no alternative similar financing at the start-up phase;
- + customer service – individual approach / regional branches;
- + attractive terms:
  - interest rate +/- 6.5%;
  - low collateral requirements;
  - working capital loan maturity: up to 5 years;
  - investment loan maturity: 10/15 years;
- time consuming and expensive application evaluation process;
- creditworthiness assessment / without business experience;
- challenge for SME is preparation of business plan, including proving the viability of a business idea;
- Lack of mentor/funding for developing SME's capacity to apply for necessary funding.





# IMPLEMENTATION OF FINANCIAL INSTRUMENTS (2)



## INDIVIDUAL LOAN GUARANTEES

- + leverage effect;
- + simple implementation process together with commercial banks;
- + a wide range of supported SMEs;
- + not an expensive product for SMEs;
- Requirements of ESIF Regulations:
  - restricted limits on management costs;
  - complicated reporting requirements;
- Lack of expert knowledge of governmental supervisory bodies of financial instruments in practice.



# IMPLEMENTATION OF FINANCIAL INSTRUMENTS (3)



## CO-LENDING LOANS (MEZANINE LOAN)

- + possibility to support large scale projects regardless of the phase of development of SMEs;
- + individual customer approach together with commercial banks;
- + attractive terms:
  - grace period depending on project cash flow;
  - low interest rate (same as bank);
  - the next pledge rights after commercial banks.
- + not an expensive product for SMEs;
- State aid regulation – terms of regional aid are not appropriate for the loan programme;
- time required for structuring each transaction;
- slow ESIF programme implementation process.



# IMPLEMENTATION OF FINANCIAL INSTRUMENTS (4)






## ACCELERATION / VENTURE CAPITAL FUNDS

- + impact of Venture Capital financing on real economy;
- + smart money;
- + good balance between public money and private investors' investment;
- challenges to attract private investors at the fund level;
- selection of financial intermediaries takes a long time;
- slow ESIF programme implementation process;
- Making sure Fund managers understand and follow State aid requirements is challenging.



# VENTURE CAPITAL FINANCIAL INSTRUMENTS



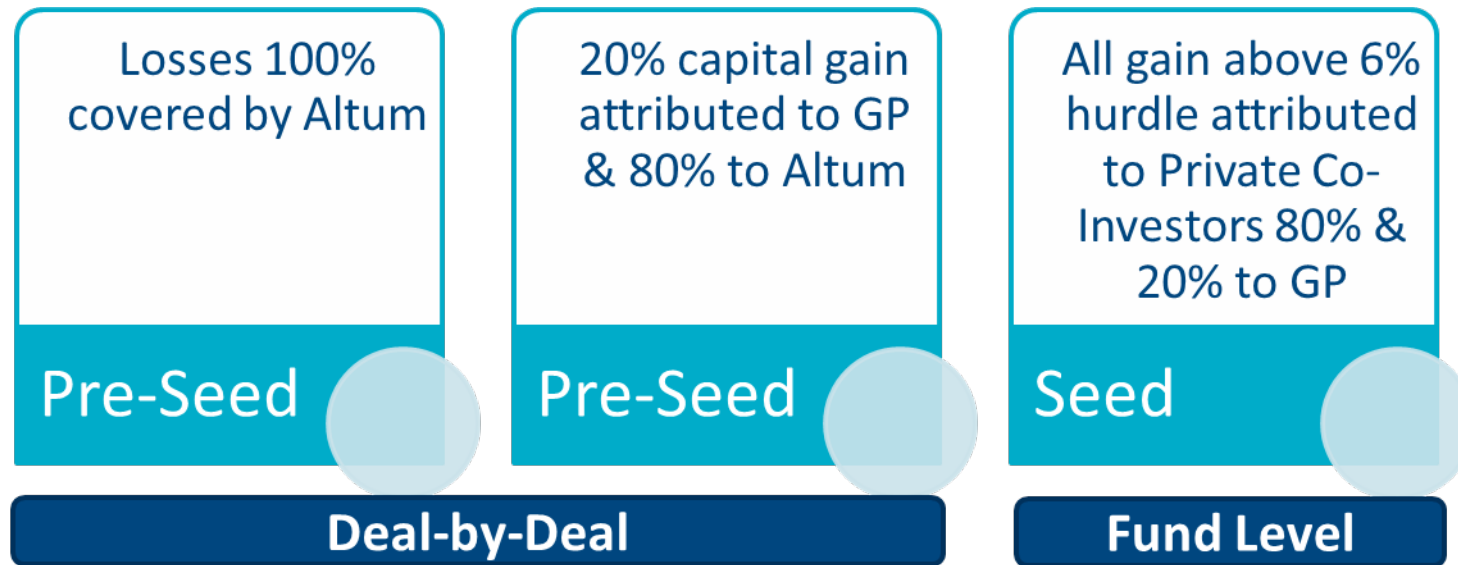
VENTURE CAPITAL FINANCIAL INSTRUMENTS	NUMBER OF FUNDS	PORTFOLIO VOLUME EUR	TICKET SIZE	INVESTMENT PERIOD	NUMBER OF SMEs	
					PROGRAM TARGET	BUSINESS PLAN TARGET
<b>ACCELERATION FUNDS</b>  <small>THREE FUND MANAGERS</small>	  <b>X 6</b>	PRE-SEED 9 600 000 EUR  SEED 6 750 000 EUR	10 - 50 KEUR  50 - 250 KEUR	3 years  5 years	60	150
<b>SEED &amp; VENTURE FUNDS</b>  <small>TWO FUND MANAGERS</small>	  <b>X 4</b>	SEED 10 000 000 EUR  VENTURE 28 000 000 EUR	50 - 250 KEUR  0,5 - 2,1 mEUR	5 years	32	58
<b>EXPANSION FUNDS</b>  <small>TWO FUND MANAGERS</small>	  <b>X 2</b>	EXPANSION 50 000 000 EUR	1 - 3,75 mEUR	5 years	16	30





# SWEET CONDITIONS FOR LP & GP (Acceleration)

Distribution waterfall encourages private investments in Seed Funds



# ALTUM LESSONS LEARNED



- Design flexible financial instruments;
- Define clear objectives for the implementation of the FIs;
- Prudent application of legal framework (MC rules, EC Regulations);
- Identification of operational risks;
- Planning - the selection of financial intermediaries takes a long time...
- Importance of cooperation between all bodies involved in the FI.



