

InvestEU Scoreboard¹

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, SMEW RIDW Joint Equity Product – Digital and CCS Investments Sub-Product

Type of approval: Framework Operation

Type of Financial Intermediaries: Typically venture capital funds established in EU27 pursuing strategies in Target Areas under the SMEW RIDW Joint Equity Product – Digital & CCS Sub-Product

Type of Final Recipients include projects, seed, start-ups, SMEs, Mid-Caps

Country(-ies) of implementation of the operation: Via this Framework Operation, EIF expects to be able to achieve a relatively broad geographical coverage across Member States. The majority of funds will have a pan-European scope with certain regional emphases depending on their geographic location and proximity.

Short description of the financing or investment operation:

Framework Operation aimed at supporting the development and growth of cloud services, data and middleware platforms enabling access and integration of computing resources, facilitating emergence, development and scale up of strategic technologies in AI, Blockchain/DLT, cybersecurity tools and solutions and quantum, to provide the developers and operators active in these technologies with adequate start up and growth capital. With respect to investments in the Cultural and Creative Sectors ("CCS"), the focus is expected to be on Sub-Projects pursuing more specialised strategies in audio-visual content production and distribution.

Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

Item 5 of Annex II of the InvestEU Regulation:

research, development and innovation

Item 6 of Annex II of the InvestEU Regulation:

the development, deployment and scaling-up of digital technologies and services, especially digital technologies and services, including media, online service platforms and secure digital communication, that contribute to the objectives of the Digital Europe Programme

Item 7 of Annex II of the InvestEU Regulation:

financial support to entities employing up to 499 employees, with a particular focus on SMEs, and small mid-cap companies

Item 8 of Annex II of the InvestEU Regulation:

cultural and creative sectors, cultural heritage, media, the audio-visual sector, journalism and press

The following additionality considerations apply to the Framework Operation.

¹ This Scoreboard of indicators reflects the information presented to the InvestEU Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

Item (b) of Annex V A (2) to the InvestEU Regulation:

Support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources

Europe remains an active source of fundamental research and development application, thanks to its high number of engineers. However, transitioning from research to market proves to be a very difficult step, mainly because of the reluctance of generalist investors to support highly technical projects.

This Framework Operation aims to directly address the financing gap in this sector by supporting companies developing, scaling and deploying innovative digital technologies in the EU.

In spite of the general importance of the CCS in Europe (on average 5.5% of Member State's value added, 6.2% of the workforce and 12% of the enterprises), it is not being addressed properly from an equity perspective. Certain Sub-Projects under this Framework Operation will play a key role in developing the equity market in the CCS and facilitating access to equity finance by enterprises in these sectors

Item (c) of Annex V A (2) to the InvestEU Regulation:

Support to operations that carry a higher risk profile than the risk generally accepted by the implementing partner's own standard activities or support to implementing partners in exceeding own capacity to support such operations

The technology areas under consideration in the Digital & CCS Sub-Product incorporate a set of risks that would typically cause a shortfall in available investment capital. These risks include, inter alia, technology risk as a consequence of unproven and experimental technological developments; commercialization risk, due to first-mover risk, and the untested and undeveloped nature of a commercial market for a product that has yet to be developed.

The availability of the InvestEU Guarantee in this field makes it possible for EIF to significantly increase its support for funds investing across the most promising start-ups and SMEs in these fields, across the EU beyond what EIF could do with other managed resources, which in their majority have much lower capacity to take such risks. Thanks to the InvestEU Guarantee, EIF can provide much-needed capital to these Target Areas, which support businesses and entrepreneurs that, in many ways, will define the future competitive landscape of various technology industries.

Item (e) of Annex V A (2) to the InvestEU Regulation:

Support that catalyses or crowds in additional private or public financing and is complementary to other private and commercial sources, in particular from traditionally risk-averse investor classes or institutional investors, as a result of the signalling effect of the support provided under the InvestEU Fund

Many of the funds that support such advanced technologies are breaking new ground in areas where there is a lack of investment track record, given the novelty of the strategies they employ, the technologies they support, or the geographies they cover. Consequently, they face a greater challenge in raising finance than their more "traditional" counterparts that have invested in more mature strategies, technologies or regions and can show a solid investment track record across various fund generations.

The ability to support such investments through the InvestEU Guarantee enables the EIF to nourish investments in these nascent technologies and business models at this critical stage in their development.

Furthermore, given the specificities of the CCS (unpredictability of revenues, difficult understanding of business models, lack of specialized financial intermediaries), the presence of the EIF in this sector, will trigger a positive catalytic effort, bringing in new private actors into this nascent equity market.

Item (f) of Annex V A (2) to the InvestEU Regulation:

Support through financial products not available or not offered to a sufficient level in the targeted countries or regions due to missing, underdeveloped or incomplete markets

While Europe's start-up environment is maturing and VC investments are making progress in certain European regions such as France, Germany and the Nordics, industry reports show that we continue to observe great disparity across the EU especially in respect of MEICs². In addition, we still observe a great shortage of financing, even in more developed EU regions, in areas such as technology transfer streams, scale-up capital for firms seeking to grow in the EU, and female-led VC teams, among others. Under this framework, the EIF proposes a portfolio that addresses many of these gaps, ensuring diversification and sustainability in the long term, and contributing to the financing of digital technologies across the EU.

The following market failures are addressed by this Framework Operation:

Item (a) of Annex V A (1) to the InvestEU Regulation:

Have the nature of a public good for which the operator or company cannot capture sufficient financial benefits (such as education and skills, healthcare and accessibility, security and defence, and infrastructure available at no or negligible cost).

Greater diversity and availability of cultural and creative sector activities have characteristics of the public good. While the European CCS industry is characterised by a large number of highly innovative and creative companies with a high growth potential, the CCS sector suffers from difficulties raising the necessary financing to launch viable products. CCS ventures lack the financial strength to compete on a European and global level. At the same time, European investors remain largely unaware of the potential of these companies. They often associate investments in such ventures with high risks due to lack of track record of successful productions and to assets being mainly intangible in character.

According to the EC study "Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the cultural and creative sectors"³, it has been estimated that an equity gap exists in the Creative and Cultural Sectors in the range of €400- €650 million/year. Equity finance is needed to boost the CCS sectors (and in particular audiovisual) in Europe, which would make them able to create quality works for the international market with higher quality products. European companies need to have access to the financial means to become more autonomous and exploit the intellectual property of the content they produce.

With respect to Ed Tech, technology solutions and shift to interactive and diverse learning models are re-shaping the education sector, facilitating the up-skilling and re-skilling of the workforce. Investing in the supply of relevant ed-tech technologies will transform the effectiveness, efficiency, availability and affordability of learning and involve, inter alia, virtual collaboration and knowledge sharing enabling effective distance learning, connectivity and community building, augmented reality for interactive simulations, AI adaptive course delivery, and interactive classroom tools.

Despite the large increase in AI and blockchain investments over recent years (approximately tenfold rise from 2016 to 2019), the limited availability of venture capital funding and specialised investors remains a key issue in Europe, especially when compared to the US and China. The funding volume

² Moderate and Emerging Innovator Countries

³ [Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the cultural and creative sectors - Publications Office of the EU \(europa.eu\)](#)

provided by the venture capital market to AI and blockchain SMEs is considerably smaller in the EU27 (\$2.1 billion annually / €1.75 billion) than in the United States (\$20 billion / €16 billion) and China (\$5 billion - €4 billion). China and the United States also exhibit high average and median equity investments in AI and blockchain SMEs.

The risks inherent in the development of these technologies and associated new business models make it challenging for SMEs to assemble the necessary financial resources to develop these products to the point where they are deployable and commercially viable.

Sub-Projects under this framework help to bridge the gap between the positive societal value of the technologies and the commercial risks inherent in their development, by overcoming obstacles to investment and catalysing private money. These obstacles relate to the difficulty Financial Intermediaries have in fundraising, often as a consequence of the structural uncertainties inherent in the fields they are targeting.

These uncertainties include technological and feasibility risk, risks associated to the commercialization, scaling and industrialization of new technologies, uncertain legal frameworks as ethical and regulatory environments evolve (particularly for AI, Quantum Computing and Distributed Ledger Technologies), intellectual property protection and the complexity of associated grant financing and other forms of support.

Item (c) of Annex V A (1) to the InvestEU Regulation:

Information asymmetries, in particular in case of SMEs and small mid-cap companies, including higher risk levels related to early stage firms, firms with mainly intangible assets or insufficient collateral, or firms focusing on higher risk activities.

Sub-projects under this Framework Operation will support investments that strengthen the EU's competitiveness, digital independence and strategic autonomy, with a focus on data, communication technologies, services and products that facilitate digital transition and address societal challenges as well as cultural and creative sectors.

By supporting financial intermediaries in these key areas, actions under this Framework Operation will enable qualified and experienced investors in all these areas to identify, finance and support new and growing SMEs, and through their investments, relationships and reputations, signal their confidence in these ventures and the entrepreneurs building them. The presence of experienced and qualified investors in the shareholding of SMEs reduces the information gap for more generalist investors to participate, drawing in additional funding sources and accelerating the development of these critical sectors.

Item (e) of Annex V A (1) to the InvestEU Regulation:

Exposure to higher levels of risks in certain sectors, countries or regions beyond levels that private financial actors are able or willing to accept, including where the investment would not have been undertaken or would not have been undertaken to the same extent because of its novelty or because of risks associated with innovation or unproven technology.

The technologies targeted by Sub-Projects are often novel and emerging, and investors associate a high level of risk to such investments. Many technologies developed in areas such as artificial intelligence, quantum computing and distributed ledger technologies will take time, effort and patient capital to bring to market. This, combined with the early stage of investment, requires investors that accept longer repayment periods and higher levels of risk.

For the Creative and Cultural Sectors, there are a number of market failures and barriers in CCS businesses accessing finance, namely information failures (lack of specialised knowledge, uniqueness and the 'prototype' nature of each project or product, assets that are intangible and difficult to value), investment risks (lack of track record, lack of clear exits and potential for return, assets that are not easily transferrable, strong unique human capital investment component related to the creator of the products).

Investing in both specialised funds as well as generalist funds with significant digital and strategic tech allocations, validating the fund's digital strategies to attract additional investors to increase finance flows to CCS and strategic digital technologies and encouraging the transition of fund managers towards more deeptech/increased specialisation.

EIF will, throughout the application process, provide advice and support to improve the viability of the fund's investment strategy and the quality, professionalism and structure of their fund and its processes, to ensure they are able to attract funding from other limited partners.

The EIF, through the Capacity Building and Advisory Services component of InvestEU puts dedicated resources at the disposal of the financial intermediaries to help them achieve the standard required for a successful application.

This assistance is provided in coordination with the EIB advisory hub, workshops, matchmaking events and access to external consultants and industry experts. Depending on the stage and experience of the Financial Intermediary's manager, the EIF generally provides technical advice, inter alia, on reporting, specific thematic (e.g. ESG) incorporation into the investment process, eligibility criteria, portfolio diversification and risk parameters, team structure, etc.

The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) is indicatively c. 4x on average, in accordance with the "InvestEU Leverage and Multiplier Effect Calculation Methodology" as approved by the InvestEU Steering Board.

Financing through this product will make Final Recipients more visible. Receiving investments from a fund will expose SMEs to that fund's co-investment and limited partners, will facilitate participation in the broader industry and fundraising ecosystem, and will contribute to network effects through interactions with other SMEs financed through its investors.

With respect to the benefits generated by the Framework Operation for the final recipients, it is worth highlighting in particular the following key features:

- (i) Flexibility of draw-downs
- (ii) Financing in local currency within the EU
- (iii) Contribution to diversification and stability of final recipient's funding
- (iv) Availability of equity financing
- (v) The transfer of experience, know-how and network by the financial intermediary to portfolio companies, therefore helping their internal & external growth and internationalization

The Digital & CCS Sub-Product will invest in SMEs and Mid-Caps across the EU-27 geographies. This is achieved through investments in VC funds that then provide targeted equity support to the Final Recipients.

The overall impact on the financing ecosystem is significant, in direct terms (the amounts invested by EIF), second-order effects (finance crowded-in at the fund level, through other Limited Partners), and

third-order effects (the investors in the Final Recipients other than the funds in which EIF is a limited partner).

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation (**Excellent**)

Pillar 4 - Financial and technical contribution by the Implementing Partner (**Very Good**)

Pillar 5 - Impact of the financing or investment operation (**Very Good**)

Pillar 7 - Complementary indicators⁴

Key characteristics	Expected as of time of submission	Comments
Leverage Effect (at target fund size)	Indicative average c.4x	Preliminary estimation, subject to achievement of target fund sizes of underlying Sub-Projects
Multiplier Effect (at target funds size)	Indicative average c.9x	
Expected amount of investment mobilized	Indicatively 6.5x of EIF investment expected to be mobilized at the level of final recipients of the Sub-Projects	
SMEW specific Indicators		
number of enterprises supported (expected)	Indicatively between 180 and 230	Preliminary estimation
Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	Majority SMEs	
RIDW specific indicators		
Number of enterprises carrying out research and innovation projects		Not known at the stage of submission

ESG aspects

Within the due diligence process, EIF assesses the financial intermediaries' environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an "ESG" questionnaire.

⁴ The InvestEU methodology is used in order to calculate figures presented in this document. Such figures are of indicative nature only and presented at the level of the Framework Operation.