

## InvestEU Scoreboard<sup>1</sup>

### Presentation of the financing or investment operation:

**Implementing Partner:** European Investment Fund (EIF)

**Name of the Operation:** Framework Operation, Sustainability Guarantee Product

**Type of approval:** Framework Operation

**Type of Financial Intermediaries:** mainly banks and to a limited extent NPIs and alternative lenders;

**Type of Final Recipients:** Natural persons, SMEs, Small midcaps and housing associations.

**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.

**Short description of the financing or investment operation:** Framework Operation for Sub-Projects that in turn target to finance the green and sustainable transformation of the European economy, specifically in the areas of climate mitigation and adaptation, transition to a circular economy, water resources, pollution prevention and control, protection and restoration of biodiversity and ecosystem and investments in the development or adoption of sustainable and organic agricultural practices. Eligibility criteria related with renewable energy, green and energy efficiency in buildings and low and zero emission mobility together with the green/ sustainable Enterprise criteria are expected to be the most relevant for most Sub-projects under this Framework Operation.

### Public Statement

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

#### Item 1 of Annex II of the InvestEU Regulation:

*the development of the energy sector in accordance with the Energy Union priorities, including security of energy supply, clean energy transition and the commitments taken under the 2030 Agenda for Sustainable Development and the Paris Agreement*

#### Item 2 of Annex II of the InvestEU Regulation:

*the development of sustainable and safe transport infrastructures and mobility solutions, equipment and innovative technologies in accordance with Union transport priorities and the commitments taken under the Paris Agreement*

#### Item 3 of Annex II of the InvestEU Regulation:

*environment and resources*

#### Item 5 of Annex II of the InvestEU Regulation:

*research, development and innovation*

#### 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 11 of Annex II of the InvestEU Regulation:

<sup>1</sup> 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.

*sustainable agriculture, forestry, fishery, aquaculture and other elements of the wider sustainable bioeconomy*

**Item 12 of Annex II of the InvestEU Regulation:**

*social investments, including those supporting the implementation of the European Pillar of Social Rights*

**Item 15 of Annex II of the InvestEU Regulation:**

*seas and oceans, through the development of projects and enterprises in the area of the blue economy, and the Sustainable Blue Economy Finance Principles, in particular through maritime entrepreneurship and industry, renewable marine energy and circular economy*

Additionality shall be deemed to be met in all those cases where a financial intermediary originate final recipient transactions addressing new financing needs which normally were not covered by financial intermediary within they standard lending practice (i.e. sustainable investments for SMEs and natural persons) which may entail as well a higher risk profile than the risk generally deemed acceptable by such intermediary. Intermediaries will implement financing solutions in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.).

Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation:

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

*Support through subordinated positions in relation to other public or private lenders or within the funding structure*

EIF expects to support a few financial intermediaries in originating final recipient transactions which are subordinated debt transactions. This type of debt financing is expected to improve the capital structure and solvency position of targeted final recipient.

**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*

EIF expects to support financial intermediaries in originating final recipient debt transactions which meet the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website. These measures ensure that the debt financing support provided to target final recipients is made with more favourable terms, compared to the standard credit and collection policies of financial intermediaries. The measures include:

- a) Reduction of cost of financing;
- b) Reduction of collateral requirements;
- c) Reduction in down-payment in respect of Final Recipient Transactions, which are in the form of leases;
- d) Increase in financing volumes;
- e) Support to excluded segments
- f) Financing at longer maturities;
- g) Bespoke financing arrangements
- h) Any Subordinated Debt Transactions;
- i) Other enhanced access to finance measures proposed by the financial intermediary

**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;*

Guarantee instruments are not part of the EIF's standard activities and are typically implemented by EIF via third-party mandates. The Sustainability Guarantee Product will enable the EIF to support this growing ecosystem at a scale that would not be possible or not to same extent out of other EIF-managed resources for that purpose.

**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 from the InvestEU Fund*

Under this Framework Operation, EIF will extend support to intermediaries aimed at enhancing access to sustainable enterprises and financing green investments not yet mainstreamed into the main financing channels. Benefiting from the InvestEU guarantee coverage, financial intermediaries will be able to mobilize funding resources tailored to green/sustainable investments, contributing to the decarbonisation of the economy.

**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*

There are several obstacles perceived by the financial intermediaries with respect to lending activities in these market segments, such as:

- (i) Cost-intensity of implementation of green technologies, thus SMEs may be reluctant to invest in them;
- (ii) sustainable financing requirements and practices come with additional complexities in terms of assessment, requirements both at the level of financial intermediaries and final recipients, as well as final recipients;
- (iii) higher perceived risk by market operators.

The Sub-Projects that will form part of this Framework Operation are therefore expected to support financial intermediaries which in turn would support final recipient transactions aimed at covering the market gap driven by the inability for target final recipients having sustainable market practices due to increased costs and risks and thus excluded from traditional capital markets.

In the current market context where green financing is at a nascent stage, the Sub-Projects will play a key role in catalysing green lending by financial intermediaries to SMEs and individuals, as well as promoting the adoption of green definitions and standards adapted to their specific needs – still under the spirit of the EU Taxonomy for Sustainable Finance, but with a proportionate approach.

The following market failures are addressed by the operation:

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

*Externalities which the operator or company generally fails to internalise, such as R&D investment, energy efficiency, climate or environmental protection.*

In due consideration that SMEs are the backbone of Europe's economy as they account for 99% of all EU companies (and 93% being micro-enterprises), it is clear that small enterprises need to be at the core of

the green transition. Likewise, accounting that buildings in the EU are responsible for 40% of the energy consumption, individuals and households are also a key part of the transition. The EIF Sustainability Guarantee, whose eligibility criteria were designed in the spirit of the EU Taxonomy for Sustainable Finance, are precisely adapted to the specific needs of the final recipients and can play a fundamental role in the decarbonisation of the economy.

In order to meet the objectives of the EU Green Deal and the “Fit for 55” package, the level of additional investments required is estimated around EUR 275 billion per year<sup>2</sup>. According to certain estimations of the EIB, investments in the continent’s energy system would need to rise from an average of 1.3% of GDP per year over the last decade, to 2.8% of GDP over the next decade, and if we are to add transport that brings the total over the next decade up to 3.7% of GDP per year<sup>3</sup>.

Transitioning from the current EU energy mix to one leveraged in renewable energy sources will not only help the EU tackling the climate crisis but also reducing its dependency from Russian fossil fuels. Nevertheless, the investments needed by 2050 for such a change are estimated around \$5.3 trillion<sup>4</sup>.

On the other hand, the estimated funding gap for energy efficiency investments in the EU over the next decade is EUR 185 billion per annum<sup>5</sup>. Consequently, investments by energy producers (normally bigger enterprises) have to be coupled with investments by energy consumers, namely SMEs and private individuals/households. For instance, roughly 75% of the EU building stock is energy inefficient. Renovating existing buildings could reduce the EU’s total energy consumption by 5-6% and lower carbon dioxide emissions by about 5%<sup>6</sup>.

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

*Information asymmetries, in particular in the 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.*

As reported in a recent EIF study, nearly one in three SMEs report severe difficulties in accessing finance. Many SMEs with economically viable projects cannot obtain the necessary financing from financial institutions, as they tend to be reluctant to extend uncollateralised credit to SMEs, even at high interest rates. The SME financing gap exists as the market is not able to supply a sufficient amount of external financing to SMEs. This market failure, resulting in a sub-optimal equilibrium outcome is rooted in the existence of information asymmetries<sup>7</sup>.

For sustainable and green projects and investments, this is even more acute given the complexities inherent to the thematic (e.g. constant technology developments, evolving regulatory framework, etc.). In addition, financial intermediaries have very different levels of green financing expertise with a need to build expertise across the EU, particularly for these type of final recipients.

There is not a unified definition of what green financing means across the EU and such financing is not typically following the EU Taxonomy for Sustainable Finance in respect of the concerned target recipients. This is due of the novelty of the regulation, the associated high requirements and standards and the difficulties of applying them to said final recipients.

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

<sup>2</sup> [Closing the gap on energy efficiency investments | European Commission \(europa.eu\)](https://ec.europa.eu/eif/press/eif-study-closing-gap-energy-efficiency-investments)

<sup>3</sup> [EIB Investment Report 2019/2020 - Building a smart and green Europe in the COVID-19 era - Key findings](https://www.eib.org/press/eib-investment-report-2019-2020)

<sup>4</sup> [Europe's Path to Clean Energy: A \\$5.3 Trillion Investment Opportunity | BloombergNEF \(bnef.com\)](https://www.bnef.com/articles/europe-path-clean-energy-a-5.3-trillion-investment-opportunity/)

<sup>5</sup> [The potential for investment in energy efficiency through financial instruments in the European Union | fi-compass](https://www.fi-compass.eu/en/energy-efficiency-investments)

<sup>6</sup> [In focus: Energy efficiency in buildings | European Commission \(europa.eu\)](https://ec.europa.eu/eif/press/eif-study-energy-efficiency-buildings)

<sup>7</sup> [https://www.eif.org/news\\_centre/publications/eif\\_working\\_paper\\_2020\\_67.pdf](https://www.eif.org/news_centre/publications/eif_working_paper_2020_67.pdf)

*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.*

Green lending by financial intermediaries to SMEs and individuals is at an incipient stage and is perceived as riskier. Green technologies are typically more expensive and capex intensive (e.g. renewable energies, industrial energy efficiency, etc.) and typically require longer periods of repayment. In addition, green financing comes with additional complexities in terms of assessments and requirements for both the financial intermediaries and final recipients. Consequently, the origination of green financing comes with additional intricacies and therefore is less attractive than financing more established activities.

The InvestEU Sustainability Guarantee Product will alleviate the elements above by providing risk deleveraging for green lending and therefore incentivising financial intermediaries to in turn provide this type of lending, bringing clear green definitions and requirements, as well as supporting the market vis-a-vis the application of the EU Taxonomy for Sustainable Finance, particularly for this type of final recipients that require a proportionate approach.

EIF will be extending (counter-)guarantees to financial intermediaries which will in turn provide debt financing to eligible final recipients. As a result, the InvestEU Guarantee will always cause that a third party financier/guarantor (i.e. financial intermediary) will provide further financing, in addition to InvestEU, to final recipients.

In addition, the InvestEU Sustainability Guarantee promotes a definition of green financing - for the supported activities - in the spirit of the EU Taxonomy for Sustainable Finance, therefore signaling a standard in this domain.

Origination of investment/financing is made by financial intermediaries benefitting from the InvestEU Guarantee, in line with their credit and collection policies and procedures.

This novel intervention will require significant effort to build awareness and support the market take-up. Specific accompanying measures will be launched to maximise the market take up. In respect of advisory activities, their main focus will be in market/ecosystem building around the policy areas of the intervention as well as the provision of the necessary expertise to the financial intermediaries implementing the instruments.

This may take the following forms:

- Ad hoc assistance (e.g. monitoring, reporting, eligibility checking, etc.);
- Additional technical assistance to be provided by various tool made available by EIF (such as 'Sustainability guarantee eligibility web tool' which will be available to FIs and Final Recipients, and where both the financial intermediary and the final recipients will be able to check online if the project/investment planned will be eligible for the guarantee and which features are necessary to become eligible );
- Development of dedicated guidelines in assessing eligibility of underlying projects (such as 'Sustainability use case document');
- Dedicated ad-hoc informative sessions/webinars for participating Financial Intermediaries;
- Advice and guidelines provided during or after EIF's desktop or physical monitoring visits;
- Formal capacity building and advisory services under the InvestEU Advisory.

The above support efforts are relevant for all intermediaries - due to the novelty of this EU support-implementing the EIF portfolio guarantees, and specifically those with limited experience in dedicated products supporting climate and environmental related products. In particular, guidance on how to

assess compliance with eligibility criteria, evidence the relevant assessment as well as how to comply with enhanced access to finance requirements is critical for this type of intermediaries.

The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) has been estimated indicatively as follows: (i) c. 12x for capped guarantees, (ii) c. 5.5x for uncapped guarantees.

The Sub-Projects aim at providing other benefits for the final recipients such as more affordable pricing, longer maturity, contribution to diversification and stability of final recipient's financing, reduced collateral requirements (as well as acceptance of challenging collateral assets), subordinated loans, among others.

The IEU Sustainability Guarantee Product is the first pan-European guarantee product in support of the green transition of small enterprises and individuals. It will expand the experience of financial intermediaries in using the EIF Guarantee Products towards this key EU priority. Thanks to this intervention, financial intermediaries will be able start their activity in this domain or to further develop their offer to green investments – either by developing new products in this area, or expanding existing products to other green activities which they may not have supported in the past.

In addition, all the support activities foreseen alongside the guarantee will create awareness of green financing standards and definitions aligned with the key EU regulatory framework: the EU Taxonomy for Sustainable Finance.

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

**Pillar 4** - Financial and technical contribution by the implementing partner (**Very Good**)

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

**Pillar 7** - Complementary indicators<sup>8</sup>

Key characteristics	Expected as of time of submission	Comments
Leverage Effect	Indicatively 12x for capped guarantee, 5.5x for uncapped guarantee	Preliminary estimation
Multiplier Effect	Indicatively 16.x for capped guarantee, 8x for uncapped guarantee	
<b>SMEW specific Indicators</b>		
(a) Number of enterprises supported (expected):	c. 2500 final recipients + c. 1000 individuals	Preliminary estimation
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission:	95% SMEs / 5% Mid-Caps (Small Mid-caps)	

#### 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,

<sup>8</sup> 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.

climate and social risks associated with its business activity, including the presence of any Environmental and Social Management System (ESMS), by means of an “ESG” questionnaire.