

InvestEU Scoreboard¹

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, Sustainability Guarantee – Finland InvestEU Member State Compartment (Uncapped Guarantee)

Type of approval: Framework Operation

Type of Financial Intermediaries: expected to be primarily commercial banks, and to a limited extent alternative lenders and leasing companies

Type of Final recipients: SMEs, Small Mid-Caps, natural persons and housing associations

Country(-ies) of implementation of the operation: Finland

Short description of the financing or investment operation:

The Framework Operation will cover Sub-Projects which will aim to enhance access to finance for sustainable enterprises and support investments contributing to the green and sustainable transformation of the Finnish economy, fully in line with the policy priorities of the Sustainability Guarantee Product implemented by the EIF.

The main areas expected to be targeted under this Framework Operation are: 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.

Investments supported under the Sub-Projects will comply with eligibility criteria constructed in the spirit of the EU Taxonomy for sustainable activities, therefore contributing positively to the transition to a more environmentally sustainable and climate resilient economy.

Public Statement

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

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.

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

- **Item 10 of Annex II of the InvestEU Regulation:**

the rehabilitation of industrial sites (including contaminated sites) and the restoration of such sites for sustainable use

- **Item 11 of Annex II of the InvestEU Regulation:**

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 will originate final recipient transactions addressing new financing needs which were normally not covered within their standard lending practice. This may as well entail a higher risk profile than the risk generally deemed acceptable by a financial intermediary.

Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation: **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, but are not limited to, improvement in financing tenor, pricing conditions, collateral requirements and targeting excluded segments.

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 Sustainability Guarantee Product implemented under the InvestEU MS-C aims to extend the EU-C outreach and will enable the EIF to support this growing ecosystem at a scale in Finland that would not be possible or not to same extent out of the EU Compartment of InvestEU nor other EIF-managed resources for that purpose by supporting final recipient transactions with a risk profile generally higher than the risk accepted by the Financial Intermediaries within their standard lending practice.

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 Finland is considered as one of the leaders for sustainable technologies within EU27, obstacles remain for a development at scale of lending activities towards these sectors. Amongst such obstacles, it is worth mentioning: (i) green technologies are typically considered more expensive, thus SMEs may

be reluctant to invest in them; (ii) sustainable financing comes with additional complexities in terms of assessment, requirements both at the level of financial intermediaries and final recipients, as well as final recipients; (iii) the higher perceived risk by market operators.

The national climate and energy strategy outlines measures by which Finland will meet the EU's climate commitments for 2030 and achieve the targets set in the Climate Change Act for reducing greenhouse gas emissions by 60 per cent by 2030 and being carbon neutral by 2035². In Finland, the expected annual sustainability financing gap for SMEs only is estimated at around EUR 450m between 2020-2030.

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 contributing to Finland's goal to be carbon net-zero by 2035.

In the current market context, 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 Framework 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.

The Medium-Term Climate Change Policy Plan (Kaisu)³ outlines specific measures required to meet Finland's carbon-neutrality objective. Becoming the first climate-neutral Member State will require investments in energy efficiency transformation, from the retrofitting of real estate assets to decarbonising entire value chains. According to Finland's National Energy Efficiency Action Plan, the renovation needs of residential buildings alone might reach up to EUR 1bn per year until 2025⁴.

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.

While access to finance for SMEs in Finland is relatively stable⁵, insufficient collateral and guarantees are considered as top constraints for obtaining external finance by a fifth of Finnish respondents to the Survey on the access to finance of enterprises (SAFE)⁶. About half of the same group of respondents indicates that lending conditions have tightened, the requirements for collateral have increased, while the costs of financing have risen⁷. Against the backdrop of a potential global economic slowdown,

² [Carbon neutral Finland 2035 – national climate and energy strategy \(valtioneuvosto.fi\)](https://valtioneuvosto.fi/en/Carbon-neutral-Finland-2035-national-climate-and-energy-strategy)

³ [Medium-term climate change policy plan - Ministry of the Environment \(ym.fi\)](https://ym.fi/en/medium-term-climate-change-policy-plan)

⁴ The potential for investment in energy efficiency through financial instruments in the European Union, fi-compass, 2020. p. 67. [The potential for investment in energy efficiency through financial instruments in the European Union 0.pdf \(fi-compass.eu\)](https://fi-compass.eu/en/publications/the-potential-for-investment-in-energy-efficiency-through-financial-instruments-in-the-european-union-0.pdf)

⁵ Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard, Finland. [13. Finland | Financing SMEs and Entrepreneurs 2022 : An OECD Scoreboard | OECD iLibrary \(oecd-ilibrary.org\)](https://oecd-ilibrary.org/financing-sme-and-entrepreneurs-2022)

⁶ Survey on the Access to Finance of Enterprises, European Commission and European Central Bank, 2021

⁷ Ibid.

security concerns induced by Russian invasion of Ukraine and the aftermath of the Covid-19 pandemic, the overall uncertainty is expected to significantly reduce SMEs' investment plans⁸.

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

There is no unified definition of what green financing means across the EU, including in Finland, 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. It is expected that deployment of the Sustainability Guarantee Product will bring some alignment in market approach to sustainable financing of SMEs and Small mid-caps, as described further below.

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.

Green lending by financial intermediaries to SMEs and individuals is at an incipient stage, particularly in Finland, 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 Sustainability Guarantee Product, implemented under the MS-C in Finland is expected to 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 offers support both pre- and post-signature of the guarantee agreement. Pre-signature, EIF provides support in implementing the guarantee instrument, helping the intermediaries to implement the eligibility criteria in the context of the financial intermediary product offering on the market.

Post-signature, EIF provides reporting monitoring and assistance, as well as feedback on the pace of the transaction implementation progress and assistance with interpretation and validation of eligibility criteria.

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.

⁸ Ministry of Economic Affairs and Employment. SME barometer: SMEs' outlook remains positive with improved expectations of personnel growth, 14 February 2022. [SME barometer: SMEs' outlook remains positive with improved expectations of personnel growth \(valtioneuvosto.fi\)](https://valtioneuvosto.fi/en/sme-barometer/smes-outlook-remains-positive-with-improved-expectations-of-personnel-growth)

The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) has been estimated indicatively 7x for the uncapped guarantees.

The Sub-Projects aim at providing the following benefits for the final recipients: 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), among others.

The Sustainability Guarantee Product will support Financial Intermediaries in developing or expanding their range of green / sustainable financial products.

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 (**Very Good**)

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 indicators⁹

Annex 7 – Complementary indicators		
Key characteristics	Expected as of time of submission	Comments
Leverage Effect	Indicatively 7x for uncapped guarantee	Preliminary estimation
Multiplier Effect	Indicatively 8x for uncapped guarantee	
Expected amount of investment mobilized		
Estimated number of targeted final recipients		
SMEW specific Indicators		
a) Number of enterprises supported (expected)		Preliminary estimation
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	75% SMEs / 15% Mid-Caps (Small Mid-Caps) / 10% Individuals	

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.

⁹ 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.