

InvestEU Scoreboard¹

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: (Third) Framework Operation for SME Competitiveness Guarantee Product

Type of approval: Framework Operation

Type of Financial Intermediaries: Guarantee intermediaries such as financial Institutions, guarantee institutions, National Promotional Banks or Institutions, commercial banks and alternative lenders such as debt funds providing debt financing directly or indirectly to final recipients

Type of Final Recipients: SMEs

Country(-ies) of implementation of the operation: EU27, OCTs and Other Participating Countries (Norway, Iceland)

Short description of the financing or investment operation:

This Framework Operation supports Sub-Projects aiming at improving the competitiveness of enterprises by facilitating access to, and the availability of finance predominantly to SMEs, which are perceived by financial intermediaries as being high risk or lacking sufficient collateral.

Public Statement

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

- **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

The additionality of each Sub-Project falling under this Framework Operation will be ensured by the application of any of the items below, in line with Annex V.A.2 of the InvestEU Regulation. Additionality shall be deemed to be met via each Sub-Project as financial intermediaries will originate final recipient transactions, which carry a higher risk profile than the risk generally deemed acceptable by such intermediary, inter alia:

- In the form of targeting final recipients of lower creditworthiness; or
- implementing financing solution in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website, and which carry an increased risk profile (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.A.2 of the InvestEU Regulation:

Item (a) of Annex V A (2) to 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.

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

EIF expects, in certain instances, to support 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 provided 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 transactions (debt financing) which meet the enhanced access to finance measures described in the dedicated 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 other.

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 use of the InvestEU Guarantee allows EIF to enter into (counter-)guarantees with financial intermediaries supporting higher risk category final recipients. Guarantee instruments are not part of the EIF's standard activities and are typically implemented by EIF via third-party mandates. Building on the previous EU guarantee instruments, InvestEU, and in particular the SME Competitiveness Product, will enable the EIF to support the SME ecosystem at a scale that would not be possible or not to same extent out of other EIF-managed resource for that purpose.

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

The SME financing market is characterised by persistent market gaps, which occur when viable projects or viable SMEs do not get the financing they require from Financial Intermediaries due to e.g. information asymmetries, market fragmentation, transaction costs or the Financial Intermediary's risk aversion. Especially young firms face certain challenges due to a lack of track record on which the Financial Intermediary could rely for the purposes of risk analysis and taking of the financing decision.

SMEs report insufficient collateral or other bank requirements, such as guarantees as being most often the cause for not being able to obtain financing.

The objective of this Framework Operation is to contribute to the reduction of the structural shortcoming of the SME financing market and to support the creation of a more diversified SME finance market. More specifically, through direct and indirect guarantees, this Framework Operation aims to support debt financing which addresses the particular difficulties that viable SMEs face in accessing finance, either due to their perceived higher risk or due to their lack of sufficient available collateral.

The following market failures are addressed by the Framework Operation:

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.

Access to finance is one of the main issues that SMEs face in Europe. 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.

According to the ECB SAFE survey, smaller enterprises continued to be more vulnerable than larger companies. While the percentage of medium-sized SMEs that can be considered vulnerable remained at 3%, it increased to 5% (from 4%) for small firms, and to 7% (from 5%) for micro firms.

The InvestEU SME Competitiveness Guarantee Product aims at addressing this market failure. It builds on the success of the COSME Loan Guarantee Facility, which became a key pillar of the EU support in providing access to finance to higher risk SMEs. Under this programme, more than 1 million loans/leases have been provided to over 800,000 SMEs in 33 countries via the 128 financial intermediaries participating. The SMEs supported were typically young companies (around 50% of SMEs with operational history of less than 5 years) with less than 10 employees (c.90% of SMEs), confirming key characteristics of the higher risk SMEs in need of access to finance and benefitting from this EU support. EIF provided capped-guarantees around EUR 2.6bn of budgetary commitment resulting in c. EUR67bn of financing available to SMEs. The Sub-Projects under this Framework Operation are expected to continue reaching this target group (Higher Risk categories 1 and 2).

Even prior to the COVID pandemic the outlook for European economy had already started to worsen.

Furthermore, the impact of COVID 19 and the consequent levels of uncertainty of the economic environment and the financial markets has led to an increasing number of European SMEs to experience significant issues in accessing external financing sources, after several consecutive years of improvement.

Even for an equal revenue shock, SMEs were more vulnerable and in greater need for public support compared to their larger counterparts, given that SMEs typically have thinner equity cushions, lower liquidity buffers, fewer financing options and less-diversified revenue sources.

COSME LGF was also a key support to SMEs during the Covid-19 support measures, with c. 340,000 SMEs benefiting of the Covid-19 Support Measures launched shortly after the start of the pandemic. This proved that the type of support that COSME LGF provides is indeed fit for purpose to alleviate the needs of SMEs in the current macro scenario. Consequently, EIF proposed to incorporate under the InvestEU SME Competitiveness Guarantee a new higher risk option (Higher Risk category 3) to provide solvency support to SMEs affected by the Covid-19 pandemic.

EIF will extend guarantees to financial intermediaries that in turn provide debt financing to eligible final recipients.

The support provided by the Sub-Projects under the SME Competitiveness Sub-Product mobilizes very substantially third-party resources alongside the EU support for the provision of financing to Final Recipients.

Due to the focus of the SME Competitiveness Sub-Product on higher risk lending, EIF will support the bespoke high value add interventions in the Sub-Projects in a customized way.

This may translate to a substantial reduction in collateral requirements, the targeting of younger SMEs (start-ups), the provision of loans with longer maturities or the increase in lending volumes to the risky SMEs, as a few examples. Each Sub-project will be aimed to enhance the debt financing offer of the relevant financial intermediary, for the ultimate benefit of the SME final recipients.

Due to the different Higher Risk Categories available under the SME Competitiveness Sub-Product, EIF will set particular conditions for each Sub-Project and customize it to the needs of the Financial Intermediary to finance higher risk SMEs in its own market.

The Sub-Projects aim at providing access to finance to higher risk SMEs, focusing particularly on SMEs which were previously excluded from financing, or providing new features in the financing (e.g. increased maturities or and/or reduced collateral requirements) or in general financing which had not been offered (or not to such an extent) to final recipients due to their perceived high credit risk (including subordinated or participating loans) or financing in local currency that will improve the access of the final recipients to longer tenors. In addition, the Sub-Projects may provide solvency support to SMEs. This contributes to the diversification and stability of final recipient's financing. The **Enhanced Access to Finance** measures provide for the transfer of financial advantage by the intermediary to the final recipient.

The Sub-Projects are expected to have a positive impact in the ecosystem thanks to stimulating the financing to higher risk SMEs (including for solvency support) by scaling up the support of well-established financial intermediaries (commercial lenders and NPIs) as well as by supporting new intermediaries (including alternative lenders).

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 **(Excellent)**

Pillar 7 - Complementary indicators²

Key characteristics	Expected as of time of submission	Comments
Leverage Effect	Indicatively in the range between c. 10x – 40x	Preliminary estimation
Multiplier Effect	Indicatively 25x for capped guarantee and 8x for uncapped guarantee	
Expected amount of investment mobilized	Indicatively in the range EUR 7.5bn-8.5bn	
(a) Number of enterprises supported (expected):	c. 80,000 enterprises	
b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission:	100% SMEs	

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.

² 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.

