InvestEU Scoreboard

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, SME Competitiveness Guarantee – Higher risk category 4 (Export Credit Portfolio Product)

Type of approval: Framework Operation

Type of Financial Intermediaries: National export credit agencies (their size varies across counties) providing export credit cover directly or indirectly to final recipients

Type of Final Recipients: SMEs and Small Mid-Caps

Country(-ies) of implementation of the operation: Broad geographical coverage across Member States, OCTs and Other Participating Countries, with benefit for Ukraine

Short description of the financing or investment operation:

The Pilot aims to support SMEs and Small-Mid Caps established and operating in Member States (and other InvestEU participating countries, currently Norway and Iceland) exporting to entities in Ukraine. The EIF will contribute to this objective by providing (counter)-guarantees to financial intermediaries (ECAs) with an exclusive eligibility focus on final recipient transactions aimed at financing or guaranteeing purchases made by companies based in Ukraine (the importers) of goods and services provided by SMEs and small mid-caps operating in the geographies eligible under InvestEU (the exporters).
The types of final recipient transactions envisaged to be covered under the Pilot will be in the form of export credit risk cover instruments, export credit guarantees, letters of credit and trade finance.

Public Statement

Eligible area 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

Additionality shall be deemed to be met in all those cases where a financial intermediary provides export credit cover to final recipients meeting the relevant product eligibility criteria of Higher risk category 4, detailed in Schedule 1.2 of Annex II-A to the InvestEU GA, namely supporting exports of goods and services of SMEs and Small Mid-Caps established and operating in eligible countries to entities in Ukraine. This may as well entail a higher risk profile than the risk generally deemed acceptable by such type of financial intermediaries. Financial 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.A 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 transactions (export credit cover) 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 support in a form of export credit cover for exports to Ukraine, which is currently either only available to a limited extent or missing altogether, is provided to target final recipients is made with more favourable terms, compared to the standard credit and collection policies of financial intermediaries. Hence this product envisages to ensure availability of such support.

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 the EIF to enter into (counter-)guarantees with financial intermediaries (export credit agencies) supporting higher risk category final recipients, in particular given that the destination of these shall support exports to Ukraine, which is currently a country at war.
The Export Credit Guarantee Product will enable the EIF to support the ecosystem at a scale that would not be possible or not to the 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 availability of export credit solutions is critical for facilitating EU exports to Ukraine, however, both private and public entities have significantly reduced their provision of such solutions in the aftermath of the ongoing war in Ukraine.
Aligned with the EU policy priority on promoting trade with Ukraine, the objective of this Framework Operation is to contribute to increase availability of export credit solutions by financial intermediaries (namely ECAs being the main public facilitators for trade finance) and thereby support exports of goods and services of European SMEs and small mid-caps to entities in Ukraine.

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 to address 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 benefiting from this EU support. EIF provided capped-guarantees around EUR 2.6bn of budgetary commitment resulting in c. EUR67bn of financing available to SMEs. Sub-Projects under this Framework Operation are expected to continue reaching this target group (Higher Risk categories 1 and 2).

Following the start of the war in Ukraine there has been a material decrease in EU exports to Ukraine. In this regard, promoting trade between the EU and Ukraine has become a top priority for the EC. To enable trade, the availability of export credit solutions remains critical, however, it has been significantly reduced since the outbreak of the war, given the associated risks and uncertainties. Consequently, EIF proposed to incorporate under the InvestEU SME Competitiveness Guarantee a new higher risk option (Higher Risk category 4) to provide support to SMEs and Small Mid-Caps exporting to Ukraine.

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 EIF will be supporting financial intermediaries (export credit agencies) that will provide export credit cover to final recipients meeting the relevant product eligibility criteria of Higher risk category 4, detailed in Schedule 1.2 of Annex II-A to the InvestEU GA, namely supporting exports of goods and services of SMEs and small Mid-Caps established and operating in eligible countries to entities in Ukraine.

The guarantee provided by the EIF is designed to cover payment defaults by Ukrainian importers. These importers are established and operating in a country currently at war, which significantly increases the risk of default. The guarantee aims to mitigate these risks, which are considered too high for private actors to accept. This means that private financial institutions are generally unwilling to provide coverage for such transactions due to the elevated risk of non-payment.

The EIF's guarantee will cover the credit risk associated with the default on payments for goods and services purchased by Ukrainian importers from SMEs and small Mid-Caps based in eligible countries. This coverage is crucial because it ensures that exporters can continue to trade with Ukrainian entities despite the heightened risk environment. By providing this guarantee, the EIF is facilitating continued economic activity and trade between the EU and Ukraine, which is essential for supporting Ukraine's economy during the ongoing conflict.

In summary, the EIF's guarantee is a critical tool in supporting exports to Ukraine by covering the substantial risks associated with trading with a country at war. This support is vital for maintaining economic stability and fostering trade relations between the EU and Ukraine during these challenging times.

EIF will extend guarantees to financial intermediaries (mainly ECAs) that in turn provide export credit cover directly or indirectly to eligible final recipients, thereby support exports of goods and services of European SMEs and small mid-caps to entities in Ukraine.

The guarantee support provided under the export credit pilot is expected to have significant crowding-in and signaling effects in the market. This risk-sharing mechanism encourages private actors to participate in transactions they would otherwise avoid due to the high risk associated with trading with a country at war. As a result, the guarantee can mobilize additional private capital, thereby increasing the overall volume of trade finance available for SMEs and small mid-caps exporting to Ukraine. Secondly, the signaling effect is related to the confidence that EIF's involvement brings to the market. EIF's involvement sends a signal to the market that these transactions are viable and supported by a credible institution. This endorsement can lead to increased trust and willingness among private investors and financial institutions to engage in similar transactions. While the final recipient transactions supported are expected to be standard and offered in line with each financial intermediaries' own credit policy, the instrument itself is a pilot and the first financial instrument specifically designed to support Export Credit Agencies and their activity. The know-how from the pilot is expected to feed into the design of dedicated financial instruments in the future. EIF will provide ongoing support to the financial intermediaries to support them in meeting the requirements under the guarantee agreement, particularly for those which will be first time EIF counterparties. The EIF's guarantee will cover the credit risk associated with the default on payments for goods and services purchased by Ukrainian importers from SMEs and small Mid-Caps based in eligible countries. This coverage is crucial because it ensures that exporters can continue to trade with Ukrainian entities despite the heightened risk environment. The transactions include export credit transactions and confirmed letters of credit, which are essential for facilitating trade with Ukrainian importers. These financial instruments are customized to address the specific challenges faced by exporters, such as payment defaults and the heightened risk environment in Ukraine. The specific nature of these final recipient transactions ensures that they are adaptable to the varied needs of different exporters and importers, providing a flexible solution to support trade. The export credit pilot is expected to have a significant impact on the ecosystem by fostering increased trade and economic exchanges between the EU and Ukraine. The pilot, which is the first designed to support export credit via export credit agencies, is expected to (i) enhance access to finance to SMEs and Small Mid-Caps exporting to Ukraine, (ii) contribute to increase trade volumes between IEU participating Countries and Ukraine, (iii) improve market confidence and (iv) support Ukraine's economic resilience during the ongoing conflict.
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 **(Good)**
Pillar 7 - Complementary indicators[1]

[1] 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.

Key characteristics	Expected as of time of submission	Comments
Leverage Effect	Indicatively 1.25x for uncapped guarantee	Preliminary estimation
Multiplier Effect	Indicatively 1.05x for uncapped guarantee	
Expected amount of investment mobilized	Indicatively in the range EUR 250m-EUR 270m[2]	
SMEW specific Indicators		
a) Number of enterprises supported (expected)	500	Preliminary estimation
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	100% SMEs and 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, 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] *May be further increased taking into account the revolving nature of the portfolio*