

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

### Presentation of the financing or investment operation:

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

**Name of the Operation:** Framework Operation, SME Competitiveness Guarantee

**Type of approval:** Framework Operation

**Type of Financial Intermediaries:** guarantee intermediaries such as financial Institutions, guarantee institutions, National Promotional Banks or Institutions, alternative lenders such as debt funds.

**Type of Final recipients:** SMEs

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

Geographical spread: pan-European, with a balanced geographical distribution of Sub-Projects expected across various Member States.

### Short description of the financing or investment operation:

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

It will include also Sub-Projects aimed at providing solvency support to SMEs negatively affected by the COVID19 pandemic. In this case, intermediaries will provide subordinated lending to such final recipients, in order to address their recapitalization needs and therefore contributing to, inter alia, stabilising the financial position of SMEs, enhancing their borrowing capacity and supporting business investment.

It builds on the implementation of the previous guarantee programmes managed by the EIF, namely the COSME Loan Guarantee Facility, and it brings elements of novelty by providing solvency support to SMEs via subordinated debt transactions.

### 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*

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
- by implementing 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 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:

<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.

**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, 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 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 at least one of the following **enhanced access to finance measures**:

- a) Reduction of cost of financing;
- b) Reduction or limitation of collateral requirements;
- c) Increasing financing volumes;
- d) Extending maturities;
- e) Providing for a financing that improves the solvency of the Final Recipients;
- f) Providing bespoke repayment terms to Final Recipients;
- g) Providing financing in a form or in geographical areas or market segments, which have not been previously provided by Financial Intermediaries;
- h) Reduction in down-payment in respect of Final Recipient Transactions, which are in the form of leases; or
- i) Other measures

With respect to Uncapped Guarantees, the enhanced access to finance measures will take the form of reduction of the risk spread, if positive, given the nature of the intervention providing subordinated financing that improves the solvency of the final recipients. As such, transactions under the Higher Risk Category 3 will already comply with the enhanced access to finance measures.

**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-)guarantee 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 particular 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 guarantee 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<sup>2</sup>.

According to the ECB SAFE survey<sup>3</sup>, 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.

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<sup>4</sup>.

COSME LGF was also a key support to SMEs during 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.

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.

<sup>2</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)

<sup>3</sup> Survey on the Access to Finance of Enterprises (SAFE) in the euro area, which was conducted between 7 March 2022 and 15 April 2022.

<sup>4</sup> [eif\\_working\\_paper\\_2021\\_75.pdf](#)

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.

In addition, Financial Intermediaries under the Sub-Projects may have access to the different modalities of advisory support which will be available under InvestEU Advisory Hub, if requested, particularly for Solvency support.

The scale of financing expected to be made available by the financial intermediary to final recipients (i.e. leverage) is estimated to be on average c. 20x for capped guarantee and c. 5.7x on average for uncapped.

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 as well as by supporting new intermediaries (including alternative lenders). According to an EIF study, on the effects of EU loan guarantee schemes for SMEs, after receiving a guaranteed loan, beneficiaries grew more rapidly than non-beneficiaries in terms of total assets, sales and employment. Beneficiaries were more likely to survive following the guaranteed loan.

By the fifth year after receipt of the loan, the probability to default is lower by between 4% (Italy, Benelux, Nordics) and 5% (France) for beneficiaries compared to twin non-beneficiaries<sup>5</sup>.

**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 indicators<sup>6</sup>**

Key characteristics	Expected as of time of submission	Comments
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<sup>5</sup> [The real effects of EU loan guarantee schemes for SMEs: A pan-European assessment \(eif.org\)](https://eif.org/en/press-releases/2019/04/2019-04-10-the-real-effects-of-eu-loan-guarantee-schemes-for-smes-a-pan-european-assessment)

<sup>6</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.

Leverage Effect	Indicatively on average 20x for capped guarantee, 5.7x for uncapped guarantee	Preliminary estimation
Multiplier Effect	Indicatively on average 28x for capped guarantee, 8x for uncapped guarantee	
<b>SMEW specific Indicators</b>		
(a) Number of enterprises supported (expected)	90,000	Preliminary estimation
(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.