InvestEU Scoreboard[1]

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation for Sustainability Guarantee (The Fifth Framework Operation for the Sustainability Guarantee)

Type of approval: Framework Operation

Type of Financial Intermediaries: Commercial banks, leasing companies, guarantee institutions, National Promotional Banks or Institutions

Type of Final Recipients: Natural persons, SMEs, (Small) Mid-Caps and housing associations

Country(-ies) of implementation of the operation: Under this Framework Operation, Sub-Projects are expected to materialize across several Member States (and potentially OCTs) and/or Other Participating Countries (Iceland/Norway). Please note that some of the countries may be covered via Multi-country Sub-Projects.

Short description of the financing or investment operation:

The Framework Operation will cover Sub-Projects, which, in turn, will aim to enhance access to finance for sustainable enterprises and support investments contributing to the green and sustainable transformation of the European economy. 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:**

[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.

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 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 via each Sub-Project as long as financial intermediary will originate final recipient transactions addressing new financing needs with 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 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 financial intermediaries in originating final recipient transactions which are subordinated debt transactions. This type of debt financing will be mainly offered by Alternative lenders complementing financing offer from commercial banks with aim 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 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 the 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 that green technologies are typically considered more expensive, thus SMEs may be reluctant to invest in them; 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; 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, Small Mid-Caps 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.

Considering 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 for the fact 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[2]. 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[3].

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[4].

[2] Closing the gap on energy efficiency investments | European Commission (europa.eu)
[3] EIB Investment Report 2019/2020 - Building a smart and green Europe in the COVID-19 era - Key findings
[4] Europe's Path to Clean Energy: A $5.3 Trillion Investment Opportunity | BloombergNEF (bnef.com)

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[5]. 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%[6].

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 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[7].

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. This requires to build-up a new skill set, particularly when targeting individuals and housing associations.

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:
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

[5] The potential for investment in energy efficiency through financial instruments in the European Union | fi-compass
[6] In focus: Energy efficiency in buildings | European Commission (europa.eu)
[7] https://www.eif.org/news_centre/publications/eif_working_paper_2020_67.pdf
eif_working_paper_2022_84.pdf

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 coverage for green lending and therefore incentivising financial intermediaries to provide debt financing in this area, supporting the market vis-a-vis the application of the EU Taxonomy for Sustainable Finance, particularly for small companies and individuals that require a proportionate approach.

EIF will extend guarantees to financial intermediaries that in turn provide debt financing which meet the **enhanced access to finance measures**.

EIF will be extending (counter-) guarantees with a maximum 80% guarantee rate 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 have been launched to maximize the market take up. In respect of advisory activities, their main focus is placed on market/ecosystem building as well as the provision of the necessary expertise to the financial intermediaries implementing the instruments.
This may take the following forms:

- 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.
- Ad hoc assistance (e.g. monitoring, reporting, eligibility checking, etc.);

The above support efforts are relevant for all intermediaries – due to the novelty of this EU support – implementing of 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.

One **key development** relates to the publication of the "**Use Case Document**"[8], which has been agreed between the European Commission and EIF and forms an integral part of the call for expression of interest.
The purpose of the document is to provide to the financial intermediaries the additional mandatory requirements to the applicable eligibility criteria, including relevant conditions, thresholds, minimum reduction levels, benchmarks, certificates and include also a pre-defined list of operations.

In addition, the deployment of the product is further supported by an online webtool which can be accessed in https://sustainabilityguarantee.eif.org and which provides the following primary functionalities to financial intermediaries:

- Assessment of eligibility criteria
- Assessment of climate impact estimations
- Transposition and guidance on the eligibility criteria

PDF/XLS document download option for reporting purposes.

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 Sustainability Guarantee Product is the first pan-European guarantee product in support of the green and sustainable transition of small enterprises. 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 and sustainable investments – either by developing new products in this area, or expanding existing products to other green/sustainable activities which they may not have supported in the past. In addition, this product is called to set a standard –

[8] https://www.eif.org/InvestEU/guarantee_products/sustainability-use-case.pdf

based on its eligibility framework- for green financing for SMEs and individuals/households across EU 27 and/or IEU Participating Countries (Norway/Iceland).

In addition to the financial support, all the support activities foreseen alongside the guarantee will enable not only the creation of a strong market awareness of green and sustainable finance, but also to build market capacity and know-how in assessing green and sustainable investments, lead to converging green financing standards and definitions across the EU which have been determined in the spirit of the key EU regulatory framework, i.e. 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 **(Excellent)**

Pillar 7 - Complementary indicators[9]

Key characteristics	**Expected as of time of submission**	**Comments**
Leverage Effect	Indicatively in the range between c. 5.5x for capped guarantee to 12x for capped guarantee	Preliminary estimation
Multiplier Effect	Indicatively 16x for capped guarantee and 8x for uncapped guarantee	
Expected amount of investment mobilized	Indicatively in the range EUR 2bn-2.5bn	
b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission:	95% SMEs/Small Mid-Caps, 5% Individual and housing associations	

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

[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.

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