

Conclusions

Framework Operation #39, SMEW RIDW Joint Equity Product – Climate & Environmental Solutions Sub-Product

INVEU-ICR-0116-2023 – Small and Medium-Sized Enterprises and Research, innovation and digitalization Windows (SMEW-RIDW)

Short description of the financing or investment operation and its objectives

Financial intermediaries	Financial Intermediaries with strategies pursuing any of the target areas under the SMEW RIDW Joint Equity Product - Climate & Environmental Solutions Sub-Product
Final recipients	SMEs, Mid-Caps, Special Purpose Vehicles/ Project Companies, Public sector entities, impact-driven enterprises, Proof-of-concept projects
Countries of implementation	EU27, Norway, or Iceland
Implementing partner	European Investment Fund (EIF)

The purpose of this Framework Operation is - via sub-projects of financial intermediaries - to assist the research development, demonstration, upscaling and commercialisation of technologies or solutions that contribute to the EU Green Deal. In particular it aids the energy and ecological transitions pursued in the areas of energy, climate mitigation and resilience (adaptation), mobility and transport, urban and built environment, water and marine resources, pollution, circular economy, agri-food system and biodiversity, and environmental ecosystems, while supporting the EU's competitiveness and leadership in climate and environmental technologies and solutions.

Substantial funding in these themes will support a transition to a climate-neutral economy based on sustainable development, a reduction in the dependence on fossil fuels, sustainable management of natural resources, food security, and enhanced climate resilience, amongst other goals.

Global Assessment and rationale for approval

The Investment Committee of the InvestEU Fund approved the use of the InvestEU guarantee on 6 December 2023 for the above-mentioned operation.

The climate and environmental venture capital and private equity market is still greatly underdeveloped and underserved across themes, sectors, stages of company development and geographies. A first wave of cleantech venture capital funds appeared on the market in the 2000s but, due to the relative immaturity of the market, these early investors fared poorly.

As a consequence, few of these managers are still active today and the landscape of dedicated climate and environmental investors is quite sparse, limiting the availability of equity financing for climate and environmental solutions. Market dynamics have however gradually

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changed, driven by the climate and environmental emergency, governmental regulations, technological developments, and growing corporate interest and pressure to integrate climate and environmental innovation and become sustainable. This is attracting a new generation of venture capital and private equity investors to the market, some of which are spinning out from, or creating additional lines of businesses within, existing VC/ PE firms, corporates and/or industry operators bringing with them relevant skillsets and experience. Capital investment remains however acutely deficient in relation to market needs, and following initial signs of progress, has dropped 50% over the last year due to the recessionary macro-economic environment and complex geo-political conditions.

Against this backdrop, the Sub-Projects that will form part of this Framework Operation will aim at channelling much needed capital in the form of equity or quasi-equity financing to the development and commercialisation of technological solutions that can tackle key climate and environmental challenges (CO2 reduction, energy transition, agrifood sustainability, resource efficiency, etc.) and will also contribute to the build-up of a well-functioning European climate and environmental ecosystem with the necessary breadth and depth to support European SMEs in different strategic policy areas and geographies and through all stages of development.

The Sub-Projects will address in particular specific verticals (energy, mobility and transport, agrifood, etc.) and stage (from seed to growth) funding gaps and ensure coverage of major European climate and environmental innovation hubs as well as MEICs.

Most Sub-Projects will be managed by first time or emerging teams that face particular challenges in fundraising due to a higher perception of risk by other institutional and/or private investors.

These challenges are further magnified by the present fundraising environment which has been severely and negatively impacted by the recessionary and uncertain macro-economic conditions.

Additionally, fund sizes overall continue to remain suboptimal, limiting the availability of financing to support portfolio companies in their development and give them the capital runway required in the absence of more syndicated partners and co-investors in the climate and environmental VC ecosystem. As such, all Sub-Projects rely on EIF's commitment as an anchor investor to reach a viable and/or optimal fund size that will enable them to better execute their investment strategies, provide financing and serve policy goals.