

Conclusions

Framework Operation #21 for Innovation & Digitalisation Guarantee

INVEU-ICR-0025-2023 – SME Window

Short description of the financing or investment operation and its objectives

Financial intermediaries	These include commercial lenders (typically banks and leasing companies), National promotional institutions providing lending, on-lending or guarantees as well as alternative lenders.
Final recipients	SMEs (including Micro Enterprises) Midcaps (Small Midcaps)
Countries of implementation	EU-27
Implementing partner	European Investment Fund (EIF)

This Framework Operation aims to support Sub-Projects targeting innovation driven SMEs and Small Mid-Caps pursuing their innovation and digitalisation activities. Consequently, through portfolio guarantees, it aims to enhance access to finance of target final recipients as well as support the uptake of digital technologies and digital transformation of enterprises.

Sub-Projects will target investments to:

- enhance the transfer and research to the market;
- support scaling up of innovative companies deployment of innovative solutions leading to new or substantially improved products, processes, services, integrate digital technologies in business models;
- integration of digital technologies in business models and development, supply chain management, customer relationships, cybersecurity.

The intervention under InvestEU builds on the previous European Commission guarantee programme managed by the EIF, namely the InnovFin SMEG.

Global Assessment and rationale for approval

The Investment Committee of the InvestEU Fund approved the use of the EU guarantee on 27 April 2023 for the above-mentioned Framework Operation.

The Framework Operation addresses a number of market failures. An EU industrial strategy, supported by a vibrant ecosystem that allows for the scaling up of its innovators and SMEs is key to countering the deindustrialisation trends in the EU and increasing long-term EU competitiveness. Smaller companies active in R&I often struggle to get funding for their investments from banks due to higher perceived risks and lack or weak type of collateral given that their main value lies in intangible assets, such as human capital and the knowledge created by R&D activities. Innovative firms with high potential might be driven out of the market

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- or not enter at all because of existing barriers. Moreover, survey data confirm that access to finance is seen as a barrier to investment more by younger companies engaging in innovation activities than by established businesses. Additionally, alternatives to bank finance (e.g. lending platforms, alternative lenders etc) are especially important for SMEs, young innovative firms and start-ups. Furthermore, lower access to risk capital remains a constraint to scaling up of such companies.

About two thirds of Europe's economic growth over the last decades was driven by innovation. Currently, Europe underinvests in R&I compared to its main trading partners. As per the Science Research and Innovation Performance of the EU 2020 Report, the EU's overall R&I intensity is just above 2% of GDP, with a EUR 100bn per year more investment needed in order to reach the 3% target. Furthermore, at the level of regions, Europe shows high concentration and agglomeration effects (with 27 out of 266 regions accounting for half of EU R&D spending⁷), with no upward convergence of regions and, for some regions, a strong need to shift to an innovation-driven growth model.

The additionality of the Framework Operation is multi-faceted. EIF expects, in certain instances, to support via this Framework Operation 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.

EIF also expects to support financial intermediaries in originating final recipient transactions (debt financing) that meet enhanced access to finance measures, which 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.

Guarantee instruments are typically implemented by EIF via third-party mandates, with EIF either taking the senior position in the case of uncapped guarantees or managing the resources of mandators in the case of capped guarantees. Building on the previous EU guarantee instruments, InvestEU, and in particular the Innovation and Digitalisation Guarantee Product, will enable the EIF to support this ecosystem at a scale that would not be possible or not to same extent out of other EIF-managed resources for that purpose.

Finally, this Framework Operation is aimed at provision of support towards enhancing access to finance for target final recipients in the research, innovation and digitalisation space. These sectors represent critical drivers of productivity and long-term economic growth as well as an essential tool for maintaining EU's global competitiveness. However, a persistent investment and access to finance market gap remains, often driven by the inability for target final recipients operating in such sectors, especially in innovation developing regions, such as CEE, to provide tangible collateral/security and thus excluded from traditional financing opportunities.