

Conclusions

Increase of framework operation #12 for Innovation & Digitalisation Guarantee (ref. INVEU-ICR-0048-2022)

INVEU-ICR-0071-2022 – SME Window

Short description of the financing or investment operation and its objectives

Type of financial intermediaries	These include financial institutions, alternative lenders, guarantee institutions, National Promotional Banks or Institutions, providing Debt Financing directly or indirectly to final recipients.
Country(-ies) of implementation	Via this Framework Operation, EIF expects to be able to achieve a relatively broad geographical coverage across Member States. Sub-Projects are expected to materialise primarily, but not exclusively, in Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Lithuania, Netherlands, Poland, Portugal, Spain and Sweden. Some countries will also be covered via multi-country Sub-Projects.
Implementing partner	EIF

Increase of Framework Operation #12 INVEU-ICR-0048-2022 for Innovation & Digitalisation Guarantee approved by the Investment Committee on 7 July 2022, reflecting the good take-up and high demand for this product.

This Framework Operation aims to support Sub-Projects targeting innovation driven SMEs and small Mid-Caps as well as companies 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.

Additionally, the Sub-Projects will target also 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; production or delivery models and organisational and 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**.

Conclusions

Global Assessment and rationale for approval

The Investment Committee of the InvestEU Fund approved the use of the EU guarantee on 8 December 2022 for the above-mentioned operation.

The Investment Committee considered as **market gaps** that the lower access to debt financing for development, expansion, internationalisation and growth (via new products, entering new business segments and /or geographical markets) remains a constraint for ROI driven SMEs and Small Mid-caps in the majority of European jurisdictions.

SMEs and small mid-caps active in RDI, in particular, younger companies, often struggle to get funding for their investments at affordable terms, in sufficient amount and/or form of financing suitable for their investment and growth needs due to higher actual and/or perceived credit risks stemming from technological and business model innovations or products/market extension with uncertain business outcomes and/or insufficient or weak type of collateral given intangible assets, such as human capital and the knowledge created by RDI activities.

European companies need' substantial access to risk financing to transform their analogue business models, processes, products and delivery methods to a digital world unlocking new value creation, and productivity and increasing their competitiveness in the markets. Such investments in digital transformation are needed across all sectors of the European economy.

In terms of **additionality**, the EU guarantee will encourage intermediaries to lend to SMEs and Small Midcaps engaged in innovation activities (in all sectors of EU economy, both new to the firm and new to the market innovations) as well as digitalisation of the company's business by providing sufficient credit at favourable terms, amounts and form for working capital, investments and acquisitions in local currencies, at lower cost of financing but also other benefits in line with access to finance measures (lower collateral, longer maturities, etc).

In certain instances, the Framework Operation may entail Sub-Projects that support financial intermediaries in originating final recipient transactions which are subordinated debt transactions, thus improving solvency of RDI driven companies and their borrowing capacity. It is also allowing banks to scale their lending volumes to RDI companies creating new dedicated financial products and reach new, riskier client segments (for instance start-ups commercialising new products) that otherwise would not be served or remain underserved.

Certain Sub-Projects will also support alternative lenders such as debt funds or crowd-lending platforms offering bespoke solutions, thus creating more alternative funding sources of RDI driven companies.

Finally, the EIF will provide practical guidance to financial intermediaries both pre- and post-signature. Financial and structuring advice is expected to be mainly focused on new intermediaries without prior experience in implementing guarantee products as well as less sophisticated players.

In line with the initial framework operation, it is expected that the leverage effect will be indicatively 12x for capped guarantees and 5.7x for uncapped, while the multiplier effect 16x for capped and 8x for uncapped. Further to the increase, the estimated number of targeted financial recipients (enterprises) is expected to be c. 4500.