

InvestEU Scoreboard¹

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Banca Comerciala Romana ("BCR" or the "Intermediary") – Romania InvestEU Member State Compartment (Uncapped Guarantee)

Type of approval: Individual financing or investment operation

Type of Financial Intermediaries: Commercial bank

Type of Final Recipients: SMEs (including Micro Enterprise), Small Mid-Caps

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

Short description of the financing or investment operation:

BCR has applied for an uncapped guarantee covering the following InvestEU Financial Products:

- (i) Sustainability Guarantee:
- (ii) SME Competitiveness Guarantee:

The EIF aims at entering into a guarantee agreement with the Intermediary with the objective of:

- (i) improving access to finance for sustainable enterprises and support investments contributing to the green and sustainable transformation of the Romanian economy, specifically in the areas of climate mitigation and adaptation, transition to a circular economy, water resources, pollution prevention and control, protection and restoration of biodiversity and ecosystem and investments in the development or adoption of sustainable and organic agricultural practices; and
- (ii) 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.

Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

With respect to the Sustainability Guarantee:

Item 1 of Annex II of the InvestEU Regulation:

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

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.

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 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

With respect to the SME Competitiveness Guarantee:

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

As per Annex V of the InvestEU Regulation, additionality shall be deemed to be met as long as the Intermediary originates final recipient transactions which carry a higher risk profile than the risk generally deemed acceptable by such intermediary, inter alia 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 which carry an increased risk profile (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.).

EIF expects to cooperate with the Intermediary in originating final recipient transactions (debt financing) 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 Sustainability Guarantee Product implemented under the InvestEU Member State Compartment will enable the EIF to support this growing ecosystem at a scale in Romania that would not be possible or not to same extent out of the EU Compartment of InvestEU nor other EIF-managed resources for that purpose.

With respect to Sustainability Guarantee, 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.

In addition, according to the FI-Compass study “The potential for investment in energy efficiency through financial instruments in the European Union - Romania in-depth analysis”², the COVID-19 crisis could have a dual negative impact on energy efficiency investments, by both reducing the demand (e.g. households and enterprises may decide/be forced to postpone investments) and the financial supply (e.g. financial intermediaries may become more selective in their lending activity), therefore increasing the importance of energy efficiency related supporting schemes.

The Operation aims at supporting investments in energy efficiency, including in the building sector, one of the biggest energy consumption sectors in Romania. At the national level, final energy consumption in the building sector accounts for 42% of total final energy use, of which 34% is in residential building and the rest (about 8 %) in commercial and public buildings³.

The support to investments in this sector is even more critical given that, in Romania, the share of companies investing in measures to improve energy efficiency is well below the EU average (37% vs. 47%).⁴

Under such considerations, the RRP envisages the allocation of resources for the implementation of the Sustainability Guarantee in Romania, under the Member State Compartment.

With respect to the SME financing market, this 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 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 in Romania report insufficient collateral or other bank requirements, such as guarantees as being most often the cause for not being able to obtain financing.

The identified main market failures preventing energy efficiency investments include:

- High commercial interest rates;
- Lack of collateral;
- Small project sizes resulting in high project development and transaction costs;
- Grant dependency – beneficiaries prefer to delay investments waiting for grants to become available;
- Low awareness among financial institutions to invest in energy efficiency.

The Sustainability Guarantee Product, implemented under the Member State Compartment in Romania, whose eligibility criteria were designed in the spirit of the EU Taxonomy for Sustainable Finance as well as the DNSH criteria, are precisely adapted to the specific needs of the final recipients and can play a fundamental role in the decarbonisation of the economy.

According to the National Bank of Romania (“NBR”) “Financial Stability Report”⁵, the outbreak of the COVID-19 pandemic took a heavy toll on all sectors of Romania’s economic activity, triggering a significant increase of systemic risks to financial stability, similarly to developments in Europe and around the world.

² [The potential for investment in energy efficiency through financial instruments in the European Union - Romania in-depth analysis | fi-compass](#)

³ [The potential for investment in energy efficiency through financial instruments in the European Union - Romania in-depth analysis | fi-compass](#)

⁴ EIB INVESTMENT SURVEY 2020 Romania

⁵ National Bank of Romania, *Financial Stability Report*, June 2020

Access to finance for enterprises and the default risk for loans of the private sector are identified as some of the main risks to financial stability. In addition to the rise of economic uncertainty, the imposed containment measures have led to bottlenecks in supply chains and a sharp contraction in demand.

As further indicated in the “Survey on the access to finance of nonfinancial corporations in Romania”⁶ published by NBR, amid the crisis generated by the COVID-19 pandemic, companies saw a worsening trend of the key factors influencing their activity.

Among the most pressing problems that companies faced in their activity during the first half of 2020 are identified difficulties in accessing finance from banks and non-bank financial institutions, the overly high level of interest rates and commissions as well as the requirements regarding the value or type of collateral, bureaucracy and contractual clauses.

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 in Romania have very different levels of green financing expertise, with a need to build expertise, particularly for the type of final recipients supported by the Sustainability Guarantee.

There is no unified definition of what green financing means across the EU, including in Romania, 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.

It is also noted that, the 2019 Fi-Compass gap analysis for SME financing in the EU⁷, conducted before the pandemic, reported a debt financing gap in Romania, of EUR 2.48bn (representing 1.2% of Romania’s Gross Domestic Product “GDP”). In the coming years, it is expected that the profitability ratios of a consistent number of SMEs will deteriorate in Romania, with a consequent negative impact on their risk profile. This could further reduce the capacity of SMEs to access financing due to the increased costs. The above market assessments were taken into consideration for the inclusion of the proposed financial instruments under the Romanian RRP.

Green lending by financial intermediaries to SMEs is at an incipient stage, particularly in Romania, as it 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 Sustainability Guarantee Product, implemented under the Member State Compartment in Romania will alleviate the elements above by providing risk deleveraging for green lending and therefore incentivising financial intermediaries to in turn provide this type of lending, bringing clear green definitions and requirements, as well as supporting the market vis-a-vis the application of the EU Taxonomy for Sustainable Finance and DNSH criteria, particularly for this type of final recipients that require a proportionate approach.

⁶ National Bank of Romania, *Survey on the access to finance of non-financial corporations in Romania*, August 2020

⁷ Fi-compass, *Gap analysis for small and medium-sized enterprises financing in the European Union*, December 2019. Available [here](#).

EIF is providing guarantee to the Intermediary which will in turn provide debt financing to eligible final recipients. In particular, this is important in the context of Sustainable Investments, and EIF's intervention will encourage other market participants to structure and support such investments.

The support provided by this Operation mobilizes substantially third-party resources alongside the EU support for the provision of financing to Final Recipients.

The EU Guarantee will always cause that a third party financier (i.e. the financial intermediary) will provide further financing, in addition to InvestEU, to final recipients.

In addition, the InvestEU Sustainability Guarantee implemented under the Member State Compartment promotes a definition of green financing - for the supported activities - in the spirit of the EU Taxonomy for Sustainable Finance as well DNSH criteria, therefore signaling a standard in this domain.

EIF will provide practical guidance to the Intermediary in order to ensure terms and conditions of the guarantee are met and to facilitate the deployment and ramp-up of the portfolio. This may take the following forms:

- Ad hoc assistance (e.g. monitoring, reporting, eligibility checking, etc.);
- Webinars for individual or groups of intermediaries (on all aspects of the implementation of the MS-C Guarantee);

With respect to the impact on the ecosystem, the Sustainability Guarantee Product will represent the first guarantee product in support of the green transition of small enterprises and Small mid-caps, to be implemented by EIF in Romania. It will expand the experience of the Intermediary in using the EIF guarantee products towards this key EU as well as national priority. Thanks to this intervention, the Intermediary will be able to better serve this sector, either by developing new products, or expanding existing products to other green activities which they may not have supported in the past.

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation (**Excellent**)

Pillar 4 - Financial and technical contribution by the Implementing Partner (**Very Good**)

Pillar 5 - Impact of the financing or investment operation (**Very Good**)

Pillar 7 - Complementary indicators⁸

Operation-specific indicators, estimated on the "InvestEU Leverage and Multiplier Effect Calculation Methodology" as approved by the InvestEU Steering Board.

- (a.1) Leverage effect: Indicatively 4x
- (a.2) Multiplier effect: Indicatively 5.6x

⁸ The InvestEU methodology is used in order to calculate figures presented in this document. The financial intermediary's estimates may differ.