InvestEU Scoreboard[1]

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, SMEW RIDW Joint Equity Product – Climate & Environmental Solutions Sub-Product

Type of approval: Framework Operation

Type of Financial Intermediaries: Typically venture capital and private equity funds established in Member States with strategies pursuing any of the Target Areas under the SMEW RIDW Joint Equity Product – Climate & Environmental Solutions Sub-Product.

Type of Final recipients: typically SMEs, Midcaps, Special Purpose Vehicle/project Company, impact-driven enterprises.

Country(-ies) of implementation of the operation: The majority of funds will have a pan-European scope with certain regional emphasis depending on their geographic location and proximity (e.g Baltics, Nordics, Benelux, DACH).

Short description of the financing or investment operation:

Framework Operation for Sub-Projects to be entered into with financial intermediaries and pursuing strategies in any of the following Target Areas:

- **Mobility and transport solutions**
- **Energy and built-environment solutions**
- **Industrial decarbonisation & environmental sustainability**
- **Agriculture, Food, natural capital preservation and use of land resources**
- **Blue Economy**
- **Other adaptation solutions**

The purpose of this Framework Operations is to support the research, development, demonstration, upscaling and commercialisation of technologies or solutions that contribute to the EU Green Deal and, in particular: i) energy and ecological transitions pursued in the areas of climate mitigation and resilience (adaptation), ii) mobility and transport urban and built environment, iii) water and marine resources, iv) pollution, v) circular economy, vi) agri-food system and vii) biodiversity, and environmental ecosystems, while supporting the EU's competitiveness and leadership in climate and environmental technologies and solutions.

Public Statement

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

Item 3 of Annex II of the InvestEU Regulation:
environment and resources

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

[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 following additionality considerations apply to the Framework Operation.

Item (b) of Annex V A (2) to the InvestEU Regulation:
Support 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

The climate and environmental venture capital and private equity market is still 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[23]. 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 are however gradually changing, 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.

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 in particular address 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[4].

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

The use of the InvestEU guarantee allows EIF to support these strategies at a scale otherwise not achievable via other resources at EIF's disposal.

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 provided under the InvestEU Fund

---

[2] Venture Capital and Cleantech: The Wrong Model for Clean Energy Innovation an MIT Energy Initiative Working Paper July 2016 MITEI-WP-2016-06.pdf

[3] Cleantech company performance statistics. Cambridge Associates Q3 2021 https://www.cambridgeassociates.com/wp-content/uploads/2022/04/Cambridge-Associates-Clean-Tech-Company-Performance-Statistics-3Q21.pdf

[4] Moderate and Emerging Innovator Countries

Although the climate and environmental market is progressively gathering renewed and increased attention from investors, it is still largely underdeveloped, nascent and characterised by a limited and poor historical track record. According to MIT, between 2006 and 2011 USD 25bn was channeled by VC firms into cleantech startups and over half of the investment was lost leading to a fallout amongst investors and funding drying up for the sector following this period[5].

Most of the Sub-Projects will be managed by first time or emerging teams that typically face challenges in fundraising due to a higher perception of risk by other institutional and/or private investors. Similarly although the fundraising environment is slowly improving, 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 syndicate partners and co-investors in the climate and environmental VC ecosystem. As such, all of the Sub-Projects rely on EIF's meaningful commitment, including as an anchor investor, to reach a viable and/or optimal fund size that will enable them to better execute on their investment strategies, provide financing and serve policy goals.

In this context, EIF's approval and investment is expected to be instrumental in catalysing additional investor interest and helping the funds to diversify and enlarge their LP base with new investors for this emerging market.

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

The availability of capital for climate and environmental solutions is considered limited and insufficient in all European geographies given the nascent nature of the market and the small number of specialised investors and funds. Most of the Sub-Projects are pan-European in scope with certain regional or national emphases.

The following market failures are addressed by this 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

Our economic and industrial development to date has not taken into account the need for sustainable development, which has resulted in climate and environmental degradation which now pose real business risks and even existential threats. Environmental costs have not been priced, or only marginally, in transactions and markets. Gradually, this situation is changing but the economy still fails to internalize such costs. Greenhouse gases, waste or biodiversity loss externalities are side-effects of economically valuable activities. The Sub-Projects targeted by this Framework Operation will support enterprises addressing those externalities by developing either i) an alternative for delivering a product or a service with a lower environmental impact or ii) an economic viable solution to revert the negative environmental impacts generated by the economy. Normally, these undertakings entail significant levels of R&D investments.

Additionally, the market gaps associated with the different target areas addressed under the Climate & Environmental Solutions Sub-Product are substantial, being the resources available insufficient in relation to the financial needs:

[5] Venture Capital and Cleantech: The Wrong Model for Clean Energy Innovation an MIT Energy Initiative Working Paper July 2016 MITEI-WP-2016-06.pdf

- 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 if the European Union is to meet this goal[6]. Adding investments in sustainable mobility brings the total over the next decade up to 3.7% of GDP per year. It is estimated that in order to achieve the 2030 climate target by 2030, around EUR 275 billion of investments per year are needed - the lion's share in energy efficiency[7].
- Adaptation investment needs in the EU are estimated to range between EUR 35 billion and 500 billion annually, the large variation reflecting different underlying assumptions and methodological approaches.[8]
- In 2020, the first attempt to present a likely global cost for protecting the oceans estimated that US$174.52 billion per year is required in order to implement SDG 14 (Life below water) until 2030[9]. On a more concrete level, a study by the European Commission found that while most companies in the blue economy sector were able to secure early funding up to EUR 2-3 million, it was difficult for them to go beyond the EUR 2-3 million mark to achieve the 'next stage' of business growth and up to EUR 15 million threshold, where mainstream later stage investors in mature businesses are often more interested[10].
- Global food security is threatened by population growth, climate change, biodiversity loss, environmental degradation and political instability. According to the FAO Food production will have to increase by 70% in order to feed the global population in 2050[11]. ICT developments have the potential both to increase the agricultural sector's resilience and adaptation to climate change and increase resource efficiency, yield and production. Europe has an excellent position to participate strongly in this innovation trend and significantly shape it. The EU is is pioneering many fields of agrifoodtech innovation with prominent academic and research centres and innovation hubs. Uptake of ICT at farm level is, however, lagging behind, especially in small and medium sized farms. According to the EIB, a financing gap exists regarding the scale-up of agri-tech businesses and 61% of small companies with revenues below €10 million per year reported that obtaining financing had been "difficult" or "very difficult". Mobilising sufficient equity is the largest financing constraint for these smaller agri-food innovators wishing to grow their business[12].

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

Investments in the field of climate and environment can be hindered by information asymmetries on associated benefits and costs, financial constraints, capital intensity[13] or the higher risk levels related to early stage firms. Additionally, uncertainty over regulation and taxation continues to hamper climate investments[14].

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

[6] EIB Investment Report 2020/2021: European Union is leading the way in green technology investment
[7] Closing the gap on energy efficiency investments | European Commission (europa.eu)
[8] The EIB Climate Adaptation Plan
[9] The cost of saving our ocean - estimating the funding gap of sustainable development goal 14
[10] Study to support investment for the sustainable development of the Blue Economy. D13 – Investment Platform Recommendation
[11] FAO HLEF2050_Global_Agriculture.pdf (fao.org)
[12] Feeding future generations: How finance can boost innovation in agri-food - Executive summary (eib.org)
[13] Platform on Sustainable Finance's report on environmental transition taxonomy (europa.eu)
[14] European firms and climate change 2020/2021: Evidence from the EIB Investment Survey

undertaken or would not have been undertaken to the same extent because of its novelty or because of risks associated with innovation or unproven technology

Climate and environmental technology focused funds still face a comparatively difficult fundraising environment. Investors have not totally overcome the disappointment of the first clean tech wave in the years 2001 to 2011, when environmental technology-focused investing made the promise of superior returns and expectations were not met. Technologies were still in early stages of development, costly, difficult to scale, pioneering investors were inexperienced, and there was a general lack of corporate interest ensuring business development and exit opportunities. Many of the investments were ahead of their time, with market uptake of environmental technologies being slowed down by: (i) a lack of speed and regulatory consistency in imposing climate and environmental standards and, accordingly, (ii) a lack of economic incentives for market players to adopt new technologies and sustainability in their business models (i.e. it was cheaper to continue taking a free-ride on externalities at the expense of society than adopting market leadership in environmental standards). As a result, there was a significant fall-out amongst these early investors and LPs.

The tide however has now changed. Given the climate and environmental emergency, the EC and national regulators are now pushing for true climate and environmental transformation and breakthroughs in many sectors (energy, water, agritech, etc.). Sustainability is no longer a "nice to have" but a "must have" if a company wishes to remain viable and thrive. Despite the magnitude of the market need and opportunity, the perception of a strong dependency of the entire sector on regulatory pressure to create market momentum prevails. The perception of risk is further compounded by the first time or emerging nature of the teams leading new climate and environmental fund initiatives. As a result, investors tend to direct their capital flows to sectors where value uplifts are more predictable and faster to realise such as digital economy businesses that have shorter product development and sales cycles, are less capital intensive and have clearer exit paths. Although interest is gradually growing amongst institutional and corporate LPs, it is still early and very uneven across different themes and verticals. Consequently private sector investors in climate and environmental technology funds are still oftentimes concentrated around mission-driven investors (e.g. family offices and foundations). All in all, prospective LPs attribute a great deal of credibility to EIF's investment selection process when allocating capital within their investment portfolios given EIF's general standing in the VC/PE market and specific experience in climate and environmental impact investing as an early LP and one of the most active and consistent fund of fund investors in climate and environment in Europe over the last decades.

EIF expects to join at first closing or soon after first closing in the majority of the cases. In all Sub-projects, EIF's commitment is considered essential to enable either a minimum viable closing and/or allow the fund to get closer to its target size, which would allow for a more optimal execution of its strategy and support to portfolio companies.

Given its role as market builder in the climate and environmental impact space, EIF is providing structuring input in order to ensure best market practices in the initial set-up of the fund and also lay the foundations for future fund generations. EIF's structuring feedback helps bring the funds to institutional grade level and facilitates and attracts investment from other third party private investors. Typically EIF provides structuring input in the form of aligning the governance structure and the terms and conditions to good market practice promoted by EIF, improving investor protection provisions, and improving the structure of the Fund by reducing cross-border elements in line with applicable tax good governance principles. For first time teams, which are the main focus of the this framework operation, EIF can be instrumental in the set-up of the fund while for more established players, EIF will seek to further introduce the most recent good market practices.

EIF will support financial intermediaries focusing on climate and environmental impact in strengthening their impact frameworks. In line with EIF's impact measurement methodology, financial intermediaries will be asked to establish relevant climate and environmental KPIs and targets for their underlying portfolio companies whose achievement will be measured and monitored over time, and reported to LPs. The application of an impact measurement framework is expected to help fund managers embed impact considerations in their investment strategies and decision making processes, and better articulate, structure, manage and report on their impact objectives and performance. The implementation of impact measurement and reporting has shown to enhance and raise the bar for impact achievement. EIF will also seek to implement impact-based incentive structures in addition to financial return requirements which will further secure alignment of interest between the GP and the LPs. Additionally, EIF will offer support and knowledge to financial intermediaries with respect to considering investments that fulfil climate action and environmental sustainability criteria.

The scale of financing expected to be made available by the financial intermediary to final recipients (i.e. leverage) is estimated on average 7x, in accordance with the "InvestEU Leverage and Multiplier Effect Calculation Methodology" as approved by the InvestEU Steering Board.

With respect to the benefits generated by the operation for the final recipients, it is worth highlighting in particular the following key features:

- flexibility of draw-downs
- financing in local currency within the EU
- contribution to diversification and stability of financial recipient's financing
- increase availability of equity financing
- the transfer of experience, know-how and network by the financial intermediary to portfolio companies, including with respect to setting impact KPIs, therefore helping their internal & external growth and their impact with regards to the transition of Europe to a low carbon, resilient and circular economy.

The impact on the ecosystem is expected to be strong and substantial, as EIF's engagement and commitments will contribute to build out an ecosystem of relevant, specialised climate and environmental impact investors in a nascent emerging market. The current investor landscape in climate and environment is extremely limited and does not have the necessary breadth or depth to adequately support innovation and SMEs in key policy areas. The vast majority of intermediaries included under the Framework Operation are new or emerging teams contributing to nurture the new wave of climate and environmental impact-conscious investors.

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 **(Excellent)**

Pillar 7 - Complementary indicators[15]

<table>
<tr><th>Key characteristics</th><th>Expected as of time of submission</th><th>Comments</th></tr>
<tr><td>Leverage Effect (at target fund sizes)</td><td>Indicative average c.7x</td><td rowspan="3">Preliminary estimation, subject to achievement of target fund sizes of underlying Sub-Projects</td></tr>
<tr><td>Multiplier Effect (at target fund sizes)</td><td>Indicative average c. 18x</td></tr>
<tr><td>Expected amount of investment mobilized</td><td>Indicatively 10.5x of EIF investment expected to be</td></tr>
</table>

[15] 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.

	mobilized at the level of final recipients of the Sub-Projects	
SMEW specific Indicators		
(a) number of enterprises supported (expected):	Indicatively between 240 and 280	Preliminary estimation
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission:	Majority SMEs	Preliminary estimation
RDIW specific indicators		
(a) Number of enterprises carrying out research and innovation projects:	Majority SMEs	Preliminary estimation

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