

## InvestEU Scoreboard<sup>1</sup>

### **Presentation of the financing or investment operation:**

**Implementing Partner:** European Investment Fund (EIF)

**Name of the Operation:** Framework Operation for SME Competitiveness Guarantee – Romania InvestEU Member State Compartment (Uncapped Guarantee)

**Type of approval:** Framework Operation

**Type of Financial Intermediaries:** Mainly commercial banks

**Type of Final Recipients:** SMEs.

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

### **Short description of the financing or investment operation:**

This Framework Operation will support Sub-Projects aiming at 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.

It builds on the successful implementation of the guarantee programmes managed by EIF, such as SME Initiative Romania and COSME Loan Guarantee Facility.

### **Public Statement**

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

#### **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*

Additionality shall be deemed to be met in all those cases where a financial intermediary will originate final recipient transactions addressing new financing needs which were normally not covered within their standard lending practice. This may entail as well a higher risk profile than the risk generally deemed acceptable by such intermediary. Intermediaries will implement 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 (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.).

Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation:

#### **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*

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<sup>1</sup> 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.

EIF expects to support financial intermediaries 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 measures include, but are not limited to, improvement in financing tenor, pricing conditions, collateral requirements and other.

**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 enter into guarantees with financial intermediaries supporting higher risk category final recipients. Building on the previous EU and regional guarantee instruments, the SME Competitiveness Product implemented under the InvestEU Member State Compartment, will enable the EIF to support the SME ecosystem at a scale that would not be possible or not to same extent out of the EU Compartment of InvestEU nor other EIF-managed resource for that purpose.

**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 SME financing market 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 particular 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 followed by cost of financing or other bank requirements, as being most often the cause for not being able to obtain financing.

In accordance with the EIB 2020 investment Survey in Romania<sup>2</sup>, 12% of all enterprises in Romania could be considered finance constrained in 2019, well above the EU average (6%).

The "Survey on the access to finance of non-financial corporations in Romania" published by National Bank of Romania ("NBR"), notes that the COVID-19 crisis further deteriorated the economic and financial standing compared with the previous (pre-crisis) year, as one fourth of the companies were significantly hit by the drop in sales (a reduction of over 75 %). As regards the measures taken by firms to address the negative effects of the pandemic on their business, the most frequently cited were a partial lockdown, the suspension of activity or furlough for part or all of their employees.

In the coming years, it is expected that leverage and 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.

As a result, Romania has seen a sharp drop and a protracted period of subdued activity by local enterprises. Around a quarter (27%) of companies report abandoning or delaying investments plans as a result of the crisis.

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<sup>2</sup> [EIB INVESTMENT SURVEY 2020 Romania](#)

The objective of this Framework Operation is to contribute to the reduction of the structural shortcoming of the Romanian SME financing market and to support the creation of a more diversified SME finance market. More specifically, through direct and indirect guarantees, this Framework Operation aims to guarantee debt financing which addresses the particular difficulties that viable SMEs face in accessing finance, either due to their perceived higher risk or due to their lack of sufficient available collateral.

Furthermore, the implementation of financial instruments focused on addressing the structural weaknesses of the Romanian economy such as lack of liquidity faced by the local enterprises would ultimately contribute to strengthening the resilience, increase productivity and the competitiveness of the Romanian market.

The following market failures are addressed by the Framework Operation:

**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.*

According to the NBR “Financial Stability Report”, 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.

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”<sup>3</sup> published by NBR, amid the crisis generated by the COVID-19 pandemic, companies saw a worsening trend of the key factors influencing their activity.

It is also noted that, the 2019 FI-Compass gap analysis for SME financing in the EU<sup>4</sup>, 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.

EIF will set particular conditions for each Sub-Project and customize it to the needs of the financial intermediary to finance higher risk SMEs in its own market.

Thanks to the EU Guarantee, the Sub-Projects aim at providing the following benefits for the final recipients:

- Longer maturity
- Financing in local currency (RON)
- Contribution to diversification and stability of final recipient's financing
- Reduced collateral requirements (as well as acceptance of challenging collateral assets)
- Transfer of financial advantage by the intermediary to the final recipient

<sup>3</sup> National Bank of Romania, Survey on the access to finance of non-financial corporations in Romania, August 2020

<sup>4</sup> Fi-compass, Gap analysis for small and medium-sized enterprises financing in the European Union, December 2019. Available [here](#).

The Sub-Projects are expected to have a positive impact in the Romanian ecosystem thanks to stimulating the financing to higher risk SMEs by scaling up the support of well established financial intermediaries as well as by supporting new intermediaries. According to an EIF study, on the effects of EU loan guarantee schemes for SMEs, after receiving a guaranteed loan, beneficiaries grew more rapidly than non-beneficiaries in terms of total assets, sales and employment. Beneficiaries were more likely to survive following the guaranteed loan.

**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 indicators**

<b>Key characteristics</b>	<b>Expected as of time of submission</b>	<b>Comments</b>
Leverage Effect	Indicatively 4x	Preliminary estimation
Multiplier Effect	Indicatively 5.6x	
<b>SMEW specific Indicators</b>		
(a) Number of enterprises supported (expected)		
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	100% SMEs	

**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" questionnaire.