December 2022

EIF Operational Plan 2023 – 2025

Public

EXECUTIVE SUMMARY

The EIF's Corporate Operational Plan (COP) presents the strategy and sets out the targets for 2023 and orientations for 2024 and 2025.

After a year of transition in 2022, the EIF will step up its effort. The EIF plans to deploy EUR 13bn in 2023 with a +15/-10% flexibility margin[1]. This level of activity is expected at least for the next two years, with a number of transactions almost pairing the record of deals achieved in 2021, aiming at helping small and mid-cap companies not only to go through the COVID-19 and current energy crisis but also to create the future European champions, achieve their green transition and help the EU to develop and preserve its strategic autonomy in different areas.

The support to climate and the EIF's increased focus on impact via thematic/policy objectives continue to be the main drivers of the operational plan for the next three-year cycle. The EIF's activity has been modelled and planned according to its Public Policy Goals (PPGs). The focus on policy impact is progressively being embedded in every area of activity, from the mandate acquisition strategy to the deployment, reporting and monitoring.

The infrastructure and climate activity, which became a key component of the EIF's commitment to support the Group's ambition in Climate Action and Environmental Sustainability, continues gaining traction. Since the EIB Group approved the equity strategy in 2020 and the related transfer of such activity to the EIF in 2021, the EIF has entered into the Climate and Infra Funds Mandate with the EIB and will assume in the next COP period responsibility for the deployment of a significant allocation of InvestEU for investment in such funds.

The EIB Group entities are the key implementing partners of InvestEU with responsibility for the management of 75% of its budgetary capacity. The EIF manages 56.4% of the EIB Group budget and is active in the four windows. With EUR 4.73bn of IEU budgetary guarantee already approved (representing c. 120% of the Next Generation EU target for approval in 2022), the EIF is on track with the legal requirement to get the approval of the portion of the InvestEU Guarantee supported by NextGenEU (representing 57% of the IEU Guarantee) by December 2023 and the signature of the corresponding operations by December 2024. Due to this frontloading, InvestEU will represent circa 35% of the overall deployment of the EIF in the period 2023 to 2025.

Following the approval by the EIB Board of Directors and the EIF Board of Directors (the "Board"), the EIF will launch two specific initiatives to reinforce European strategic autonomy. Firstly, in the field of energy with REPowerEU, which will constitute an increase of circa EUR 600m p.a. of the EIF's COP. The initiative will be deployed through the existing Risk Capital Resources mandate and the Infrastructure and Climate Funds mandate. Secondly in the field of innovation, with the expected launch in early 2023 of the European Tech Champions Initiative (ETCI) – a EUR 2.5 to 3.5bn fund of funds – supporting scale-up funds combining resources from Members States (France, Germany, Spain….) and EIB Group (RCR, EIF own risk).

The EIF's COP will rely, to a significant extent, on these initiatives launched by the EIB and the EC. Together with the EIF own resources, they represent 64% of the activity in 2023, and 66% when considering the 2023-2025 period. Despite this concentration, the EIF is making progress in its efforts to increase the level of diversification in funding activities, through the development of initiatives such as the Recovery and Resilience Plans (RRP) with Member States, gender initiatives with NPIs or the launch of the second generation of Asset Management Umbrella Fund (AMUF), to attract private/institutional investors. As a reference, for 2022, the level of activity derived from EIB and EC mandates was 68% and for the overall COP 2022-2024 it is representing 74%.

[1] *In line with the Group Operational Plan*

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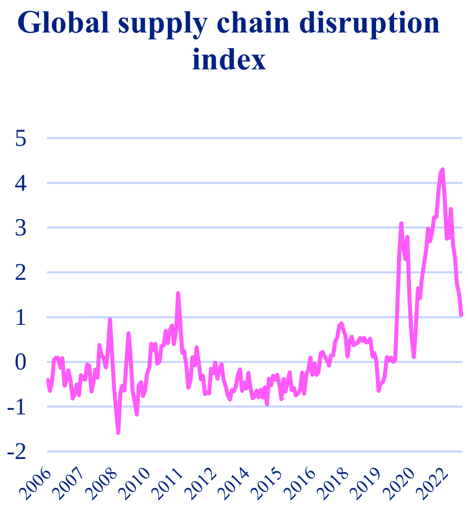
1 | Economic outlook

1.1 | General economic outlook

The *global economic outlook* has deteriorated severely over the past six months, as the combined impact of ongoing supply chain disruptions and the war in Ukraine weighed heavily on European growth prospects. Global supply chain issues caused by the COVID-19 pandemic have proven more persistent than initially anticipated and have led to rising inflationary pressures around the world, mostly through increases in the price of international shipping and basic commodities. The Russian invasion of Ukraine has sent further shockwaves through global markets, severely affecting energy prices, effectively bringing the post-pandemic recovery to a halt. The IMF expects global growth to slow down significantly, from 6.1% in 2021 to 3.2% in 2022.

The turmoil on energy markets was particularly severe for mainland Europe, with gas prices on the Dutch TTF platform trading as high as EUR 350 by the end of the summer, having increased more than twentyfold from just EUR 17 per MWh in January 2021. Elevated gas prices have also led to record-high electricity prices, which are determined through the marginal-cost price principle and are therefore strongly correlated with the price of gas. Consequently, the *European economy* has been hit disproportionally hard by the fallout of the Ukraine war, and 2022 growth in the EU-27 is now forecasted at 2.7%, down from the earlier estimate of 4.5%, prior to the Russian invasion. For 2022, EU inflation is expected to materialise at 8.3%, a level not observed since the 1970's oil crises.



The termination of pandemic liquidity support programs and monetary tightening of the ECB have recently led to a worsening of *SME financing conditions*. With inflation expectations on the rise, borrowing costs have increased considerably, in particular for medium-term loans. Meanwhile, banks responded to rising uncertainty by significantly tightening SME credit standards. Consequently, more than 1 in 4 European SMEs reportedly experienced severe access to finance issues during the first quarters of 2022.

While gas prices have declined in recent months, a colder than expected winter could revert this trend, preventing inflation to return to the ECB's target level. In addition, individual country efforts to compensate for rising energy prices using subsidy-based instruments might hamper the ECB's efforts, further adding to the probability of additional rate hikes, which in turn will negatively impact corporate borrowing costs and investment funds' fundraising efforts. Furthermore, China's continued zero-COVID policy and a slow-down in US economic activity are likely to negatively affect demand for European exports. Combined with plummeting consumer confidence, these factors will weigh on near-term economic growth prospects. There is also a real risk of a severe rise in insolvencies, in particular among small firms. While the initially anticipated post-COVID insolvency wave has not materialised, the severe impact of the vast increase in energy costs on operational expenditures risks pushing many firms, who are still experiencing liquidity issues from the COVID-crisis, into bankruptcy after all. Finally, with winter approaching, epidemiologists predict the COVID-19 pandemic could regain traction. While nation-wide lockdowns are unlikely to be re-instated, new variants could pose a new test to European policy makers and exuberate existing challenges for the EU economy (European Commission, 2022, IMF, 2022).[2]

[2] *European Commission (2022) Summer 2022 Economic Forecast: Russia's war worsens the outlook. IMF (2022) World Economic Outlook, April 2022.*

1.2 | EIF markets

In the wake of the COVID-19 pandemic, government-backed Credit Guarantee Schemes contributed significantly to liquidity support for European corporates. In the immediate aftermath of the pandemic, activity on the bank lending market for loans backed by a guarantee spiked to over 40%, driven mostly by the segment for smaller loans. Recently, with pandemic support programs gradually being terminated, the share of guaranteed loans plunged to just 17% in August 2022, falling well below its historic average. This is in accordance with figures reported by AECM, who reported a record seven-fold increase of the volume of newly granted government backed credit guarantees in 2020, to EUR 280bn, but a significant decline to EUR 90.8bn for 2021.

The European Microfinance market is growing. The latest EMN market survey data show that, by the end of 2021, 1.33 million microenterprises and start-ups received support by the surveyed organisations. Over the same period, the total microloan portfolio outstanding, reported by 135 MFIs, reached EUR 4.4bn reported (EMN-MFC, 2022).

Visible SME Securitisation issuance in Europe also increased significantly to EUR 28.4bn in 2021 (+279% year-on-year). However, this was driven by the largest single transaction in Europe ever (Best/Rabobank, EUR 16.6bn) and 2022 started slowly, with no visible issuance during the first semester. However, there is activity in the related synthetic market that does not appear in the typical statistics. The impact of the recent and ongoing economic crises on SME Securitisation asset quality and deal performance remains to be seen, as well as the strength of structural protection and their ability to buffer adverse economic effects. The impact will vary by region, depending on many parameters like structure and flexibility of the economies (and the SMEs). Driven by investors' demand as well as environmental risk aspects, the perspective of "sustainability" is gaining importance in securitisation - and in structured finance in general. The sustainable securitisation market is still in its early days but has the potential to play a significant role in Europe's green transition.

The European PE/VC Ecosystem experienced a strong recovery in 2021, with PE/VC investment volumes in European companies increasing by 51%, the largest year-on-year increase recorded since 2010, settling at an all-time record of EUR 138bn (VC: +71%; Buy-out: +28%; PE Growth: +124%). Fundraising in 2021 also reached new highs. Following a temporary setback during the midst of the first waves of the COVID-19 pandemic, total PE/VC fund raising recovered in 2021 and amounted to EUR 118bn. While 2021 has been a historic year for European PE/VC, the market faces significant headwinds for the near future. Preliminary evidence suggests that investment volumes in Europe remained relatively robust during the first semester of 2022. However, the gloomy geopolitical situation and the difficult macroeconomic environment, in particular rising rates, are likely to present unprecedented challenges to fundraising and exits, which in turn will result in downward pressure on investee valuations. The 2022 EIF VC survey indeed revealed that fund managers are getting increasingly concerned about the fundraising and the exit environment. While the current economic situation is certainly a cause for concern, the energy crisis undoubtedly also presents new opportunities for European PE/VC, as high energy prices increase the demand for innovation in the field of clean energy. In the current environment too, new promising sectors emerge. Energy and environment are at the centre of fund managers' discussions, including technologies to facilitate sustainable energy transition and climate change mitigation. Technologies related to food and agriculture are also on the rise.

2 | EIF's strategic orientations

The COP 2023-2025 focuses on some specific areas and strategic objectives, including:

- ***Pursue the transition to a more Sustainable Development Goal (SDG) driven institution focusing on thematic EIB and EU objectives***

The EIF is pursuing the implementation of a strategic shift towards a more thematic driven business model, in conjunction with the newly developed Corporate Operational Strategy. This leads to reinforcing the scope of its mandates by promoting initiatives whose primary goals are to support EU policy objectives namely the ones related to the EU Green Deal and EU Digital Agenda and simultaneously the EIB Group Climate Bank strategy. This will support the EU objectives to regain its industrial and technological sovereignty during the ongoing green transition by achieving cleaner energy generation, transportation and building efficiency, competitive and resilient industry while reducing our dependence on external fossil fuel supplies.

As a consequence, increased complexity of managing a multidimensional matrix of objectives has required the EIF to reinforce its policy and monitoring mechanisms, comprising of several internal initiatives that aim at: i) strengthening the EIF's environmental, social and governance (ESG) set-up and a more thematic policy driven investment approach, ii) implementing the EIB Group Climate Bank Roadmap, including, the increase in green finance, the alignment to the Paris Agreement objectives and the assessment of climate risks in the EIF's portfolio and counterparties, iii) disclosing the EIF´s impact in terms of contribution to Sustainable Development Goals (SDGs).

- ***Convergence with EIBG climate, environmental sustainability and cohesion goals***

Following EIB Group's equity strategy decision to transfer the inside EU infrastructure funds activity to the EIF, this area has been growing steadily and significantly. The EIB is doubling the previous budget in infrastructures with the launch of the REPowerEU initiative. The European Commission also made available sizable resources through the multiyear InvestEU mandate, not only dedicated to infrastructure-related activities, but also more generically to support green transformation, climate and environmental sustainability activities both through equity and guarantee products.

As part of the review of the Risk Capital Resources (RCR) mandate in 2021, the policy objectives of the mandate were updated to reflect the EU Climate Bank's ambitions. Specifically, the EIF will aim to allocate a minimum percentage volume of the RCR COP in any given year towards investments targeting the Sustainability and Green Transformation PPG. The specific RCR target for 2023 is 20% and is increasing to 25% in 2025. In addition, following the EIB and the EIF Board approval of REPowerEU, the RCR COP will increase by approximately EUR 400m p.a., of which at least 75% allocated to the Sustainability and Green Transformation PPG.

The EIF ambition to increase the implementation of green initiatives has naturally influenced our mandate acquisition and funding activities across different types of counterparties, including regional mandates and Member States.

In December 2021, the EIF Board approved a target for Climate Action and Environmental Sustainability of 16% for 2022, (or 18% excluding EGF activity), 22% for 2023 and 25% for 2024. For 2025, it is expected that EIF could reach a CA&ES contribution of 27% in the investments pursued. Such constant progression demonstrates the strong commitment of the EIF in contributing actively towards EIBG and EU climate and environmental ambitions.

Additionally, and to support EU Cohesion policy that is focused on correcting imbalances between countries and regions, the EIF started implementing a new Cohesion KPI in 2022 to measure the reach of our activity to cohesion regions. Although the initial target for 2022 is to devote 38%, the EIF plans to increase this ambition already in 2023 to 40%.

- ***Support the achievement of EU policy objectives, to ensure EU sovereignty in the fields of energy and innovation (REPowerEU and ETCI)***

The model that has been supporting the development of our European economies for several decades has been based on an increased demand for fossil fuels and other commodities, to an unsustainable level which is negatively affecting our environment. Additionally, our continent lacks many of these resources, rendering us vulnerable and dependent on other countries. In this context, the European Commission has approved the EU Green Deal to make Europe the first climate-neutral continent, investing in digitalization and infrastructure as the main paths towards climate change adaptation and mitigation and supporting the transition to a more climate neutral economic model.

In response to the hardships and global energy market disruption caused by Russia's invasion of Ukraine, the Commission presented the REPowerEU Plan with three main objectives: i) prioritise energy savings measures, ii) diversify energy supplies, and iii) accelerate the roll-out of renewable energy to replace fossil fuels in homes, industry, and power generation. To this end, the EIB Group has developed a proposal for a package of measures in support to the REPowerEU Plan. Fully in line with the Climate Bank Roadmap, the focus will be on renewable energy, energy efficiency, electricity networks and on deepening its engagement in green innovation and breakthrough technologies. Out of the total financing volumes of EUR 30bn, 90% (EUR 27bn) would be delivered by the EIB (debt products), mobilising around EUR 70bn; and 10% (EUR 3bn) would be delivered by the EIF (equity products), mobilising around EUR 45bn.

In parallel, EU Members States have agreed to launch in 2023 the European Tech Champions Initiative (ETCI, previously known as Scale-up Initiative), which aims to finance promising companies in their crucial, late-stage development. The EIF will be tasked to manage a fund of funds structure designed to invest in large funds, building on its strong experience in creating financial ecosystems, with a particular focus on venture capital (VC).

- ***Focus on the implementation of InvestEU Policy Windows and Top-Up contributions to Sectorial Programmes.***

Despite the delays in the launch of the InvestEU programme, the EIF managed to secure the first target for approvals linked to the 2022 Next GenerationEU (NGEU) deadlines. As regards the second NGEU target, the EIF is fully committed to achieve the approval of 57% of InvestEU Guarantee by December 2023 and get the signature of operations in place until that date in December 2024, assuring high financing levels for 2023-2024. InvestEU deployment will represent 36% and 35% of the overall EIF activity in 2023 and 2024, respectively. Current resources available under InvestEU are to be complemented by sectorial programmes in the fields of media, digital, defence, blue economy, space and semiconductors.

- ***Promote the diversification of sources of funding through regional, Member States and private investors initiatives leveraging the EIF's thematic targets***

The EIF is leveraging on its policy objectives and its reputation in the market to gain traction in multiyear pan-European initiatives focused on common needs and concerns shared by governments and private investors. Under this approach, Member States are co-investing in mandates such as the ETCI, Gender Smart, Blue Economy and Green Investment strategies. Diversification is also being achieved through the implementation of Member States Recovery and Resilience Facilities (RRF), which will allow to contribute to several PPGs like climate, competitiveness, and digitalisation. These mandates are instrumental tools in support of reforms in Member States.

Similarly, the EIF is attracting investors with the Sustainable Development Umbrella Fund (SDUF), which includes several compartments. Alongside the generation of risk-adjusted, market-level financial returns to investors, the EIF intends to achieve strong levels of Environmental, Social and Governance ("ESG") through active engagement and promotes ESG standards by supporting the funds in the development of their ESG policies and includes this as part of its reporting to the private investors.

These sets of initiatives provide long-term visibility to the EIF's policies, moderate the dependence on resources from the EIF's main shareholders and are increasing the weight of equity in the assets under management composition.

3 | EIF's operational plan

The EIF is facing strong demand both on the equity as well as on the debt side. SMEs are, due to the indirect impact of the war in Ukraine on inflation and interest rates, in strong need of equity and both short and long-term debt support as well as long-term financing. In that context, the deployment of the EIF's debt and equity products is expected to provide the necessary boost to the various national and private support measures that are being offered currently. The EIF will continue offering both capped and uncapped guarantees. At the same time and in cooperation with the EIB, EIF will maintain its active presence in the securitisation markets in its support towards green transition.

Rising inflation and interest rates are likely to impact the European PE / VC ecosystem through a deterioration of the fundraising and exit environment as well as downward pressure on investee valuations. In addition, portfolio companies might be adversely affected by demand shocks and continued supply chain disruptions. However, the rising energy prices at the root of the inflationary pressures might also bring new opportunities for the European cleantech sector, as consumers and firms will aim to shift their energy mix away from fossil fuels and European governments target energy independence, creating an ever-growing market for European cleantech products.

The EIF's overall activity for 2023 is planned to reach around EUR 13.0bn, of which more than EUR 4.5bn come from InvestEU and EUR 3bn from EIB mandated resources. Sustainable and Green Transformation is also expected to reach EUR 4.5bn, two years after the approval of the Climate Bank Roadmap with emphasis on clean energy transition, future mobility, environment preservation, resources efficiency, sustainable ICT and circular economy.

3.1 | Corporate Operational Strategy update

3.2 | Fund raising COP 2023-2025

For 2023, the fund-raising activity for equity assumes a 133% increase, relative to the 2022 original COP, while guarantees and inclusive finance business is expected to raise by 10%. The overall result is a growth of 63% in the EIF funding activity for the next year. The need for the EIF to play a countercyclical role is demonstrated by these growing equity resources available in 2023 and beyond, which will surpass for the first-time resources available for the guarantee activities.

Fund-raising activities for equity with EIB are growing as a result of additional resources dedicated to the REPower EU initiative that will be delivered under RCR and infrastructure funds mandates for a total amount of EUR 3bn over 5 years (this fund-raising contribution will be recognized on a yearly basis until 2027). As funding for securitisation transactions for capital relief is not available under InvestEU, the EIB has decided to utilise its own resources for ABS products, recognising the multiplier policy impact and green potential securitisation transactions have, as well as the product's importance for SME delivery across the EU. Such funds will be deployed in mostly joint EIF/EIB ABS transactions under the revised terms of the ABS service level agreement between our two institutions.

Funds raised from EC resources will blend top-ups and reflows from legacy instruments to invest in complementary sectorial programmes of InvestEU.

The Member States/ regional resources pillar activity in 2023 for equity business shows a significant level of resource acquisition driven mainly by new thematic products in the areas of equality (Gender Smart) and green transition (Green and Blue Economy initiatives). In the guarantees business, volumes are expected to stabilize with the use of mandate structures established in 2022 (InvestEU member state compartment (MS-C) and ESIF 2021-2027). As it was the case for equity business, under the new guarantee facilities, there is also a transition towards climate related initiatives. With the support of the EC, EIF is also expected to originate a new generation of mandates by i) scaling up the deployment of guarantees in the Western Balkans under the new European Fund for Sustainable Development Plus (EFSD+), ii) by increasing the support to the agriculture sector and iii) by using of the MS-C as an efficient and streamlined solution also for managing authorities with limited resources or smaller markets.

In Pillar 4, the launch of 2nd generation AMUF started in 2022 and the fund-raising has been impacted by the current political context, hence extended fundraising efforts are foreseen for the next COP cycle.

Continuing the trend highlighted in the previous COP exercise, fund-raising targets for the regional guarantee mandates assume that the majority of mandates, still in early structuring phase, are to be deployed in an uncapped format. The volumes for capped guarantees for 2023 will be around EUR 1.25bn, whereas for the uncapped guarantees it is expected to surpass EUR 4.25bn. There is a lack of visibility beyond 2024 on the pipeline for new initiatives. Such a pipeline will be prepared next year and help filling the gap after 2023 both on the fundraising and on the deployment side.

In contrast with previous COP fund raising exercises, Sustainability and Green Transformation will overtake Competitiveness and Growth as the dominant PPG, materializing the commitment of the EIF in the support of Europe's green transition.

Table 1. COP 2023-2025 fund raising by business line and activity pillar (EUR m)

	Forecast 2022	COP 2023	COP 2024	COP 2025
Equity	**3,942**	**8,095**	**5,208**	**3,406**
1 - EIB	1,596	2,568	2,155	2,309
2 - EC	1,356	778	41	25
3 - Regional Mandates / Member States	575	3,852	2,462	622
4 - Private Investors	415	896	550	450
Guarantees & Inclusive Finance	**5,321**	**5,123**	**3,013**	**2,073**
0 - EIF OR	660	550	600	650
1 - EIB	540	1,100	1,100	1,100
2 - EC	0	800	0	0
3 - Regional Mandates / Member States	4,096	2,673	1,313	323
4 - Private Investors	25	0	0	0
Grand Total	**9,264**	**13,218**	**8,221**	**5,479**

Table 2. COP 2023-2025 fund raising by PPG (EUR m)

	Forecast 2022	COP 2023	COP 2024	COP 2025	Total
Competitiveness and Growth	2,693	2,095	1,832	987	4,913
Equity	1,088	990	1,197	847	3,034
GSM	1,605	1,104	635	140	1,879
Innovation	2,332	7,728	4,225	2,748	11,686
Equity	2,332	4,730	1,868	837	7,434
GSM	0	2,998	2,356	1,911	7,266
Social Impact, Skills and Human Capital	0	157	55	48	260
Equity	0	75	33	27	135
GSM	0	82	21	21	125
Sustainability and Green Transformation	4,239	3,238	2,110	1,696	7,043
Equity	523	2,299	2,110	1,696	6,105
GSM	3,716	939	0	0	939
Grand Total	9,264	13,218	8,221	5,479	26,918

3.3 | Deployment COP 2023-2025

EIB resources investments will be upsized over the period 2023-2027, to fund the REPowerEU programme, to be allocated between RCR and the Infra and Climate Funds (INCF) mandates. In 2023 only, for RCR, an additional amount of EUR 293m is budgeted on top of the planned volumes (EUR 1.2bn). In addition, EUR 400m of RCR and EUR 100m of own funds will be committed up-front in ETCI to be able to launch the initiative. For INCF, an additional EUR 180m under the REPowerEU programme have been allocated. Nevertheless, these amounts will increase between 2024-2027, with an overall deployment of EUR 3bn of REPowerEU resources. The increase of the RCR and INCF COP volumes thanks to REPowerEU – with a clear focus on Sustainability and green transformation – will have a positive impact in the achievement of EIB Group's Climate Action and Environmental Sustainability ambitions.

As in the previous year, 2023 is influenced by the front-loading nature of InvestEU, with over EUR 4.5bn (including EIB Group participation) planned to be signed in 2023, representing 35%-40% of the EUR 13.0bn activity of the year in equity and guarantee business lines. Given the prevailing uncertainties from the pace of deployment for 2022 and 2023 of Invest EU and RRFs mandates, the number of key initiatives still in the making and the strong demand for the support of debt products which may require to step up and anticipate the EIF's intervention, a flexibility margin of +15%/-10% is requested.

The third pillar equity business line is stabilised with a volume of EUR 1.1bn. EUR 400m of those correspond to ETCI[3], to support promising technological companies in their crucial, late-stage development, to become global leaders. The guarantees business line is showing high levels of activity for 2023, especially in Recovery and Resilience Facility mandates. These programmes suffered from a postponement in their implementation in 2022, caused by the delay of the InvestEU signature, rescheduling deployment to 2023.

The fourth pillar through AMUF resources contributes to the operational plan in 2023 with the launch of the second generation of this initiative.

The thematic nature of the resources that are planned to be deployed and their underlying investment strategies will require a higher number of transactions compared to similar levels of volumes achieved in previous years, despite some optimization achieved on the guarantee side as some financial intermediaries have applied to different thematic windows/objectives.

Looking beyond 2023, the EIF will work on anticipating the cliff after the IEU frontloading. For the first time, in 2024 the levels of equity financing are expected to surpass guarantees activity level given the various programmes which will be launched in 2023 and ramp-up rapidly in the following years. The limited guarantee resources are not sufficient to meet the current market demand which is expected to further increase with the current crisis. The EIF will work with the different stakeholders to find new sources of funding to address this shortage and rebalance the weight of guarantee activity.

The proposed EIF deployment programme for the next three years is shown in the table below:

[3] The initiatives is planned to be signed early 2023

Table 3 : COP 2023-2025 volumes (EUR m)

	2020	2021	Forecast 2022	COP 2023	COP 2024	COP 2025
EI	**3,590**	**5,218**	**3,948**	**5,171**	**7,245**	**6,641**
1 - EIB *	1,316	1,165	1,489	1,918	2,205	2,359
2 - EC	1,249	662	1,225	1,615	2,267	1,279
3 - Regional Mandates / Member States	820	3,285	1,119	1,252	2,188	2,224
4 - Private Investors	206	106	115	385	586	778
GSM	**9,278**	**25,283**	**5,368**	**7,830**	**6,206**	**4,104**
0 - EIF OR	1,841	474	660	550	600	650
1 - EIB	1,786	870	540	1,100	1,100	1,100
2 - EC	4,589	437	2,450	2,994	2,303	1,710
3 - Regional Mandates / Member States	1,061	23,502	1,718	3,186	2,203	644
4 - Private Investors	0	0	0	25	0	0
Grand Total	**12,868**	**30,501**	**9,316**	**13,000**	**13,451**	**10,745**

* EIB includes the amounts co-invested by EIF in RCR, REPower and Infra Climate Funds mandates. Amounts are EUR 82m, 86m and 96m in 2023, 2024 and 2025. respectively.

3.4 | Policy impacts

3.4.1 | EIF's Public Policy Goals

The EIF financing will continue to contribute to strengthening economic, social and territorial cohesion in the EU over the planning period. In addition, the EIF plays a significant role within the EIB Group in supporting finance to EU SMEs and infrastructure projects in the fields of green transition and innovation.

As evidenced by the fundraising data, the equity volume is expected to exceed the guarantee activity after 2024. EIF will help the fundraising of more and more thematic fund managers while keeping a material amount for more generalist teams as evidenced by the PPG focus. Growth and competitiveness will indeed still represent one third of the activity in 2023.

The EIF's sustainability and green transformation contribution will continue to be focused on existing equity and debt products that have been supporting European SMEs since 1998. This will take place through seed funding up to pre and post IPO venture capital, private equity and infrastructure funds. In the context of the REPowerEU initiative, 300-500m will be dedicated to new EIB Group public/private partnerships addressing Europe's energy independence. The resources will be channelled through the RCR or the Infra & Climate Funds mandate. Via the EIF's intermediated guarantee, counter-guarantee and securitization products, a wide range of smaller and more traditional enterprises, but also households, can be reached.

Regardless of the targeted policy objectives, all transactions backed by the EIF follow the EIF's ESG Principles, which guide the assessment, management and reporting of environmental, climate and social risks. This includes also the EIF's Paris alignment framework and its widened set of restricted sectors and activities, adopted by the EIF Board within the EIB Group Climate Bank Roadmap in late 2020.

Table 4: COP deployment 2023-2025 by Policy Objectives and products (EUR m)

COP Volumes by PPG	COP 2023 #Deals	COP 2023 COP Volumes	COP 2023 Weight	COP 2023 Exp. Mobilized Amount	COP 2023 Weight	COP 2024 #Deals	COP 2024 COP Volumes	COP 2024 Weight	COP 2024 Exp. Mobilized Amount	COP 2024 Weight	COP 2025 #Deals	COP 2025 COP Volumes	COP 2025 Weight	COP 2025 Exp. Mobilized Amount	COP 2025 Weight
Competitiveness, growth and cohesion	144	5,284	41%	40,839	33%	141	4,854	36%	47,342	31%	93	3,931	37%	38,411	30%
Equity	44	1,379	11%	16,644	14%	48	1,665	12%	24,245	16%	40	1,621	15%	24,219	19%
GSM	100	3,905	30%	24,196	20%	93	3,189	24%	23,096	15%	53	2,310	22%	14,192	11%
Innovation	117	2,575	20%	27,985	23%	100	3,374	25%	40,460	26%	81	3,215	30%	42,887	34%
Equity	72	1,703	13%	20,875	17%	61	2,491	19%	33,771	22%	57	2,519	23%	38,359	30%
GSM	45	872	7%	7,109	6%	39	883	7%	6,689	4%	24	696	6%	4,528	4%
Social impact, skills and human capital	65	363	3%	3,012	2%	59	400	3%	3,642	2%	41	278	3%	2,625	2%
Equity	9	168	1%	1,673	1%	8	154	1%	1,647	1%	6	140	1%	1,692	1%
GSM	56	195	1%	1,338	1%	51	246	2%	1,995	1%	35	138	1%	933	1%
Sustainability and green transformation	148	4,779	37%	50,882	41%	168	4,824	36%	61,766	40%	133	3,320	31%	43,378	34%
Equity	56	1,921	15%	28,783	23%	87	2,935	22%	45,684	30%	85	2,360	22%	35,358	28%
GSM	92	2,858	22%	22,099	18%	81	1,889	14%	16,082	10%	48	960	9%	8,020	6%
	474	*13,000*	*100%*	*122,718*	*100%*	*468*	*13,451*	*100%*	*153,210*	*100%*	*348*	*10,745*	*100%*	*127,300*	*100%*

3.4.2 | EIF's ambition in climate action and environmental sustainability

As stated in previous sections, the EIF is reinforcing the thematic scope of its mandates and transactions by promoting initiatives whose primary goals are to support EU policy objectives related to the EU Green Deal, the EU Digital Agenda and simultaneously the EIB Group Climate Bank Roadmap. Consequently, the EIF will continue supporting all EU policy priorities and has identified the horizontal goal of climate action and environmental sustainability ("CA&ES") and the vertical public policy goal of sustainability and green transformation ("SGT") as two of its key strategic policy goals over the planning period. In 2023, 22% of the volumes will be devoted to climate action and environmental sustainability and 37% to sustainability and green transformation.

In December 2021, the Board of Directors approved a target for Climate Action and Environmental Sustainability of 16% for 2022, (or 18% excluding EGF activity), 22% for 2023 and 25% for 2024. For 2025, the EIF projects to reach a 27% target which demonstrates the strong commitment of the EIF in contributing actively towards EIBG and EU climate ambitions. The targets are aimed to be achieved by implementing our tried and tested equity and guarantee products. Also, the inside EU infrastructure equity investments activity has been growing steadily and significantly.

The EIF ambition to increase the implementation of green initiatives has naturally influenced our mandate acquisition and funding activities across different types of counterparties, including regional mandates and Member States. This change is expected to support for the next years the availability of more resources enabling Europe's SME's green transition.

The EIB is doubling the previous budget in infrastructures with the launch of the REPowerEU initiative. The EC has also made available sizable resources through the multiyear InvestEU mandate, not only dedicated to infrastructure-related activities but also more generically to support climate and environmental sustainability activities both through equity and guarantees products. As part of the review of the RCR mandate in 2021, the policy objectives of the mandate were updated to reflect the EU Climate Bank's ambitions.

With its potential unlocked, securitisation can be a powerful tool to allocate capital in supporting the green transition, noting that 44% of the funding required to meet the Paris agreement requirements[4] will be required in the form of loans to businesses and households. Europe's nascent ESG securitisation market has the potential to be an important enabler in this journey given the EU's global leadership in the issuance of sustainable bonds, reliance on bank financing and the strong track record of European securitisation. Today, however, the contribution that green securitisation makes in relation to the total financing of the EU green transition, is dwarfed by its contribution in both the US and China[5].

[4] *Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels*
[5] *EBA report on sustainable securitisation.pdf (europa.eu)*

EIF is a well-recognised sophisticated market player in the securitisation market, offering credit protection on portfolios of loans to SMEs and small mid-caps, consumer loans, residential mortgages and other assets. Securitisation is a flexible product in EIF's toolkit, as it can address at the same time the market demand for credit protection (de-risking of the existing portfolio) and the pursuit of policy objectives via the build-up of an "additional portfolio" by the financial intermediaries. The EIF in co-ordination with the EIB is planning to gradually increase the percentage of CA&ES financing in the additional portfolios that currently stands at c. 20%. The final objective is to support a securitisation market for portfolios entirely green, where structural improvements and ad-hoc credit considerations can be proposed by the EIF in the analysis and assessment of transactions.

Finally, the EIF's use of proceeds approach, which the EIBG has been using for many years now in all their securitisation activities, and which is currently being discussed by regulators and market participants as the way forward, could be the right intermediate step to a more developed green securitisation market. By entering into securitisation transactions with the EIF, counterparties will commit to originate new green SME and non-SME portfolios, which in future, can be used as the basis of securitising full green portfolios. Furthermore, the on-going discussion and dialogue among market participants and the various regulatory bodies should help shape a better defined framework and set of acceptable criteria that can be used to define green transactions.

In relation to other debt products, in particular supporting the greening of SMEs and small mid-caps, as well as individuals/households, the EIF has launched the InvestEU Sustainability Portfolio Guarantee Product, to enhance access to finance to green investments as well as to sustainable enterprises, and which will contribute to Europe's green and sustainable transition. The eligibility framework of the InvestEU Sustainability Guarantee Product includes investments targeting all six EU Taxonomy objectives, as well as social accessibility investments. EIF plans to utilise the full capacity of the front-loaded InvestEU mandate in 2022 and 2023. Financial intermediaries deploying this product are assisted by the Sustainability Guarantee Eligibility Tool[6] and developed jointly by EIB Advisory Services and EIF. This tool has as primary functionalities the assessment of eligibility criteria by financial intermediaries and final recipients, as well as to assess the climate impact indicators of the investments supported.

EIF´s climate and environmental ambitions are also reflected in the Climate and Environmental Solutions thematic strategy under InvestEU´s Equity Product. With an investment strategy including target areas like mobility and transport solutions, energy, industrial decarbonisation, agriculture and food, natural capital preservation and blue economy, the investments that this product will support will play a key role in a transition to a climate-neutral economy and the dependence on fossil fuels.

The increased complexity of managing a multidimensional matrix of sustainability and green objectives in an ever-changing sustainable finance regulatory environment has also required the EIF to re-think and reinforce its own policy and monitoring mechanisms. EIF's ESG Principles are a key document in this regard, summarising all existing and new frameworks and guiding the implementation of all our new mandates, products and transactions. Via the implementation of the ESG Principles, EIF ensures that all transactions, regardless of the targeted policy objectives, are sustainable and are not causing any harm to the environment nor to social objectives. In particular, the widened set of restrictions applied to all new final beneficiary operations play an instrumental role.

Related to EIF's intermediary counterparties, and in line with existing and forthcoming legislation, under the Paris Alignment of Counterparties ("PATH") framework, the EIF contractually requires all large and significant counterparties to disclose climate relevant information in accordance with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations and in line with applicable EU legislation. Furthermore, in line with EIB Group risk management practices, the EIF is committed to integrating climate risk considerations into all relevant aspects of decision-making, governance, business strategy and risk management.

Further work will also continue in the coming years on environmental and social risks. In addition, the EIF has strengthened its dialogue and cooperation with external stakeholders on sustainable finance topics and has actively contributed to the work of the Platform on Sustainable Finance. These activities will continue throughout the next COP period.

[6] *Accessible in https://sustainabilityguarantee.eif.org*

3.5 | Key initiatives

3.5.1 | EU sovereignty

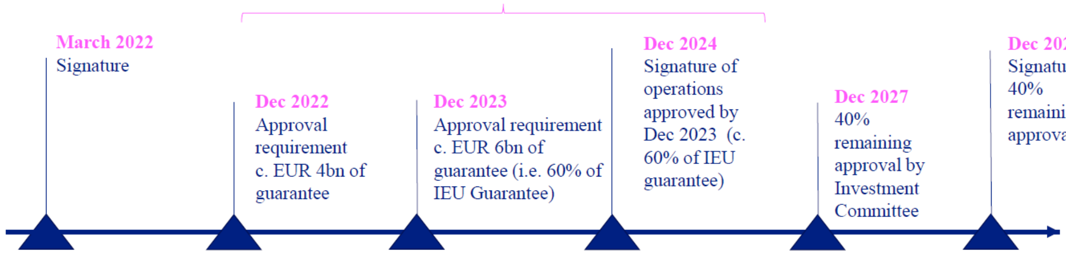
The EIB Group has developed a proposal for a package of measures to support REPowerEU. The EIF will finance EUR 3bn between 2023 and 2027 for additional intermediated equity investments in support to sustainable energy, energy efficiency, energy transition, and green innovation, which is estimated to mobilise EUR 45bn of additional investments to accelerate the green transition and reduce EU fossil fuel dependence. The resources will be channelled through the Infrastructure and Climate Funds mandate (INCF) and the Risk Capital Resources mandate (RCR). The exact split of resources will be approved in line with the annual COP and Group Capital Planning (GCP) process.

The REPowerEU window to be created under the INCF mandate will contribute mainly to Pillar 1 Sustainable Energy and Pillar 2 Energy Efficiency and Energy Transition. In line with the current terms of the INCF mandate, the REPowerEU window will target at least 70% contribution to EIB's climate action targets at portfolio level to be achieved by the end of each reporting year. The REPowerEU window to be created under the RCR mandate will contribute to all Pillars, but mainly to Pillar 2 Energy Efficiency and Energy Transition and Pillar 3 Innovation & Hydrogen. The portfolio to be built under the RCR REPowerEU window will target at least 75% allocation to the EIF Sustainability and Green Transformation Public Policy Goal at portfolio level of MFF 2021-2027 ("2nd pillar" initiative).

3.5.2 | InvestEU

InvestEU was launched in H1 2022 and the EIF has received a very positive market reaction – the amounts requested by financial intermediaries for portfolio guarantees already substantially exceed available capacity for the entire programming period and on the equity side there is a robust pipeline capturing all thematic areas and horizontal objectives. Additionally, the EIF is on track to meet the frontloading implementation requirements under InvestEU (both in terms of approvals and signatures).

Deadlines for EIF stemming from ***Next Generation EU budget***



Given the strong demand, the EIF will pursue initiatives to increase the budgetary resources under InvestEU, namely:

i. Additional top ups from EU sectorial programmes
ii. Contributions from Member States via the Member State Compartment. i.e., Romania, Greece, Finland and Bulgaria,
iii. Contributions from non-Member States who wish to become associated to InvestEU i.e., Norway, Iceland and Israel
iv. Merger of portfolios under legacy EC mandates i.e., InnovFin SME Guarantee,
v. Ad hoc increases of the EU-Compartment budget by the European Commission.

It has to be noted that the mandate preferences of the InvestEU and REPowerEU will overlap in respect of climate & infrastructure funds and with respect to the strategies targeted under the InvestEU "Climate & Environmental Solutions" sub-product. The combination of InvestEU and REPowerEU will remain subject to EIF's deal allocation policy, on a case by case basis, rather than automatic/systematic. REPowerEU is an equity mandate and all current MS Compartment opportunities are for portfolio guarantees i.e. no combination between RCR REPowerEU with MS Compartment is currently foreseen.

3.6 | Other member states and regional Initiatives ("3rd pillar" initiative)

The Recovery and Resilience Facility is a key programme aimed at mitigating the impact of the COVID-19 pandemic on the European economy. In particular, its objective is to address the challenges and opportunities related to the green and digital transitions in the Member States as well as the overall competitiveness of local enterprises.

As part of the Recovery and Resilience plans, several Member States have foreseen deployment of financial instruments through the use of debt and equity instruments. To date, the EIF has been designated as the implementing partner for guaranteed instruments under the RRPs in Romania, Greece, Finland and Bulgaria, whereas deployment of equity mandates will be managed by the EIF in Romania

The implementation of the EIF guarantee instruments under RRF will be organised through the InvestEU Member State-Compartment (MS-C) with the use of existing framework and product agreed for the InvestEU facility. The instruments will address green and competitiveness policy objectives in all the Member States listed above and, in case of Greece, will additionally support the digital transformation.

EIF has commenced the pre-selection of first operations to be supported with RRF resources already in 2022 and, in cooperation with local financial intermediaries, will be providing support to local enterprises and private individuals over the next years.

From 2023, the EIF will start deploying EUR 2.5 to 3.5bn under the ETCI aimed at providing crucial financing for Europe's high-tech companies in their late-stage development, when they want to scale up their business from a start-up status to a more developed venture. The vehicle will be structured as a multi-partite mandate between the EIF and participating Member States.

Since 2013, EIF has been the reference player in the deployment of guarantees in the Western Balkans with over EUR 3.5bn of financing provided to Final Recipients through the WB EDIF platform and landmark central mandates such as COSME, InnovFin and EaSI.

SMEs in the Western Balkans will keep facing acute access to finance issues for the whole 2021-2027 period, including in priority thematic sectors such as inclusive employment, innovation, renewable energy, and human capital development. InvestEU is not expected to be available in the region. At the same time, the region –which has been identified as a priority area by the European Commission – will benefit from increased targeted financial resources to support its development priorities, especially in the SME development area, under the 2021-2027 MFF. Against this background, the EIF is expected to continue and scale up the deployment of guarantees in the Western Balkans. A comprehensive and integrated offer including an uncapped guarantee addressing the SME Competitiveness, Innovation and Sustainability PPGs, and a capped guarantee addressing the financial inclusion PPG, partly by a product similar to the EaSI successor, and partly by a financial growth product developed with United Nations Development Programme UNDP has been submitted to DG NEAR to get their support under the new EFSD+.

Finally, following a 2021/2022 exercise mainly driven by mandates focusing on post-covid measures, including NPI, EGF and RRF funded programs, the emphasis of 3rd pillar equity mandates for the coming years will be skewed towards a number of specific verticals such as Climate, Gender diversity and Deep-Tech.

3.7 | Fundraising from private investors ("4th pillar" initiative)

The EIF aims at increasing diversification of funding through the Asset Management Umbrella Fund , the Sustainable Development Umbrella Fund and bespoke initiatives to attract private/institutional investors. The 4th pillar is currently fundraising the 2nd generation of AMUF and SDUF GreenTech. Fundraising has been impacted by the COVID crisis and current geopolitical and economic situation, yet physical fundraising events are resuming, and fundraising efforts will continue.

In addition, a strategic review of the 4th pillar activity has been recently undertaken and the results will be presented to the Board. Private/institutional investors resources via 4th pillar will contribute modestly to the operational plan in 2023.

Annex: Glossary of terms

ABS	Asset-Backed Securities
AECM	European Association of Guarantee Institutions
AMUF	Asset Management Umbrella Fund
CA&ES	Climate Action and Environmental Sustainability
CBD	Climate Business Development
CBR	Climate Bank Roadmap
CCS	Cultural and Creative Sectors
C&IF	Climate Infrastructure Fund
COMP	Competition
COP	Corporate Operational Plan
COS	Corporate Operational Strategy
COSME	Competitiveness for SMEs
CYPEF	Cyprus Entrepreneurship Fund
DG	Directorate General
DP	Discretionary Portfolio
EAF	European Angel Funds
EaSI	European Union Programme for Employment and Social Innovation
ECB	European Central Bank
ETCI	European Tech Champions Initiative
EFSD	European Fund for Sustainable Development Plus
EFSI	European Fund for Strategic Investments
EGF	European Guarantee Fund
EMN	European Microfinance Network
ESCALAR	European Scale-up Action for Risk capital
ESIF	EU Structural and Investment Fund
FIs	Financial Intermediaries
FoF	Fund of Funds
FR	Fund raising
GP	General Partner
GS&I	Guarantees, Securitisation & Inclusive Finance– EIF Service
ICO	Information Commissioner's Office
IFE	InnovFin Equity

IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IIW	Infrastructure and Innovation Window
IMF	International Monetary Fund
INCF	Infra and Climate Funds
IPO	Initial Public Offering
IT	Information Technology
JEREMIE (JER)	Joint European Resources for Micro to Medium Enterprises
KYC	Know Your Customer
LFF	Luxembourg Future Fund
LGF	Loan Guarantee Facility
LMM	Lower Mid-Market
LP	Limited Partner
MADS	Mandate Acquisition and Deployment Strategy
MFF	Multi-Annual Financial Framework
MFIs	Microfinance Institutions
MS	Member State
NGEU	Next Generation EU
NPI	National Promotional Institution
OECD	Organisation for Economic Co-operation and Development
OR	Own Risk
PE	Private Equity
PPG	Public Policy Goal
RIDW	Research, Innovation & Digitisation Window
RCR	Risk Capital Resources
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience plans
SISW	Social Investments & Skills Window
SIW	Sustainable Infrastructure Window
SDG	Sustainable Development Goal
SDUF	Sustainable Development Umbrella Fund
SLA	Service Level Agreement
SME	Small and Medium-sized Enterprise

SMEi	Small and Medium-sized Enterprise initiative
SMEW	SME Window
SMEG	SME Guarantee Facility
SPC	Sustainability, Policy and Climate
S&P	Standard & Poor's
TTF	Title Transfer Facility
UNDP	United Nations Development Programme
VC	Venture Capital