

EIF Operational Plan 2021-2023



EXECUTIVE SUMMARY

The EIF's Corporate Operational Plan (COP) presents the strategy, and sets out the targets, for the next three years, with orientations for 2021 and preliminary indications for 2022 and 2023.

It includes an overview of how the COVID-19 crisis has affected and will affect the EIF, it outlines the latest developments on the various initiatives and responses undertaken by the EIF as part of the EIB Group, or as implementing partner to the European Commission (EC) and Member States (MS) with a view to addressing the economic fallout of the crisis.

The EIF's COP for 2021-23 will rely on two main initiatives: European Guarantee Fund (EGF) and InvestEU.

For EGF, **a high level of unpredictability surrounds 2020 and by consequence, the 2021** activity coming essentially from EGF's timing and its modality of deployment (state aid rule in particular). EGF is expected to represent a significant volume to be deployed in a tight time frame i.e. by the end of 31 December 2021.

The EIB Group will be the key implementing partner of InvestEU with responsibility for the management of 75% of the budgetary capacity of each of the policy windows part of the mandate. This will necessitate greater cooperation at Group level and developments in this area continue apace. For planning purposes, the EIF is assumed to manage 40% of the EIB Group budget throughout the four windows. The EIF's final share and product mix but also the size of the InvestEU budget may still evolve.

The COP includes in addition to the standard activity (RCR, ABS, ...), the full delivery of InvestEU and the Multiannual Financial Framework (MFF) Sectorial windows, the transferred new infra/climate funds mandate and additional regional mandates, in particular, from the EC Recovery and Resilience Facility. The infra/climate fund mandate resulting from the EIB Group equity strategy approved last year, coupled with the Sustainability and Green transformation window of InvestEU represent a key component of the EIF's commitment to accompany the Group to support Climate Action and Environmental Sustainability.

This support to climate comes along with the EIF's increased focus on impact via thematic/policy objectives. For the first time, the EIF's activity will be planned and monitored against Public Policy Goals (PPGs). The focus on policy impact will be cascaded throughout the entire organisation from the mandate acquisition strategy to the deployment, reporting and monitoring.

The present COP and the expected activity until 2027 will require capital support through the endorsed combination of a capital increase and an additional EIB mandate for EGF that will ensure EIF's ability to deliver this plan over the next MFF period.

Chart 1: Volumes evolution

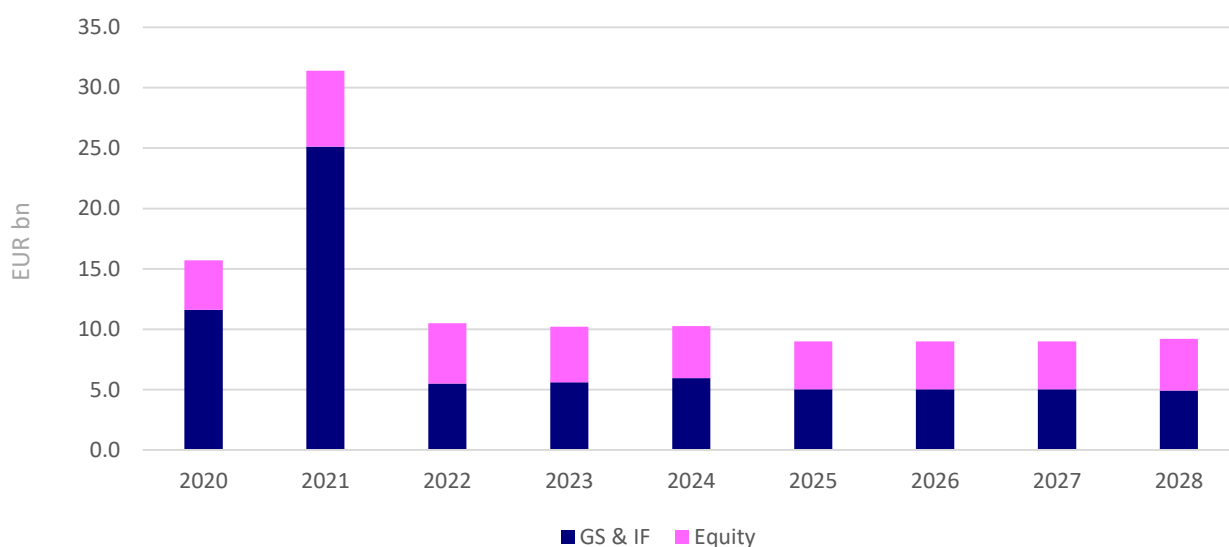


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1. Implication of the COVID-19 crisis for the EIF

1.1 Overall economic impact¹

The COVID-19 pandemic has severely impacted the global economic outlook. The economic damage resulting from the lockdown measures is unprecedented. The shock was initially transmitted via a complex mix of supply (for example, labour restrictions due to illness of workers and/or their family members, school and business closures) and demand factors (e.g. reduced demand for specific goods and services, curtailing of investments). Subsequently, it was further amplified by financial markets and global trade linkages, as it spilled over to most segments of the economy.

The European economy entered into a deep recession during the first half of 2020, as it experienced the deepest quarterly output contraction since World War II. The European economy is expected to contract by more than 8% over the course of 2020. The path to recovery is expected to progress significantly slower than initially anticipated. This is rooted in a series of factors, such as continued social distancing rules throughout the second half of the year, large scarring effects that will have a negative impact on global supply chains and a hit on productivity as businesses adapt to the stringent hygienic requirements imposed upon them by governments in an attempt to reduce transmission rates (IMF, 2020a).

While all national economies have been impacted, some countries were hit much worse than others. GDP of Italy, Spain, Croatia and France is forecasted to shrink by more than 10%. Contractions in Sweden, Denmark and Poland are expected to be more moderate, but still significant, ranging from 4 to 5.5%. The slowdown in economic activity could have a devastating effect on European insolvencies and the worst hit European countries are expected to experience increases in bankruptcies by up to 30% in 2020.

Similar to the nature of the crisis, public policy action on European and national levels - including support by the EIB Group - in response to the COVID-19 pandemic has been unprecedented. Already at the onset of the pandemic, the EIB Group reacted rapidly to address SMEs' most urgent liquidity needs². As part of the Group's reaction to the COVID-19 crisis, the EIF is partnering with the EIF mandators (the EIB, the EU, the National Promotional Institutions and the Member States) to put in place relevant packages to help small businesses mitigate the challenges of the crisis.

The increase in the rate of loan issuance across the Euro area has led to a significant acceleration in the upward trend of corporate leverage, with total outstanding loans to non-financial corporations in the Euro area rising by nearly 6% since the beginning of the year. Corporate borrowing costs have continued to decline, reaching a new low record in June 2020. Even before the surge in liquidity needs during the height of the lockdown, European SMEs had reported a rise in access to finance issues, as the share of Euro area SMEs that consider access to finance to be a highly important problem had increased further during the second semester of 2019, to 27%.

1.2 Impact on the markets in which the EIF operates

Altogether, the COVID-19 crisis has a strong impact on the EIF's business and the demand for the EIF products. For both business lines, debt and equity, the demand for most the EIF products has sharply increased and - due to the magnitude of the economic shock - a fast reaction to supply and to implement emergency measures was and is necessary. The COVID-19 outbreak is adding considerably to the challenges faced by European banks, already suffering from weak revenues and insufficient profitability.

Credit guarantees "remain the most wide-spread instrument in use across countries" to ease SMEs' access to finance (OECD, 2018), and are particularly relevant "in those countries where a network of local or sectoral guarantee institutions is well established" (OECD, 2013). The intensive use of guarantee instruments to counter the fall-out of the COVID-19 crisis, both at the national as well as at the European level, is evidenced by the strong rise in guaranteed lending volumes that occurred during the initial phase of the containment period. The strong surge in guaranteed lending of loans with a longer maturity indicates that companies are also in dire need of support for longer term investment funding.

¹ Source: https://www.eif.org/news_centre/publications/eif_working_paper_2020_67.pdf

² See for details: <https://www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fightcrisis-caused-by-COVID-19.htm>

The adverse effects of the COVID-19 pandemic also spilled over to Private Equity (PE) and Venture Capital (VC) activities. At the fund level, there are adverse repercussions for fundraising, investment, and exits – and consequently on the financing of innovative SMEs in Europe (see e.g. Mason, 2020). General Partners (GPs) are expected to focus on cash flow management and resource management, while smaller and less established fund managers may struggle to source Limited Partner (LP) commitments (PitchBook, 2020). This would prove detrimental to most young and innovative SMEs across Europe: a high portion of these are non-revenue generating and/or cash-flow negative. If access to PE/VC funding is restricted, they might be unable to access funding through alternative channels. Even for revenue-generating innovative SMEs, the potential reduction in sales due to COVID-19 might erode their capital base. This would reduce their chances to capture any additional debt financing to avoid insolvency.

2 EIF's strategic orientations

2.1 Priorities for COP 2021-2023

The COP 2021-2023 focuses on some specific areas and strategic objectives, including:

- ***Capital adequacy to pursue the activity plan beyond 2020***

The EIF's portfolio is expected to be impacted by the COVID-19 crisis given its higher risk composition and potential vulnerability. At the same time, the EIF is committed to play a key role in delivering an EIB Group response to the COVID-19 economic crisis. As a consequence, the EIF's capital needs have been increasing and are expected to be materialised through a capital increase of EUR 1.25bn, combined with an EGF mandate covering the EIF's Own Risk participation. The capital increase will contribute to the consolidation of the EIF's capital metrics and ensure its business delivery over the MFF 2021-2027.

- ***Completion of EGF implementation***

The current market situation related to the COVID-19 crisis has called for a public intervention in the support of access to finance for European companies. The EIF is in a unique position as a pan-European provider of risk sharing and equity instruments and will continue the implementation of the EGF initiative in 2021. The EIF had planned to deploy EUR 3.7bn into the market in 2020; however, due to circumstances outside the EIF's control, EGF is still not operational and therefore it is getting increasingly unlikely that deals can be signed in 2020. The majority of the deployment, EUR 22bn, is concentrated in 2021. It should be noted that certain modalities of EGF implementation still need to be clarified (certain conditions regarding equity transactions, the availability of EGF resources beyond 2021 for implementing partners) and may materially impact the amount of 2021 signatures.

In fact, the deployment of EGF will be the key contributor to the EIF's corporate plan in 2021, representing up to 70% of the activity to be deployed in the year.

- ***Development and implementation of InvestEU starting in 2021, to be complemented by sectorial/thematic windows***

The EIF, together with the EIB, will be the key implementing partner of InvestEU. The EIB Group will be entrusted with the management of 75% of each InvestEU policy window, with the size still yet to be ascertained as part of the ongoing legislative process. Under InvestEU, the EIF expects to deploy the full suite of intermediated products relying on its pan-European reach, effective intermediary network and financial expertise. While providing risk finance for the benefit of small businesses will remain the EIF's core business, it will increase its focus on key EU policy priorities of a green and digital transformation, strengthening the competitiveness of EU businesses, and building a more resilient and inclusive European society.

- ***Integration of Infra /Climate Fund activity as part of the new EIB Group equity strategy***

Following EIB Group's equity strategy decision, the Infra / Climate funds activity will be transferred from EIB to the EIF at the beginning of 2021. In the context of Paris Alignment, the EU Green Deal and EIB Group Climate Bank strategy, the EIF plans to make a relevant contribution to both the Union and the EIBG climate targets by investing in infrastructure funds targeting climate adaptation or mitigation, as well as environmental sustainability, in energy, transport, environment, digital connectivity, space and social infrastructure.

- **Alignment/convergence with EIB Group Climate goals**

The EIF will contribute to the EIB Group' climate objectives and align its activities with the goals of the Paris Agreement³ by end of 2020. With InvestEU and dedicated mandates such as the Infra and Climate Funds, the EIF expects to step up its effort and gradually increase its target in terms of supporting climate action and environmental sustainability. The EIF ambitions to target 10% of its activity in climate and environment in 2021, excluding EGF. The exclusion is justified by the fact that EGF is an emergency measure created to tackle the effects of the pandemic and not designed to pursue climate objectives. EIF expects to commit up to EUR 1bn in 2020 for these specific objectives i.e. close to 20% of its standard volume (i.e. excluding EGF and specific COVID-19 regional mandates).

- **Refinement of strategy and market approach for 3rd pillar – regional mandates activity**

National Promotional Institutions (NPIs) are an important part in the EU financial scene, and their role in the multilevel European political economy will continue to increase.

The EIF will focus on the development of its 3rd pillar activities through cooperation models with Member States. This will be achieved with the gradual introduction of country strategies to develop targeted interventions that optimize the EIF additionality and respond to national priorities.

- **Consolidate 4th pillar activity at relevant level to support diversification of sources of funding**

The EIF wants to continue to leverage its policy objectives by attracting and managing private investment capital from Institutional Investors as a means to continue supporting its investment role in the European PE and VC markets.

Keeping these investors engaged in the targeted asset classes, especially in a period when investors naturally retreat to more risk averse investment strategies, will be vital in facilitating the long-term support of European SMEs.

The launch of the new Asset Management Umbrella Fund (AMUF) compartments in 2021 combined with strategic partnerships with private investors will consolidate the relevance of this activity and ensure a diversified and balanced blend of funding for the EIF activities and mission.

2.2 Future strategic orientations

In moving from being an "SME" to a "Mid-cap", the EIF is at a turning point: it must both improve the way it operates, and at the same time better articulate *what* it aims to achieve and *why*. In order to maintain its positioning and value adding role in the market, it needs to embark in a (i) digital transformation journey, while re-centering its activity around relevant (ii) thematics and policy objectives.

The objectives of such initiatives will be multi-fold:

- (i) Digital Transformation

- Identify and develop possible new distribution channels as well as new appraisal and analysis processes and tools; this is the first step towards a more ambitious target, namely an enhanced digital business model
- Enhance data collection and data valorisation capabilities;
- Improve efficiency and straight-through processing;
- Reduce operational risk; and
- Become / be the business transformation path-finder for the EIB Group.

³ Agreement within the United Nations Framework on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation and finance. It targets a temperature increase of less than 2 degrees Celsius by 2030.

(ii) Thematics and policy objectives

- Ensure every activity / mandate / transaction has a clear ex-ante mapping to EU policy goal(s) and Sustainable Development Goals (SDGs);
- Develop a strategic, policy-driven, approach to mandate and transaction selection and prioritisation, driven by market gaps and an optimised allocation of the EIF resources;
- Be able to better identify and quantify impact and results of the EIF's activities;
- Ensure a close alignment with EU and EIB Group's policy goals, while catering for the EIF's specific intervention areas;
- Further develop ex-post monitoring, reporting and performance / impact tracking capabilities.

3 EIF's operational plan

The EIF is facing strong demand both on the equity as well as on the debt side, although caution still needs to be exercised as both the economic situation across the EU as well as market conditions remain fluid and far from certain at least for the next 6-12 months. SMEs are, due to the crisis, in strong need of equity, subordinated financing and both short and long-term debt term support as well as long-term financing. To that context, the deployment of 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 at the moment. The EIF will continue offering both capped and uncapped guarantees.

National public support schemes addressed in 2020 the immediate liquidity needs but despite being massive programs often provided by NPIs, they could still not satisfy demand in all countries. The EC COVID-19 measures are contributing to filling that gap in 2020 and EGF will continue to do so thereafter.

The EIF's overall activity for 2021 is expected to reach more than EUR 31bn, which besides the standard activities include up to EUR 22bn of EGF deployment, almost EUR 2bn of InvestEU and EUR 3.4bn of regional COVID-19 related measures.

As the EIF is raising its climate action and environmental sustainability ambitions, it intends to leverage on its intermediated business, complementary to the EIB activities, and to develop equity and guarantee solutions for SME and (small) MidCap financing in support of climate and environmental sustainability objectives.

Following the approval of the EIB Group Equity Strategy in April 2020, the Climate and Infrastructure Funds business will be transferred to the EIF. The EIF is envisaging an increased emphasis on clean energy transition, future mobility/transport, environment and resources efficiency, sustainable ICT and circular economy.

The EIF intends to review and develop due diligence and risk management processes in 2021, and to strengthen its environmental, social and governance (ESG) procedures to accommodate climate financing needs and ensure Paris alignment.

3.1 Plan for 2020

EIF is expected to deliver on its 2020 12bn COP. Although it may still vary within a range of EUR 11.5bn – EUR 12.5bn, subject to the signature of some large transactions very close to the end of the year.

Total deployment for 2020 is expected to reach tentatively EUR 15.7bn (EUR 12.0bn of standard activity including COVID measures and potentially up to EUR 3.7bn of EGF). The resources used in response to the COVID crisis account for more than half of the standard activity COP. .

Table 1: 2020 volumes (EUR m)

Total Equity	3,486
Total GS&IF	8,527
Total Equity + GS&IF	12,013
EGF	3,700
Total Equity + GS&IF + EGF	15,713

3.2 Fund raising COP 2021-2023

Heavy fund raising activity is foreseen for 2021 in Pillar 2 (European Union resources) across business lines, as negotiations of Invest EU and MFF sectorial windows will be finalized. The launch of 2nd generation AMUF and potential on boarding of Strategic Managed Accounts will accelerate 4th Pillar (Private Investors resources) activities.

Equity 3rd (Member States/ Regional Resources) pillar activity in 2021 could benefit from one high volume initiative, the German Future Fund, which could lead to a mandate for the EIF of EUR 3bn, several medium sized fund of funds (FoFs) for almost EUR 700m (LFF2, TFF, Austria FoF and the Swedish and Finish climate funds) and NPI initiatives for more than EUR 200m.

Lower activity levels for securitization are expected (GS&IF EIF Own Risk and Pillar 1 – EIB Resources) when compared to previous years, when the EIF successfully implemented part of EIB's share under the European Fund for Strategic Investments (EFSI) (total expected of EUR 750m for 2021).

Table 2: COP 2021-2023 fund raising ("FR") (EUR m)

	2021 FR COP	2022 FR COP	2023 FR COP		2021 FR COP	2022 FR COP	2023 FR COP
Total Equity	10,521	6,600	3,813		500	400	400
Total GS&IF	12,311	9,476	2,137	EIF OR	250	200	200
Total Fund Raising	22,832	16,076	5,950	1 - EIB	11,481	7,654	0
				2 - EC	30	1,171	1,537
				3 - Regional Mandates	50	50	0
				4 - Private Investors			
				Total GS&IF	12,311	9,476	2,137

EURm	2021 FR COP	2022 FR COP	2023 FR COP	EURm	2021 FR COP	2022 FR COP	2023 FR COP
1 - EIB	1,463	1,463	1,463	EIF OR	500	400	400
2 - EC	4,278	2,802	0	1 - EIB	250	200	200
3 - Regional Mandates	3,950	1,300	1,300	2 - EC	11,481	7,654	0
4 - Private Investors	830	1,035	1,050	3 - Regional Mandates	30	1,171	1,537
Total Equity	10,521	6,600	3,813	4 - Private Investors	50	50	0
				Total GS&IF	12,311	9,476	2,137

The total fund raising for Invest EU is split between 2021 and 2022 (60% and 40% respectively).

3.3 Deployment COP 2021-2023

Compared to recent years, there is a significant increase in the activity planned for 2021 (total of EUR 31.4bn), as a consequence of the deployment of the EGF (total of EUR 26bn for 2020-2021) being concentrated in a 12-months window. The scenario for EGF volumes in 2021 will most likely be revised downwards, if the availability period remains unchanged and is not prolonged beyond December 2021. Further, certain conditions for equity investments and debt funds may lead to a reduction by more than EUR 1bn, which would have a negative impact as well on guarantee volumes, due to the set-up of EGF requirements. Additionally, delivering such a volume will be dependent on huge streamlining effort including process simplification and optimization.

Other activities planned for 2021 include remaining EFSI deployment (approved in 2020 and signed in 2021), COVID-19 initiatives for regional mandates (mainly guarantees including a potential EUR 3bn transaction in Spain currently discussed with ICO⁴), the start of the next MFF program (back loaded to the end of 2021 and conditional to MFF becoming operational end of June 2021) and the kick start of the infra/climate activity (partially combined with Invest EU).

In the absence of clearance requested for EGF securitization products from DG Competition, EIB Group ABS activities are expected to be scaled down with the end of the EFSI support, translating into lower volumes for the EIF.

Table 3: COP 2021-2023 volumes

EURm				2021 COP	2022 COP	2023 COP
Equity				3,193	4,327	4,609
Guarantees & Inclusive Finance				6,107	5,319	5,616
Total Equity + GS&IF				9,300	9,646	10,224
EGF				22,103	845	0
Total Equity + GS&IF + EGF				31,403	10,491	10,224

EURm	COP 2021-2023			EIF OR	2021 COP	2022 COP	2023 COP
	2021 COP	2022 COP	2023 COP		2021 COP	2022 COP	2023 COP
1 - EIB	1,067	1,228	1,313	1 - EIB	400	400	400
2 - EC	863	1,462	1,161	2 - EC	1,882	3,522	3,522
3 - Regional Mandates	1,100	928	1,475	3 - Regional Mandates	3,295	952	1,249
4 - Private Investors	162	710	660	4 - Private Investors	30	45	45
Total Equity	3,192	4,327	4,609	Total GS&IF	6,107	5,319	5,616
EGF	3,093	645	0	EGF	19,010	200	0
Total Equity + EGF	6,285	4,972	4,609	Total GS&IF + EGF	25,117	5,519	5,616

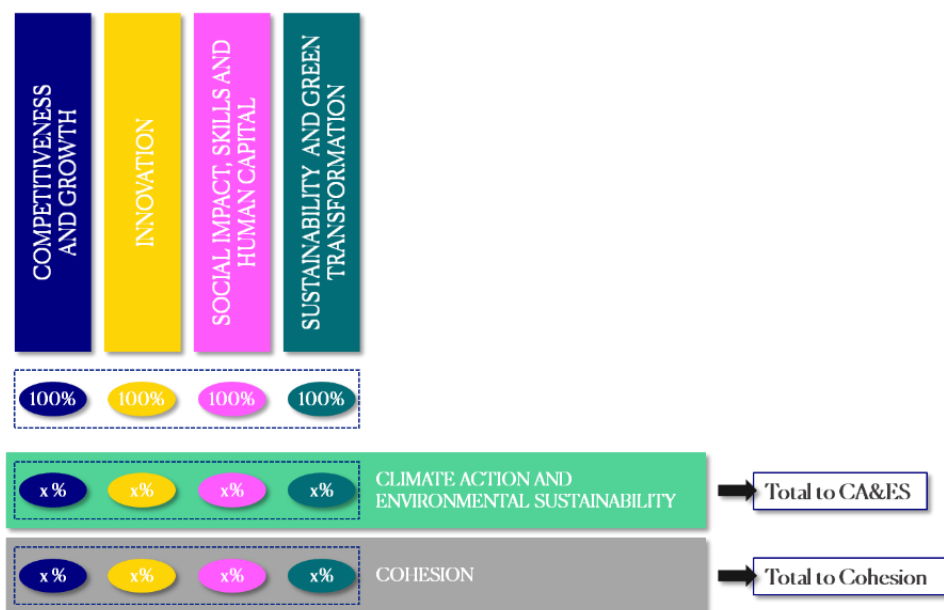
3.4 Policy impacts

3.4.1 EIF's Public Policy Goals

As introduced already in section 2, the EIF is called to play a key role in supporting the EU priorities, which will take the form of thematic interventions with clear policy targets within the array of the EIF's Public Policy Goals (PPGs).

The EIF PPG framework has been designed in alignment with EIB's while taking into account the specificities of the business models and the relative importance of policy areas in which each institution operates. By construct, the EIF PPGs provide an appropriate level of harmonization across the EIB Group and a foundation for effective EIB Group-wide PPG reporting.

⁴ Mandates prudently assumed to be signed in 2021 but the EIB and the EIF Services are working on the draft and negotiation of the mandate with views of signing before the year end 2020 subject to the EIF/EIB internal approval process.



PPG frameworks for both institutions count on the following common principles:

- They represent the **EU priorities – transposed as policy areas-** called to be supported by each institution;
- Each PPG framework distinguishes between:
 - **vertical pillars** (mutually exclusive, i.e. summing up to 100% in volumes) and
 - **horizontal pillars**, capturing the contribution of the vertical pillars to concrete Policy Priority Goals: (1) Economic and Social Cohesion under “Cohesion” and (2) Climate Action and Environmental Sustainability, to be **100% aligned between EIF and EIB**.
- Common terminology is used, so that the two frameworks can be mapped.

The EIF has defined four key PPGs for its activity:

"Competitiveness and Growth": this has so far been the core of the EIF's business, and is expected to remain a significant priority going forward, as it addresses the objectives of facilitating access to financing as well as crowding-in third party money, and is therefore closely linked to the CMU. Interventions under this PPG will continue to be reported under the SME and Midcap Finance PPG of the EIB/EIB Group, as they correspond to generalist finance.

"Innovation": this has been a growing policy goal for the EIF, cutting across the EIB, EC and also 3rd and 4th pillar mandates. It is sub-divided according to the main technology fields supported by EIF's interventions. Interventions under this PPG will be reported under the joint "Innovation and Human Capital" PPG of the EIB Group.

"Social Impact, Skills and Human Capital": while this PPG is smaller in terms of annual volumes, it is a market on which EIF has established itself as a prominent player, and for which it has developed a range of bespoke products. It covers various areas related to social impact, but also social innovation, cultural and creative sectors, as well as education and skills. Interventions under this PPG will also mainly be reported under the joint "Innovation and Human Capital" PPG of the EIB Group.

"Sustainability and Green Transformation": this PPG will capture a broad range of policy interventions promoting sustainability, not only in infrastructure but also in other activities related to SME and small midcap financing – e.g. mobility, agriculture, health systems, etc. This vertical PPG will be the main one capturing the EIF's climate ambition, since in the EIF's intermediated model it is more difficult to include ex-ante the climate dimension across the more generic activities. Interventions under this PPG will be mostly reported under the "Environment and Infrastructure" PPG of the EIB Group, depending on the type of intervention.

To note that the EIF does not have a dedicated PPG for infrastructure, given that infrastructure is not a policy objective as such of EIF. Going forward, the EIF will also cover infrastructure through certain interventions with infra and climate funds for instance. Such intervention will therefore be reported under the "Sustainability and Green Transformation" PPG.

Table 4: COP deployment by Policy Objectives

EURm	2021 COP	2022 COP	2023 COP
Competitiveness and growth	2,925	2,521	2,438
Innovation	2,957	1,618	1,466
Social impact, skills and human capital	151	195	151
Sustainability and green transformation	252	638	554
Total Equity	6,286	4,972	4,609

EURm	2021 COP	2022 COP	2023 COP
Competitiveness and growth	7,635	3,427	3,524
Innovation	16,657	901	901
Social impact, skills and human capital	336	254	254
Sustainability and green transformation	490	936	936
Total GS&IF	25,117	5,519	5,616

EURm	COP 2021-2023											
	2021 COP				2022 COP				2023 COP			
	COP Volumes		Exp. Mobilised Amount		COP Volumes		Exp. Mobilised Amount		COP Volumes		Exp. Mobilised Amount	
Competitiveness and growth	10,560	34%	61,220	50%	5,948	57%	39,873	49%	5,962	58%	41,646	53%
Innovation	19,614	62%	52,822	43%	2,520	24%	28,209	34%	2,367	23%	24,793	31%
Social impact, skills and human capital	487	2%	4,548	4%	449	4%	3,305	4%	406	4%	2,829	4%
Sustainability and green transformation	742	2%	4,517	4%	1,574	15%	10,640	13%	1,489	15%	9,769	12%
Total COP	31,403		123,107		10,491		82,027		10,224		79,036	

3.4.2 EIF's ambition in climate action

The EIF will contribute to EIB Groups' climate objectives and align its activities with the goals of the Paris Agreement^[1] by end of 2020. With InvestEU and dedicated mandates such as infra and climate funds, the EIF expects to step up its effort in climate and gradually increase its target. For 2021, the EIF targets 10% of its activity in climate and environment, excluding EGF.

In addition to business development, the EIF is reviewing and developing existing procedures related to due diligence and risk management, and will further strengthen its ESG questionnaires for financial intermediaries in order to accommodate climate financing needs and to ensure Paris alignment. The EIF is also contributing its expertise in intermediated operations within relevant Group work streams.

^[1] Agreement within the United Nations Framework on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation and finance. It targets a temperature increase of less than 2 degrees Celsius by 2030.

4 Key initiatives

A number of key initiatives have been included in the EIF COP 2021-23..

4.1 COVID-19 initiatives

The following table outlines the key COVID -19 initiatives which impact the volume in 2020 and the COP 2021-23.

Table 5: COVID-19 responses

		Mandate resources	EIF Exposure	COP 2020 Volumes	COP 2021 Volumes	Exp. Leverage Volumes (FI Level)	Exp. Multiplier (FI Level)	Exp. Mobilised Volumes (FR Level) **	Exp. Multiplier (FR Level)
EC/EIBG Covid Initiatives	Debt	1,074	1,440	2,514	0	6,061	5.6	8,486	7.9
	Securitization	1,767	1,113	2,880	0	9,064	5.1	12,690	7.2
	Equity	100	0	0	100	100	1.0	100	1.0
	Total	2,941	2,553	5,394	100	15,226	5.2	21,276	7.2
Regional Covid Initiatives	Debt	3,788	0	493	3,295	5,303	1.4	8,712	2.3
	Equity	400	0	400	0	400	1.0	800	2.0
	Total	4,188	0	893	3,295	5,703	1.4	9,512	2.3
Total EIF COVID response		7,129	2,553	6,287	3,395	20,929	2.9	30,788	4.3
EGF *	Debt	8,993	13,317	3,100	19,210	55,841	6.2	78,176	8.7
	Equity	4,338	0	600	3,738	8,838	2.0	9,418	2.2
	Total	13,331	13,317	3,700	22,948	64,679	4.9	87,594	6.6
Total COVID response + EGF		20,460	15,870	9,987	26,343	85,608	4.2	118,382	5.8

* Deployment under back to back arrangement with EIB – pending final agreement. But considering that the mandate is still not operational the deployment of EGF in 2020 remains very uncertain..

* Maximum volume. Expected to be reduced due to the maximum cap set on mobilised amount for the equity/debt fund activity under EGF and the introduction of the recent audit clauses

4.1.1 The EC COVID-19 EUR 8bn response package

Table 6: EC response

Product	Mandate resources	EIF Exposure	COP 2020 Volumes	COP 2021 Volumes	Exp. Leverage Volumes (FI Level)	Exp. Multiplier (FI Level)	Exp. Mobilised Volumes (FR Level)	Exp. Multiplier (FR Level)
InnovFin SMEG	360	1,440	1,800	0	2,134	5.9	2,988	8.3
COSME-LGF	714	0	714	0	3,927	5.5	5,498	7.7
IFE-REFIT	100	0	0	100	100	1.0	100	1.0
Total	1,174	1,440	2,514	100	6,161	5.2	8,586	7.3

NB FI=Financial Intermediaries FR=Final recipient

a) Guarantee facilities

As part of the immediate response measures, more than EUR 1bn of the European Fund for Strategic Investments (EFSI) have been used to increase existing Guarantee Facilities managed by the EIF:

- InnovFin SME Guarantee (InnovFin SMEG) for the amount of EUR 360m, resulting in an additional volume capacity of EUR 1.8bn,
- COSME Loan Guarantee Facility (COSME LGF) for the amount of EUR 714m.

This budget is dedicated to cover working capital finance transactions for SMEs established in EU Member States. This guarantee capacity is expected to unlock more than EUR 8bn of mobilized financing.

In addition to the budgetary increase of the Guarantee Facilities, the terms and conditions under the Guarantee Facilities are modified to better respond to extraordinary circumstances.

The following conditions apply to new guarantee contracts under the new budget, as well as existing contracts:

- Increase in guarantee coverage for transactions covering working capital, both in terms of guarantee rates and cap rates;
- Lowering risk retention requirement for financial intermediaries from 20% to 10%;
- Allowing for inclusion of bridge finance for minimum maturity of 6 months (InnovFin SMEG only);
- Adaption, simplification or lifting of certain constraints and eligibility requirements (InnovFin SMEG only);
- Increase of maximum maturity of revolving working capital transactions;
- Extension of the Availability Period;
- Allowing for postponement, rescheduling or payment holiday periods;
- Extended cover of the accrued interest of the transactions until 360 days, provided that no default has been declared.

The last two points are particularly important as they apply not only to the new loans originated, but to the whole stock of COSME LGF and InnovFin SMEG loans originated so far. This means that around EUR 80bn of loans outstanding throughout Europe could potentially benefit from the conditions, thereby significantly reducing the risk of default for hundreds of thousands of SMEs and midcaps.

The corresponding calls for expression of interest were published and demand exceeded after only two weeks the amounts available.

b) VC backed start-ups (IFE - REFIT)

The Commission will dedicate EUR 100m exclusively for topping-up the commitments in existing funds supported under InnovFin Equity. Unlike IFE, which is financed by EC, EFSI and EIF resources, this window will be financed 100% by EC out of Horizon 2020 contribution (including liquidity).

Many companies that are in the EIF's equity portfolios are facing interruption in their access to equity resources that are required for continuing their business. For instance, many deal term sheets that were in discussion before the lockdowns have now been withdrawn. As a result, providing access to additional capital to a number of our funds should provide them with increased capacity to close investment rounds and continue to support firms in their portfolios.

Such increased commitments are to be structured in side vehicles to the main funds in which the EIF has invested and are to be dedicated to supporting a subset of companies from the main fund portfolios experiencing the highest liquidity challenges.

4.1.2 COVID-19 ABS response

Table 7: ABS response

Product	Mandate resources	EIF Exposure	COP 2020 Volumes	COP 2021 Volumes	Exp. Leverage Volumes (FI Level)	Exp. Multiplier (FI Level)	Exp. Mobilised Volumes (FR Level)	Exp. Multiplier (FR Level)
ABS	1,767	1,113	2,880	0	9,064	5.1	12,690	7.2
Total	1,767	1,113	2,880	0	9,064	5.1	12,690	7.2

The COVID-19 ABS initiative is a large EIB Group initiative designed to replicate in short time and in the current market conditions the success of the past few years of the deployment of EIB EFSI funds via securitisation transactions structured and jointly originated by EIF and EIB. It forms as well part of the EUR 40bn package announced by the Bank.

The initiative does not require additional budget from the EC, except for a reallocation of EFSI resources.

For this purpose, the EIB has recently redirected EFSI available funds for an amount of EUR 2bn to COVID-19 related securitizations for a potential contribution to the economy of up to EUR 10bn new financing.

Under the intra-Group Service Level Agreement (SLA), the EIF is responsible for the origination (together with the EIB), structuring and risk assessing of all granular securitisation transactions within the EIB Group. In order to allow for the full deployment of the funds, some transactions will require the EIF's participation (on top of EFSI funds and the EIB's participation) with guarantees mainly on senior tranches, but also, potentially, on mezzanine tranches, to the extent allowed under the current risk appetite framework (i.e. tranches internally rated investment grade or above). The EIF is expected to provide capacity via own risk resources for an amount of up to EUR 1.1bn, corresponding to a capital allocation of up to EUR 150m.

4.1.3 National Initiatives COVID response

Table 8: COVID National initiatives

Product	Mandate resources	EIF Exposure	COP 2020 Volumes	COP 2021 Volumes	Exp. Leverage Volumes (FI Level)	Exp. Multiplier (FI Level)	Exp. Mobilised Volumes (FR Level)	Exp. Multiplier (FR Level)
Regional Debt	3,788	0	493	3,295	5,303	1.4	8,712	2.3
Regional Equity	400	0	400	0	400	1.0	800	2.0
Total	4,188	0	893	3,295	5,703	1.4	9,512	2.3

The EIF will deploy nearly EUR 900m in 2020 of national initiatives targeting the COVID crisis. By the end of 2020, the Corona Matching Facility will support funds across Europe with German companies in their portfolio with up to EUR 400m. On the debt side, EUR 80m are expected to be signed under JEREMIE Bulgaria and COVID-19 measures have been introduced in existing agreements such as Irish SMEs and ESIF-ERDF Greece, which will allow SMEs to benefit from COVID support.

2021 national initiatives include a potential EUR 3bn transaction in Spain currently discussed with ICO and mandates like JEREMIE Romania, CYPEF and the Western Balkans Guarantee Facility.

4.1.4 European Guarantee Fund

Table 9: EGF

Business line	Product	EGF Resources	% of total	Total COP Volume	COP			Exp. Leverage Volumes (FI Level)	Exp. Multiplier (FI Level)	Exp. Mobilised Volumes (FR Level)	Exp. Multiplier (FR Level)
					2020	2021	2022				
Guarantees & Inclusive Finance	Capped Guarantees	2,509	18.8%	2,509	280	2,229		25,585	10.2	35,818	14.3
	Uncapped Guarantees	6,084	45.6%	18,720	2,700	16,020		28,080	4.6	39,312	6.5
	DDF	400	3.0%	1,081	120	761	200	2,176	5.4	3,046	7.6
Equity	ITI	1,838	13.8%	1,838	300	1,538		3,931	2.1	6,083	3.3
	LMM	2,500	18.8%	2,500	300	1,555	645	4,907	2.0	3,335	1.3
Total EGF		13,331	100%	26,648	3,700	22,103	845	64,679	4.9	87,594	6.6

During the second half of 2020, the EIB Group has launched EGF as a complement to other actions undertaken at EU level in response to the crisis triggered by the COVID-19 pandemic. The EGF draws on commitments from Member States, on a pro rata basis to their shareholding in the EIB. As of the date of this document, 21 Member States have committed to it, two Member States are yet to confirm their intention and four of them have indicated that they will not participate in the initiative. As a result, the total size of the project - in terms of Member States commitments - will be around EUR 24.5bn. According to a preliminary split discussed within the EIB Group, the EIF will implement products using approximately 50% of the fund's commitments.

The EGF is established under the existing EIB's structure of Partnership Platform for Funds. EGF provides irrevocable, unconditional and first demand guarantees to the EIB which, in turn, issues a guarantee to the EIF. Losses are borne by all participating Member States pro rata to their respective commitment. By pooling credit risk across all of the participating Member States the overall impact of the EGF can be maximised, whilst the average cost can be significantly reduced compared to national schemes.

The EGF has a number of Key Performance Indicators (KPIs) to be managed in a dynamic way at EIB Group level. Most notably, via a variety of financial products, EIB Group shall ultimately aim at achieving a leverage of 8x the resources committed, a balanced geographic distribution, a maximum net expected loss of 20%, etc. In terms of timing, the underlying projects shall all be approved by the EIB Group governing bodies, as well as by an ad hoc committee formed by representatives of the participating Member States, by the end of 2021. Timing for implementation is therefore very tight, and will require a considerable effort during 2021. Such tight timing applies as well to financial intermediaries, which might have negative impact on volumes.

The main products - on the EIF side - are: (i) capped and uncapped guarantees, (ii) equity investments into funds, and potentially (iii) securitisation.

The EIF is well positioned to deliver rapidly and efficiently both the guarantees and the indirect equity products, provided that the conditions of deployment mentioned on paragraph 3.1 are rapidly clarified. In fact, as these constitute EIF core products, the EIF can rely on a vast pan-European network of financial intermediaries who are already familiar with the advantages of such products (particularly relevant as anti-crisis measures) as well as relevant processes and requirements.

As far as the guarantees are concerned, the proposed products/EGF-amounts are:

- EUR 2.5bn capped guarantees. Within this allocation, a large share is expected to be counter-guarantees with NPIs and Guarantee Institutions (ensuring therefore complementarity with national initiatives);
- EUR 6.1bn uncapped guarantees. The senior tranche (target rating iA2) is envisaged to be counter-guaranteed by EIB with own resources, with no skin in the game for the EIF. An intragroup arrangement is being put in place;
- EUR 0.4bn diversified debt funds. As for uncapped guarantees, the senior risk (target rating iA2) is envisaged to be counter-guaranteed by EIB with own resources, with no skin in the game for the EIF.

Alongside measures focused on debt-type instruments, the EIF will also deliver a series of equity type measures to support the EU's venture capital, private equity and private debt markets. The priority is on ensuring that companies can continue to access capital necessary for them to continue their activities. This may be in the context of funding rounds that were expected to take place but are in jeopardy because of the crisis, and the difficulty or near impossibility to close investments in the current market conditions. This may also be in the context of higher than expected capital needs, as companies need to bridge a period of time during which revenues and cash flows are severely impaired.

4.2 Other national and regional Initiatives ("3rd pillar" initiative)

During 2021, the EIF will primarily deploy national mandates signed in 2020 as well as legacy regional mandates (e.g. Western Balkans Guarantee Facility, CYPEF, JEREMIE Romania, etc.). Those are envisaged to focus on supporting SMEs affected by the COVID-19 crisis. In addition, the EIF will aim at signing new tailor-made initiatives - possibly combining them with EGF, and will also focus on ensuring absorption and optimal utilisation of those funds already put at use under mandates fully deployed (e.g. SMEi Romania and Finland).

In light of the successful implementation of existing regional initiatives, both national and EU stakeholders will certainly require further intervention by the EIF for the deployment of new projects. The relevant funding sources are: (i) React-EU, (ii) new MFF (2021-2027) ESIF, (iii) Recovery and Resilience Facility, (iv) national budget, and (v) a mix of the above, possibly combined also with EIB Group risk taking capacity.

Therefore it is expected that after 2021 an expansion of 3rd Pillar activities (Regional/National initiatives) could represent c. 25% of the volumes deployed by EIF (2022-2027).

The legal bases, the operational details and the administrative framework of those funding sources are still being defined and, as such, during the course of 2021, the EIF will actively engage in discussions with both European and National Authorities to contribute to the design and planning of added value programs.

4.3 Fundraising from private investors ("4th pillar" initiative)

In order to attract even further private investors into the financing of the European economy, and in particular into start-ups and growing SMEs, the EIF has developed a product offering relying on its deep and long expertise in the field of private equity. The initial results proved successful with more than EUR 650m from six different countries, mostly European (Italy, Spain, Portugal, Luxembourg, Germany), but not only (e.g. Japan), even though the COVID-19 crisis strongly altered the fundraising with potential investors (current contacts with pension funds, insurance companies, corporates, banks, foundations, as well as sovereign wealth funds) delaying their decision until 2020-2021.

The product offering of the EIF towards private investors relies on two models, which have proved successful since the 4th Pillar initiative has been launched at the end of 2017:

- A FoF model (AMUF⁵ and successors), offering predetermined investment strategies under compartments (growth capital, VC, life sciences, private debt and secondaries), enabling small investment ticket sizes. It has been complemented during 2020 by a new vehicle targeting more specifically sustainable development investment (SDUF). This FoF will focus more on emerging teams or sectors (SDUF Health was launched, SDUF Impact was approved by the EIF Board and is expected for 2021, SDUF Climate could be following), whereas AMUF will invest in more established player in order to attract in particular investors that never invested in private equity/venture capital.
- Specific partnerships, tailor-made to the investor's requirements, typically of a larger size (above EUR 100m to 150m): the partnership with the Silk Road Fund (CECIF) is an example.

The AMUF initiative provides private sector institutional investors with an investment vehicle to access European fund managers of institutionally investable quality in various sectors and market segments. The EIF seeks to provide a conduit for accessing these markets for players that typically would otherwise not invest in this space or cannot do so because of size limitations on both sides of the spectrum (e.g. too small or too large PE funds).

Against this background, EIF's offering is directed to the following types of investors:

- Small to mid-size European investors (predominantly insurance companies and pension funds) who cannot or do not want to afford an expensive infrastructure to access this asset class directly;
- EU Banks, Corporates and other investment institutions;
- Selected large scale European and non-European family offices;
- Non-European Sovereign Wealth Funds with sizable assets under management;
- Other non-European institutional investors who lack the knowledge and market expertise to access the European market directly.

Five distribution agreements were signed in 2020 to reach-out to European private investors that were not known by the EIF and that did not know such product offering.

In accessing these funding sources, the EIF is able to crowd-in private sector funding in segments where there is a genuine private sector interest and redirect public policy's resources to market segments and geographies that, representing sub-optimal investment structures, require additional market guidance and support for seeding and developing a sustainable market ecosystem.

Following these positive initial results, the EIF Board approved to launch a second generation of AMUF products, which are expected for 2021.

4.4 MFF 2021-2027 ("2nd pillar" initiative)

4.4.1 InvestEU

The EIF, together with the EIB, will be the key implementing partner of the InvestEU Fund. EIB Group will be entrusted with the management of 75% of the overall budget of InvestEU. The size of InvestEU remains still to be ascertained as part of the ongoing legislative process. The EIF's product composition under InvestEU is under discussion with the EC and will need to balance several priorities including the InvestEU policy objectives but also constraints on risk capacity on the sides of InvestEU, EIF and EIB.

Under Invest EU, the EIF expects to deploy the full suite of intermediated products relying on its pan European reach, effective intermediary network and financial expertise. The EIF will continue to support access to finance for small businesses, however the EIF will also thematic target EU policy priorities such as the green and digital transformation of the EU economy, strengthening competitiveness of European businesses as well as building a more resilient and inclusive society.

⁵ Final closing of AMUF1 in Q1 2020.

The EIF will build on the success of its flagship portfolio of capped and uncapped guarantees, which will continue to support SME and Small Mid-cap lending on a pan EU basis and to sustain the recovery of the EU after the COVID-19 crisis. It will work with a wide range of partners such as private and public banks, guarantee institutions, alternative lenders, fintech and crowdlending platforms. In this domain, the EIF will step up its efforts in scaling support to innovation-driven enterprises, adoption of digital technologies, transition to green energy, increasing investments in energy efficiency by both industrial and residential sectors, investments and adoption of clean transport solutions. The EIF will use Invest EU also to scale up the support to education and skills as well as provide continuation finance for impact focused businesses, which were successfully nurtured by the EIF over the past years. The EIF indicatively assumes that the InvestEU budget for guarantees will be split equally between capped and uncapped guarantees, with EIF participating in the risk structure supporting uncapped guarantees.

InvestEU will further support the EIF's capacity to play its market building and catalytic role in the venture and private equity markets. Thanks to InvestEU, the EIF will have an opportunity to anchor a number of value added strategies and verticals supporting the competitiveness and sovereignty of the EU. In that domain, the EIF will aim to contribute to ecosystem building in the area of disruptive technologies, such as space technologies, artificial intelligence, blockchain, cybersecurity and quantum computing. The EIF will seek to build momentum towards clean-tech investments by supporting energy, agrotech, foodtech and circular economy strategies. The EIF will also support the diversification of funding sources for small business by investing in quasi-equity and debt funds.

Scaling further EIF's support to life science would remain an important priority given significant underfunding of this sector in Europe. Similarly, building digital ecosystems to level geographic discrepancies as well as providing significant funding enabling scaling of digital champions would be high on the EIF's agenda. Such scaling is needed across other sectors and must be facilitated also by developing the access to capital markets. In that context, the EIF aims to support cross over strategies necessary for scaling companies pre and post IPO.

Following the outcome of the EIB Group equity strategy, the EIF is taking responsibility in the Group for climate and infrastructure funds and InvestEU will be a crucial funding pillar for this activity. This activity is expected to make a meaningful contribution to the climate objectives under InvestEU.

In the case of equity and infrastructure fund products under InvestEU, the EIF will be co-investing with Invest EU using its own and other managed resources on a *pari passu* basis. However, for certain high risk and value added interventions, the EIF intends to structure the investments using layered structures, in a similar way to what has been successfully implemented under InnovFin Equity in the current MFF.

Finally, the EIF intends to contribute meaningfully to both the EC and the EIB's green ambitions, not only through infra and climate funds, but also through targeted guarantee interventions.

4.4.2 MFF sectorial programmes

Given the substantial reduction in InvestEU budget, and based on EIF's experience deploying sectoral programmes in the current MFF, the EIF will seek to secure additional EC resources from relevant sectorial programmes.

Discussions with the EC are at a preliminary stage, but for the moment key programmes targeted are Horizon Europe, CEF, Innovation Fund, Digital Europe and Media Creative Europe Programme. A number of smaller programmes covering maritime, space, and social areas will also be approached.

Similarly to what has been achieved in the current MFF, and conscious of InvestEU's limited capital available, the EIF will explore blending these resources with Invest EU, predominantly through subordinated positions in layered risk sharing structures and capped guarantees. This could alleviate the provisioning constraints of InvestEU, and enable larger volumes in high value added policy areas in a capital efficient manner for EIB Group.

ANNEX – Glossary of terms

ABS	Asset-Backed Securities
AMUF	Asset Management Umbrella Fund
CCS	Cultural and Creative Sectors
CECIF	China EU Co-Investment Fund
CMF	Corona Matching Facility
COMP	Competition
COP	Corporate Operational Plan
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
EFSI	European Fund for Strategic Investments
EGF	European Guarantee Fund
ESCALAR	European Scale-up Action for Risk capital
ESIF	EU Structural and Investment Fund
EWT	Early Warning Trigger
FIs	Financial Intermediaries
FLP	First Loss Piece
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
IPO	Initial Public Offering
IT	Information Technology
JEREMIE	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
MFF	Multi-Annual Financial Framework
MS	Member State
NPI	National Promotional Institution
OECD	Organisation for Economic Co-operation and Development
OR	Own Risk
PE	Private Equity
PPG	Public Policy Goal
RCR	Risk Capital Resources
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
TFF	Turkish Future Fund
VC	Venture Capital