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InvestEU Programme – Outlook for the upcoming period

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InvestEU MS Compartment: latest state of play

Tsvyatko Velikov, Policy Analyst, DG REGIO,
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Basic elements of the MS compartment

Policy origin

The MS Compartment is

- a post 2020 delivery mode which the MAs should consider
- a tool to achieve shared management policy objectives

Legal and budgetary organization

The MS Compartment is set up

- with voluntary MS contributions, originating from Partnership agreement/programme, ref. Art. 10 of the CPR
- as a part of an InvestEU policy window
- and under a framework set up by a contribution agreement

Delivery

The MS Compartment is implemented

- in line with the InvestEU Regulation, e.g the CPR provisions for financial instruments do not apply
- by an Implementing Partner via financial and advisory products
- the products can be a top up of an EU Compartment products, tailor made products or products combining the EU guarantee under the MS Compartment and the EU Compartment

Update on the CPR and InvestEU Regulation

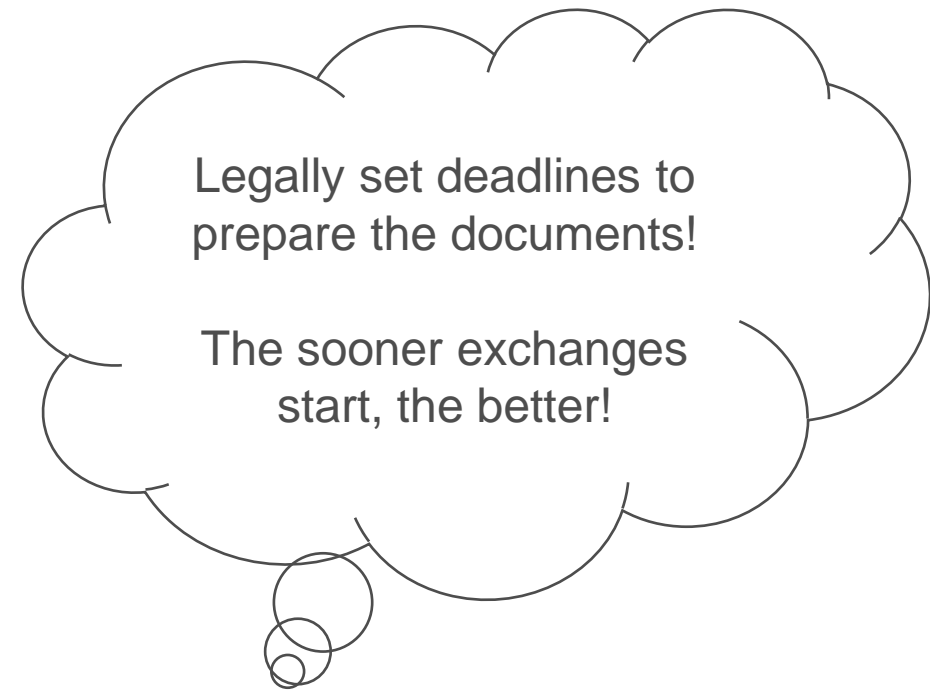
CPR

- Trilogues in advanced stage, no final legal text
- An emerging agreement on principles: the contributing funds, the timing, the size/regional dimension of the contributions, the alignment with InvestEU Regulation

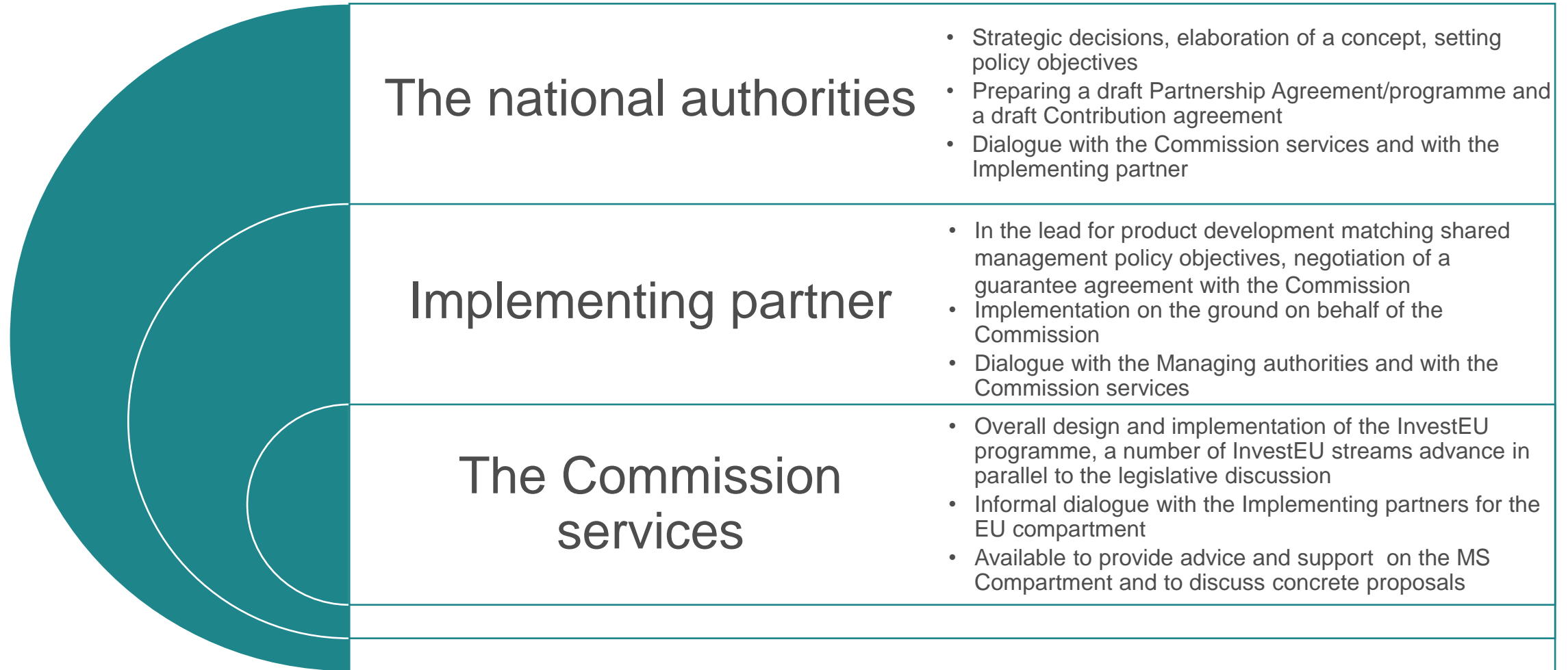
InvestEU Regulation

- Trilogues in progress, no final legal text
- MS Compartment provisions remain in line with 2019 partial agreement between co-legislators
- The discussion is on elements concerning the EU compartment and the overall InvestEU architecture: implementation timeframe, budget etc.

The MS compartment is defined in three interlinked documents



The MS compartment is defined as a result of a dialogue and cooperation among key players





InvestEU SME window: The Commission's policy objectives and the instruments to be set up with the EIF under the EU Compartment

Astrid Bartels, Deputy Head of Unit, DG GROW, European Commission



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Context: SME Strategy for a sustainable and digital Europe

- Strategy published on 10 March 2020
- Dedicated section on improving access to financing
- Overarching objectives:
 - Support to EU policy objectives (e.g. green deal, digitalisation, green & deep tech, gender smart financing, etc.)
 - Support to the creation of a more integrated European Capital Market (e.g. ESCALAR, IPO Fund)
- Main tool for achievement of objectives is the SME window of InvestEU

Support to SME debt finance

- Integrated European SME guarantee facility, building on previously existing guarantees (COSME LGF, InnovFin SMEG, CCS Guarantee Facility)
- Four identified policy priority areas: Innovation, Digitalisation, Sustainability, Cultural and Creative Sector (coverage includes small mid-caps)
- Broad-based higher risk SME portfolios: guarantee rate of up to 50%
- Policy priority areas: guarantee rate of up to 70%
- Financial intermediary free to choose which policy area(s) it would like to cover
- Adjustments to conditions of existing guarantee facilities in terms of pricing

Support to SMEs & small mid-cap equity finance (1/2)

- One large mandate to the EIF with resources coming from the SME and the RID window (joint equity product)
- New initiatives announced in the SME strategy to be implemented:
 - IPO Fund (to boost the number of European IPOs)
 - ESCALAR (to boost the availability of scale-up funding in Europe)
 - Gender smart financing initiative (to make more equity investments available for female lead firms)
 - Green tech investment initiative (to align investments with the objectives of the Green Deal)

Support to SMEs & small mid-cap equity finance (2/2)

- Investments into funds that:
 - Invest cross-border
 - Help portfolio companies to internationalise their business
 - Invest with business angels
 - Invest into tech transfer
 - Invest into EU policy priority areas and into strategic areas (e.g. life sciences, space, blue economy, audio-visual production, etc.)
 - Provide debt financing (diversified and non-diversified debt funds) in line with the objectives of the Capital Markets Union

Possible combination between the EU and the MS compartment (guarantees)

- Provided that Member States are interested in creating support for a guarantee facility which is dedicated to one (or more) of the Commission's policy priorities in the area of:
 - Innovation
 - Digitalisation
 - Sustainability

InvestEU resources can contribute resources, details to be further discussed (e.g. mezzanine tranche in case of uncapped guarantees; eligibility criteria developed for the EU compartment need to be applied for all transactions)



InvestEU Research, Innovation and Digitisation window: The Commission's policy objectives and the instruments to be set up with the EIF under the EU Compartment

Stéphane Ouaki, Head of Unit, DG RTD,
European Commission



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RID Window Policy Priorities

	Policy areas
European Green Deal	Energy
	Modernisation & decarbonisation of industry
	Circular economy
	Bioeconomy
	Sustainable blue economy
	Nature Based Solutions, natural capital and ecosystem restoration
	Sustainable ICT
	Climate adaptation and mitigation
Strategic technologies	Digital technologies
	Key enabling technologies
	Defence
	Space
Health	Clinical development, validation and market entry in defined areas
	Innovating and digitising health and care systems
Other	Research and tech infrastructures and organisations, universities
	Nuclear research

RID Window – General debt product

- *Building on innovation financing under EFSI, InnovFin Science, InnovFin Emerging Innovators*
- Direct corporate lending to SMEs, small midcaps, midcaps and large corporates
- Financing R&I projects of universities, research and technology organisations and infrastructures, public-private partnerships, etc.
- Focus on Commission policy priority areas (see previous slide)
- Instruments: loans; guarantees; quasi-equity
- Loans covering maximum 50% of total research, innovation and digitisation project costs

Joint RID/SIW Green Investment Facility

Thematic product

- *Building on InnovFin EDP and CEF Future Mobility.*
- **Objective:** addressing difficulties in access to finance for high-risk projects/ companies supporting the European Green Deal.
- **Sectors:** energy & low carbon innovation; future mobility; low carbon technologies & processes; circular economy; bio economy; sustainable blue economy; nature-based solutions, natural capital & green infrastructure, digital technologies.
- **Why thematic? – High risk, high policy value**
 - Innovative, early demonstration projects/companies targeting non-mature tech/business models/manufacturing plants;
 - High-risk deployment / first phases of commercial rolling out of innovative technologies and services.

RID Window – Health Innovation Investments

Thematic product

- *Building on InnovFin Infectious Disease Finance Facility.*
- Examples of targeted areas (clinical trials, validation and market entry):
 - ✓ therapeutics for neurodegenerative diseases;
 - ✓ new effective therapies for rare diseases;
 - ✓ new treatment for sepsis;
 - ✓ cell and gene-based advanced therapies;
 - ✓ new interventions for refractory cancers across all age groups – treatment, palliative care, end-of-life care;
 - ✓ new interventions for public health emergencies.

Joint RID/SME Window Equity product*

- *Building on InnovFin Equity and COSME Equity for Growth*
- **Objective:** ensure availability of risk capital for early and growth stage equity investments into European SMEs, small mid-caps and innovative mid-caps.
- **Targets funds that:**
 - invest into EU policy priority and strategic areas (technology transfer; climate and environment; digital technologies; life sciences; space; defence; etc.)
 - support the development of a more diversified pan-European capital market (cross-border investments, co-investments with business angels, gender lens investment, etc.);
 - focus on accompanying companies through the IPO phase.

* See more detail in the previous presentation on the SME Window

Beyond financial products – advisory initiatives

Joint advisory initiatives between the SME and the RID windows

- **Project advisory**
 - **Objective:** help project promoters in the preparation of investible business proposals, improving investment readiness of companies from various sectors and other entities.
- **Capacity building**
 - **Objective:** strengthen the ability and willingness of various financial and other intermediaries to develop and support finance projects in specific sectors, for specific activities, types of financing, etc.
- **Market development activities**
 - **Objective:** support policy development, contribute to the design of new financing mechanisms and advisory services and to the improvement of the existing initiatives.



Complementarities between the InvestEU MS Compartment and shared management financial instruments – View of the EIB Group

Mariateresa Di Giacomo, Team Leader, DFI Strategy and Coordination, Mandate Management, European Investment Bank



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EIB Group and “Financial Instruments (FI)”

What We Do



Management of FIs

Acting as Investment Manager to manage shared management funds made available in the form of FIs (Fund of Funds) and to pilot innovative instruments for EU policy needs

Investment
manager



Technical assistance and financial advisory

Providing capacity-building activities and financial advisory services to Managing Authorities (MAs) in order to support implementation and acceleration of investment projects, bilateral advisory and *fi-compass*

Assistance &
advisory



Co-financing

Co-financing of FI operations using EIB own resources at the level of the promoting entity, project or financial intermediary. It enables to increase the resources available to final recipients.

Co-financing



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EIB – shared management FIs

Urban, Energy, RDI and Social



Development of
professional skills



Energy efficient
buildings



Local transport



RDI



Sustainable urban
infrastructure



Provision of public
services



€3.3bn Total amount managed or invested by EIB

~3,100 Project financed

2007-2013

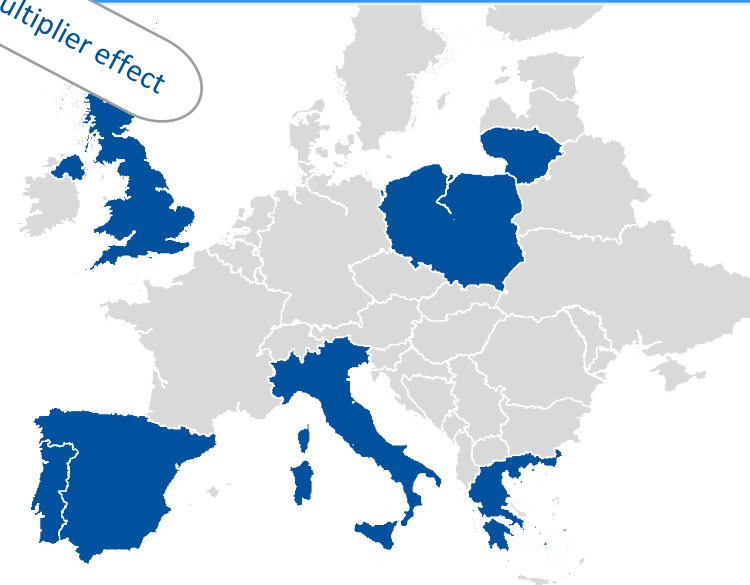
2014-2020

€ 1.5bn JESSICA funds
18 holding funds

€1.8bn FIs
11 fund of funds

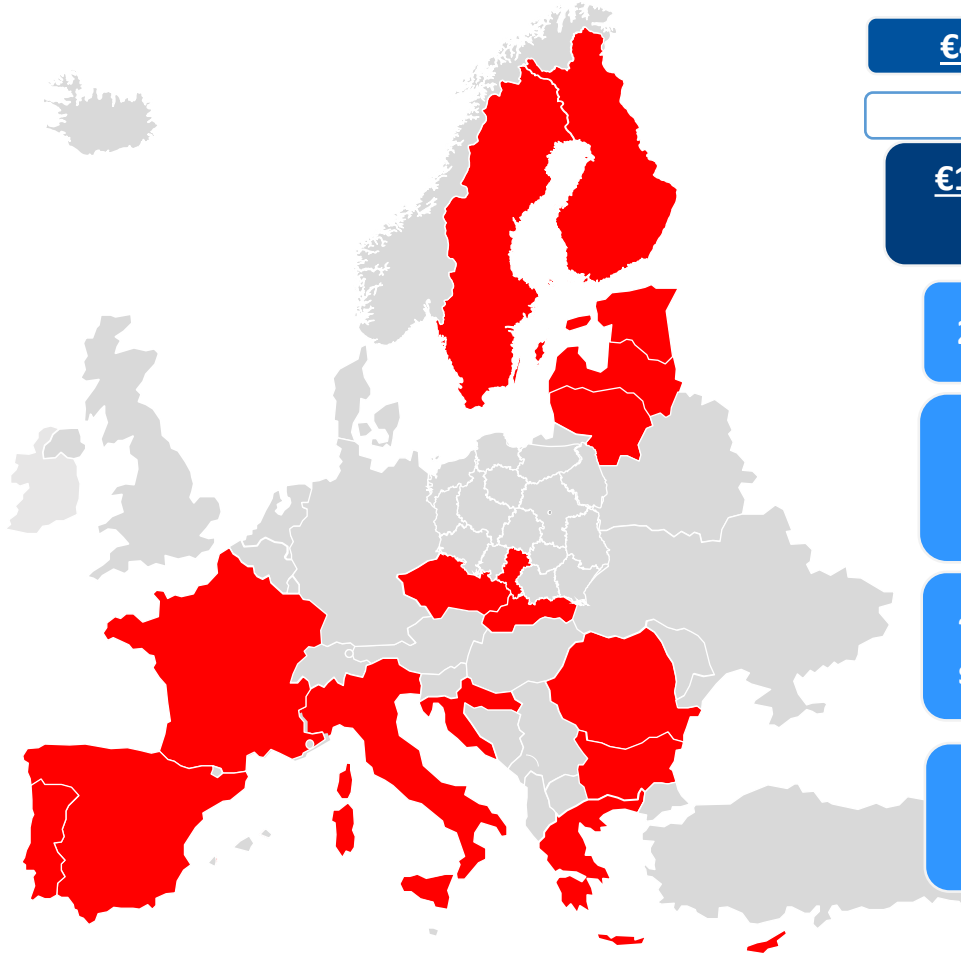
€2.7bn Total FI currently under management

2.7x Multiplier effect



EIF – shared management FIs

SMEs



€4.2bn Total amount managed or invested by EIF

2007-2013

€1.1bn JEREMIE funds
13 holding funds

2.9x leverage

€2.6bn disbursed
to SMEs

~ 21,000 SMEs
supported

~ 360 000 jobs
sustained

2014-2020

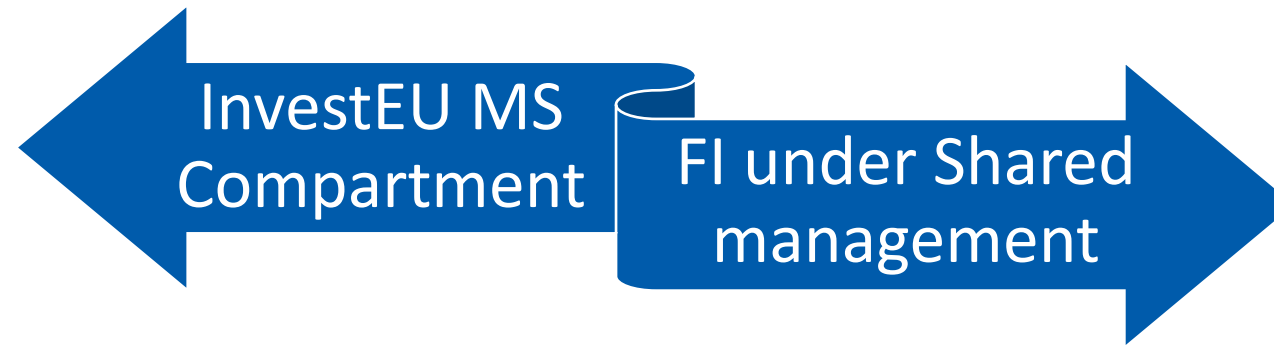
€3.1bn FIs
37 fund of funds

Compared to 2007-2013, wider:

- geographic coverage
- scope of policy objectives covered
- use of combinations
- typology of products deployed

2021-2027 programming period

InvestEU and shared management FIs



➤ EC has the administrative responsibility

➤ Higher leverage due to EU guarantee, when the market conditions allow it

➤ Rules specifically conceived for FIs

➤ Combination possibilities with InvestEU EU Compartment (top-ups, layered structures)

➤ Reflows available sooner

➤ National co-financing, no contingent liability

➤ Known rules, more streamlined and simplified for 2021-2027

➤ Regions with independent power have more options for tailor made solutions



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InvestEU – MS Compartment (MS-C)

EU-Compartment (EU-C) top-up or combination

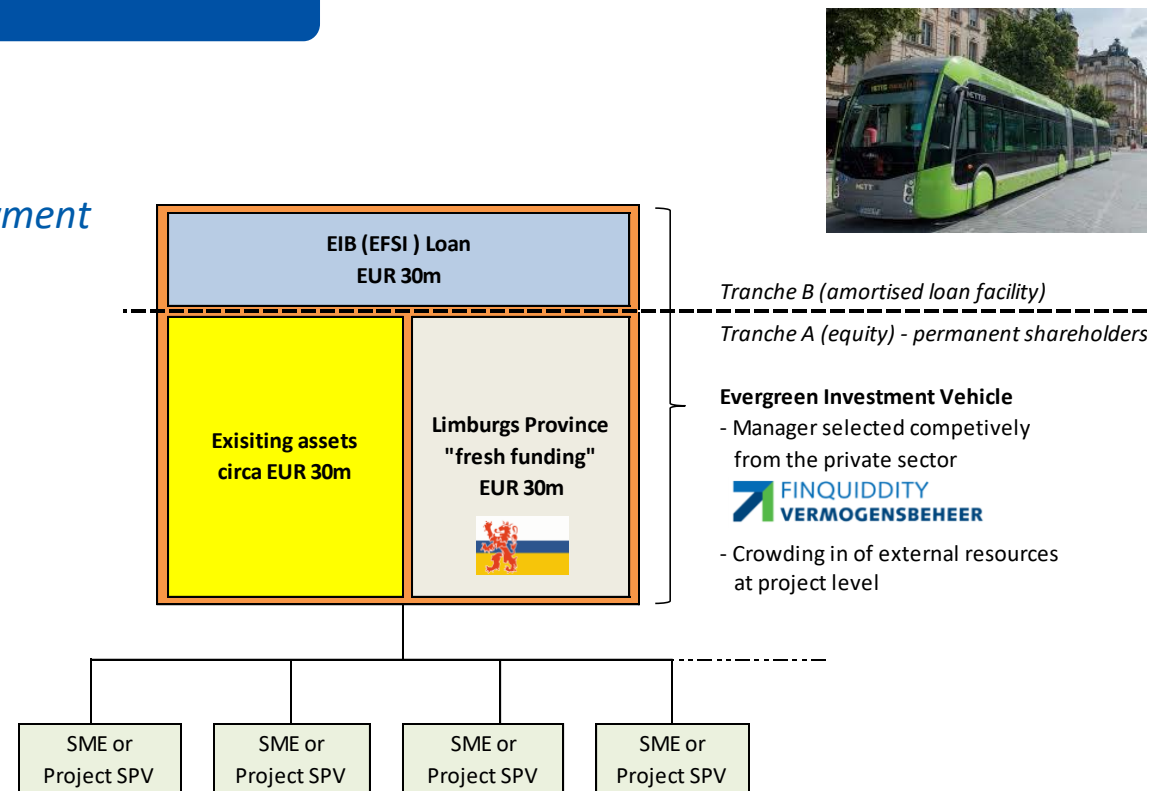


Top up or combination with the EU-C

- Top-up of existing products at EU-level to **increase volume** at national or regional level:
 - *e.g. top-up of thematic products targeting early deployment of high-risk clean mobility projects*

or

- Combination of EU-C and MS-C in layered tranche for **risk sharing**
 - ✓ *e.g. Funds for energy efficiency investments*
 - ✓ *e.g. SME initiative type of layered structures*



Possible structures will depend on rules and implementation for provisioning, guarantee pricing, mutualisation of losses...



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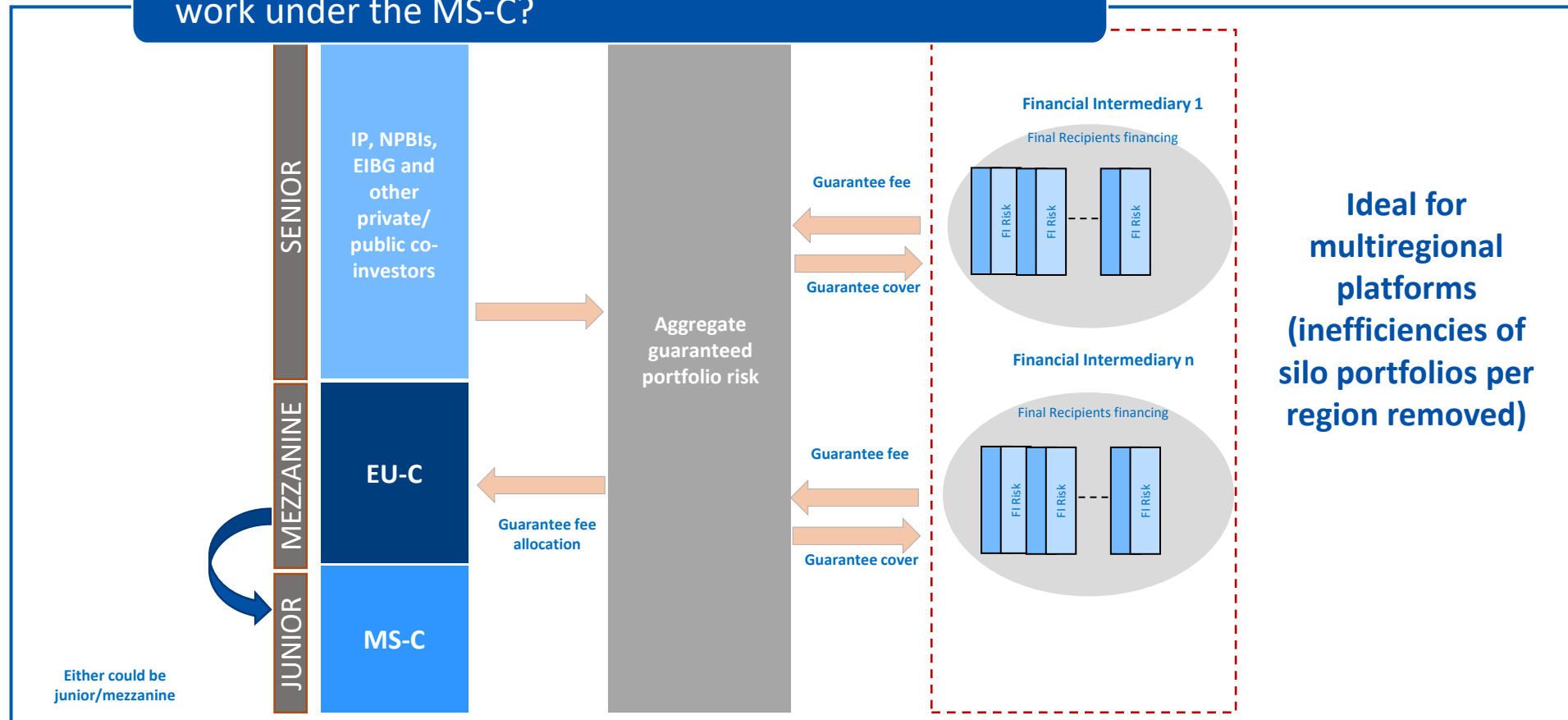


InvestEU – MS-C

Example: well-tested, high volume products



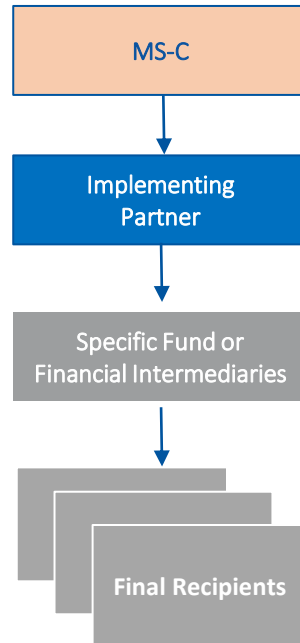
Example of 2014-2020 SME Initiative: how would it work under the MS-C?





Solo use of the MS compartment

- Creation of debt or equity portfolios to address **specific market failures** or investment needs; **new or riskier profiles**:
 - *e.g.: support to renovation wave or RDI green projects*



The renovation, rehabilitation and equipping of buildings to boost climate protection and circularity while creating thousands of new jobs



Research, development and testing of innovative circular economy solutions

Possible structures will depend on rules and implementation for provisioning, guarantee pricing, mutualisation of losses...

2021-2027 programming period

Choosing the best solution



- **Analyze and find best option** to meet the needs and objectives of the Member State or Region concerned, taking into account:
 - Nature of policy objective supported
 - One-off instrument (e.g. a pilot) vs well-tested and more easily marketable product
 - Risk profile of the prospective portfolio
 - Time for overall implementation and potential proceeds
 - For regionalized Member State, potential for a multi-regional product
 - Lessons learned from previous programming periods
- **Plan for the long term:** Decision about using shared management FIs and InvestEU MS-C should be made well in advance (ahead of formal submission of Partnership Agreement). Current priorities (e.g. COVID-19 measures) should not overshadow the need for planning longer term FIs.
- **EIB Group** is ready to engage directly with Member States on bilateral implementation of shared management FIs as well as on M-C, as the key implementing partner for InvestEU.



Build on success stories...

2007-2013

Greece: Construction of 24 schools - Attica



- DFI: JESSICA Holding Fund Greece
- Sector: Urban Infrastructure
- DFI contribution: long-term soft loan of EUR 36, with total project costs of EUR 112m.
- Blending DFI resources with EIB direct lending



- Promoter: "Buildings Infrastructure SA" (the awarding authority) – the project was implemented by two SPVs that were awarded the construction and maintenance of the 24 schools in the form of PPP.
- The project was launched in 2008 by "Buildings Infrastructure SA", in cooperation with the General Secretariat for PPPs – Ministry of Economy and Development. Preferred bidder was selected in 2010 and the project was suspended due to financial crisis.



- Expected impact:
 - 6,000 children gain access to better education facilities;
 - 83 new jobs
 - Regenerated areas due to the construction of the schools.



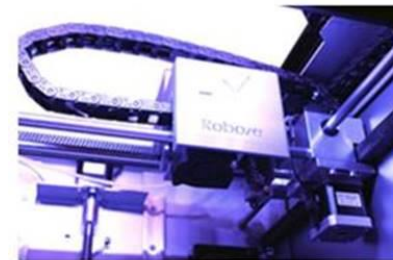
2014-2020

Innovation: Roboze S.p.A. – Apulia



- DFI: MIUR Fund of Funds
- Sector: RDI
- DFI contribution: equity investment of EUR 3m

- Promoter: Roboze S.p.A., a company founded in 2013 in Bari and deals with additive manufacturing (3D printer production). The company has obtained important national and international awards for its research and innovation activities (The world's top 500 deep tech start-ups of BNP Paribas, Shortlist TCT Award 2017, Enterprise Award X Innovation Andrea Pininfarina of Confindustria). Roboze customers already include large industrial groups such as General Electric, Airbus, Bosch and CNH Industrial.



- Projects the ESIF support will allow Roboze to develop and complete its line of 3D printers to be offered on the most promising and competitive international markets, starting from the United States.
- Expected impact: RDI investment to enhance the 3D printing industry in Europe. It is planned that Roboze will move from the current 18 to over 100 employees by 2022.



...2021-2027

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Guarantees for SMEs in 2021-27 – Considerations for the use of MS Compartment in Invest EU

Katarzyna Kaczowska, Deputy Head of
Department,
Ministry of Development Funds and Regional Policy,
Poland

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Guarantee fund Smart Growth OP 2014-20



Financial intermediary:
Bank Gospodarstwa Krajowego



17 lending banks

ERDF allocation for Guarantee
Fund: EUR 272 million

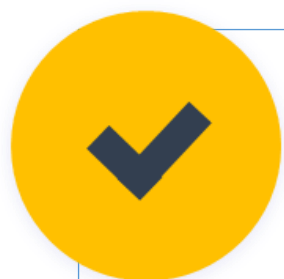


EUR 630 million in loans to
SMEs

Guarantee terms:

- free guarantee of up to 80% of the loan provided by lending bank;
- maximum guarantee amount - up to EUR 2.5 million;
- de minimis or regional investment aid;
- interest subsidies;
- securing investment loans (as well as working capital loans introduced in response to the COVID pandemic)

European Funds for Smart Economy 2021-27



Focus on RDI
activity within PO1



ERDF only



Grants, FIs,
combination

Ex-ante assessment for financial instruments - recommendations



continue the implementation of the guarantee instrument as a form of financing effectively responding to market failures

expand the target group of the guarantee scheme (SMEs + mid-caps)

increase of the maximum guarantee amount to EUR 3 million (EUR 6 million for mid-caps)

extend the scope of liabilities secured by the guarantee to include leasing transactions

maintain subsidies to interest on loans



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InvestEU or shared management FI: key considerations for MS



**Benefits for
final recipients**



**Efficient
implementation**



Eligibility and settlement of expenditure by final recipients



Shared management FI

- the invoices/accounting documents must be available to document that the support through FI was used for its intended purpose

InvestEU

- some verification of spending in line with loan purpose probably needed



Payment applications



Shared management FI

- first payment application up to 30% of the total amount of programme contributions;
- subsequent payment applications shall include eligible expenditure.

InvestEU

- MS contribution to the MS Compartment deducted from programme budget

Re-use of funds



Shared management FI

- resources returned remain at the disposal of Managing Authority and to be re-used in line with Art. 56 of the CPR draft

InvestEU

- resources returned to be made available for the Member State (details to be discussed in the Contribution Agreement) (Art. 10 (7) CPR draft, section 9 of the draft Contribution Agreement)

Selection of implementing institution



Shared management FI

- The Managing Authority sets up the implementation system for a programme;
- Selection of beneficiaries/financial intermediaries – competence of the Managing Authority (art. 65(3) CPR draft)

InvestEU

- *When selecting implementing partners under the Member State compartment, the Commission should take into account the proposals made by each Member State, as reflected in the contribution agreement (InvestEU Regulation draft).*



Other important issues for decision



How much influence will the MA have on the features of the instrument financed under the MSC, including:

- guarantee parameters (i.e. amount, fee, period of validity);
- recommendations from ex-ante assessment;
- management fees for financial intermediaries/implementing partners (rules and amount of remuneration).

All this is to be negotiated in the Contribution Agreement.

Other important issues for decision



Member State contingent liability - obligatory in contribution to MS Compartment

- Member States may allocate, in the Partnership Agreement or in the request for an amendment of a programme, the amount of ERDF, the ESF+, the Cohesion Fund and the EMFF to be contributed to InvestEU and delivered through budgetary guarantees. (Art.10, CPR draft)
- Amount of obligatory contingent liability to be determined in the contribution agreement (Art. 9(3) of InvestEU draft regulation)





Ministry of Economic Affairs
and Employment of Finland

A Member State's perspective – Considerations for the use of MS Compartment in InvestEU

Kati Heiska, Senior Specialist, Ministry of Economic
Affairs and Employment, Finland



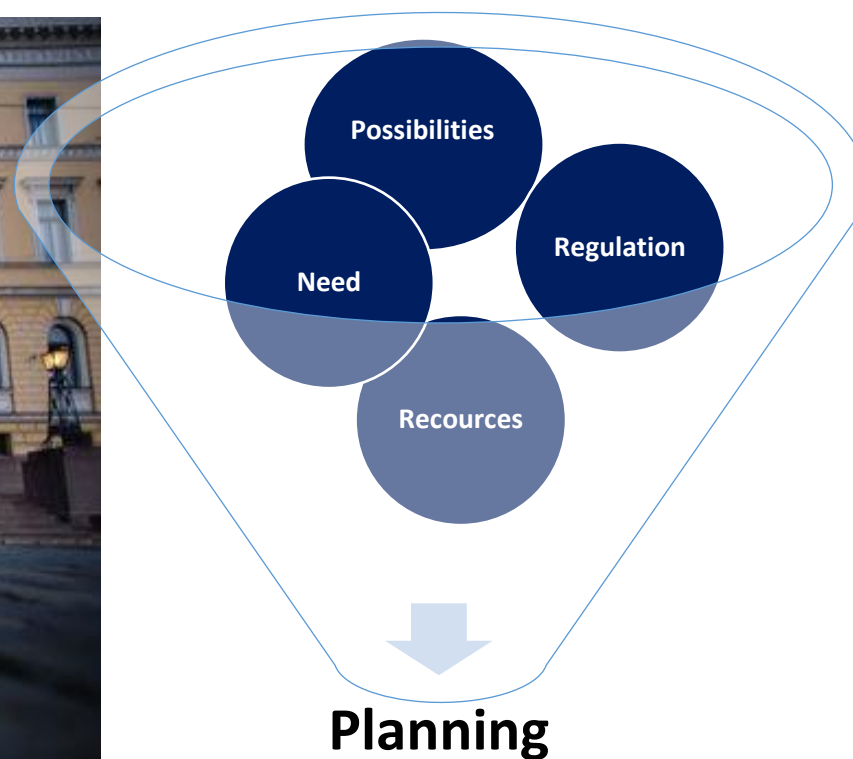
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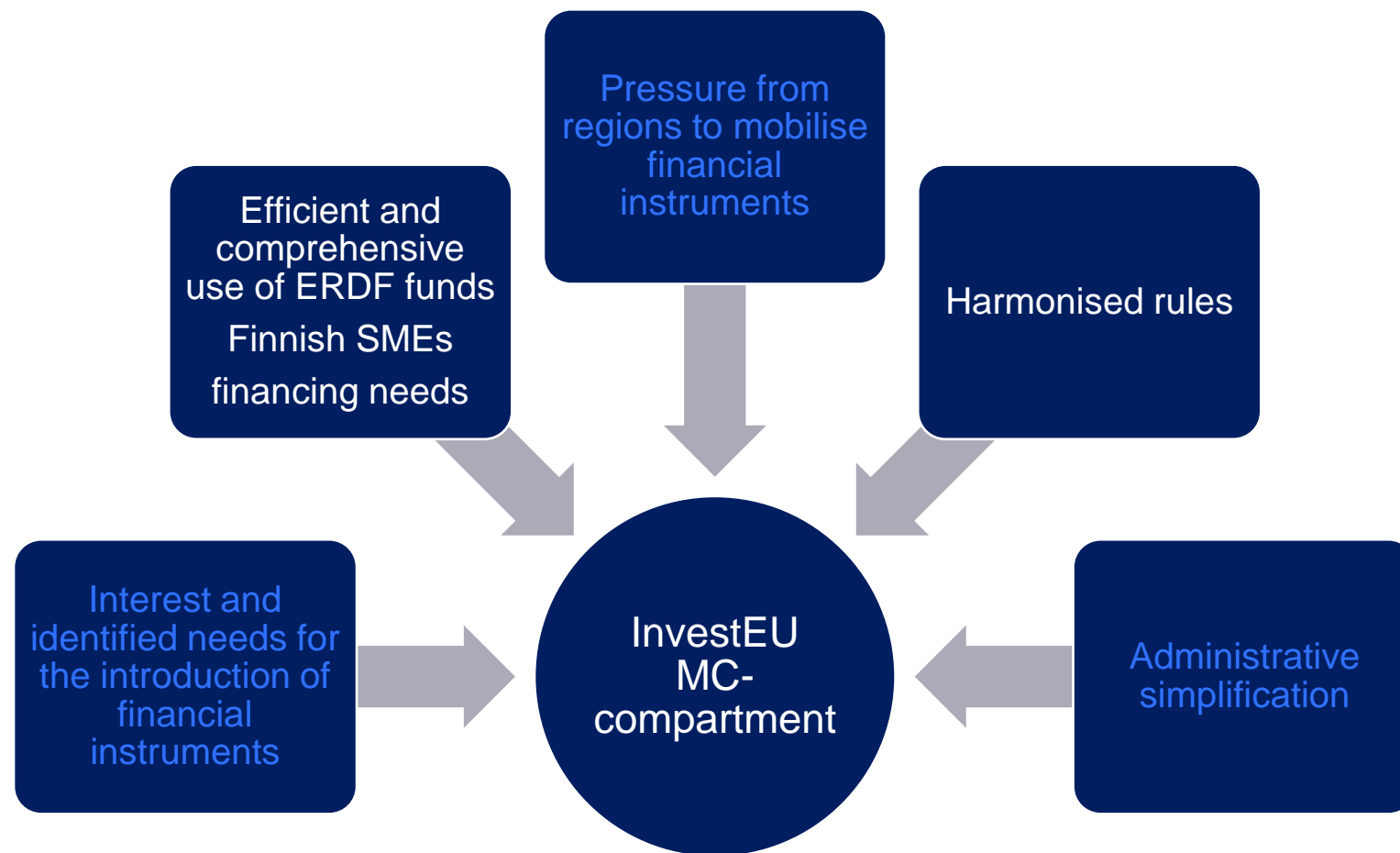
Starting point : Before the ex-ante evaluation



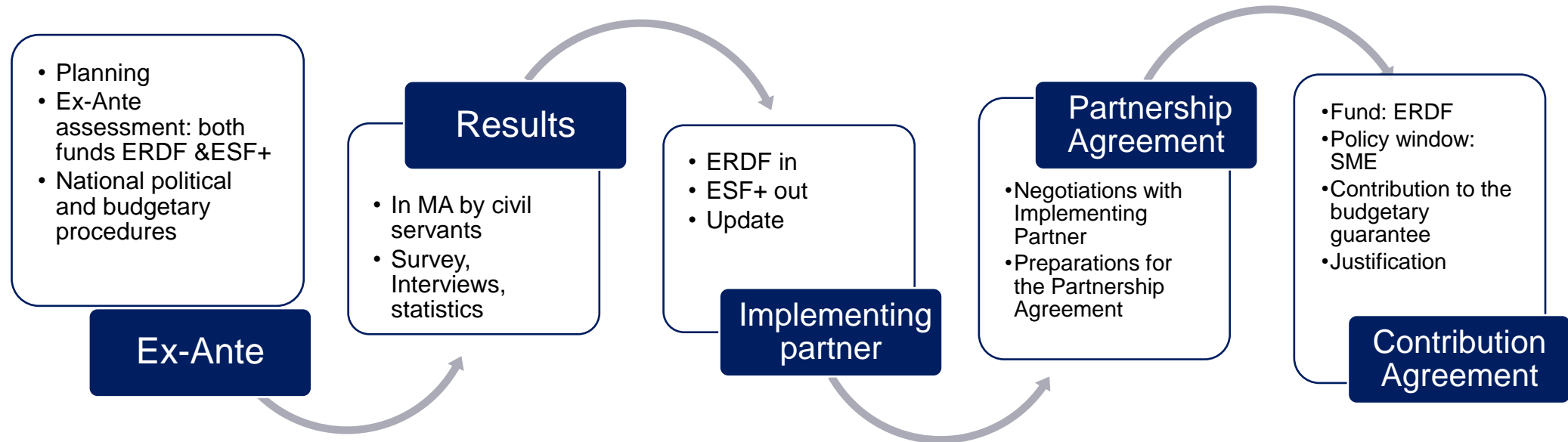
Photo: Finnish Government photobank



Why InvestEU MC-compartment?



Ongoing procedure



Key issues for SME financing



- I. Weakness of the company's cash flow and credit rating
- II. Collateral issues
- III. Insufficient equity
- IV. Problems of entrepreneurs' financial literacy and other deficient business conditions

These cause local financing bottlenecks, although in general corporate financing works well in Finland.



Possible options for the Member State compartment



a) Identified gap: climate and productivity / renewal instruments

- Solution: Environmental and digital loan or guarantee instruments to twin (climate&digitisation) transition.

b) Identified collateral shortage in new business and start-ups

- Solution: A loan guarantee instrument that can reduce a company's collateral burden.

c) Identified deficiency: inadequacy of equity e.g. in the situations identified in the ex-ante assessment for growth-oriented SMEs that are not the target of a venture capitalist

- Solution: Some kind of subordinated loan that can be interpreted as equity in banks' credit assessments and is thus complementing the financing package.



