EIF Operational Plan 2024 – 2026

EXECUTIVE SUMMARY

The EIF's Corporate Operational Plan (COP) sets out the operational and financial targets for 2024 and orientations for 2025 and 2026.

During these uncertain times, the EIF aims at maintaining an activity level of EUR 14.0bn in 2024 with a +10/-10% flexibility margin[1]. Despite the high demand for EIF's equity and debt products, EIF management is proposing this prudent approach given EIB's and EIF' statutory risk metrics constraints as well as the funding available for the EIF, in particular under the core mandates such as InvestEU and Risk Capital Resources (RCR).

The EIB Group entities remain the key implementing partners of InvestEU with responsibility for the management of 75% of its budgetary capacity. The EIF is on track with the legal requirement to get the signature of the portion of the InvestEU Guarantee supported by NextGenEU ("NGEU") (representing circa 60% of the InvestEU Guarantee) by December 2024. Due to this frontloading, InvestEU will represent a significant share (almost 50%) of the overall deployment of the EIF in 2024, covering new areas such as defence and security as well as an envisaged specific pilot to support trade export EU exports to Ukraine. The EIF will benefit from higher budget through the redistribution of resources within the Group (through Sustainability Guarantee, Social Guarantee, Social Impact equity product and the Capacity Building Investment product) and additional contribution from Norway and Iceland. Although not reflected in the projection, the EIF will actively work to onboard additional resources in line with the vision 2030, including a potential increase of InvestEU (STEP program), to alleviate any volume shortfalls after 2025 while at the same time exploring avenues to relieve pressure on its equity statutory metric e.g. through active portfolio management.

There is a need at Group and at the EIF level to maintain key support to ensure economic security and strategic dependencies in Europe. Firstly, in the field of energy and green transformation with REPowerEU+, which will constitute an increase of circa EUR 1.5bn of the EIF's COP over the next three years. This increase will be deployed through the existing RCR mandate and the Infrastructure and Climate Funds mandate. Secondly in the field of innovation, with the deployment of the European Tech Champions Initiative (ETCI) supporting scale-up funds combining resources from Members States and EIB Group, ETCI should benefit from additional contributions from further Member States and the launch of complementarity tools with a co-investment dedicated window. The EIF continues to step up its effort in supporting the Group climate ambition and close to one third of the EIF activity should contribute to this specific priority in the next three years. In parallel, the EIF will maintain its support to the less developed countries/regions through specific programs of intervention, such as the Recovery and Resilience Funds (RRFs) with Member States. In this context, the EIF is planning to deploy over the next 3 years almost EUR 2.3bn of debt products (capped/uncapped, private credit…) under RRF Spain.

Finally, beyond these initiatives launched in collaboration with the EIB and the EC, the EIF continues pursuing its efforts to increase the level of diversification in funding activities, developing specific initiatives such as the Gender Smart Equity Investment Programme (GESIP) with National Promotional Institutions (NPIs), the GreenTech compartment under Sustainable Development Umbrella Fund (SDUF) and the 2nd generation of the Asset Management Umbrella Fund (AMUF), to attract private/institutional investors with the objective to complement the equity product offering. All these new initiatives are mainly focussing on equity products and for the first time in 2024, equity activity is expected to surpass the debt/guarantee business. The EIF will continue to source from its main stakeholders new financing capacity to address the currently underserved debt market for SMEs - for which the already strong demand is growing as a result of the current economic uncertainties – and to rebalance the weight of guarantees in the activity volume. However, in the absence of new material pan-European mandates for guarantees and/or increase of InvestEU, the EIF will not be able to meet this EU-wide market demand for EIF's debt products.

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

Table of Contents

1 | Economic outlook

1.1 | General economic outlook

The current economic outlook remains weak by historic standards. For 2023, the European Commission expects global economic growth to materialise at 3.1%, well below the average observed during the first two decades of the century. Overall, the EU economy shows reasonable resilience in the face of the sequential economic shocks resulting from the COVID pandemic, the war in Ukraine and elevated inflationary pressures. However, following a small contraction in the final quarter of 2022, the economy grew by just 0.2% during the first semester of 2023, indicating the post-pandemic recovery process has lost momentum. Inflation is expected to materialise at 6.5% for 2023, undercutting initial expectations, but remaining well above the ECB's 2%-target level.

The cost of borrowing for European corporates has further increased in recent months. By the end of Q2/2023, the ECB's corporate borrowing cost indicator rose above 4.5%, nearly 300 basis points higher compared to the same quarter one year earlier, recording the largest annual increase since its construction. Consequently, corporate lending activity remained subdued throughout the first half of 2023, with net-lending volumes barely touching positive territory. The share of SMEs reporting severe access to finance issues remained constant during 2022, hovering around 25%, while access to finance issues among mid-caps and large firms jumped by nearly 6 percentage points during the second half of the year to 26.5%, the largest one-period increase recorded since the beginning of measurement.

The ECB's monetary policy decisions are already propagating through the EU's real economy. Corporate investment volumes are slow to recover from the pandemic shock and are still trending below pre-COVID level. Furthermore, business insolvencies have increased for the 6th consecutive quarter during Q2/2023 while business creation has stagnated. Bankruptcy increases occurred across sectors but were particularly pronounced among hospitality and transport firms, reflecting the delayed impact of the COVID-restrictions and energy crisis, respectively.

The economic slowdown is expected to carry through 2024 as near-term risks are on the downside, with new international conflicts adding to economic uncertainty and ongoing conflicts still lingering in the background. In addition, current inflationary pressures, and hence, high interest rates, might assume a more permanent state should consumers anchor the current elevated levels in their short-term inflation expectations. Finally, the impact of climate change continues to be a significant risk factor to the medium and long-term economic outlook.

1.2 | EIF markets

1.2.1 | Debt

Government-backed Credit Guarantee Schemes (CGS) contributed significantly to liquidity support for European corporates in the wake of the COVID-19 pandemic. In the immediate aftermath of the pandemic, the total amount of outstanding credit guarantees increased 7-fold to EUR 280bn in 2020, while the share of guaranteed loans in total SME lending activity spiked to over 40%. With pandemic support programs gradually being terminated, this share has plunged to 15% in June 2023, well below its historic average.

The current high-rate environment presents significant near-term challenges to the CGS sector, as the rapid rise in rates and its impact on refinancing costs suggest a heightened likelihood of loan defaults, thereby potentially posing a threat to the quality of underlying loan portfolios. Additionally, the capacity of governments to finance guarantee programs may be affected as escalating debt servicing expenditures strain public funding for government-backed credit guarantee schemes.

Visible SME Securitisation issuance (true sale) in Europe increased marginally over 2022 to EUR 29.3bn (+3.2% year-on-year), driven entirely by activity in the final quarter of the year as a reaction to the interest rate hikes, with no visible issuance during the first three quarters. The extent to which the recent sequence of economic shocks will impact SME Securitisation asset quality and deal performance remains uncertain and will depend on the effectiveness of the structural protection measures put in place in the wake of the financial crisis. Adjusting to the reality of a changing climate, securitisation and structured finance in general are witnessing an increasing emphasis on sustainability, driven mainly by investors' demand, regulatory evolutions and environmental risk aspects. While the green securitisation market is still in its nascent stage, it has the potential to play a significant role in Europe's green transition.

Higher rates imply increased financing costs, dampening new securitisation issuance activity and could lead to tighter underwriting standards, affecting the availability of credit to SMEs. Moreover, the elevated rates might impact the yield expectations of securitised products, potentially altering investor demand patterns.

1.2.2 | Private Equity / Venture Capital

Following the record year 2021, when PE/VC investment volumes in European companies had reached a level of EUR 146bn, investments decreased by 11% to EUR 130bn in 2022 (VC: –16%; Buy-out: –5%; PE Growth: –19%). In contrast, overall PE/VC fundraising remained robust, increasing by 30% compared to 2021, to EUR 170bn (VC: +13%, Buy-out: +44%, PE Growth: –20%). While the current economic headwinds are a cause for concern, other recent developments, such as rising environmental awareness and new green regulatory initiatives, present opportunities for PE/VC in Greentech and impact investing. The EIF VC Survey respondents considered Artificial Intelligence, Healthcare & Biotech, and Energy / Climate as the most promising sectors for VC investments in the next 3-5 years.

High rates have a negative impact on PE/VC portfolio valuations. In the short-run, portfolio rebalancing towards less riskier assets, as fixed-income yields become more attractive, will lower fundraising and reduce the demand for PE and VC investments, ultimately leading to a decline in valuation. The latest EIF VC Survey results indeed confirm the deterioration of the fundraising environment in recent months, but also reveals a rise in optimism among fund managers, as they expect the situation to improve over the coming year. In the medium-run, sustained elevated rates will have an impact on the cost structure of PE/VC portfolio companies, as higher costs of capital combined with declining revenue growth due to lower aggregate demand might compress profit margins, which could further pressurise valuations.

2 | EIF's strategic orientations

As described in detail in the EIF's vision 2030, the EIF intends to strengthen its agility as SME-focused risk-taking institution within the EIB Group and will transition towards an even more impactful investment activity in view of broadening its policy impact and thereby enhancing the impact on the transformative objectives of the EIB and EU. This holds particularly true for EIF's role as enabler of green finance and in catalyzing access to finance in the context of Climate action. As part of the EIB Group overall business strategy, EIF business model will focus on two main areas. It will have established itself as:

i) an important **integrator of European cross-border risk financing** and

ii) an active developer of less-developed ecosystems and markets in terms of geographical and sectorial approach, but also in view of market maturity.

In this context, the COP 2024-2026 focuses on first steps towards the implementation of such vision including some specific areas and strategic objectives:

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

The EIF will consolidate its effort to the implementation of a more thematic driven business model. which provides a stronger and more efficient contribution to the beneficiaries of the EIF support. The EIF will incentivize the development of funding initiatives, whose primary goals are to support more impactful investments and EU policy objectives namely:

i) sustainable development: prioritizing the transition to a greener and more sustainable economy, addressing climate change and promoting resource and energy efficiency;

ii) digital transformation and innovation: support policies that foster disruptive technologies, digital infrastructure, cybersecurity (in line with the EU cybersecurity legislative and policy framework in place), and creation of scalable and innovative ecosystems including gender smart investments;

iii) social impact and equality: aiming at reducing inequalities and promote social cohesion to foster inclusive growth and improve the quality of life for all EU citizens.

In order to accompany the change towards a more impact-driven business model, the EIF will advance in the development of a methodology to measure and compare the impact achieved by the EIF in the market, in a holistic manner (combining economic and policy achievements).

- ***Support the achievement of EU policy objectives, to promote EU's strategic position in the fields of energy, innovation and digital transition (REPowerEU and ETCI) and promote business cooperation on targeted Group initiatives (e.g., Ukraine)***

The Russian aggression in Ukraine has put the need to wean Europe off its dependence on Russian fossil fuels and accelerate the transition towards net zero carbon emissions at the centre of the political debate. In reaction to these developments, the European Commission published in 2022 a detailed REPowerEU plan that outlines actions aimed at quickly phasing out fossil fuel imports from Russia by fast forwarding the clean transition and joining forces to achieve a more resilient energy system and a true Energy Union.

This initiative has 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. The delivery of REPowerEU under the EIF products started in 2023, will continue over the next planning cycle and until 2027 providing financing that will support sustainable energy, energy efficiency and Greentech innovation.

Taking a different angle, the European Commission considers as key priority the promotion of trade between the EU and Ukraine. The availability of export credit solutions is critical to facilitate such trade, however, following the war in Ukraine, private and public entities have largely withdrawn from providing this type of solutions. On this basis, the EIB Group is analysing together with the EC (DG GROW) potential support programmes, such as for example an export credit pilot program to support small businesses in the EU exporting goods or services to Ukraine.

In the field of innovation, the EIF will accelerate the pace of delivery of the European Tech Champions Initiative (ETCI), successfully launched in February 2023, with an aggregate commitment of EUR 3.75bn[2] (of which EIB EUR 400m and EIF EUR 100m, own resources), which may be further increased with additional contributions from Member States. The fund-of-funds aim to channel much-needed late-stage growth capital to promising European innovators, and thus reinforce Europe's strategic autonomy and competitiveness.

- ***Accelerate the implementation of the Digital Transformation as part of the EIBG Digital Ambition Programme***

Digitalisation and digital transformation of the EIF are an integral part of its vision and will therefore play a key role in shaping its future and must provide the adequate tools for the EIF to deliver better and to achieve the expected measurable impact. The year 2024 will be characterised by the implementation of the Group-centric approach, under which the EIF and the EIB will work together hand-in-hand as one team with centralised IT services within the EIB Group Digital Office, to leverage on shared resources, gain economies of scale, share innovative solutions and foster a consistent digital experience across all business areas. Under such cooperation model, EIF business services will remain the driver for the EIF's digitalisation efforts and will contribute to Group-wide digital transformation projects as digital pathfinder, pioneering digital (business) solutions for the benefit of the Group.

This transformative programme entails integrating new solutions and technology into existing processes to streamline operations, enhance user experience and improve overall efficiency, while the teams embrace a culture of innovation and continuous improvement. This will involve digitalising manual processes, continue to implement cloud-based solutions, develop solutions to enhance operational efficiency, define data governance protocols and support compliance with best market practices.

Ultimate objective of the Digital Transformation Programme will remain the intended roll out of an omnichannel platform (EIF Digital Marketplace), preparing the EIF's readiness for new operating models fostering innovation, facilitating and digitalising interactions between the Group and all its stakeholders, from Mandators to Final Beneficiaries, and at all steps of the customer experience.

- ***Complete EIF's internal reorganisation process and stabilize new working functions and processes***

The EIF's plans to complete its internal reorganisation process in early 2024, while ensuring a smooth adoption and stability of new working functions and processes. The new organisation should lead to clarity of responsibilities and accountabilities, which serve as a basis for good internal governance and robust internal control frameworks, including financial control. Indeed, the new working functions and processes, once established, will be monitored and when needed process improvements will be implemented with the establishment of a team dedicated to this task, to facilitate change management and contribute to a more agile and resilient organisational environment. Moreover, the new organisation aims at improving the relationship management with the EIB and the EC services, the two key shareholders and core mandators of the EIF.

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[2] *As of October 2023.*

- ***Translating EIF's vision 2030 into strategic objectives and a strategic framework to guide the Institution's future activities***

In today's fast paced business environment, the markets addressed by the EIF are subject to constant evolution and adjustment to economic conditions, technological advancements, competitive forces, and political events.

The pace of the green transition, innovation and digitalization will accelerate over the years and Europe needs to be prepared to become a more sustainable society enhancing EU's economic and social resilience.

The EIF understands the importance of the challenges ahead and prepares its organisation and business model to be responsive and maintain its relevance to all its stakeholders. In this context, the EIF will be focused during the next months, in parallel to its reorganisation efforts and following the approval of the vision 2030 by the EIF Board of Directors, on the refinement of its unique role and adequate positioning in terms of policy priorities and market impact by establishing the strategic objectives for the remainder of the decade. This exercise will be taking into account the challenges that the EIF will be facing in terms of funding gaps as well as statutory-driven volume constraints at the EIF and Group levels and individually; it will further aim at reconciling these factors with an increased market demand for EIF interventions.

3 | EIF’s operational plan

The past years have been presenting very challenging conditions to the European economy, that continues to observe a modest growth. The indirect impact of the war in Ukraine on supply chain, inflation and interest rates and the recent focus of geopolitical disturbance in the Middle East, will continue to test the resilience of the European economic agents, in particular SMEs.

SMEs are the backbone of the European economy and their activities will continue to be stressed not only by the factors mentioned above, but also by the pressing need to adapt to the digital and sustainable economy.

On the other hand, 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 and sustainable initiatives where EIF plans to play an increasingly important role. Moreover, increasing investments into sustainability technologies will require adequate development of respective infrastructures, whereby appropriate EU legislation could incentivise sustainable mining, the recovery and recycling of raw materials thus creating opportunities for innovative companies.

In an environment of tightening of lending criteria and economic uncertainty, the deployment of EIF’s debt and equity products is expected to provide the necessary complementarity to the various national and private support measures that are being offered currently where the demand exceeds greatly the resources available under the different programs entrusted to EIF.

The EIF's overall activity for 2024 is planned to reach around EUR 14.0bn, of which more than EUR 6.0bn come from InvestEU and EUR 3.5bn from EIB mandate resources. From a policy angle, Sustainable and Green Transformation is expected to reach EUR 6.0bn of financing, three 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. However, market feedback indicates that it is key not to overburden very small companies on that journey but help them “greening”.

In addition to the creation of new activities, the EIF will ensure an active portfolio management of its current equity investments. At the same time the active lifetime management of transactions and mandates will permit the EIF a shift away from tasks with inexistent or low added value to the relevant stakeholders. This approach will allow the repurpose of the EIF’s own resources but also resources from our mandators, that can potentially be used to support new initiatives and maximize impact on new policy areas. More details about this activity and respective timelines will be provided to the EIF Board during the course of 2024.

The active portfolio management will concern mandates and transactions where the required policy impact has been achieved, the appropriate return can be realized and the financial sustainability of the portfolios under the EIF management is ensured. At the same time, it will also be reducing the financial risk exposure of the Group on existing activity, providing a positive impact on the statutory ratios and limits. In particular, the EIF will be actively communicating the background of the secondary sale activity to the market to avoid any negative market impact. On the guarantee side, the efforts will focus on terminating older transactions in close coordination with the EIF’s mandators and financial intermediaries with the aim to reduce the administrative burden on the institutions and reduce costs.

3.1 | Strategy update

The 2024-2026 COP document has been prepared in parallel to the discussion and finalisation of the EIF’s 2030 Vision with the Board of Directors. It coincides with the ongoing work on the Mandate Acquisition and Deployment Execution Framework. Although specific impacts of the Vision and the Framework on the content of the present COP are necessarily limited, there are nevertheless a number of concepts, present in this year’s COP, which are coherent with the direction of the Vision, and which will be reinforced and deepened over future years. These include:

a) firm focus on attributing all volumes to, and achieving impact in, the defined PPGs,

b) stabilisation of volumes overall and a consolidation of the EIF's activities,

c) further efforts to enhance the EIF's complementarity with and value-added for, EIF's stakeholders and partners,

d) a business plan which is well-adapted to the capital, IT and human resourcing capacity (current and future) of the EIF,

e) ramp-up of key projects of the EIF`s Digital Transformation Programme supporting a more efficient interaction with the EIF`s counterparts,

f) prudent management of the EIF's capital to ensure long term sustainability.

Admittedly, these themes are not new, but viewed in the context of the 2030 Vision, they assume greater significance for the future. For example, the achievement of impact – which does not currently benefit from a standardised definition and methodology for its determination – will need to be better quantified and communicated going forward in order to ensure that resources are deployed in the most effective way possible; the stabilisation of volumes should presage a transition to smaller transactions with (often) smaller counterparties; activities with key partners such as NPIs will become more targeted, especially in less developed regions and/or in the promotion of pan-EU objectives; capital and human resource management should become more deliberate and forward-looking with new activities such as active portfolio management and the upskilling of the workforce in the context of increased levels of automation.

But even beyond these existing themes, new areas of focus will increasingly dictate the direction of future COP exercises. These emerge from both EIF's 2030 Vision as well as its new Mandate Acquisition and Deployment Execution Framework. As outlined in the 2030 Vision paper, dedicated strategic papers will translate these (and other) focus areas into a defined roadmap with clear and concrete steps, in order to successfully implement this Vision over the next 6 years.

Focus areas include, but are not limited to:

a) a more data-driven, forward-looking, approach to themes and activities where the EIF's contribution can bring most impact and value added, articulated around three main areas: a) market and ecosystem development based on geographical, sectorial and market maturity considerations, b) risk financing support for Europe's capital market union, cohesion policy and strategic autonomy and c) crisis response in support of European resilience, attention to underlying themes and sectors – e.g. infra-tech, deeptech, climate and environment, social cohesion, etc.);

b) a strengthened complementarity with the EIB and the EC and a deeper relationship with Member States, centred around greater upstream corporate strategic engagement (sharing of market intelligence, additionality assessments etc.),

c) a more deliberate and quantified expression of target impact, financial return and ecosystem development (something which has been necessarily limited due to an insufficiently robust approach impact measurement in particular),

d) a clear segmentation according to type of mandates describing the importance of (and thus EIF's focus on) such mandates for the EIF (e.g. those that are considered "foundational" for PPG delivery, in terms of mandate design and underlying product, versus those that are "complementary" or "exploratory" in nature), a new pro-active product development and mandate origination process centred on PPG delivery and an associated improvement in standardization aimed at maintaining financial sustainability, reducing time-to-market and improving the "readability" of EIF's portfolio of activities,

e) a revised financial and pricing model, taking into account greater efficiencies from digitalization,

f) the development of a mandate termination protocol to allow for orderly termination of underlying activities, secondary sales etc.,

g) the management of EIF´s capital position in a sustainable manner with an increased focus on how the capital is employed.

3.2 | Fund raising COP 2024-2026

The EIF anticipates that the funding levels will decrease in 2024 moderately when comparing with 2023, but this decrease is more pronounced in the following years. This trend is explained by three factors: a) the funding plan of 2023 benefited from the development of several sizable initiatives (ETCI, REPowerEU, RRFs), b) The Group and the EIF statutory restrictions limit the development of new major initiatives, c) given the uncertainty, InvestEU STEP is not reflected but if materialized would require a reassessment of the fundraising and deployment objectives, a revision of the COP 2024-26 and the subsequent EIF's 2024-2028 Capital Plan. Despite not being quantitively reflected in the current version of the funding plan, the EIF continues to work closely with the EIB on supporting the STEP proposals formulated by the European Commission to include an eventual increase of InvestEU through a window focussed on STEP policy objectives.

In the context of RRF Spain, after preliminary discussions leading to the amendment of the plan, EIF has proposed a number of products to be potentially delivered under the RRF umbrella (one of which being an ABS instrument to be delivered jointly with the EIB). Whilst some anticipated products could be already deployed – at least in part – in 2024 (in particular the contribution by RRF Spain to the Member State Compartment of InvestEU), EIF will at a later stage re-assess if further products can be launched including Asset Backed Securities ("ABS") instruments, insofar as the conditions for it are in place. In light of the above, the mandate is included in the current version of the fund-raising plan on conservative terms.

In view of the substantial market demand, the EIF is actively trying to attract new resources to complement existing mandates and policy objectives, within the constraints mentioned above.

In addition to the rolling activities of RCR and Infra Funds, fund-raising activities for equity with the EIB are growing as a result of additional resources dedicated to the REPowerEU initiative, that will be delivered under RCR and infrastructure funds mandates. In a complementary workstream, the EIB and the EIF are exploring other joint co-investment initiatives in relation to ETCI and space.

The EIF and the EIB will continue to deploy jointly ABS transactions recognising the multiplier policy impact and green potential securitisation transactions have, as well as the product's importance for SME delivery across the EU (see details paragraph 3.5.3).

In relation to EC funding, upon the execution of the 3rd amendment of the InvestEU Agreement, which is expected by the end of 2023, the amount of InvestEU guarantee provided to EIF will increase by EUR 696m. Of this increase, EUR 513m come from a transfer of InvestEU guarantee from the EIB, which will be used to increase the resources allocated to the Sustainability Guarantee, Social Guarantee, Social Impact equity product and the Capacity Building Investment product. The remaining EUR 183m of the increase comes from the association of Norway and Iceland to InvestEU and will be used to increase the resources allocated to the Innovation & Digitalisation Guarantee and the Climate & Environmental Solutions equity product.

The Member States/ regional resources pillar activity for equity anticipates a solid level of resource acquisition driven mainly by new thematic products in the areas of equality (Gender Smart Investment Program) and green transition (Green Investment Platform), but also through ESIF mandates (Romania, Greece and Czech Republic). In addition to the continuous development of NPI agreements the further increase of the German government mandates through the expected signature of ERP-EIF 2 Facility in early 2024, is worth pointing out. This EUR 1bn successor for the ERP-EIF Facility will represent half of the volume expected to be fundraised for regional equity initiatives next year.

On the debt side, the fundraising activity of the EIF with Member States and Regions has peaked in 2023 with the signature of InvestEU Member State Compartment (InvestEU MS-C) facilities in Romania, Bulgaria, Finland, Greece, and Malta. The InvestEU MS-C has become a standardised platform for implementation of debt mandates with resources originating from RRF, ESIF as well as public budget sources. It is expected that new contributions could still be provided in the coming years. Moreover, the bilateral agreements with national authorities should continue following signature of several mandates in

French Regions and in Ireland in 2023. The new facilities (and potential future increases of them) are expected to be predominantly focused on the transition towards green economy, with continuing support of the competitiveness objectives.

In parallel, the EIF is working with the European Commission to enhance its activity outside the EU in the context of the Accession of Western Balkans and the Eastern Neighbourhood. Although such mandates are typically limited in size, they form an important part of the Groups' engagement in candidate and potential candidate countries as well as EU neighbourhood.

The EIF's investment focus and its activities also require the crowding in of private resources to complement the central or regional public sources of funding. The EIF aims at increasing diversification of funding through the AMUF, the SDUF and bespoke initiatives to attract private/institutional investors. The private investors team is currently fundraising the 2nd generation of AMUF and SDUF GreenTech[3]. Fundraising remains challenging under the current geopolitical and economic situation, in particular for venture capital. It is also foreseen that a Green Private Credit focused compartment will be launched under SDUF in early 2024, with the ambition to attract more and more private institutional capital into thematic and environmentally sustainable private credit strategies dedicated to climate and environmental issues.

The concept of Strategic Managed Account is being piloted and, subject to its assessment, may also play a role as a fundraising tool towards the private investors sector.

Table 3. COP 2024-2026 fund raising by business line and activity pillar (EUR m)

	COP 2024	COP 2025	COP 2026
Equity	**5,059**	**3,931**	**4,040**
1 - EIB	2,361	2,541	2,590
2 - EC	176	30	0
3 - Regional Mandates / Member States	2,122	910	1,000
4 - Private Investors	400	450	450
GS&IF	**7,010**	**2,062**	**1,700**
0 - EIF OR	600	650	600
1 - EIB	1,100	1,100	1,100
2 - EC	2,807	0	0
3 - Regional Mandates / Member States	2,453	312	0
4 - Private Investors	50	0	0
Total COP	**12,068**	**5,993**	**5,740**

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.

On the other hand, there is a limited visibility to meaningful levels of new funding to support investments in innovation. The EIF is experiencing a significant demand of the market players, and the challenging funding conditions have been requiring a more robust public support to promote stronger European innovative ecosystems, to stay in the forefront of technological advancements and to navigate throughout global challenges more independently.

[3] In relation to the private investors' strategy, SDUF GreenTech first closing in February 2023 was complemented by 2nd generation of AMUF European Private Equity II first closing in May 2023. In addition, the AMUF European Secondaries strategy had its final closing in June 2023 with an amount doubling compared to first closing enabling EIF to remain present in the private equity secondary buy-side market.

Table 4. COP 2024-2026 fund raising by Public Policy Goal (EUR m)

	COP 2024	COP 2025	COP 2026
Competitiveness and Growth	3,010	2,357	2,444
Equity	979	851	1,125
GS&IF	2,031	1,506	1,319
Innovation	4,322	1,038	861
Equity	1,624	1,001	861
GS&IF	2,698	36	0
Social Impact, Skills and Human Capital	477	183	92
Equity	259	152	92
GS&IF	218	31	0
Sustainability and Green Transformation	4,260	2,415	2,343
Equity	2,196	1,827	1,962
GS&IF	2,064	588	381
Grand Total	***12,068***	***5,993***	***5,740***

3.3 | Deployment COP 2024-2026

InvestEU continues to be the driving force behind EIF's 2024 work, with very strong market appetite, across all products offered under InvestEU which will represent around 50% of the EIF's activity next year.

Strong demand is observed both for portfolio guarantees as well as equity investments, with requested volumes from financial intermediaries and fund managers exceeding available budget under the program. The current high pace of deployment due to the front-loading of InvestEU will result in an uneven distribution of InvestEU support over time. EIF remains on track to sign c. 60% of the InvestEU Guarantee allocated to EIF by the end of 2024 (reflecting the frontloading requirement under InvestEU due to the use of the NGEU budget). This deployment pattern with frontloading of InvestEU is hardly reversible at this stage, given the lead time for equity operations especially for transactions with emerging managers and in emerging VC markets. In the absence of an increase of InvestEU resources from STEP, or further top-ups from sectorial programmes, the activity under InvestEU will therefore drop significantly from 2025 onwards (cliff effect).

As part of the RRF, as well as ESIF funds, several Member States have foreseen deployment of debt and equity instruments. In addition to Spain mentioned in the fundraising section, to date, the EIF has been designated as the implementing partner for guarantee instruments under the RRF in Romania, Greece, and Bulgaria and under ESIF and National Budget in Finland and Malta, whereas deployment of RRF/ESIF equity mandates will be managed by the EIF in Romania, Bulgaria, Cyprus and Czechia and potentially other countries.

The pace of the green transition, innovation and digitalization will accelerate over the next decade towards a more sustainable society enhancing EU's economic and social resilience and strategic autonomy. EIF plays a significant role within the EIB Group in supporting SMEs, by investing in such activities and keeping climate action and environmental sustainability as a priority policy goal. A reinforced focus of attention will be the development of new technologies and solutions to address the energy challenges, and to strengthen EU's security and defence capabilities.

The deployment of the ETCI mandate Is progressing faster than anticipated (25% expected to be deployed in 2023) with strong pipeline ahead for the remaining years of the investment period and which could accommodate a potential increase of the mandate from additional contribution by Members States.

Additionally, on the equity side, the EIF's strategy will pursue its pathway to a thematic investment approach supporting the creation of a sustainable funding ecosystem for main strategic sector verticals under the EU policy objectives. This includes the backing of investment funds cross the full funding spectrum for European SMEs and promoters of infrastructure projects.

With respect to investment funds for SMEs, the EIF will maintain an investment approach seeking to foster all development stages of funds from Technology Transfer at inception to scale-up, growth capital and pre- and post IPO funding at the other end of the spectrum. The focus on climate and cohesion related objectives (covering also bioeconomy, agriculture and food security) will be a transversal investment priority across all company stages and sector verticals.

In parallel to the package of measures supporting the delivery of REPowerEU, the aggregate amount of new RCR signed investments into C-graded funds was capped at 30% of the approved COP orientation. The cap aims to support the long-term financial self-sustainability of the RCR mandate. The RCR budget for C-graded funds must be thus prioritised towards greentech funds (predominantly C-graded at the current market conditions) and providing matching to InvestEU.

Taking into account that the cleantech market is nascent, characterised by first time or emerging teams, there is correlation between the 30% cap on C-graded funds and the SGT PPG minimum targets. Consequently, EIF investments into funds contributing to the SGT PPG may be circa EUR 300m lower for the period 2024-2027, than it was envisaged at the time of the initial REPowerEU approval. The RCR budget for C-graded funds will be prioritised towards greentech funds and providing matching to InvestEU C-graded funds. This de facto means that RCR will have limited capacity to support C-graded funds in other verticals namely life sciences or social impact.

In the event of relevant changes that may be triggered from the ongoing MFF review, a potential InvestEU top-up, or other initiatives such as the Strategic Technologies for Europe Platform (STEP) as well as material changes to the expected market evolution, EIF and EIB will discuss in good faith and agree on corrective actions and/or adjustments to the SGT PPG targets.

In the infrastructure space the focus will continue to be on energy transition and related infrastructures (including digital infrastructure). An opening up towards highly climate-relevant infrastructure projects especially with respect to social infrastructure, sustainable development of cities and regions and funds focused on the preservation of natural resources with a strong focus on the conversion of existing assets could significantly amplify the EIB Group's impact on climate targets.

Concretely and with regards to the Equity business line, the EIB Group has developed a proposal for a package of measures to support the delivery of REPowerEU, which started in 2023 and is contributing to achieve EIF's increased climate action and environmental sustainability ambitions.

The EIF is on track to reach its REPowerEU targets with a signature forecast of EUR 350m for 2023 and a step up of activity from 2024 onwards. Overall, EIF contribution to the REPowerEU plan is expected to mobilise around EUR 60bn in support to sustainable energy, energy efficiency and Greentech innovation.

The REPowerEU+ investments channelled through RCR into VC and PE funds will contribute at least 75% to EIF Sustainability and Green Transformation PPG. The budget channelled through the Infra&Climate Funds mandate will contribute at least 70% to Climate Action and Environmental Sustainability ("CA&ES"). In addition, as from 2024 and pending respective approvals foreseen for Q4 2023, EIF expects to start deployment of a Climate Co-Investment Facility with the EIB, with a 100% contribution to this horizontal CA&ES PPG.

Latest developments in the EIF's private credit investment activity show an increased focus on emerging thematic and environmentally sustainable strategies, including SFDR Article 9 funds. New private credit strategies dedicated to climate and environmental issues are financing companies that are directly active in a green sector (e.g., energy transition, climate tech) or funding for specific investments expected to have a positive impact on the environment (e.g., energy efficiency project for high CO_2 emitting company).

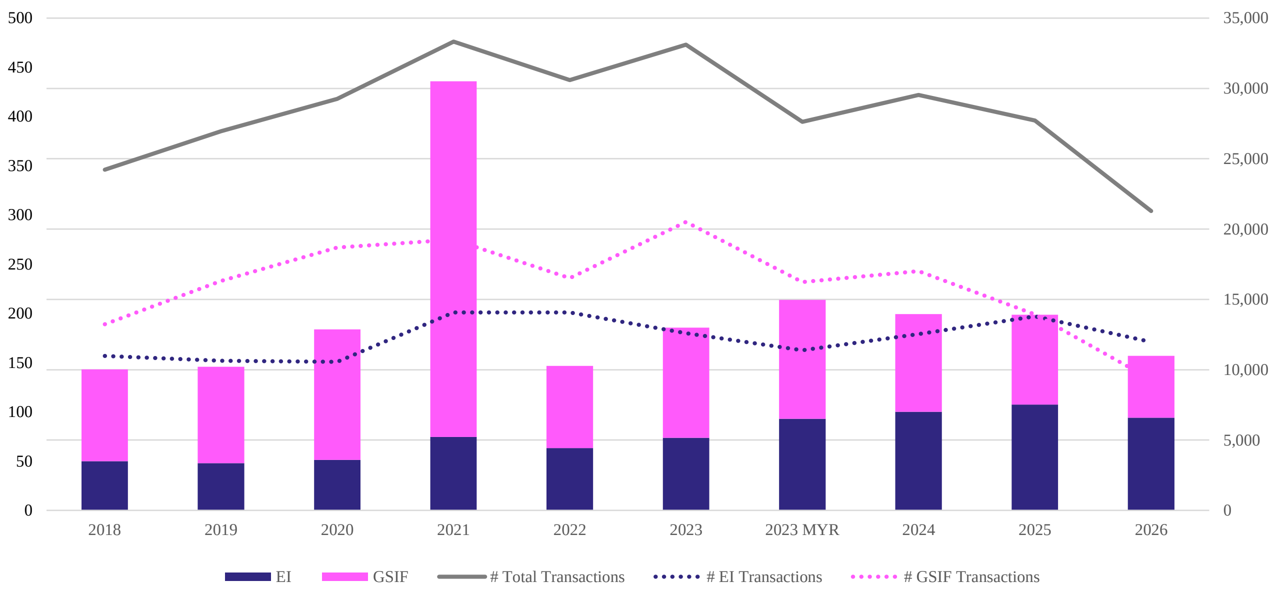
The proposed EIF deployment programme for the next three years is shown in the table below:

Table 5 : COP 2024-2026 Deployment volumes (EUR m)

	# Deals	COP 2024	# Deals	COP 2025	# Deals	COP 2026
EI	**179**	**7,009**	**197**	**7,526**	**171**	**6,590**
1 - EIB	52	2,311	59	2,739	58	2,787
2 - EC	84	2,343	73	1,459	49	1,047
3 - Regional Mandates / Member States	28	2,067	46	3,028	53	2,501
4 - Private Investors	15	288	19	300	11	255
GS&IF	**243**	**6,957**	**199**	**6,381**	**133**	**4,396**
0 - EIF OR	12	600	13	650	12	600
1 - EIB	13	1,100	13	1,100	13	1,100
2 - EC	152	3,544	102	2,444	61	1,660
3 - Regional Mandates / Member States	63	1,683	67	2,117	45	936
4 - Private Investors	3	30	4	70	2	100
Grand Total	**422**	**13,965**	**396**	**13,907**	**304**	**10,985**

* EIB includes the amounts co-invested by EIF in RCR, REPower and Infra Climate funds. Amounts are: EUR 82m, 89m and 90m in 2024, 2025 and 2026, respectively.

Chart 1: Analysis of number of transactions and financing levels (# - lhs / EUR m - rhs)



3.4 | Policy impact

3.4.1 | EIF's Public Policy Goals

The EIF financing continues to play a crucial role in supporting the prosperity, equality and stability across the EU through the implementation of financial instruments with robust policy contribution aiming to promote a sustainable growth and boost a balanced development in the region.

The need to address growing environmental and social challenges, as well as the increased financial resources demand for disruptive technologies, requires a shift from the concentration on quantitative economic growth towards targeted and more impactful interventions, in order to enable the necessary transformation of the EU's economy.

The consolidation of a thematic approach is a clear demonstration of the EIF's commitment towards a more impactful market presence. The EIF's sectorial policy objectives will continue to be focused on EU policy priorities such as climate and green transition, digitalization, innovation and new technologies, gender and social thematic.

The EIF's sustainability and green transformation and related CA&ES target contributions are planned to make a significant progress in the next three years surpassing the initial expectations defined at the time of the Climate Bank Roadmap adoption. CA&ES will represent almost one third of our activity in the next period when 4 years ago it was less than 10%.

This favourable progress is a demonstration of the EIF ambition and effective stakeholder engagement. EIF has been able to attract funding from public and private investors. It is as well a demonstration of internal change management and a result of establishing a process for CA&ES tracking that did not exist in EIF before.

Finally, cohesion will remain high on the EIF's agenda, the EIF is expected to deliver on average 40% of its activity to support EU's less developed region and countries.

Regardless of the targeted policy objectives, all transactions backed by the EIF follow 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 6: COP deployment 2024-2026 by Policy Objectives and business line (EUR m)

	2024				2025				2026			
COP Volumes by PPG	*COP Volumes*	*Weight*	*Exp. Mobilized Amount*	*Weight*	*COP Volumes*	*Weight*	*Exp. Mobilized Amount*	*Weight*	*COP Volumes*	*Weight*	*Exp. Mobilized Amount*	*Weight*
Competitiveness, growth and cohesion	4,110	29%	32,809	29%	4,169	30%	32,329	28%	3,693	34%	30,935	30%
Equity	1,660	12%	21,390	19%	1,765	13%	22,197	19%	1,574	14%	20,052	20%
GS&IF	2,451	18%	11,419	10%	2,405	17%	10,132	9%	2,119	19%	10,883	11%
Innovation	3,145	23%	26,886	24%	3,923	28%	29,316	25%	2,490	23%	22,997	23%
Equity	1,991	14%	24,080	21%	2,124	15%	25,196	22%	1,808	16%	21,207	21%
GS&IF	1,153	8%	2,806	2%	1,799	13%	4,120	4%	682	6%	1,790	2%
Social impact, skills and human capital	705	5%	7,595	7%	807	6%	8,973	8%	464	4%	5,391	5%
Equity	314	2%	3,461	3%	550	4%	5,844	5%	344	3%	3,807	4%
GS&IF	391	3%	4,134	4%	258	2%	3,129	3%	120	1%	1,584	2%
Sustainability and green transformation	6,005	43%	46,641	41%	5,007	36%	45,026	39%	4,339	39%	42,482	42%
Equity	3,044	22%	37,888	33%	3,087	22%	38,676	33%	2,864	26%	37,421	37%
GS&IF	2,961	21%	8,753	8%	1,920	14%	6,350	5%	1,474	13%	5,062	5%
	13,965	*100%*	*113,930*	*100%*	*13,907*	*100%*	*115,643*	*100%*	*10,985*	*100%*	*101,805*	*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, Europe's Digital Decade and simultaneously the EIB Group Climate Bank Roadmap. Consequently, the EIF will continue supporting all EU policy priorities and has identified the horizontal goal CA&ES as its key strategic policy goal over the planning period.

In 2022, the EIF financed nearly EUR 2bn (21% of annual commitment) of investment in operations targeting green investments, projects and enterprises, compared to EUR 0.4bn in 2021. This is expected to mobilise in total EUR 19bn over the coming years and includes supporting SMEs and individual entrepreneurs in greening their businesses and renovating buildings, as well as providing critical finance to infrastructure investors, innovators, and green technology developers (including those focusing on food security and bio-economy).

For 2023, the EIF had set itself a target of 22% of its financial commitments to be devoted to CA&ES, although the projections for the end of the year indicated that the target will be surpassed by a comfortable margin. Therefore, for the coming years, the EIF has reviewed its CA&ES targets upwards. As of 2024 onwards, the EIF is expecting significant progress, increasing the projected CA&ES target to 30% in 2024 with the objective to further increase to catch up with Group ambition over the next years and surpassing the initial expectations defined at the time of the Climate Bank Roadmap adoption.

As presented in sections 3.2 and 3.3 above, the EIF ambition is to increase the implementation of initiatives contributing to climate action related projects and environmental investments, including investments with strong co-benefits for climate, environment and human health, or circular economy business models. This has naturally influenced the EIF's mandate acquisition and funding activities across different types of counterparties, including regional mandates and Member States. The products implemented by the EIF are expected to largely remain the same as during the previous operational period, with the Sustainability Guarantee, climate focused securitisation and private credit funds focusing on the debt market, and the venture capital, private equity and infrastructure funds supporting the equity market.

The successful management of the multidimensional matrix of sustainability and green objectives of the EIF's mandators in a context of ever-changing sustainable finance regulatory environment and other EU Policy priorities, remains a key focus of EIF services. Further work on reviewing the CA&ES criteria used by the EIF will continue over the coming operational period, in light of the expected adoption of the Environmental Sustainability Delegated Act by the EC and also in light of the conclusions of the Climate Bank Roadmap mid-term review.

3.4.3 | EIF's support to the industries of the future

The thematic of the EIF's mandates reflects also the EIF's strategic approach to support nascent industries such as deeptech, biotech, life sciences, cleantech. The EIF wants to pursue this sectorial focus where EIF will be developing sectors with a strategic importance or with specific needs, i.e. where the biggest impact potential can be lifted. In this context, EIF will have established itself amongst others and - apart from enabler of green financing, climate and environmental protection mentioned above- also as key catalyst to innovative technologies.

To help fostering a strong network of venture capital teams specialised in these specific industries and ensuring they have enough firepower, the EIF is relying on a palette of mandates from InvestEU, RCR to ETCI for the larger funds.

This market demand in certain verticals linked to this digital transformation and policy objectives under InvestEU (enabling technologies, and environmental technology for ex.) exceeds significantly available resources across the EIF's mandates. the orientation of the EIF's investment activity to high policy impact leads to an accelerated use of resources under certain verticals of the InvestEU mandate and other mandates, which are however not sufficient to address this demand. A slowdown in a number of key policy areas is unavoidable from the second half of 2024, in absence of substantial new funding becoming available by then.

3.5 | Key initiatives

3.5.1 | Member States and regional Initiatives

The RRF is a key programme aimed at mitigating the impact of the COVID-19 pandemic on the European economy. 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.

Via InvestEU and Member State Compartments under InvestEU, the EIF is able to support a wide variety of sectors and thematic, for instance by backing intermediaries supporting companies investing in renewable energy, energy efficiency, sustainable transport and digital infrastructure projects, supporting innovation, digitalisation, competitiveness and green transition of enterprises, as well as businesses focusing on skills development and pursuing social and environmental impact. Under Member State Compartments, the underlying instruments will address the different EIF PPGs: Sustainability and Green transformation (Romania, Bulgaria, Greece Spain and Finland), competitiveness and Growth (Romania, Bulgaria, Malta, Spain) and innovation policy objectives (Romania, Greece, Bulgaria, Spain).

The EIF has commenced the deployment of first operations to be supported with Member State resources in 2023 (namely Romania and Finland) and, in cooperation with local financial intermediaries, will be providing support to local enterprises and private individuals.

3.5.2 | Securitisation

The EIF securitisation activity has grown in scale and outreach over the last years. The cooperation with the EIB in this field has raised significantly the EIB Group's role and its market positioning, with a strong presence especially in the synthetic[4] Significant Risk Transfer (SRT) segment.

SRT securitisation is expected to be an important contributor to EIF COP 2024-2026. EIF securitisation business will pursue the consolidation and the strengthening of the successful collaboration established with EIB under the ABS Service Level Agreement (ABS SLA) and, as in full complementarity with the EIB resources, the EIF will explore collaboration models aiming at crowding-in capital market funds into SRT transactions, mainly to support the green transition in Europe.

The EIF will continue to facilitate the deployment of EIB own resources via securitisation transactions complementing, whenever appropriate, EIB's investments with EIF own capital. EIF direct participation will ensure alignment of interest between the EIF and the EIB increasing the group policy impact. Under the ABS SLA, the EIF is also expected to deploy, on behalf of the EIB, securitisation related mandates, which may include a EUR 500m green securitisation window under EIB InvestEU. Such enhanced intragroup collaboration will contribute to EIF management fees received under the ABS SLA and will generate new co-investment opportunities, where EIF capital could be invested with higher return and higher policy impact (the size of the additional portfolios associated to SRT transactions is, in general, between 4 and 6 times EIF investment).

In order to crowd-in private capital, and leveraging on its expertise in securitisation, the EIF intends to explore models to catalyse 3rd party resources in SRT transactions, replicating, to the extent possible, the format of the collaboration implemented with the EIB. Operations will be conducted in a complementary way with other EIB investments in securitisation and only when the additional portfolio meets the EU Policy priority objectives in line with EIF KPIs. To guarantee alignment of interest with external investors, deployment of EIF own capital will be required.

Over the years the EIF has seen a steadily decrease in capital deployed in securitisation and relative risk-fees income, mainly due to the prioritisation of the deployment of EIB funds vis-a-vis EIF own resources. The proposed strategies will allow to overcome the shortfall, while maintain the successful intragroup cooperation and increase the EIF's policy impact.

In all securitisation operations, the EIF will maintain and increase its strong focus on pursuing EU Policy priority objectives. In addition to its increasing commitment to support in CA&ES eligible lending, in 2023 the EIF signed the first securitisation transaction supporting women entrepreneurship, and it will continue to leverage on the use of proceed approach to support similar policy-oriented new lending.

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[4] *"Synthetic" transactions allow banks to keep the underlying loans on their balance sheet. The credit risk is transferred through derivatives or guarantees.*

Annex: Glossary of terms

ABS	Asset-Backed Securities
AI	Artificial Intelligence
AMUF	Asset Management Umbrella Fund
BBP	Best Banking Practice
BMP	Best Market Practice
CA&ES	Climate Action and Environmental Sustainability
CGS	Credit Guarantee Schemes
COP	Corporate Operational Plan
DG	Directorate General
ECB	European Central Bank
ETCI	European Tech Champions Initiative
EGF	European Guarantee Fund
ESIF	EU Structural and Investment Fund
FIs	Financial Intermediaries
FR	Fund raising
GESIP	Gender Smart Equity Investment Programme
GSIF	Guarantees, Securitisation & Inclusive Finance– EIF Service
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
KPI	Key Performance Indicator
MS	Member State
NGEU	Next Generation EU
NPIs	National Promotional Institutions
OR	Own Risk
PE	Private Equity
PPG	Public Policy Goal
RCR	Risk Capital Resources
RPA	Robot Process Automation
RRF	Recovery and Resilience Facility
SAS	Statistical Analysis Software

SDG	Sustainable Development Goal
SDUF	Sustainable Development Umbrella Fund
SFDR	Sustainable Finance Disclosure Regulation
SLA	Service Level Agreement
SME	Small and Medium-sized Enterprise
SMEi	Small and Medium-sized Enterprise initiative
SRT	Significant Risk Transfer
VC	Venture Capital