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## **WORKING DOCUMENT**

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From:	General Secretariat of the Council
To:	Working Party of Financial Counsellors
Subject:	InvestEU - Commission non-paper on Establishment of equity financial products

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Delegations will find attached a Commission non-paper on the establishment of equity financial products under the InvestEU Regulation.

## WORKING DOCUMENT OF THE COMMISSION SERVICES

n° 33

### Establishment of equity financial products under InvestEU

– 25 November 2020 –

#### **DISCLAIMER**

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#### Context

Equity instruments under InvestEU can channel equity and quasi-equity to companies and contribute to the recovery and resilience of the European economy.

Traditionally, EU financial instruments under various programmes over the last two decades have been covering a broad range of European companies' financing needs. EU financial instruments have been providing not only loans or guarantees to support debt financing, but also investments into equity. Historically, the focus of EU support on equity has been significant and EU budgetary allocations to debt and equity instruments were of a comparable size. Currently, under the EFSI SME Window the situation is similar, where approximately a half of the EU budgetary guarantee is channelled to support equity capital injections into European SMEs. In terms of overall investments mobilised, however, EFSI reporting shows larger volumes of investments through lending as the lending market in Europe is far more mature than the equity market and risk-sharing under guarantee and leasing operations though financial intermediaries mobilises higher volumes of private capital.

Under InvestEU, both debt and equity products are foreseen. As InvestEU is a demand-led instrument, the exact budgetary allocation for equity products is not yet known, but it is expected to be significant, in line with past practice and also current expectations of future demand.

#### The role of Implementing Partners

InvestEU does not itself provide funding or equity investments. It is a budgetary guarantee and hence can only offer a guarantee for such operations. Therefore, it is up to each Implementing Partner to ensure the necessary funding for InvestEU Operations and to undertake equity investments, either directly in the projects and companies that are final recipients or indirectly through funds that will then themselves invest in final recipients. The implementing partners are allowed to obtain funding from both internal and/or external sources, such as commercial banks or other financial institutions. InvestEU can then cover the funding cost as well as any risk associated with the investment activity itself.

Therefore, the willingness of Implementing Partners to undertake equity investments is key. Current discussions indicate that the EIB Group, other international financial intermediaries as

well as several national promotional banks and institutions are interested in obtaining the InvestEU guarantee for equity operations (both direct equity investments as well as investments in funds active on the venture capital or private equity markets). They have informally proposed several equity products.

#### Equity products envisaged under InvestEU policy Windows

While the number of policy windows under InvestEU is still under discussion, the following overview offers considerations on equity support that could be foreseen under the following four windows:

##### Sustainable Infrastructure Window (SIW)

Under the Sustainable Infrastructure Window, equity investments could be channelled via both direct investments by Implementing Partners and indirect investments via financial intermediaries. Both the EIB Group and some other Implementing Partners have signalled interest in such products, which would mostly target investments into infrastructure funds, the latter focusing on projects and/or companies under policy areas relevant under this window.

##### SME Window (SMEW)/Research, Innovation and Digitisation Window (RIDW)

A joint equity product under the SME and the Research, Innovation and Digitisation windows is being contemplated by Commission services. It would ensure availability of risk capital for early, growth and late-stage equity investments into European SMEs (including start-ups, small mid-caps and innovative mid-caps). Additionally, it would support the post-COVID recovery and development of more integrated pan-European venture and growth capital markets, reaching Member States with moderate or modest innovation capacities and venture and growth capital markets, and crowd-in private investors into this asset class. With support of InvestEU, Implementing Partners would invest in funds of specific policy value (active in climate and environment, strategic technologies, cultural and creative sector, technology transfer), funds supporting the development of a more diversified pan-European capital market (investing cross-border, in moderate or modest innovating Member States, supporting internationalisation of portfolio companies, co-investing with Business Angels, pursuing a gender smart strategy, or providing non-bank debt), funds accompanying SMEs through the IPO phase, and those supporting high growth European companies (scale-ups).

##### Social Investment and Skills (SISW)

Under SISW, equity investments could be targeted through both direct and indirect implementation channels. In terms of direct investment, they may take different forms ranging from direct equity investments (incl. capacity building investments into small financial intermediaries acting in the field of social investments) to quasi-equity instruments, such as convertible shareholder loans and combinations of different types of equity participations issued to the investors.

With regards to intermediated equity investments, the emphasis would likely be put on supporting impact investment funds, i.e. intermediated private equity funds targeting to generate quantifiable benefits to society through investment instruments that consider social and/or environmental impact as an investment criterion at least at-par with the financial risk/return profile.

Equity products can also be deployed under the Member State compartment.