



EIB is stepping up support to SMEs and MidCaps in Europe's security and defence industry

Outline of the Presentation

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3. EIB Security & Defence Lending Envelope December '24

- The proposed financial products: Supply Chain Finance Risk Sharing
- What is to be market tested for Supply Chain Finance Risk Sharing product?

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Appendix: Supply Chain Finance Risk Sharing Product in Detail

1. Context

- ❑ **April 2024:** EIB President Calviño presented the action plan to channel more investment into the European security & defence at the ECOFIN Council
- ❑ **May 2024:** The EIB's Board of Directors approved the **EIB Group Security & Defence Action Plan** to step up support for Europe's security and defence industry
- ❑ **June 2024:** The EIB's Board of Governors adopted the **EIB Group Strategic Roadmap**
- ❑ **December 2024:** The EIB's Board of Directors approved a dedicated **EUR 1 billion Lending Envelope** to support EIB's intermediated financing of EU SMEs and MIDCAPs in the security & defence sector

Do more in security
and defence

EU

Member States

Adapt the EIB policy for
lending to the defence
industry and the current
definition of dual-use
goods, while safeguarding
EIB financing capacity

European Council
(March '24)

We need to step up
our game & support
Europe's security and
defence industry

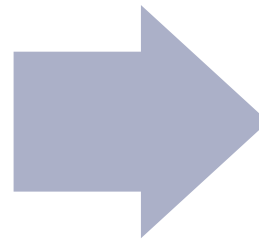
EIB President
Calviño
(December '24)

2. EIB Action Plan '24: What has changed?

EIB Intermediated Debt Financing for the benefit of SMEs and MIDCAPs

BEFORE May 2024

SMEs/MIDCAPs providing equipment/infrastructure dedicated to the police/military excluded from EIB credit lines as beneficiaries



NOW

SMEs/MIDCAPs credit lines being opened to companies providing equipment/infrastructure dedicated to the police/military provided this is not their main activity

Companies with activities in weapons and/or ammunitions remain excluded.

2. EIB Action Plan '24: How to implement (1)?

❑ **Final Beneficiaries** i.e. SMEs/MIDCAPs can have **activity in equipment or infrastructure dedicated to military/police** provided that:

1. It is **not the Final Beneficiary's main activity**, where main activity corresponds to the activity that contributes most to the FB's annual revenues (requiring a **"revenue check"**) and
2. It is **not Weapons and/or Ammunitions** and
3. Sub-financing is not used for **those activities**.

❑ **Measuring the activity in military/police use:** Equipment or infrastructure dedicated to military/police use is measured by **direct sales** to the military, police, or military/police organisations/institutions such as NATO.

2. EIB Action Plan '24: How to implement (2)?

WHAT IS **DUAL USE**?

- ❑ **Dual-use items mean technologies, products or services that can be used for both civil and military purposes.** These items are not inherently military in nature but can be adapted or utilised in a way that contributes to military capabilities, such as with some applications of sensors, drones, cryptography systems, advanced materials, satellites, biotechnologies, unmanned vehicles, protection gear.
- ❑ **Dual-use infrastructure means infrastructure elements that can be used for both civil and military purposes or serve civilian needs more generally,** as with investments in civil protection or investments in climate mitigation undertaken by the military/police.

2. EIB Action Plan '24: How to implement (3)?

What is EIB ineligible/eligible in general?

EIB **ineligible**:

- **Weapons and/or Ammunitions** (“W&A”), including components of W&A which are not dual use
- **Equipment and infrastructure dedicated to police and military (in terms of use of sub-financing)** even though it is not W&A

EIB **eligible**:

- **Dual use technologies, products, services and infrastructure** having **both a civilian and police/military use case** (and can be part of W&A). Dual use items are not considered to be dedicated to military/police and hence are excluded from the **revenue check**
- **Civil use only** (not dual use), also when sold to the police and military

3. Security & Defence Lending Envelope December '24: Which financial products?

Supply Chain Finance through reverse factoring without recourse on the Supplier: EIB guarantees payment obligations of Buyers towards SME/MIDCAP Suppliers for **working capital** needs, through advancing payments of Supplier's invoices directly by participating Banks which open confirming factoring lines for Buyers (commonly referred to as reverse factoring), guaranteed at 50% by the EIB.

Buyers are companies and Public Sector Entities active in the security & defence industry ("Defence Players"), irrespective of the dual use nature of the goods/services supplied.

***Please see Appendix for more details on Supply Chain Finance Risk Sharing product**

3. Security & Defence Lending Envelope December '24: What is to be market tested for the Supply Chain Finance?

1. **Appetite of the Defence Player/Financial Intermediary** to implement a Supply Chain Finance Risk Sharing product
2. The **checks** that need to be carried out to **verify the eligibility of Suppliers** i.e. Final Beneficiaries
3. Whether or not, **Financial Intermediaries and Buyers are willing** to set up **EIB dedicated Confirming Lines** which would fully exclude Suppliers that produce W&A or non-dual use W&A components

4. Next Steps

1. Finalise the market testing with major European Financial Intermediaries and Defence Players
2. With the outcome of the market testing reverting to the **EIB Governing Bodies with a feasibility assessment of the implementation of the Lending Envelope and suggestions to overcome the potential bottlenecks**
3. **Rolling out the Lending Envelope** with a view to strengthen the European security & defence sector



Why

APPENDIX: SUPPLY CHAIN RISK SHARING PRODUCT OVERVIEW

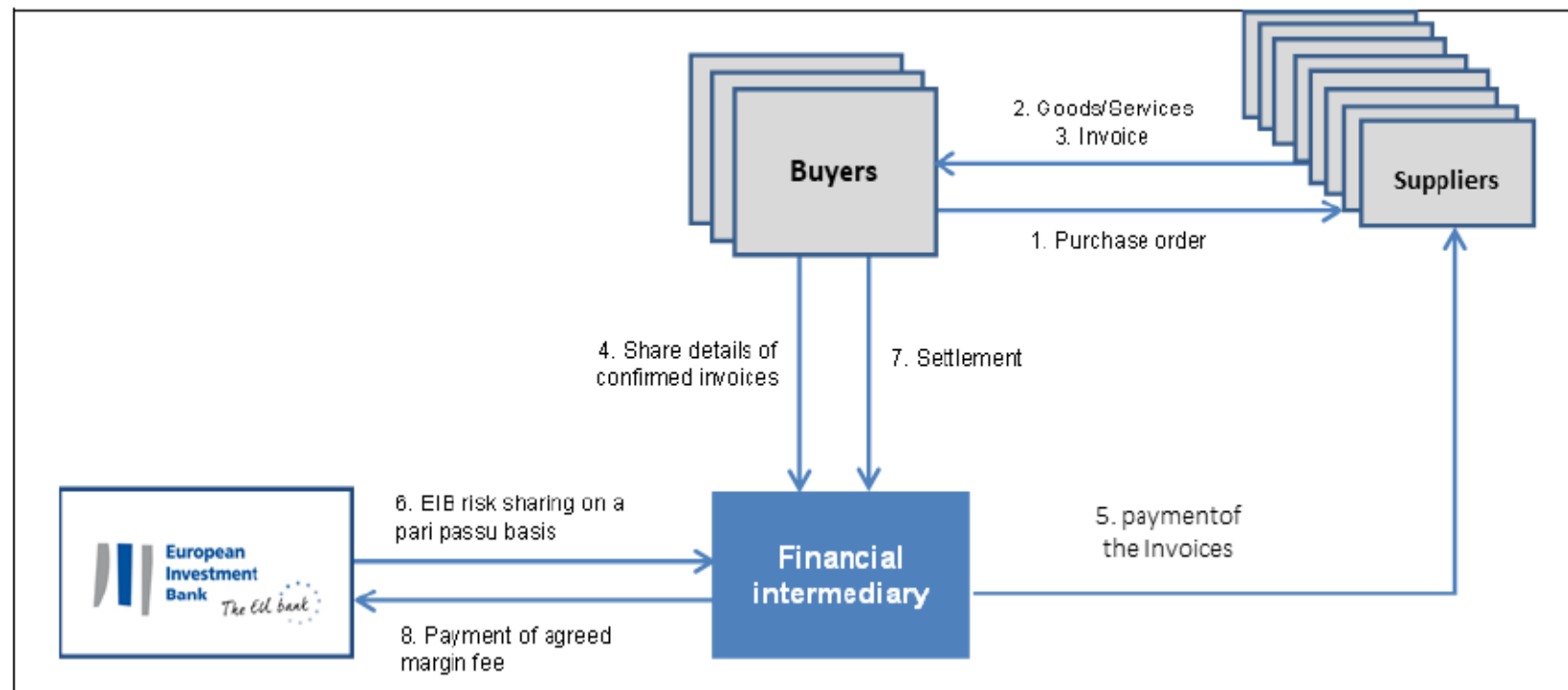
- **Improve access to finance:** Both Buyer and Supplier improve their working capital management, resulting in a better access to credit and **reduced exposure to default risk for the Supplier**
- **Resilience of supply:** As upstream Suppliers are pivotal for the sustainability of Buyer companies, Supply Chain Finance instruments can support the resilience of the total supply chain
- **Support strategic sectors:** strengthen the resilience of EU supply in strategic sectors and facilitate cross-border cooperation such as in the **security and defence value chain**
- **Support EU policies**

SUPPLY CHAIN RISK SHARING

Overview

What

First demand, unconditional, direct guarantee (**50% rate**), compliant with CRR requirements, provided by EIB to cover the credit risk associated with Confirming Lines issued by FIs in relation to invoices to be paid by Buyers in supply chain finance transactions



SUPPLY CHAIN RISK SHARING

Eligible counterparts and transactions

- **EIB Counterparts:** Financial Institutions (FI) such as Commercial Banks or Factoring entities
- **Eligible Transactions:** Supply Chain Finance facilities in the form of Confirming Lines
- **Confirming Lines:** a reverse factoring line between a Buyer and a FI under which the Buyer obliges to pay to FI the amount of the credit rights acquired by the latter under trade payables (max 1y maturity), without recourse to the Supplier
- **Buyers** can be Large Corporates (>3,000 FTEs), MIDCAPS (between 250 and 3,000 FTEs), and Public Sector Entities based in the EU
- **Suppliers** can be SMEs and MIDCAPS
- **Max amount of confirming line** EUR 200m

SUPPLY CHAIN RISK SHARING

Security & defence Industry

Main features

- 1) Eligible Buyers are Defence Players:** Large Corporates, MIDCAPS and Public Sector Entities established in EU Member States, including national or EU institutions such as defence or public procurement agencies.
- 2) Eligible Suppliers** are EU based SMEs/MIDCAPS providing products/services/infrastructure to a Defence Player, including possibly dual use components of W&A or civilian goods and services (e.g. food provider)
 - At least 50% (corresponding to the EIB guarantee rate) of the trade payables amount over a 1-year period needs to pertain to EIB eligible SMEs/MIDCAPS, meaning companies which are not involved in weapons and ammunition (with the exception of dual-use items). EIB will require the FIs to assess and report the above SME/MIDCAP supplier share. A self-declaration from the Buyer/Suppliers and that the Suppliers comply with EIB eligibilities is sufficient.

Market Tests:

i) Possibility for the Buyer to declare the EIB eligibility of the supplier; ii) Possibility to have either EIB dedicated Confirming Lines meeting in full EIB Suppliers' eligibility (i.e., exclusion of Suppliers producing W&A and/or non-dual use components of W&A), or just for the 50% of the Confirming Line amount covered by EIB guarantee.



**European
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Thank you!

**Please contact the EIB Security and
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<https://eib.org/security-defence>