

2022

2027

Addendum to the **ICO Group**

Strategy



Instituto de Crédito Oficial

Aligned with:



Plan de Recuperación,
Transformación y Resiliencia



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NextGenerationEU

Introduction

Instituto de Crédito Oficial (ICO) occupies a prominent place in the Spanish financial system, as a public promotional financial institution and a state financial agency.

In episodes of economic and financial crisis, ICO deploys tools to provide liquidity to the system, thus fostering the continuity of companies and preserving jobs in the private sector. Thus, after the real estate and financial crisis, the ICO mobilised a significant volume of resources for companies, which came to represent more than 11% of all new SME financing operations. And in the economic crisis stemming from the pandemic, the COVID19 Guarantee Facilities approved by the Government, through the Ministry of Economic Affairs and Digital Transformation, made it possible to grant 107,187 million euros in guarantees, in public-private collaboration, which have mobilised 140,737 million euros through more than 1,192,000 financial operations. Recently, ICO has launched a new public guarantee programme in response to the war in Ukraine. The Ukraine guarantee facility, managed by ICO on behalf of the State, has benefited 29,724 Spanish companies, which have obtained public guarantees amounting to 6,085 million euros, mobilising resources totalling 7,825 million euros.

However, in the expansionary phase of the economic cycle, the activity of Instituto de Crédito Oficial has tended towards retraction. The objective of this Addendum is to refocus ICO's business model on growth stages. In short, it is a question of defining an **acyclical ICO**, as opposed to the counter-cyclical ICO that has been so successful in recent years.



This is particularly relevant in this context, as the **expansionary phase of the cycle** that began in Spain on the heels of the pandemic has been consolidated in the recent quarters, allowing the country to achieve economic growth that stands out with respect to our neighbouring countries. In these growth phases, the ICO Group must continue to contribute to Spain's economic growth, promoting business activity and job creation, but **complementing its counter-cyclical** role through a **proactive attitude** during expansion phases.

In fact, Spain, like the rest of its EU partners, faces the challenge of maintaining a high growth rate while improving productivity as a way to remain competitive in global markets. These challenges were recently highlighted in the Draghi report, which analyses in detail the factors limiting the EU's competitiveness. The two-pronged green and digital transition must be the two pillars on which the medium-term growth of the Spanish economy is based, which makes it necessary to support our productive fabric with initiatives such as those laid out in the current Strategy and its Addendum. Increasing the investment capacity of our companies is the way to increase their competitiveness and thus their capacity for growth and job creation. To this end, the ICO Group's financial support initiatives play a crucial role.

The Addendum, approved by the ICO General Council at its meeting on 26 September 2024, complements the current ICO Group Strategy 2022-2027, accommodating new initiatives arising from the new macroeconomic environment of economic growth. It also integrates the management of the European Next Generation funds assigned to ICO in the second phase of the Recovery Plan. The activity associated with these funds represents a strong increase in the ICO Group's activity to underpin the expansionary phase of the Spanish economy.

Finally, in accordance with Law 40/2015 on the Legal Regime of the Public Sector, which states that strategy lines must be reviewed every three years, this addendum constitutes the update and review of the ICO Group's Strategy 2022-2027.



Main initiatives of the addendum

This Addendum is based on maintaining the strategic axes designed in the 2022-27 Strategy and its action plans.

ICO Group Strategy 2022-2027

Strategic Axes	Action Plans (AP)
I Powering Business Growth, Competitiveness and Resilience of the Spanish Economy	1. Direct Financing: Expand direct financing to companies, especially midcaps.
	2. ICO Mediation Facilities: Adapt to SMEs, the self-employed and the social economy.
	3. Complementary Financing: New instruments such as bonds, promissory notes, securitisations and other forms.
	4. Internationalisation: Expand and diversify markets, financial products and currencies.
	5. Private Equity (Axis): Foster entrepreneurial ecosystems through private equity and venture capital.
	6. Channel public sector and EU resources: Collaborate with governments and European funds.
	7. Management of State Funds: Efficient management of funds for internationalisation and cooperation.
II Powering the Digital Transformation of the Spanish Productive Fabric	8. Financing for Business Digitalisation: Foster the digitalisation of SMEs and larger companies.
	9. Digitalisation through Private Equity: Support to digital entrepreneurship with private capital.
	10. Bolster the financing of the Audiovisual Sector: Promote Spain's audiovisual sector.

III Sustainable Finance. Promoting the Ecological Transition and the Sustainability of Environmental, Social and Governance (ESG) in the business fabric	11. Sustainable Financing: Green loans, social loans, sustainable bonds, and sustainable financial products.
	12. Fostering Sustainable Entrepreneurship: Venture capital funds with social and environmental impact.
	13. Sustainable Bond Issue: Maintain leadership in the issuance of sustainable bonds.
	14. Institutional Cooperation: Sustainability partnerships at the national and international level.
	15. Training and Technical Assistance: Educating SMEs on sustainable finance.
IV Strengthening Governance and ICT and Digital resources at ICO, Driving the Organisational Transformation and Expanding its Institutional, Communication and CSR Activity	16. Corporate Governance: Best practices in governance and ESG criteria.
	17. Talent: Attracting, retaining and developing talent at ICO.
	18. Internal Digitisation: Internal digital transformation to improve operational efficiency.
	19. Institutional Relations and Communication: Expand communication networks and bring ICO products closer to the public.
	20. CSR: Education and Knowledge: Promote financial education and awareness on SME growth and sustainable finance.
	21. Territorial Focus. Increase ICO's awareness and activity at regional level.

Each of these plans develops a series of action blocks with specific measures to promote the Institute's priorities. This Addendum aims to delve into some of the action plans by incorporating new actions that are either already being carried out or were not foreseen in the original Strategy. These include the channelling and management of loans under the second phase of the Recovery, Transformation and Resilience Plan and actions aimed at increasing ICO's proximity to the business fabric within the current expansive economic cycle and which involve offsetting certain market failures that have a negative impact on business financing.

1. Channelling and managing funds from the Recovery and Resilience Mechanism (RRM). Addendum to the Recovery, Transformation and Resilience (RTR) plan.

On 17 October 2023 the EU Council approved the Addendum to the Spanish Recovery Plan (2nd phase of the RTR Plan), which initially assigned to ICO and AXIS the channelling of resources through five facilities: ICO-Verde [Green facility], ICO-Empresas y Emprendedores [Businesses and Startup facility], ICO-Vivienda [Housing facility], the Spain Audiovisual Hub, and the Fondo Next Tech fund. This activity was not included in the ICO Group Strategy approved for the period 2022-2027¹.

The Recovery and Resilience Mechanism (RRM) is the core of the NextGenerationEU Recovery Fund, which emerged as a joint EU response to the economic crisis resulting from the COVID-19 pandemic and aims to promote EU investment in areas such as the green transition, digital transformation, social and territorial cohesion, health, and economic, social and institutional resilience.

The channelling of RRM funds will entail a major challenge in terms of internal management, as ICO will have to adapt in order to ensure that these funds effectively reach the target companies. This new challenge further underpins ICO's collaboration with other governmental and European institutions.

Within this framework of action, as of the date of approval of this Addendum, ICO is managing the following initiatives: ICO-Verde, ICO-Empresas y Emprendedores, and ICO-Vivienda.

The ICO Group will channel the financing of these initiatives through four types of financial instruments already rolled out in the current strategy: direct financing (PA1), mediation facilities (PA2), purchase of debt securities issued by companies to finance their projects (PA3) and venture capital investments through AXIS (PA5).

In addition to the importance of public-private partnerships for the distribution of these funds, the implementation of these resources requires the improvement of these procedures to ensure they are agile and flexible, and provide for the best management with due oversight and direction by the ICO Group. There is a digital network that connects its IT systems with the branch network of banks with Spanish banking records that collaborate with ICO, and will require outsourcing to support the IT platforms and the automation of verification processes.

Provisioning in the real economy will take place between 2024 and August 2026, although reinvestment of the amortised loan amounts will be possible until 31 August 2036.

¹ The Council of Ministers (16/07/24) approved the Sociedad Estatal para la Transformación Tecnológica (State Society for Technological Transformation - SETT), which will be in charge of managing the Next Tech and Audiovisual Hub funds, initiatives whose management was initially assigned to the ICO Group in the addendum to the Recovery Plan.

2. Offsetting of market failures

At this time of economic growth, the ICO Group intends to strengthen its capacity to identify and adjust for possible market failures that mainly affect Spanish SMEs by addressing both the supply and demand side of financing.

The adjustment or offsetting of market failures will be achieved through the development of specific products that address needs not covered by financial institutions, thus reinforcing ICO's role in all phases of the economic cycle and complementing the private financial sector with its activity. The following are a limited example of some of the policy **objectives** that could be developed:

- Companies in need of intangible financing.

The valuation of intangible assets represents a challenge for the banking system, which tends to find it difficult to provide financing for companies to undertake asset-intensive investment projects. And yet, the accumulation of intangible assets linked to branding, digitalisation, employee training and innovation is a primary driver of value generation in an advanced economy such as Spain's. The COTEC report² is an example of how important intangibles for productivity and business growth can be.

The report compares relative investment in intangibles for eight EU-27 countries (Germany, France, Italy, Spain, Finland, the Netherlands, Portugal and Sweden), the United States and the United Kingdom, for the 2014-2019 period. Despite the notable investment effort in a specific type of intangible asset, Spain is at the bottom of the group of countries considered, both in terms of euros invested and as a percentage of GDP. Our position improves slightly in investments linked to design and software, and is particularly poor in aspects linked to employee training, R&D and improvements to organisational structure.

ICO can address this market failure by offering financing facilities directly aimed at providing resources for these activities.

- Medium-sized companies with high growth potential but subject to financing constraints:

Undercapitalisation of medium-sized enterprises: there is some consensus that SMEs above a certain level of indebtedness find it difficult to raise capital and strengthen their financial structure. The ICO Group, **through AXIS, intends to promote direct co-investment activity to provide capital to companies with high growth potential**, which would contribute to raising the productivity of our economy, encouraging the internationalisation of the productive fabric.

² <https://cotec.es/informes/economia-intangible/>

- Unbanked companies.

The economic literature points to the fact that firms that have access to bank financing are better positioned to cope with economic shocks compared to those that do not have access to such financing. Companies without bank debt accounted for around 45% of all non-financial corporations in 2019 and employed more than 25% of their workers, according to some studies by the Bank of Spain. According to 2023 data from the Survey on Access to Finance for Firms (SAFE), 49% of Spanish companies did not apply for credit because they considered their internal funds to be sufficient; this percentage is higher than in other neighbouring countries. This opens an important window of opportunity to bring some of these companies into the credit market so that they can undertake new projects and grow.

The development of financial products to adjust for market failures will affect several action plans, while extending ICO's offer to companies that have no relationship with the traditional banking system.

In addition, collaboration should be encouraged with agents that can facilitate financing, such as Mutual Guarantee Societies, whose guarantees can improve access to credit and conditions.

The introduction of new objectives, such as those mentioned above, will affect the **internal governance** of the ICO Group in several aspects, mainly in terms of **risk management**, **operational capacity** and **institutional coordination**.

3. Housing market initiatives

In general, the housing market is a market whose social importance may require public interventions whose needs are met by public banks.

According to the Bank of Spain's 2023 Annual Report, in chapter 4 on the Spanish housing market, problems in accessing housing have increased in recent years and are concentrated in lower income households—young people and immigrants—and in certain geographical areas—urban and tourist areas. The economic and social effects associated with housing difficulties justify the adoption of economic policy measures. According to this report, the Bank of Spain quantifies the stock of social rental housing in Spain at around 300,000 units (representing 1.5% of the primary housing stock), and estimates the **need to add around 1.5 million new social rental housing units** to converge to the levels of the average public housing stock in the advanced economies or the EU-27, not to mention the **deficit of new housing, which the same institution places at around 600,000 units in 2025**.

ICO has extensive experience in products for this market and has continued to expand its range of initiatives to improve housing affordability for the population.

ICO Group products	Purpose	Endowment (million €)
ICO-MRR Facility Social housing development [2nd phase RTR Plan] Through direct financing and Mediation Facilities	<p>Increase the stock of social or affordable rental housing, as well as improve the existing stock of social housing.</p> <p>Loans from the Social Housing Development facility amounting to €4 billion (from funds linked to the Addendum to the RTR Plan), and a €2 billion guarantee facility (created by the Spanish Government) that will back these loans. Channelling of redemptions for new operations: until 2036.</p>	<p>Up to €4 billion in loans and €2 billion in guarantees</p> <p>Application: before 1/06/2026.</p> <p>Formalisation: before 31/08/2026</p>
InvestEU Social Fund Sustainable Social Infrastructure Window (SSIW), with InvestEU Social and Affordable Housing product Equity and quasi-equity financing through financial intermediaries	<p>It aims to make a relevant contribution to the EU Green Pact by investing in the social sector through funds in the construction of social and affordable rental housing.</p> <p>Target sectors: among others, and as a priority, the following: - Social rental housing. - Affordable rental housing. - Housing solutions with social consideration.</p> <p>Final beneficiaries: public and private companies or project companies and investment vehicles making investments in a project or a portfolio of projects.</p>	<p>Up to €260 million investment by ICO with guarantee of €137.5 million from InvestEU programme</p>
ICO Housing and Urban and Rural Regeneration Programme (2022-2025) Through direct financing	<p>Funding going to projects at:</p> <ul style="list-style-type: none"> • Construction of social or affordable housing for rent or lease. • Refurbishment of social or affordable housing for rent or lease. • Improving energy efficiency, decarbonisation and sustainability of housing. • Preservation and improvement of accessibility in and to dwellings. • Urban and rural regeneration and renewal. 	<p>€250 M/year, extendable to €500 M</p> <p>Term: Until 31/12/2025</p>
Guarantee facility for the purchase of a primary residence for young people under 35 years of age and families with dependent minors Guarantee facility on behalf of the State	<p>MIVAU guarantee facility amounting to €2.5 billion, managed by ICO on behalf of the State, for partial coverage of the financing for the purchase of a first home intended for habitual and permanent residence within the national territory by young people up to 35 years of age and families with dependent minors who, being solvent, do not have prior savings. The guarantee will cover 20%, or 25% if the property to be purchased has a minimum energy rating of D or higher. The term of the guarantee shall be a maximum of 10 years after the transaction is formalised.</p>	<p>Guarantees of up to €2.5 billion</p> <p>Formalisation: until 31/12/2025, extendable until 2027</p>
ICO-MITMA Facility Residential building refurbishment [1st phase RTR Plan] Through Mediation Facilities	<p>The State guarantees up to 50% of the loans granted to finance refurbishment works that contribute to the energy improvement of residential buildings, within the framework of the RTR Plan. Future loans, which can only be granted to beneficiaries of NextGenerationEU funds, will be amount to €2.2 billion and will be granted by financial institutions that join the ICO guarantee facility.</p>	<p>€2.2 billion in financing and €1.1 billion in guarantees</p> <p>Application until 30/11/2025</p>

Improvements in Governance

To further underpin the process of continuous improvement of the Institute's governance, a series of initiatives are proposed so that ICO can reinforce its standards of independence, transparency and accountability and thus improve its governance, adopting the best practices in the sector. In this respect, the following measures are proposed:

Within the **General Board**:

- **Audit Committee:** The duties of this committee shall include supervising the effectiveness of the Entity's internal control and internal auditing and supervising the process of preparing and presenting the mandatory financial information.
- **Risk Committee:** Its functions will be to assist and support the General Board in the approval and regular monitoring of risk management strategies by setting risk appetite and limits as deemed appropriate.
- **Awareness-raising and training for the General Council** as the highest decision-making body, encouraging its involvement in ICO's activity by, in addition to the aforementioned committees, increasing its role in the debate and participation in the strategic lines and main actions, as well as improving their skills through specific training.
- **Parity in the General Board.** The legislation that promotes gender parity on the boards of financial institutions such as ICO is Directive (EU) 2022/2381, known as the Women on Boards Directive. This regulation stipulates that by 2026, at least 40% of non-executive directorships in listed companies must be held by women.

In improving the effectiveness and efficiency of procedures:

- **Digitalisation of the ICO Group's processes and operational efficiency.** Work will focus on **optimising internal processes** by automating processes in financial product processing and operational management, **digital development** for transaction management and risk analysis, and **efficiency in the evaluation of financial products**.
- **Fostering the ex ante and ex post evaluation of ICO products or initiatives.** In order to maximise the effectiveness of actions, it is proposed to improve and formalise ex-ante and ex-post evaluation mechanisms in line with best practices developed by international organisations such as the World Bank, the International Monetary Fund (IMF) and the European Commission. These assessments help to ensure that initiatives meet their objectives effectively and efficiently, taking into account their economic, social and environmental impacts, thus facilitating informed decision-making and improving the transparency and effectiveness of public policies.
- **Internal reorganisation:** to align the organisational structure with strategic priorities (PRTR deployment, business growth and housing), a new directorate general for SME and Midcaps has been created and systems will be developed to ensure talent retention.

Incorporation of the Addendum Into the Action Plans of the Current Strategy 2022-27

The axes and action plans of the 2022-27 Strategy are maintained and the initiatives mentioned above are incorporated.

Generally speaking, the measures envisaged in this Addendum affect all the action plans, insofar as they qualify, complement or reinforce the existing lines of action in each of them.

Thus, the action plans under Axis 1, business growth, are reinforced by all initiatives related to the Recovery and Resilience Mechanism and measures related to better addressing market failures.

For Axis 2, the digitisation of the Spanish productive fabric, there are specific products from the RRM and projects will also be financed within the framework of the other initiatives.

The plans in Axis 3, sustainable finance, are also boosted with specific RRM facilities such as the green facility [Línea Verde] or with general principles such as DNSH (Do No Significant Harm) that permeate all the regulation and management of European funds and the rest of ICO's activity.

Finally, changes in governance (axis 4) will be necessary to better meet the challenges posed: both at the level of procedures, processes and internal digitalisation, not to mention the strengthening of the Group's human capital and territorial focus.

In any case, the main Action Plans affected by this Addendum are specifically listed below.



Action Plan 1

Direct Financing to Companies

One of the strategic axes of ICO's strategy is to boost **business growth, with particular focus on medium-sized companies**. To this end, since 2018 ICO has expanded the scope of direct financing programmes, adapting them to the needs of midcaps and medium-sized enterprises.

It is proposed to strengthen the activity that ICO has been carrying out in this area by tackling **market failures. The objective is to finance medium-sized companies in segments that are not covered by commercial banks, thus strengthening the complementary role of ICO and fostering business growth.**

This will allow companies to **diversify their financing sources**, which is a positive element for them, as they will have more alternatives when undertaking their projects and investments.

Action Plan 2

ICO Mediation Facilities

The initiatives ICO has assigned for deployment in the second phase of the Recovery Plan envisage that these will also be channelled through financial intermediation, so that this distribution channel will be strengthened and completed with the same initiatives.



Action Plan 3

Complementary Financing

Alternative financial products will be designed for companies with high growth potential, mainly through Axis -Action Plan 5- to strengthen their own funds and enable them to overcome the limitations arising from indebtedness.

Action Plan 5

Private Equity. AXIS

The private equity manager AXIS plays an important role in channelling funds from the Recovery Plan through equity investments in companies in the different facilities provided for in this possibility.

In addition, AXIS should be encouraged to participate in market failure mitigation products where equity investment by firms is appropriate.



Action Plan 6

Channelling Public Sector and EU Resources

The Next Generation funds allocated to ICO under the Recovery Plan are a major organisational and management challenge, affecting a multitude of action plans as detailed in this document. In general terms, as it involves channelling funds from the European Union, this initiative falls within the framework of Action Plan 6, although more specific development can also be found in other plans.

In line with the current Action Plan, the ICO Group should collaborate more actively with other agents, in particular with regional and local administrations, to offer new products that combine a subsidy from these bodies with a loan for the same purpose. It is a way to increase the potency of aid programmes and also to boost lending to companies with certain characteristics that can be encouraged.

Specifically, the collaboration that already exists with ministerial departments to promote products that improve the accessibility of housing for certain groups should be reinforced and extended, where appropriate, to collaborations with other territorial administrations.

Action Plan 7

Management of State Funds

The funds currently managed by ICO should be strengthened and empowered, within the framework of their respective reference regulations, so that they can expand their potential to finance more companies and more projects within their purposes.

In particular, the strengthening of facilities within existing funds, such as ministerial SME fund for small projects [FIEM PYME *pequeños proyectos*], would allow further support to be given to this type of business which is currently under-served by the market. The CARI scheme could also be extended to support overseas investment projects in need of such rate coverage, through a CARI Fund set up for this purpose.



In terms of cooperation, the range of financial instruments that the development promotion fund FONPRODE was originally equipped with should be expanded to adapt the FEDES, F.C.P.I. (Sustainable Development Fund) to the current tools used in international financial cooperation, streamlining its operations and making it more agile and flexible. This is supported by operational and resource improvements in the administration and accounting departments.

Action Plan 8

Financing for Business Digitalisation

The Next Generation funds of the Recovery Plan envisage investments with a high percentage devoted to the digital transformation, as one of the general objectives of the Next Generation programme. It is therefore necessary to encourage the search for business in companies that can undertake this type of investment.

In this sense, and more generally, financing SMEs with **intangible assets** through direct ICO programmes will boost the growth of these companies that depend on intellectual property, technology or innovation.

Action Plan 9

Digitalisation through Private Equity

AXIS's activity in this area has been bolstered by European initiatives, which helps to provide additional leverage for leveraging technology investments through private capital.

Action Plan **11**
Sustainable Financing

The Recovery and Resilience Mechanism (RRM) funds provide specific facilities for the financing of projects with a sustainability component, in line with European objectives. These loans may be used, among other purposes, to develop projects related to sustainable transport, energy efficiency, renewable energies, the decarbonisation of industry, water management, the circular economy and adaptation to climate change. This is without prejudice to the fact that all funds are subject to the principle of Do No Significant Harm (DNSH).

ICO updated its Sustainability Policy, which was approved by the ICO General Council on 25 January 2024. This policy sets a net-zero carbon emission goal, among others, for 2050 in accordance with national and European legislation. Achieving this objective implies the design of a decarbonisation strategy and a transition plan that will be based, to a large extent, on providing investments to companies that will enable a carbon footprint pathway compatible with the ICO's carbon neutrality objective.

From a social standpoint, current initiatives or those which may be launched to improve accessibility to housing for groups that are currently under way or may be launched contain an important social component by improving the conditions of access to housing.



Action Plans Affected by Changes in Internal Governance

Changes in internal governance due to the introduction of new financial products affect Strategic Line 4: Strengthening Governance and ICT and Digital Resources in ICO, Promoting Organisational Transformation, to which an additional action plan is added to strengthen the territorial focus and activity.

Action Plan 16

Corporate Governance

The creation of new financial products will require a **strengthening of risk control mechanisms, transparency and regulatory compliance**.

Respect for regulations must govern all ICO activities and actions, and one of the areas that has undergone major development in recent years has been sustainability, together with the need to increase public information and its accuracy and veracity (CSDR). ICO will have to adapt for the collection of new data and their processing.

Action Plan 17

Talent

The new financial products will require ICO staff to acquire **specialised skills** in areas such as intangible asset valuation, digitalisation and sustainability.

This implies the need to **draw and retain qualified talent** for new business areas.



Action Plan 18

Internal Digitisation

The ongoing technological improvements being undertaken by the Group should continue and be taken further, in line with the 2024-27 Digitalisation Plan. ICO's **internal digitalisation** will be key to managing these innovative financial products, especially those related to the financing of intangibles and the issuance of guarantees and collateral. This will involve the implementation of **advanced technologies** for risk assessment and process automation, which will increase operational efficiency and reduce the risks associated with the management of these products by making them more transparent and standardised.

Action Plan 19

Institutional Relations and Communication

The creation of specific financial products, such as those related to the channelling of European funds, the combination of loans with grants and loan portfolio guarantees, will require increased institutional coordination between ICO and other financial institutions, regulatory bodies and European stakeholders. ICO will need to improve its capacity to interact with these bodies, ensuring that products are aligned with national and European guidelines.

Action Plan 21

Territorial Focus. Raising the profile of ICO at the regional level

To ensure the effectiveness of the deployment of the new initiatives included in this Addendum, it is considered necessary to strengthen the network of collaborators and partners in all the Autonomous Regions and make ICO's activity more familiar to companies in all regions. Having territorial links will help to broaden the scope of ICO's activity and favour the origination of projects.





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