

Conclusions

Framework Operation #19 for SME RIDW Joint Equity Product – Capital Market Union (CMU) Sub-Product

INVEU-ICR-0005-2023 – SME & Research, Innovations and Digitation Windows

Short description of the financing or investment operation and its objectives

Financial intermediaries	Financial intermediaries established in EU27 with strategies pursuing any of the target areas under the SMEW RIDW Joint Equity Product – CMU Sub-Product
Final recipients	SMEs and Small Mid-Caps
Countries of implementation	The core focus of the Framework Operation is the EU and Sub-Projects are expected to target final recipients across several Member States.
Implementing partner	EIF

The Framework Operation supports investments into:

Growth and expansion funds that provide equity and quasi equity financing and support the continued growth of companies, including in order to finance increased production capacity, to finance market or product development, to provide additional working capital or to be used for a (total or partial) acquisition, in any case with a view to further grow the business.

Debt and hybrid debt-equity funds that provide private credit support tailored to the needs of enterprises in the form of bespoke senior financing, subordinated, unitranche and mezzanine/ hybrid debt-equity financing solutions.

This is the third Framework Operation under the CMU Sub-Product, reflecting high market demand for this product and a strong pipeline.

Global Assessment and rationale for approval

The Investment Committee (IC) of the InvestEU Fund approved the use of the InvestEU guarantee on 9 February 2023 for the above-mentioned operation.

Regarding the **market failures addressed by the Framework Operation**, the Sub-Projects will aim to improve visibility of companies to other investors, notably by facilitating partnerships or collaboration with the wider ecosystem, including entities at a European, national or regional level, thereby reducing information asymmetries through enhanced visibility of the companies, and a signalling effect through the investment itself.

With regards to those Sub-Projects classified as "Hybrid debt-equity fund", most of them target situations where bank financing is not readily available due to the higher risk profile of the transactions or inability to provide collateral to loans, making them ineligible for bank financing.

Conclusions

EIF's commitment will help provide financing to funds targeting developing segment of the private equity market such as selective loan funds, hybrid debt equity funds and growth equity funds

Under this Framework Operation, EIF will target, inter alia, funds with investment strategies supporting the internationalization of final recipients or fostering the already existent cross-border activities of the final recipients in different Member States.

According to recent EIF survey results, the most important factors explaining the European financing gap at the scale-up stage compared to the US, relate to:

- (i) smaller European VC industry & shorter track record of VC players;
- (ii) underdeveloped IPO market;
- (iii) underdeveloped entrepreneurial ecosystem centered around scale-ups;
- (iv) lower average fund sizes due to insufficient funding from large institutional investor;
- (v) fewer large late-stage VC funds in Europe;
- (vi) limited awareness about the importance of scale-ups in Europe;
- (vii) underdeveloped market for venture debt,
- (viii) lack of cross-over funds.

The above therefore points to the lack of an environment, and in particular of financing opportunities, that help enterprises to grow further beyond the start-up stage and enables successful high-growth companies to stay in Europe.

Via the Sub-Projects under this Framework Operation, EIF will have the opportunity to mobilise InvestEU to increasing the availability of capital towards funds focusing on the growth and expansion segment, funds providing alternative form of financing including hybrid debt-equity strategies contributing to the establishment of the necessary investor infrastructure pre and around IPOs currently lacking in Europe.

EIF's commitment is expected to be instrumental in diversifying and enlarging the intermediaries' investor base with new investors for new market sector and/or geographies. In particular, EIF is expected to play often the role of cornerstone investor, thus playing a catalytic effect on institutional investors by providing a seal of approval and strong structuring input, therefore playing instrumental role in the fund formation or achieving target sizes enabling the optimal deployment of the fund strategy.

From a geographical perspective, in certain regions such as CEE, Portugal and the Baltics financing is still scarce when compared to the local company financing needs (Investments as % of GDP in these countries are in the lower end of the spectrum – below 0.04%, well below the European average of 0.189%)¹. The number of local players is limited and the pan-EU managers only invest sporadically in the regions in flagship transactions.

¹ Source: Invest Europe: [invest-europe-activity-data-report-2021.pdf](#)