

Conclusions

Framework operation #6 for SME RIDW Joint Equity Product – Capital Market Union (CMU) Sub-Product

INVEU-ICR-0042-2022 – SME & Research, Innovations and Digitation Windows

Short description of the financing or investment operation and its objectives

Financial intermediaries	Debt and hybrid debt-equity funds; Growth and expansion funds that provide equity and quasi equity financing
Final recipients	SMEs and small midcaps
Countries of implementation	Via this Framework Operation, EIF expects to be able to achieve a relatively broad geographical coverage across Member States. The Sub-Projects under this Framework Operation are expected to target final recipients across the vast majority of Member States.
Implementing partner	EIF

Framework Operation supporting 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.

Majority of the Sub-Projects are expected to target growth and expansion funds, while a minority will target debt and hybrid debt-equity funds;

Intermediaries will typically invest through equity, quasi-equity, hybrid debt-equity or loans.

Global Assessment and rationale for approval

The Investment Committee (IC) of the InvestEU Fund approved the use of the InvestEU guarantee on 7 July 2022 for the above-mentioned operation. The IC decided to retain the right to approve separately sub-projects which certain features. .

Regarding the **market situation and gaps**, only limited alternative sources of financing for EU's smaller companies are available beyond bank-type finance. The equity financing gaps, in absolute terms, have been assessed as being larger than the debt financing gaps.

Conclusions

Large discrepancies exist across Member States. Bigger markets need to be supported on the supply side, and in smaller countries, PE market's need to be built and developed to level up with the size of the respective economies to stimulate further growth.

Funds targeting hybrid debt-equity address a specific market need exacerbated by the fact that bank financing is not readily available to companies targeted by those strategies, due to the higher risk profile of the transactions or the inability to provide collateral to loans.

The Investment Committee recognised **additionality** of this operation as the investment is providing a strong signalling effect. For funds targeting hybrid debt-equity: longer maturity, low collateral requirements, flexible draw-downs and repayments; for funds using Escalar: enhance crowding-in of private investors and increase resources available for promising growth companies, thanks to controlled leverage mechanism.

Related to good market practice promoted by EIF, this operation will contribute to improving investor protection provisions and securing alignment of interest. For first time teams, EIF can be instrumental in the set-up of the fund.

The InvestEU guarantee coupled with valuable structuring input based on best market practice provided systematically by EIF will enable the targeted intermediaries to reach a minimum viable fund size, and/or to catalyse the interest of institutional investors.

The signalling effect of EIF's commitment into private equity funds or loan funds derives from the market's recognition of the EIF's in-depth fund due diligence.

Sub-Projects are expected to contribute to the delivery of the Capital Market Union Strategy, in particular via: diversification of sources of financing for EU's businesses beyond bank-type finance, support investment in innovation and technological developments, growth of the companies thereby promoting the EU's global competitiveness.