Framework operation #1 for SME RIDW Joint Equity Product – Diversified Debt Funds
INVEU-ICR-0037-2022 – SME & Research, Innovations and Digitation Windows

Short description of the financing or investment operation and its objectives

Financial intermediaries
Diversified Debt Funds ("DDFs"), established in Member States or OCTs of Member States focusing on Debt and hybrid debt-equity.
The Sub-Projects supported will entail investments in funds that provide private credit, unitranche and mezzanine/hybrid debt-equity financing solutions.

Final recipients
SMEs and small midcaps

Countries of implementation
The Sub-Projects under this Framework Operation will target predominantly final recipients in EU 27, including countries where the private credit market is less developed. Some of the funds have a pan-EU investment strategy, hence would be able to invest in several EU-27 countries. In certain Sub-Projects, the strategy of the financial intermediaries may also entail investments in non-EU countries.

Implementing partner
EIF

Framework Operation for Sub-Projects to be entered into with financial Intermediaries qualifying as Diversified Debt Funds.
The Sub-Projects that will be supported under this Framework Operation will entail investments in funds that provide private credit support tailored to the need of enterprises in the form of bespoke senior financing, subordinated, unitranche and mezzanine/hybrid debt-equity financing solutions.
The implementation of the Sub-Projects under this Framework Operation will build on the successful implementation of the predecessor initiative launched under EFSI, the EFSI Private Credit tailored for SMEs. Also, crowdfunding platforms benefitted from the initiative, contributing to diversify and enlarge the intermediary base under EFSI.

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 that have a target fund size above EUR 500 million and/or A-grade financial performance rating.
Regarding the market situation and gaps, Diversified Debt Funds address a higher risk financing segment in the market. This segment tends to exceed banks' risk appetite, due to...
Conclusions

inter alia, more flexibility in terms of loan structuring (i.e. longer tenors, flexible collateral requirements, tailored asset-based financing, unsecured lending) and the ability to carry out bespoke assessment of companies’ business plans and expected future cash flows (as opposed to standard lending based on past performance).

In fact, Banks tend to follow a standardised and lengthy loan approval process with limited ability to provide tailor-made solutions to companies while DDFs will provide a more flexible alternative source of business financing.

Also, credit markets remain largely heterogeneous in the EU, with a number of less developed private debt regions.

The Investment Committee recognised additionality of this operation. This is founded on the provision of bespoke credit solutions, tailored to the needs of enterprises, including inter in particular (i) longer tenors, (ii) flexible collateral requirements, (iii) flexible repayment options, (iv) tailored asset-based financing, compared to bank finance. It is further given by the provision of subordinated/ hybrid debt-equity financing for a sub-set of the portfolio (need to ensure balanced risk profile at portfolio level).

EIF is expected to play an instrumental role in achieving target fund size and/or provide valuable structuring input based on best market practice, being cornerstone investor in certain funds, thus playing a catalytic effect on institutional investors in support of the existing or novel funds and contributing to the development of a Capital Markets Union by fostering a more integrated pan-European private credit market.

EIF's commitment is also expected to be instrumental in diversifying and enlarging the intermediaries' investor base with new investors for new market sector and/or geographies.