EIB Group Risk Enhancement Mandate

Evaluation of the Loan Funds Instrument

September 2020

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Introduction

- This report examines the design, implementation and achievements of the Loan Funds Instrument (LFI).
- The LFI was one of six products developed as part of the EIB Group Risk Enhancement Mandate (EREM).
- EREM was approved by the EIB Board in December 2013 in response to the European Council's call in June 2013 to mobilise European resources – including those of the EIB Group – to support small and medium-sized enterprises (SMEs) and get money flowing into the real economy.
- The economic context at the time was characterised by uncertainty, falling investment levels, deteriorating labour market conditions and a declining volume of credit to non-financial corporations (NFCs), particularly in the euro area.
- Against this backdrop, the objectives of EREM were to increase access to finance for European SMEs and small mid-caps, and to support the development of financial markets.
- EREM was implemented by the EIF between 2014 and 2018.
- The LFI was launched in 2015 to help widen the availability of loan financing for SMEs and small mid-caps beyond traditional bank channels by investing in loan funds (also known as debt funds).
- EREM-supported loan funds committed to invest an amount equal to at least double the overall amount drawn down from EREM in SMEs and small mid-caps (eligible beneficiaries).
- The initial sum of €175 million earmarked for the LFI was first increased to €725 million and finally to €1 052.8 million (via reallocation of the budget from other instruments within the Mandate) due to the strong market demand.
- As of 31 December 2018, the EIF had committed €934.2 million to 23 loan funds (20 of which reached contract signature).

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EIB Group Risk Enhancement Mandate Loan Funds Instrument

Rationale for EREM LFI

Excessive reliance on banks

EU SMEs are more reliant on bank financing to meet their external financing needs than larger firms or their US peers. On 6 September 2012, then ECB President Mario Draghi observed that 80% of credit intermediation in Europe goes through banks, whereas the same percentage goes through the capital markets in the United States.

Furthermore, any tightening of bank credit conditions has a bigger impact on SMEs than larger firms (due to their perceived higher risk).

This was evident during the global financial crisis (2007-2009) and the subsequent sovereign debt crisis, which deeply affected bank lending, particularly to SMEs and small mid-caps. They faced a sharp rise in borrowing costs and higher rejection rates than larger firms.

Tight lending conditions

Although financing conditions eased markedly from 2014/2015 (coinciding with the launch of EREM), **major constraints persisted in some Member States** (MS), e.g. Italy, Spain and Greece.

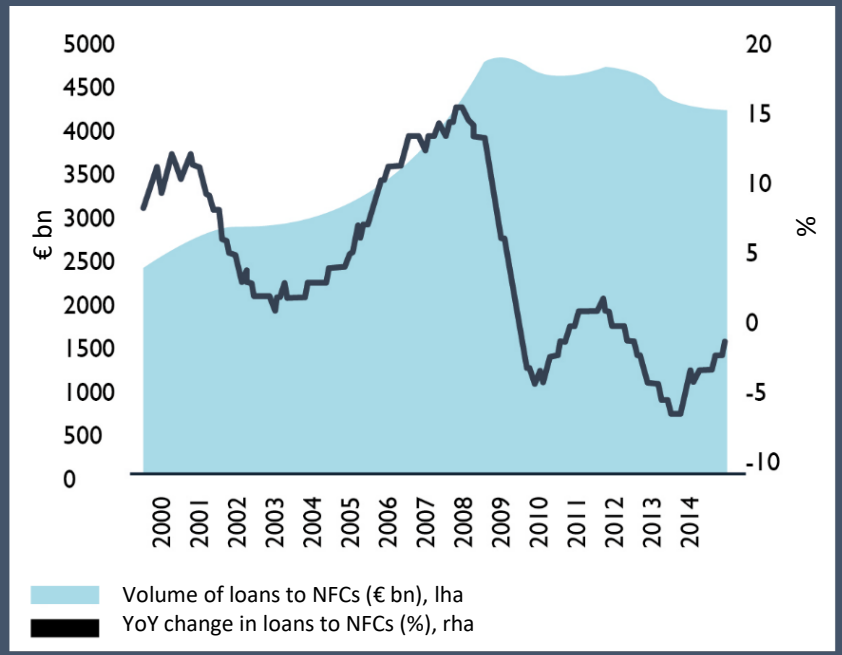
Moreover, **structural gaps** in access to finance remained for certain types of businesses and certain types of investment needs.

Underdeveloped private debt markets

When EREM was developed, private debt markets were in infancy or non-existent. Only a minority of existing debt funds focused on SMEs and small mid-caps, while the majority targeted bigger mid-caps to large caps. The asset class did not exist in most MS due to the lack of a legal framework or low investor appetite.

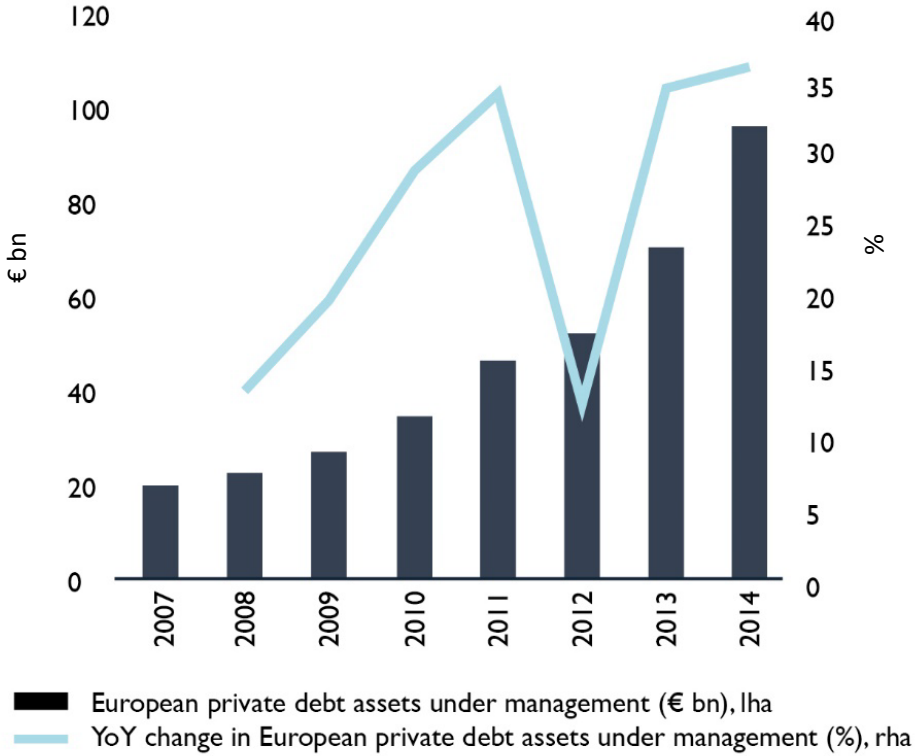
Market context and opportunity before 2014

Demand side: Declining lending to NFCs by banks, so SMEs seek alternative sources of finance.



Supply side: Low interest rate environment; investors such as insurance companies and pension funds looking for higher yields.

Opportunity: Rise of private debt as an alternative channel to traditional sources of finance such as banks.



Disclaimer: *Both ECB and Preqin data concern financing to NFCs regardless of company size, and are therefore not specific to SMEs and small mid-caps.*

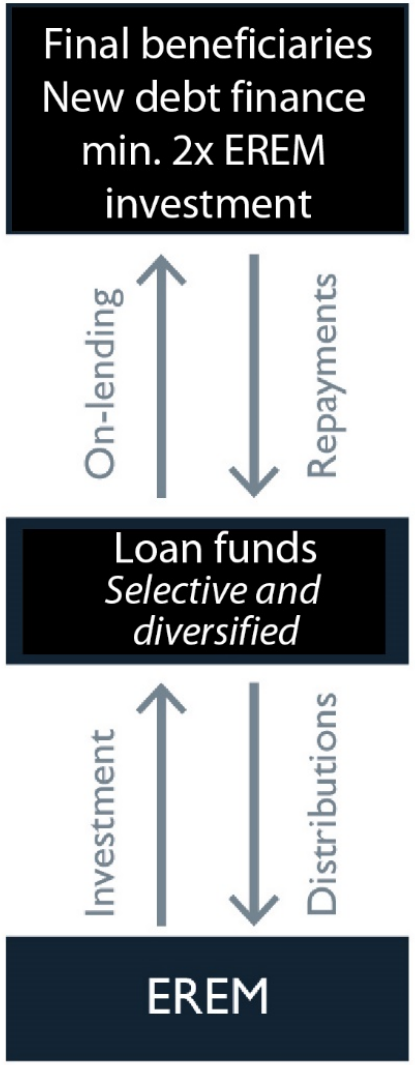
Product features

- The **EIF** used EREM funding to **make equity investments in loan funds alongside third-party investors, with an investment strategy of primarily financing SMEs and small mid-caps**, as illustrated in the figure.

- EREM targeted both:

(a) **Selective loan funds** that follow a selective investment approach in which fund managers play a critical role (similar to the private equity industry). These funds typically target a portfolio of 10-30 underlying investments;

(b) **Diversified loan funds** that follow a portfolio investment approach in which portfolio credit risk plays a critical role (similar to bank lending). These funds typically target a portfolio of ≥ 100 underlying investments.

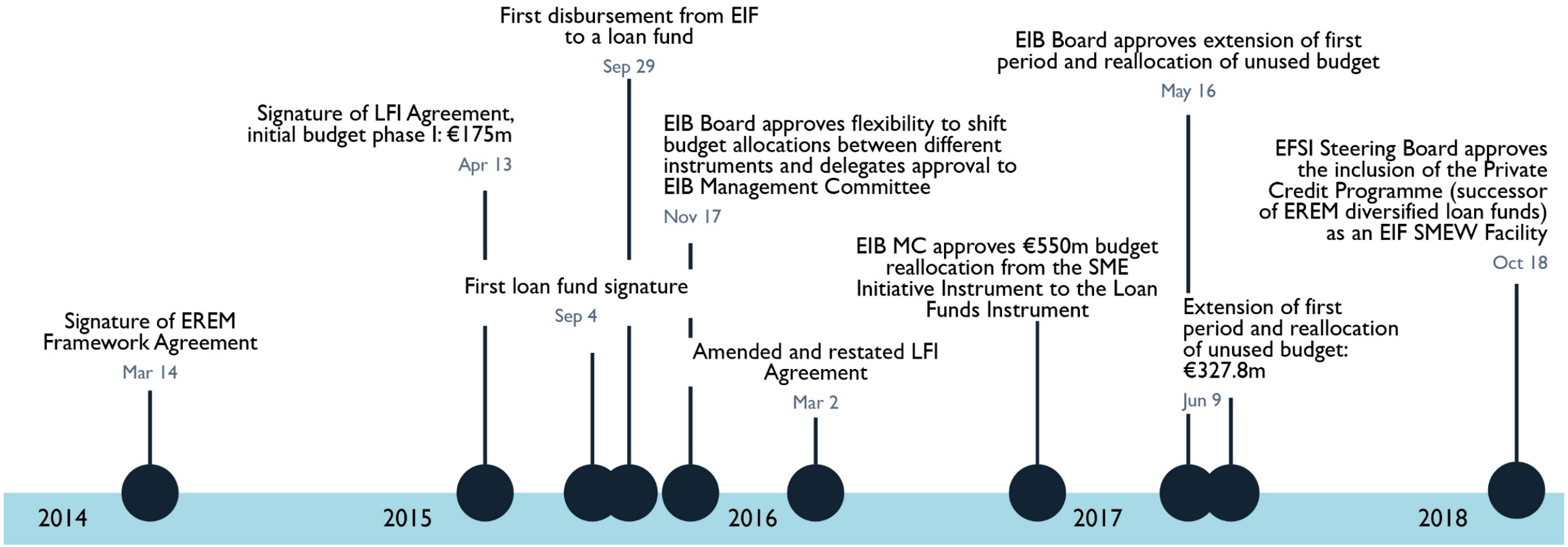


- Geographic spread: incentive fees payable to the EIF by the EIB if a loan fund is signed in **at least five different countries**.

- Eligibility criteria: **SMEs (< 250 employees) and/or small mid-caps (≤ 250 employees, < 500 employees)**; based in the European Union; in any economic/industrial sector (except usual restrictions).

- **The maximum ticket size** that the EIF could sign **with intermediaries varied according to risk performance considerations**. For selective loan funds the maximum ticket size ranged from €30 million to €100 million; for diversified loan funds it ranged from €60 million to €100 million. An amendment to the LFI Agreement doubled the maximum ticket sizes originally stipulated.

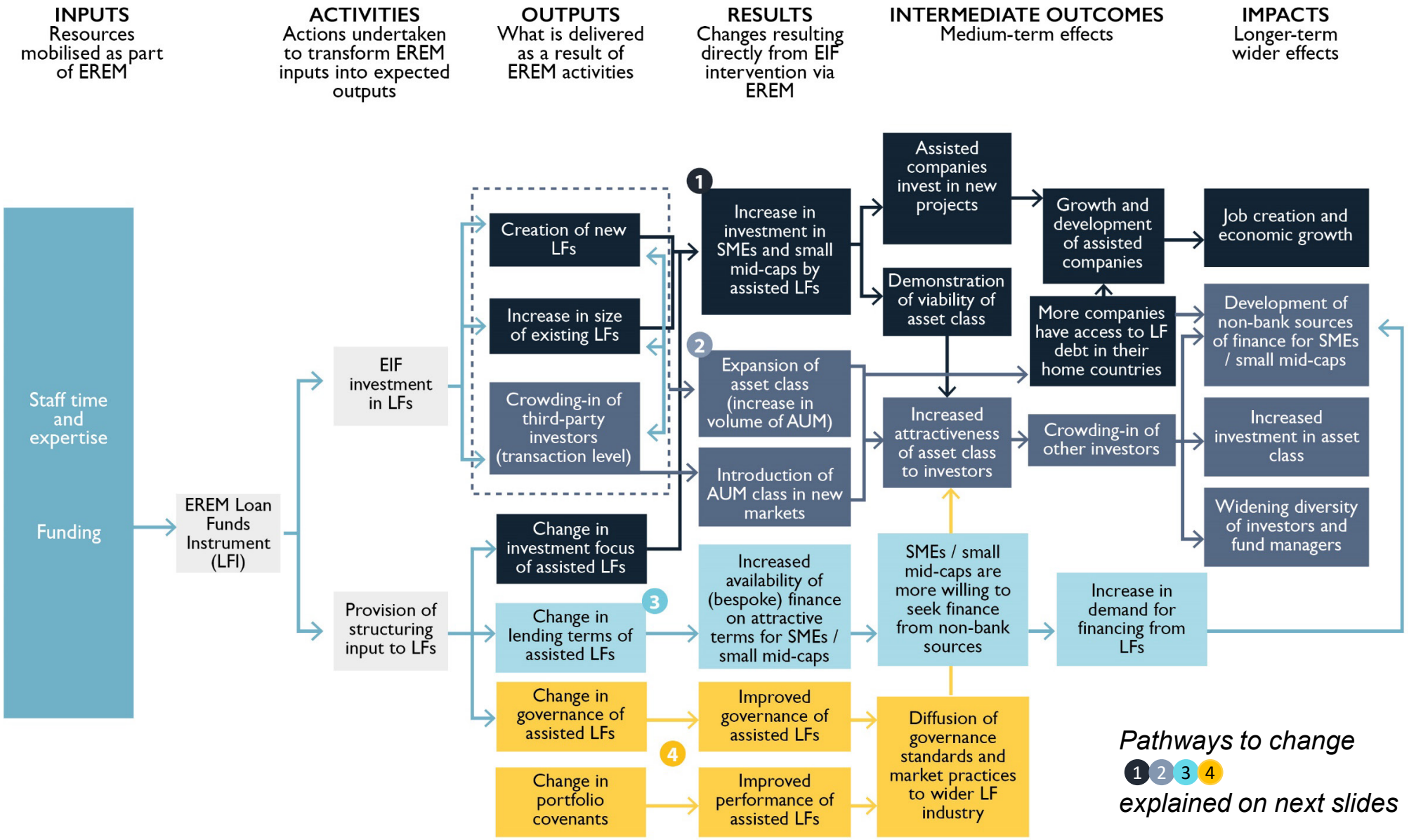
Implementation timeline



Disbursements from EREM loan funds to final beneficiaries (inclusions) will be made between 2015 and 2023, depending on when the agreement was signed and the length of the funds' investment periods (ranging from two to five years).

Repayments from final beneficiaries to EREM loan funds will be made between 2015 and the end of the funds' duration (ranging from seven to 15 years, including the investment period).

LFI theory of change



Impact pathway 1

Increased access to finance for SMEs and small mid-caps

The increased capacity of funds (together with an increased focus on and more appropriate products for SMEs and small mid-caps) results in increased lending to SMEs and small mid-caps at intermediary and market levels (overall increase in volumes, expansion in availability of debt finance from loan funds in MS that had not been introduced to this new asset class). SMEs and small mid-caps thus benefit from a diverse choice of direct lending funds offering flexible debt structures in a greater number of countries. The debt accessed from loan funds is invested by companies in projects that contribute to their growth and development.

Assumptions

(a) Funds selected by the EIF are relevant and appropriate.
(b) The EIF's presence has a signalling effect for other investors.
(c) In the absence of EIF investment via EREM, the assisted loan funds would not be established at all or only on a smaller scale.
(d) There is demand for financing from debt/loan funds among SMEs and small mid-caps.
(e) Loan funds offer financing to SMEs and small mid-caps on attractive terms.

Impact pathway 2

Development of the loan fund industry

The EIF's intervention contributes to the development of the loan fund industry (particularly in underserved countries) targeting SMEs and small mid-caps by increasing the number and size of funds, thus attracting new and diverse investors. This, in turn, contributes to the development of non-bank sources of finance for SMEs.

Assumptions

(a) The EIF's presence has a signalling effect for other investors.
(b) In the absence of EIF investment via EREM, the assisted loan funds would not be established at all or only on a smaller scale.
(c) The assisted funds are viable.

Impact pathway 3

Supply creates its own demand

The availability of finance on flexible and attractive terms (from a locally-based loan fund) creates demand for the product, thus supporting the development of the asset class.

Assumptions

(a) There is demand for financing from debt/loan funds among SMEs and small mid-caps.
(b) The assisted funds are viable.
(c) Loan funds offer financing to SMEs and small mid-caps on attractive terms.

Impact pathway 4

EIF's structuring input adds value

When supporting new funds as a cornerstone investor, the EIF offers fund managers advice on market best practices and governance, analysing the underlying portfolio and encouraging the fund to implement portfolio covenants to improve the fund's risk-return profile. This helps to improve the performance of the assisted fund. Furthermore, changes to fund governance help improve the overall governance structure of the fund. The improved performance and governance of funds and the wider diffusion of these practices by the loan fund industry helps make the asset class more attractive to investors.

Assumptions

(a) The structuring input (governance, covenants) provided by the EIF is regarded as good practice within the industry.
(b) The structuring input provided by the EIF is relevant and useful.
(c) The structuring input is taken up and implemented by fund managers.

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Methodology

Evidence base for the evaluation

Documentation and literature review

Interviews:
EIF staff and market participants
Complementary interviews with EIF relationship managers for all five case studies. Limited number of interviews with other market participants: two investors and two fund managers that were not financed by EREM.

Quantitative data analysis:
- Analysis of geographical take-up of EREM.
- Data on financing conditions and volumes.
- Market data on the private debt industry.

Online survey of fund managers
15 of 17 fund managers responded.

Contribution analysis case studies
Covering five of 17 fund managers.

Data interpretation workshop

Limitation: *The final beneficiaries' perspective was not considered because data protection restrictions prevented the evaluation team from accessing the contact details of over 1 000 supported businesses).*

4

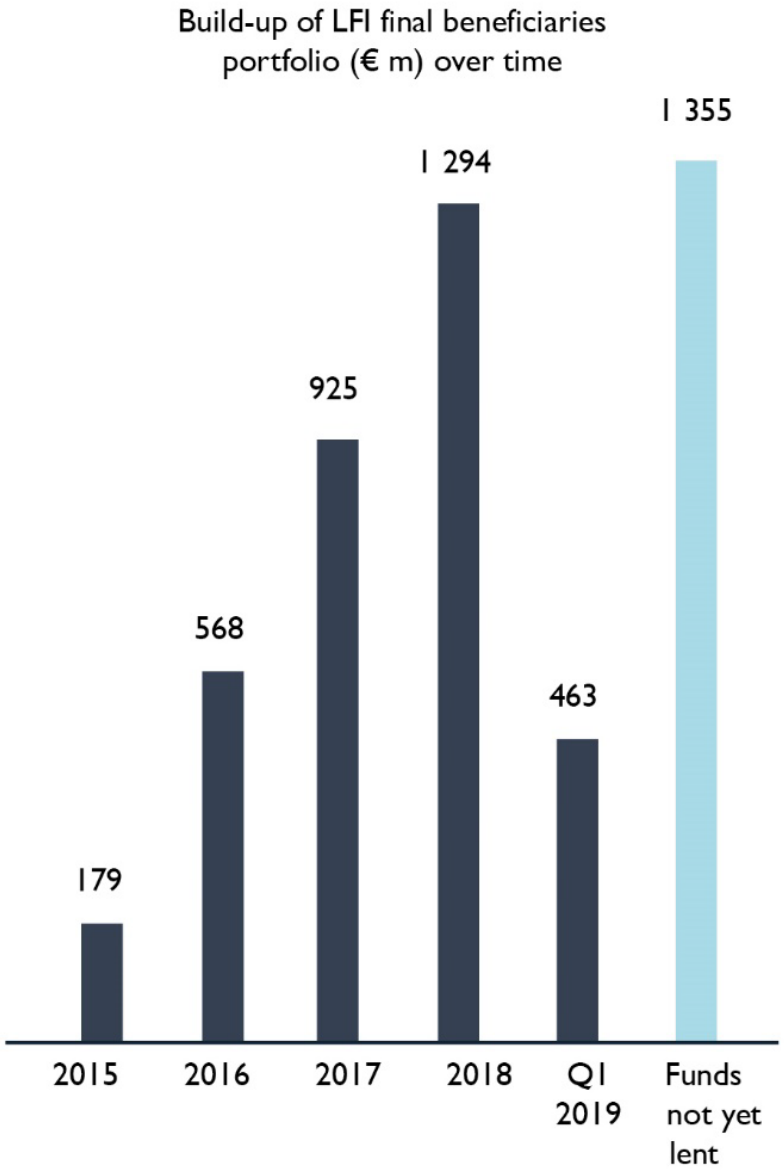
Key findings

The product was highly relevant …

The LFI addressed structural gaps in access to finance for SMEs and small mid-caps. Case studies and the survey revealed that loan funds addressed the financing needs of businesses that were not well served by banks: longer tenors, more flexible financing (e.g. bullet repayment structure), quicker financing (several weeks vs. months) and financing of the type of projects often refused by banks (e.g. event-driven transactions, hiring of personnel and overseas expansion).

It addressed gaps created by tightening bank credit conditions for SMEs in some MS (e.g. Italy and Spain).

The demand for the product was higher than expected at the intermediary level. There were two budget reallocations from other EREM instruments into loan funds, generating a fivefold increase from €175 million to €1 052.8 million for the first period, of which 89% has been committed. **There was also strong demand for private debt financing among SMEs and small mid-caps (final beneficiary level).** The final beneficiaries portfolio is building up at a good pace and is likely to be fully ramped up for most funds by the end of their investment periods (2023 at the latest).



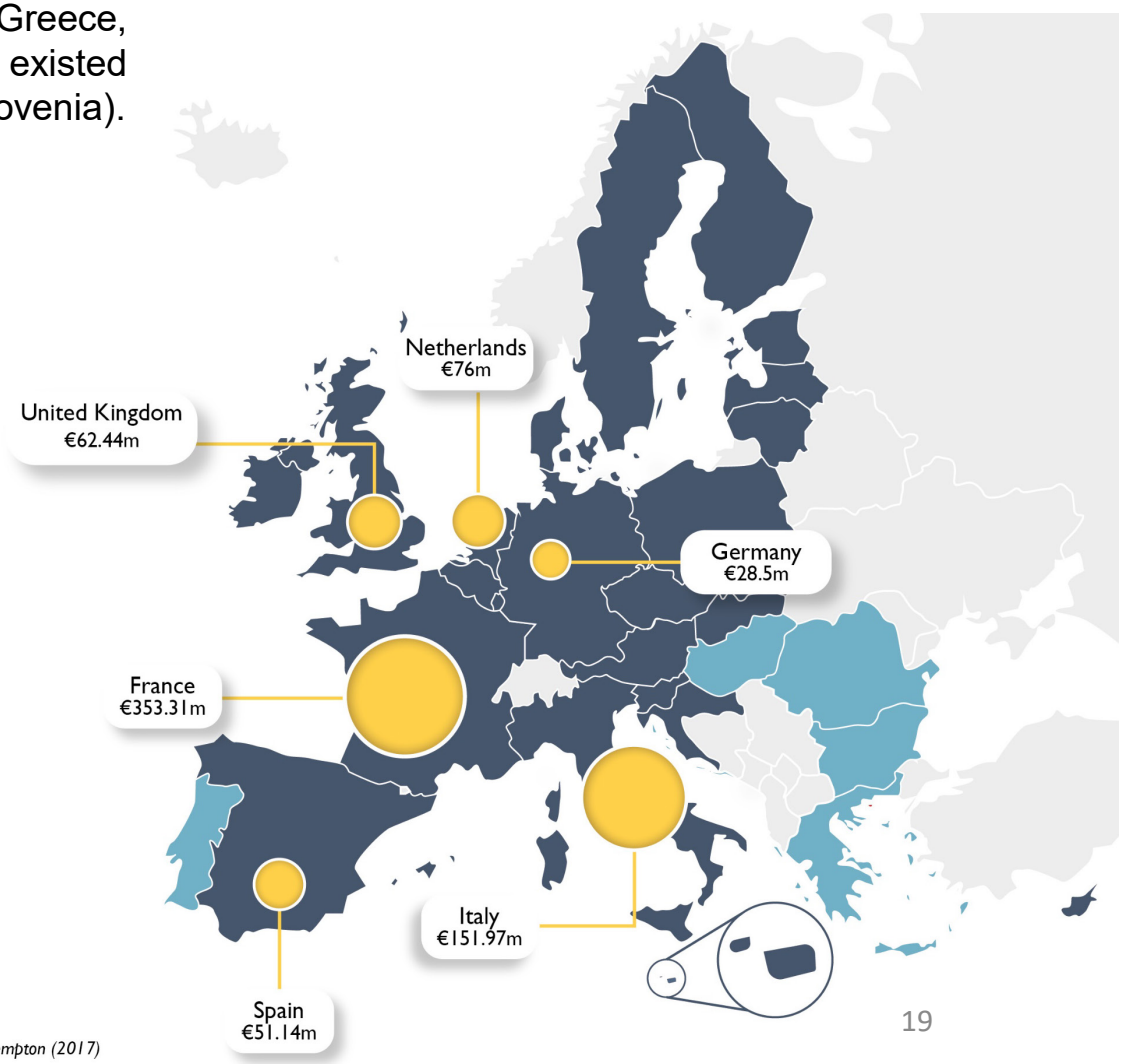
… but during 2015-2018 could only be deployed in certain market contexts

Market take-up of the EREM LFI was influenced by external factors that limited its geographical spread, especially the **lack of a regulatory framework for loan origination by funds in some MS** (Portugal, Greece, Bulgaria, Hungary and Romania)**.** In other MS, the required framework existed but had only just been introduced (e.g. France, Germany, Malta and Slovenia).

Moreover, the loan fund asset class was relatively new in 2014. **The market entry strategy adopted by the EIF was therefore sensible**: focus initially on countries where the asset class already existed (to develop champions and build the EIF's own experience and track record) and then spread to newer markets (development role).

The EREM LFI was not a suitable product for addressing countercyclical gaps in 2014 but was highly relevant for addressing structural gaps (see previous slide)**.** This lack of suitability was mainly due to the small number of sophisticated private debt markets that existed at that time in Europe, the infancy or absence of regulatory frameworks for loan origination by funds in some MS, and the relatively long time to market (1.5 years). However, now that the market infrastructure has been set up by EREM and favourable national regulations have been enacted, loan funds could also be used as a countercyclical instrument in the future.

EREM signatures and existence of loan origination framework per MS

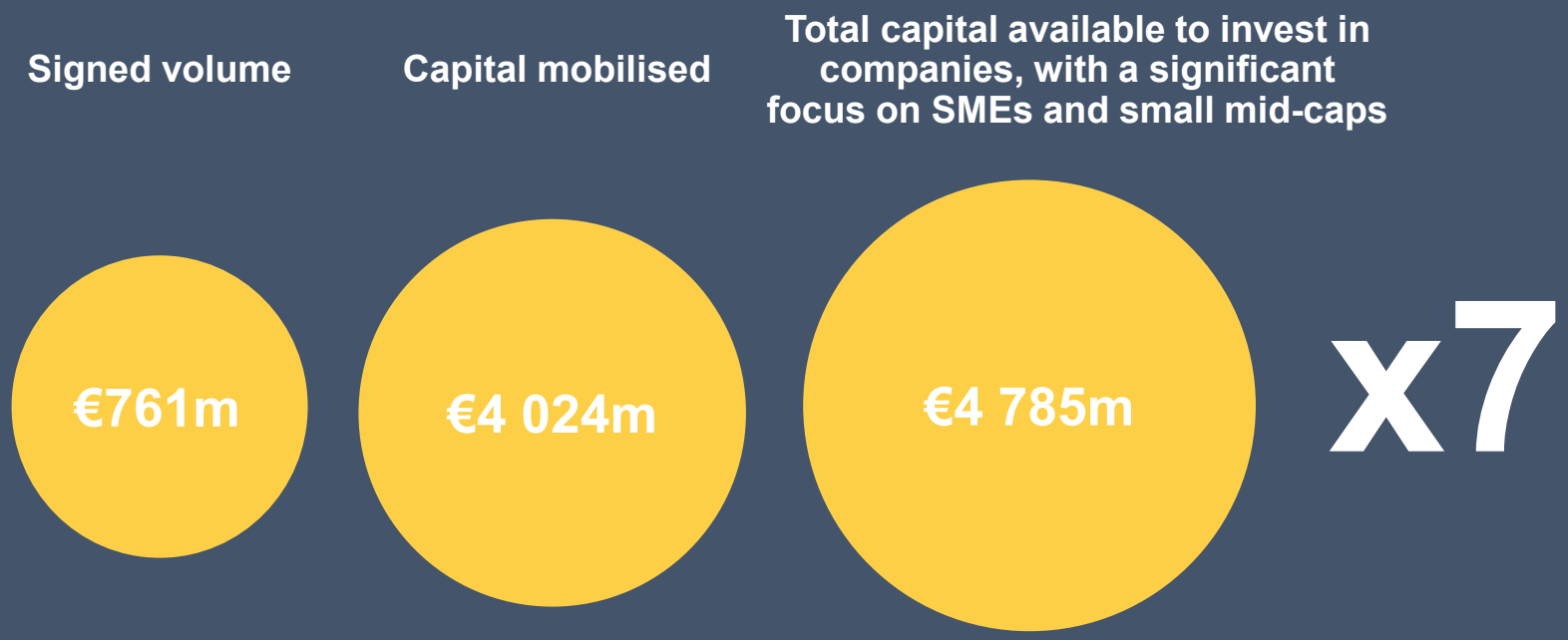


Sources: EIF data, ESMA (2016), Debevoise & Plempton (2017)

EREM loan funds have increased the availability of finance for SMEs and small mid-caps beyond initial expectations

Investment contract signed with 20 loan funds in 6 MS:

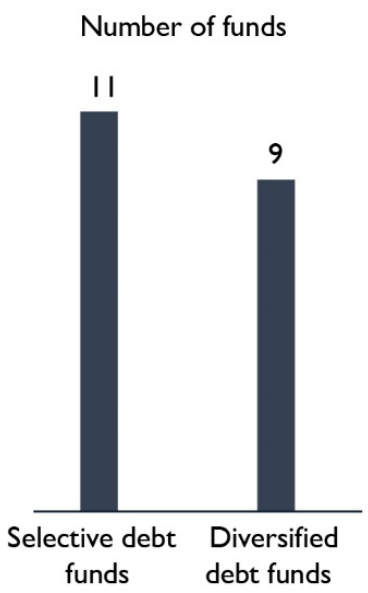
- 13 loan funds have a single-country strategy
- 7 loan funds have a multi-country strategy

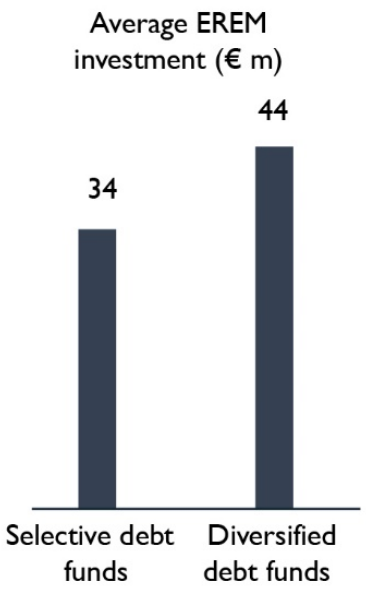


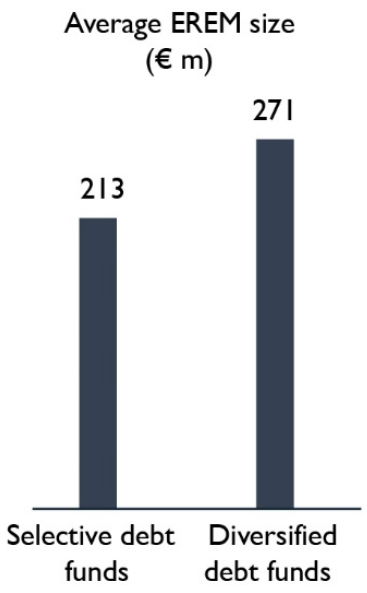
During the 2015-2018 period, EREM invested in 20 funds, thereby mobilising €5 billion of capital, a significant proportion of which is expected to be allocated to SMEs and small mid-caps.

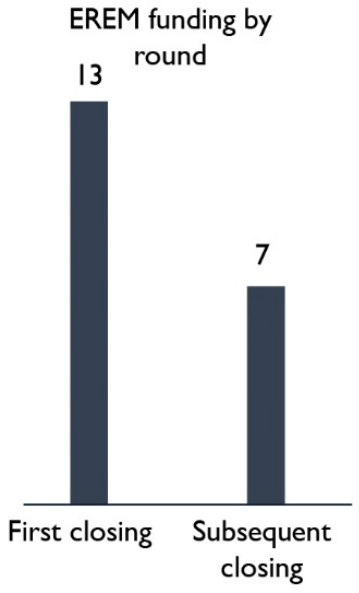
The multiplier effect (total signed capital available/EREM signed financing) of x7 was larger than initially expected (x4 in EREM's Request for Approval).

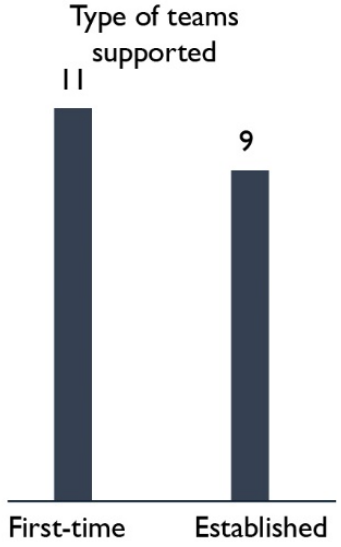
The LFI was well targeted and well positioned











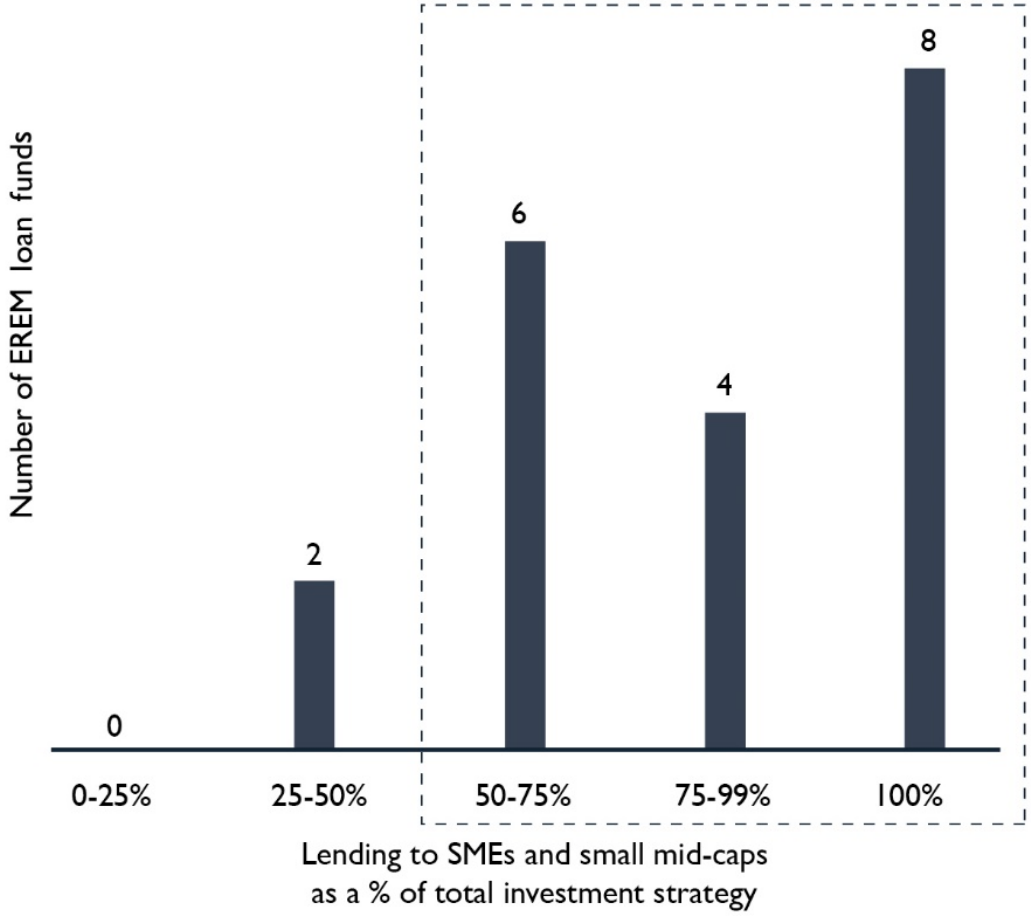
The EREM LFI supported a good balance of selective and diversified loan funds with a focus on the lower mid-market segment (size < €1 billion) where EIF investment was most needed:

- 11 selective funds: average investment of €34 million (ranging from €20-80 million); average size of €213 million (ranging from €48-672 million); median EREM shareholding of 23% (ranging from 7-49.9%).
- 9 diversified funds: average investment of €44 million (ranging from €18.5-80 million); average size of €271 million (ranging from €90-960 million); median EREM shareholding of 22% (ranging from 8-34%).

EREM LFI investment came in mainly at first closing, thus helping to catalyse other investors when most needed.

11 first-time teams were supported in Italy, the United Kingdom, France, Spain, Germany and the Netherlands.

The EIF has selected funds with a strong focus on SMEs and small mid-caps



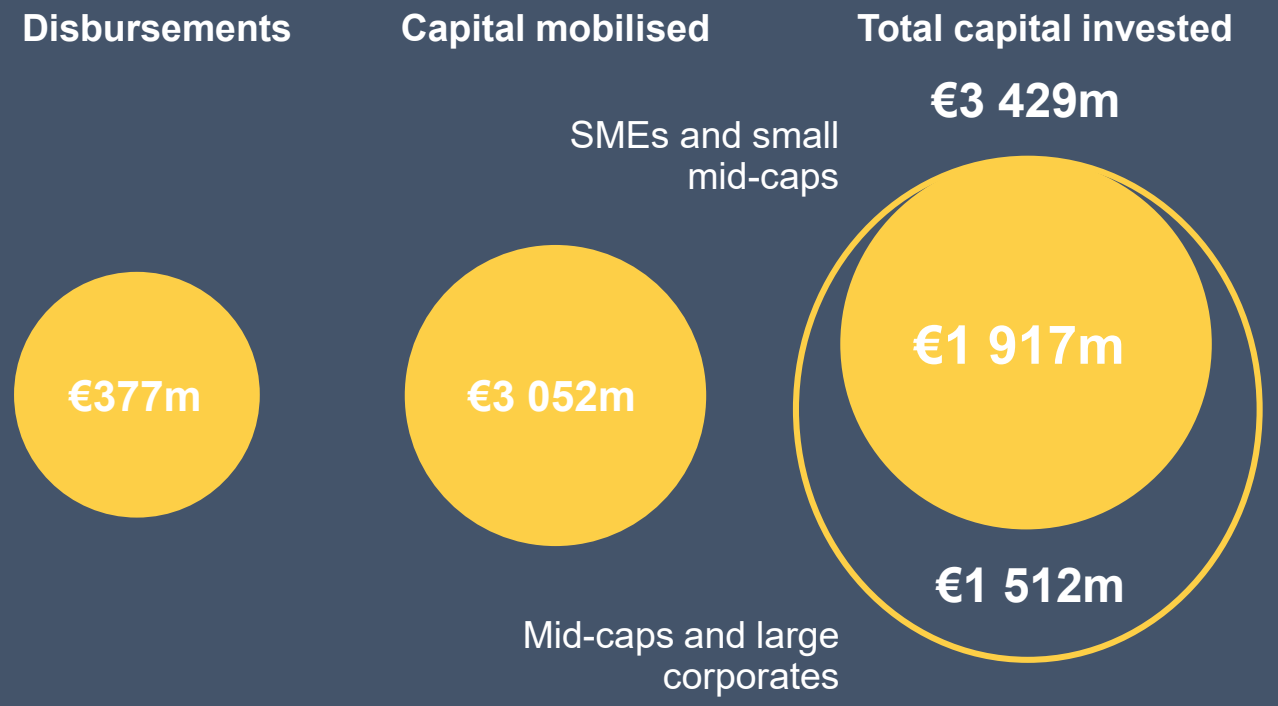
The investment strategy of 18 (out of 20) loan fund contracts signed under EREM envisaged allocating more than 50% of the financing to SMEs and small mid-caps. Only two (out of 20) loan funds envisaged allocating 25-50% of their total financing to SMEs and small mid-caps.

The survey results show that the loan funds' mission and objectives played a more important role than the EIF's requirements in shaping their lending strategy. This demonstrates that the EIF selection process prioritised funds with a strong commitment to the SME and small mid-cap segment.

The case studies provide generally robust evidence that the **funds targeted by the EIF have been relevant and appropriate in terms of the profile of targeted companies** (big focus on SMEs and small mid-caps) **and the financing products/terms offered** (generally more flexible and tailored than bank financing).

The LFI triggered new loans to SMEs and small mid-caps worth around €2 billion: x5 the value of EREM disbursements (requirement was x2)

1 026 SMEs and small mid-caps assisted,
plus 147 mid-caps and 28 large corporations



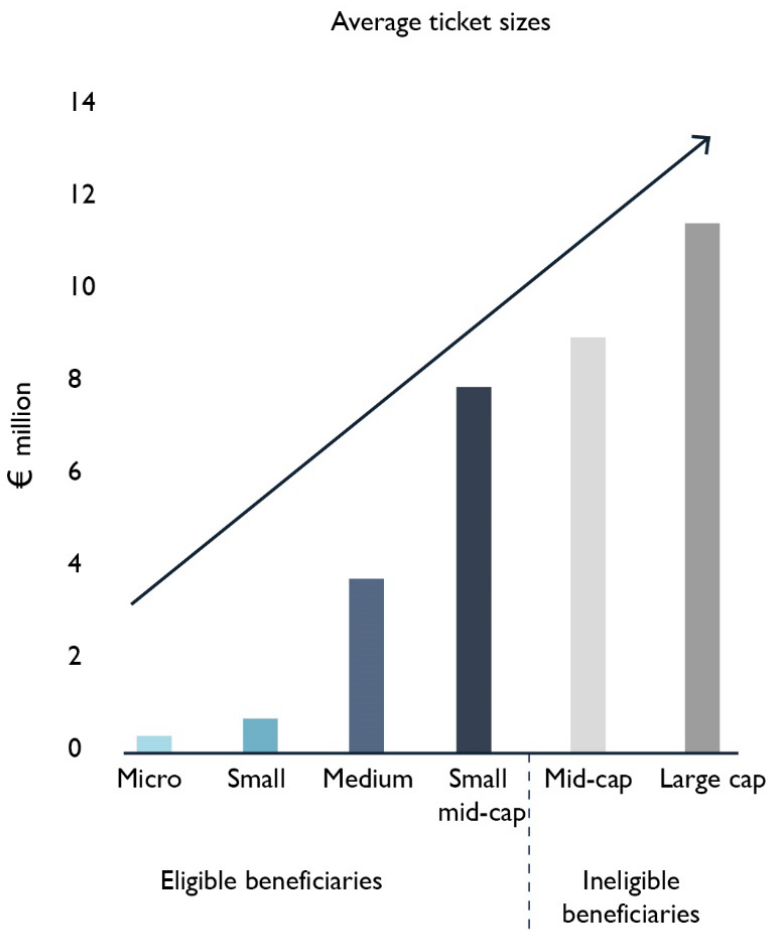
x5

in SMEs and small mid-caps

During the period from 2015 to Q1 2019, EREM-supported loan funds deployed finance worth around €3.5 billion to over 1 200 companies, a significant proportion of which were SMEs and small mid-caps.

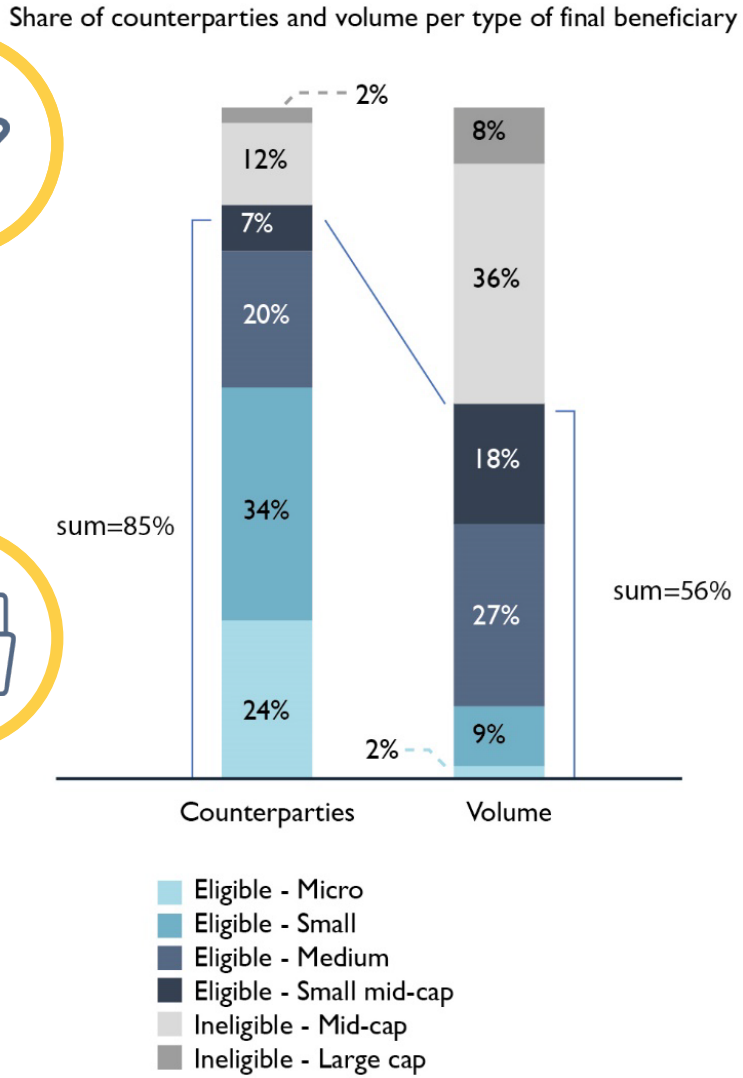
The multiplier effect (total capital invested in eligible beneficiaries/EREM disbursements) of x5 is larger than EREM's minimum requirement of x2.

EREM LFI successfully targeted SMEs and small mid-caps



The average transaction size is positively correlated with the company's size, so even though **SMEs and small mid-caps represent the vast majority (85%) of the number of final beneficiaries, they account for a smaller share (56%) of the volume of financing**.

Mid-caps (≤ 500 employees, < 3 000 employees) account for 12% of the final beneficiaries and 36% of the funding. **Although ineligible under EREM, they fall within the remit of support from the EIB Group**. Also ineligible under EREM, large caps account for the smallest proportion of beneficiaries (2%) and financed amounts (8%).

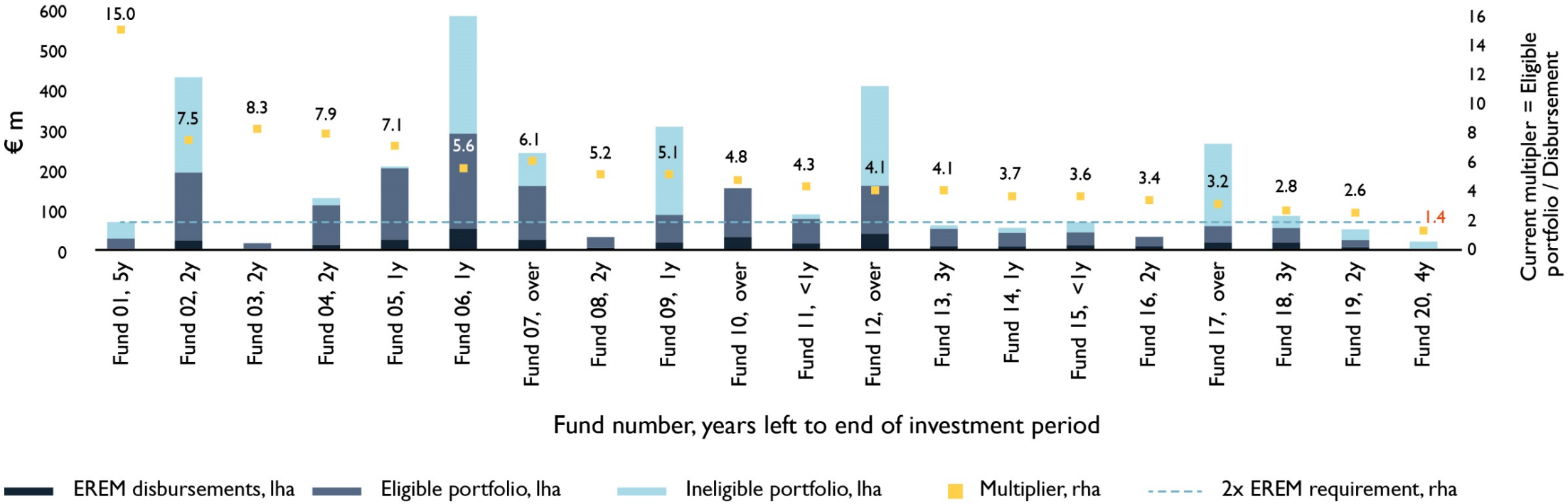


It should be noted that EREM required selected fund managers to invest double the amount of EREM support in eligible final beneficiaries. In practical terms, if EREM invested 50% in the loan fund, then the fund had to dedicate 100% (=50%x2) of its investments to eligible final beneficiaries, but if EREM's investment was 40%, the fund was only required to invest 80% (=40%x2) in eligible final beneficiaries, being free to decide what to do with the remainder, and could freely choose whether or not to invest the remaining 20% in eligible beneficiaries.

Loan funds have lent more than the minimum required by EREM to SMEs and small mid-caps

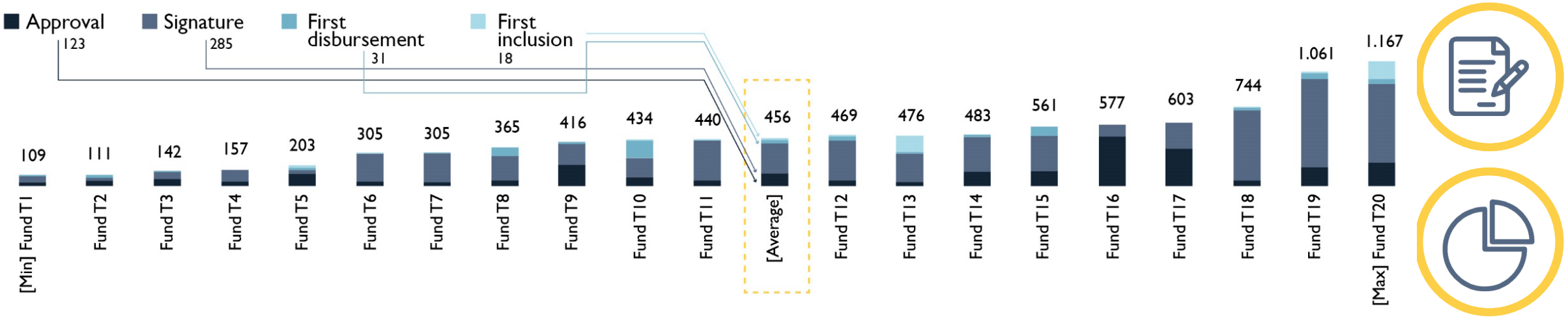
The LFI Agreement required the EIF to ensure that fund managers committed to invest an amount equal to at least double the overall amount drawn down from the EIB Group in eligible beneficiaries (SMEs and small mid-caps).

As of 30 June 2019, 19 (out of 20) loan funds were already lending more than twice the amounts disbursed to them by EREM. Only one fund was lending less than the requirement (x1.4), but it still has four years left until its investment period ends.



Funds were relatively slow to reach the real economy, particularly due to lengthy fundraising

Number of running days for each transaction stage



EREM loan funds took on average around 15 months (456 days) to reach their first final beneficiary (first inclusion); when added to the 13 months necessary to set up the LFI Agreement, the time taken **to reach the real economy was nearly 2.5 years**.

Time to approval represents the running days between the appraisal authorisation and EIF BoD approval. For EREM loan funds this averaged around four months (123 days), which is **roughly in line with that for EFSI operations (as per the June 2018 evaluation of EFSI)**.

The time required to sign the subscription agreements averaged around 9.5 months (285 days), depending on the fund manager's ability to attract other investors (fundraising process) willing to commit a minimum threshold enabling the fund to close and start operations**. When compared to venture capital fundraising, where the rule of thumb is six months of fundraising, this is rather long.**

First disbursements (from the EIF to loan funds) and **first inclusions (from loan funds to final beneficiaries)** happened relatively quickly, averaging 31 and 18 days, respectively.

The EIF's presence had a strong signalling effect for other investors, which was critical for lower mid-market funds

All fund managers who responded to the survey stated that the EIF's investment signalled the quality of their fund to other investors.

Q: To what extent do you agree or disagree with the following statements about the added value of the EIF's investment in [FUND_NAME]?

	Strongly agree	Agree	Disagree	Strongly disagree	Don't know
Signalled the quality of the fund to other investors	**73%**	**27%**	**0%**	**0%**	**0%**
Attracted new categories of investors who would not otherwise have invested in this asset class	33%	33%	20%	0%	13%
Increased the size of investments that other investors were willing to make	47%	47%	7%	0%	0%
Reduced the amount of due diligence that other investors undertook	13%	33%	13%	7%	33%
Increased your investment strategy focus on SMEs / small mid-caps	40%	27%	27%	0%	7%
Demonstrated stability in the investor base	47%	47%	7%	0%	7%

The case studies confirmed that the EIF's presence provided a strong signal to other investors, enabling the funds to attract additional third-party investors from the public sector (national promotional institutions and banks) and private sector (mainly pension funds and insurance companies). In an industry which is still very single-country focused, the EIF's presence usually triggers cross-border investors' awareness.

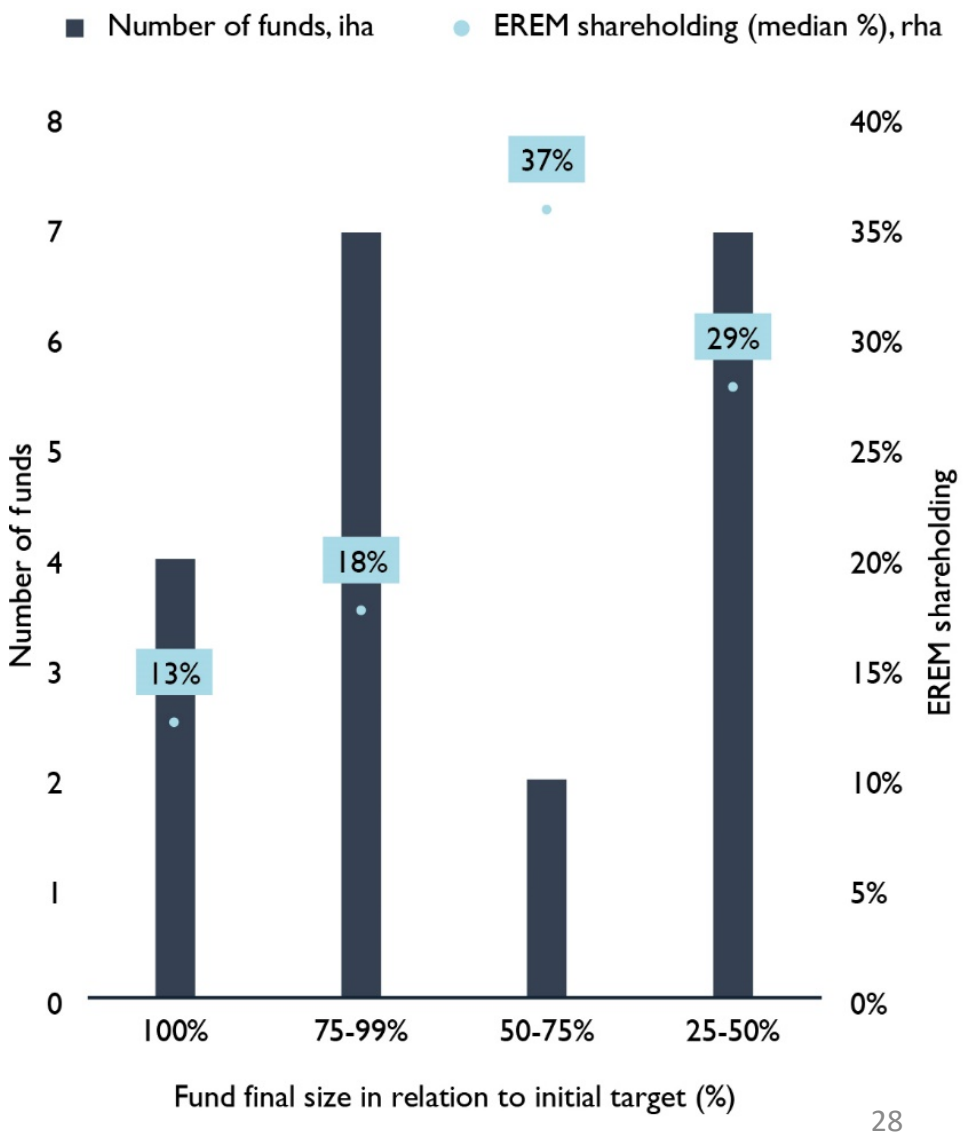
Anecdotal evidence from a few interviewed funds not supported by EREM highlighted the considerable (and growing) role of the EIF in developing the lower mid-market segment of the asset class. Whereas the upper mid-market segment has attracted extensive capital, funds operating in the lower mid-market segment face greater challenges in fundraising. The EIF's role and signalling effect are thus perceived to be more critical in this market segment.

Most funds would not have closed without EREM investment

Three-quarters of LFI-supported fund managers who responded to the survey said that, in the absence of EREM support, their funds would not have reached their minimum or target size.

Even with EREM support, 80% of funds (16 out of 20) did not reach their target size, but the support helped them to exceed their minimum size and thus start operations. Moreover, this **support was critical for those funds which struggled most with their fundraising** (and hence fell short of their targeted final size), **as evidenced by a generally higher EREM shareholding.**

For three funds there was clear evidence that they would not have closed without EIF investment – two were first-time funds focusing on smaller ticket size transactions. **Another two funds would ultimately have been smaller without EIF investment**. Very few private debt funds operate in more than one country and having the EIF as an investor raises awareness of such private debt funds among potential investors in other countries.

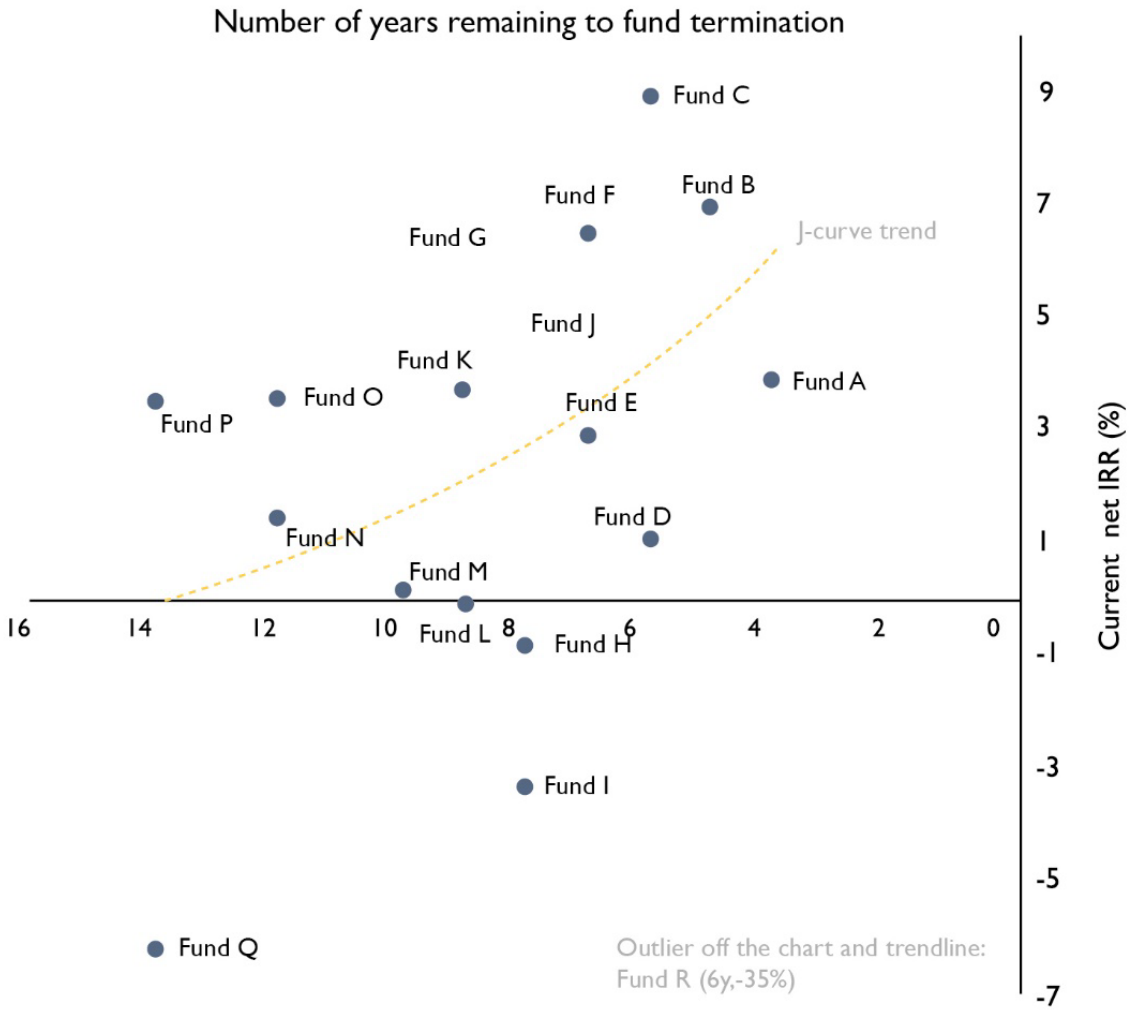


Impact on the market: current evidence indicates that the asset class is viable, but it is too early to reach conclusions

Based on the current returns (measured by the net internal rate of return (IRR)) and the time remaining to fund termination, we observe that returns are higher for funds at later stages of their lifecycle, thus reflecting the typical J-curve trend of investment funds.

However, final assessment of the viability of EREM loan fund investments can only be made when all supported funds have terminated.

At the market level there is still uncertainty about the long-term viability of this relatively new asset class. Only time will tell, but the fundamentals are looking good.

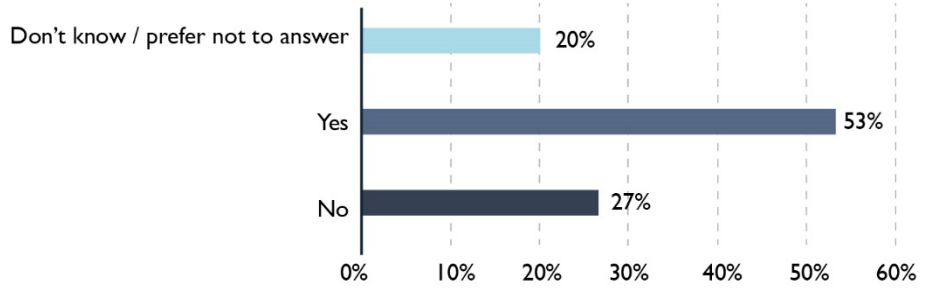


Impact on the market: due diligence and structuring input highly valued by assisted fund managers and wider industry

Review of the project documentation revealed that the EIF's structuring input cut across a number of aspects. Contributions to the governance (e.g. composition and functioning of investment committees) and overall mission of the funds were more frequently mentioned than inputs around the management structure. Due diligence (DD) notes produced by the EIF were very thorough and comprehensive.

Only 53% of the surveyed fund managers acknowledged having received structuring input from the EIF, but all recipients classified it as very useful.

Q: Did [ORGANISATION_name] receive any structuring input from the EIF as part of the design and delivery of [FUND_NAME]? By structuring input we mean advice on best practice in procedures, fund management team composition, fund governance, etc.



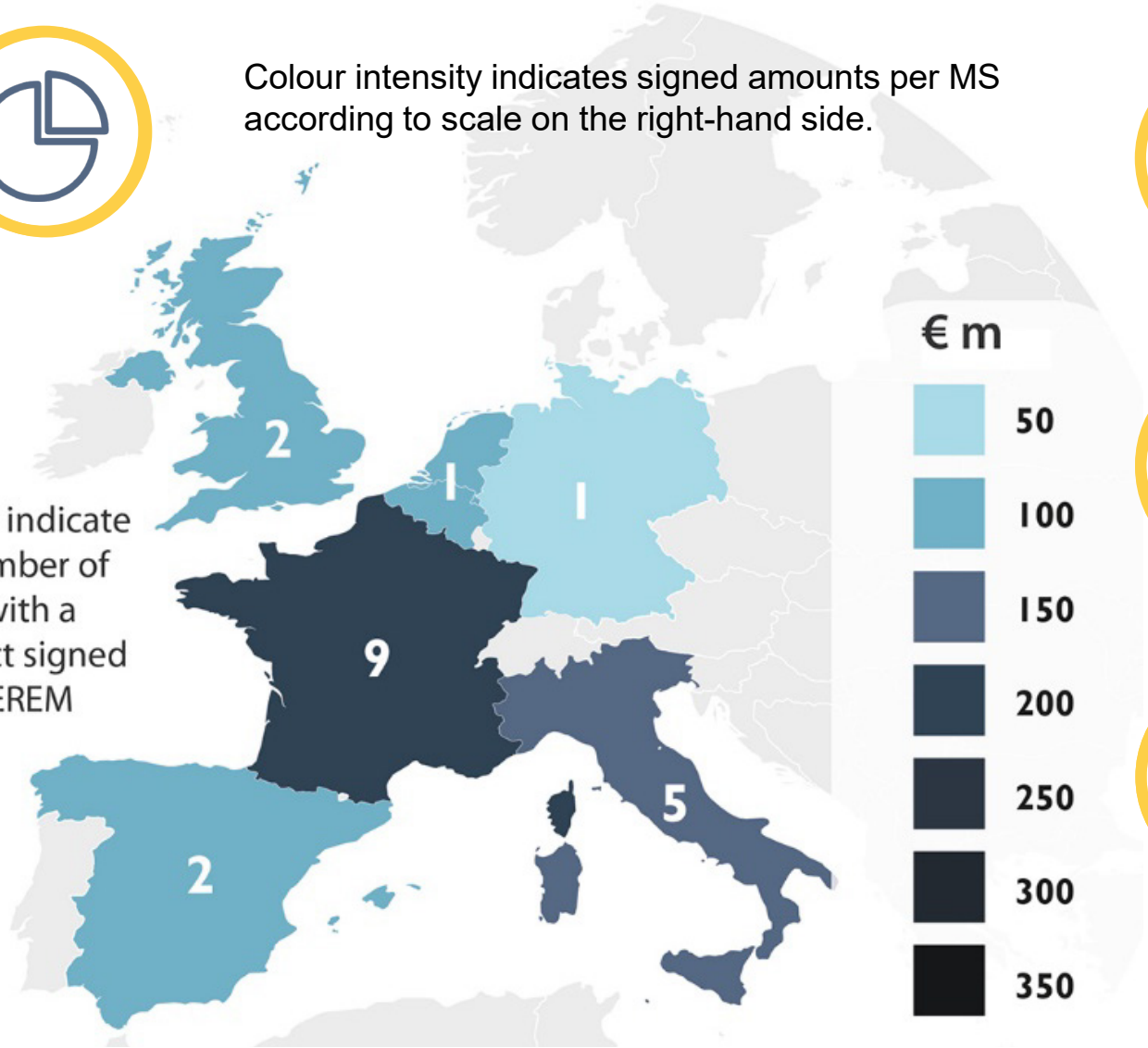
CASE STUDY

Among interviewed funds, DD was typically stressed as the EIF input with the highest added value. One fund manager described it as "tough and going beyond what other investors would ask for, but at the same time extremely useful." It included detailing/ redefining roles and duties of the management team, investment committee and advisory board, and refining fund strategy more generally. Other fund managers viewed the EIF's DD similarly. Overall, it was found to be equally helpful for first-time and established funds. Anecdotal evidence from the interviews also suggests that the EIF's DD is seen by the market as considerably more thorough than what other investors do.

Impact on the market: EREM intervention planted the seeds for industry development

Colour intensity indicates signed amounts per MS according to scale on the right-hand side.

Figures indicate the number of funds with a contract signed under EREM



The EIF was the first institutional investor in the EU private debt market.

The EIF concentrated its intervention in countries where SMEs and small mid-caps faced constraints in access to finance (development role) and where the markets were more developed (need to build champions).

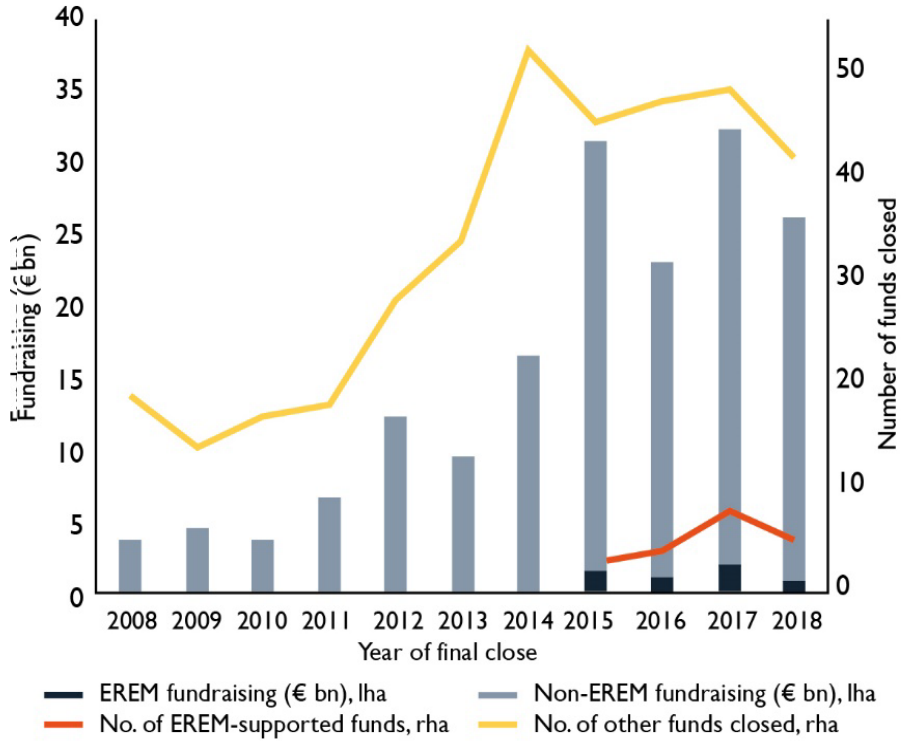
EREM-supported funds were mainly first-time teams for which the structuring input and signalling effect were of particular value.

The EIF usually came in at first closing, thus providing an even higher catalytic effect in attracting other investors.

Some supported funds were from niche segments, e.g. P2P lending platforms, lease financing.

Impact on the market: EREM loan funds represented 20% of fundraising focused primarily on SMEs and small mid-caps through direct lending and mezzanine strategies

EIF EREM-supported and other annual
Europe-focused private debt fundraising, 2008-2018



During the period of EREM intervention (2015-2018), supported loan funds represented 5% of the Europe-focused private debt fundraising volumes (Preqin data).

However, this figure is understated given EREM's targeted intervention. EREM did not cover the entire spectrum of private debt strategies, nor the entire range of corporates.

Preqin data cover all different fund strategies, such as direct lending, mezzanine, distressed debt, special situations and venture debt, whereas the **EREM intervention solely covered direct lending and mezzanine**. These two strategies combined represent roughly 50% of total private debt fundraising (correction factor x2).

Moreover, according to the European Systemic Risk Board (2019), **lending to SMEs and small mid-caps – which was the focus of EREM – accounted for approximately half of the lending provided by private credit markets** (additional correction factor x2).

Accordingly, it is estimated that EREM represented 20% (=5%x2x2) of the relevant fundraising.

Impact on the market: EREM provided instrumental support to lower mid-market funds

On a more qualitative note, **EREM support has been instrumental in developing the lower mid-market segment (fund size < €1 billion), which faces greater issues in raising capital** compared to larger funds.

Some large limited partners (pension funds and insurance companies) do not even consider investing in the lower mid-market as they have investment restrictions in terms of minimum ticket size (> €100 million) and maximum shareholding (< 10%), resulting in them favouring funds whose size is > €1 billion.

These larger funds, due to their size and need to deploy capital in a timely manner, tend to focus on larger tickets from mid to large corporates, and less on SMEs and small mid-caps.

Recap of the key findings

1 The LFI has been a highly relevant product in terms of its design (targeting an alternative and emerging asset class) and the timing of intervention (when bank financing dried up for smaller companies, particularly in crisis-affected MS such as Italy and Spain). Strong demand and take-up provide evidence of the product's relevance.

2 The fairly narrow geographical scope of the instrument (six MS) still exceeds the target set (five MS) and is further justified by the lack of a legal framework in some MS and the novelty of the instrument, which warranted its roll-out in more developed markets characterised by higher demand (corporates willing to finance through alternative channels) and supply (investor appetite in this new asset class).

3 Delays in getting financing to the real economy were largely outside the EIF's control.

4 EREM loan funds surpassed various quantitative targets in terms of capital mobilisation and deployment of financing to eligible beneficiaries.

5 Data on the current financial performance (net IRR) of LFI-backed funds suggest a positive track record of EIF investment in the asset class.

6 The EIF's added value (in terms of its strong signalling effect, thorough due diligence process and valuable structuring input, notably to first-time teams and niche/complex transactions) was already well known in venture capital markets and is now widely spread in the private debt industry as well.

7 EREM was crucial for lower mid-market funds to be able to raise the funds they needed to close and deploy their financing strategies, as they focus far more on SMEs and small mid-caps than bigger funds, which do not face the same fundraising difficulties and tend to focus more on big tickets.

5

Lessons learnt

What worked well?

- The product was well targeted. The EIF positioned the LFI in the lower mid-market segment where it was most needed.
- The EIF selection process: preference has been given to funds whose investment strategy and/or competence was already geared towards SMEs and small mid-caps, rather than requiring funds to change their investment strategy.
- Market entry strategy: initial focus on more sophisticated markets (the United Kingdom and France) and gradual diversification to newer markets (Italy, Spain, Germany and the Netherlands).
- Thorough and highly valued due diligence: evidence of some investors piggybacking on it.
- Support to many first-time teams and first closings.
- Structuring and legal support: notably to niche/complex transactions (P2P, asset-backed financing).

What could have been done differently?

- First-time teams, which struggle the most to reach the minimum to close, need more support, e.g. EIF investment > 50% on first closing.
- A very strict definition of beneficiaries solely based on headcount might exclude relevant companies from obtaining support: for example, labour-intensive companies which do not meet the headcount criterion but are small businesses based on other criteria such as turnover and/or balance sheet.

Items for consideration

- **Continue nurturing the development of the low mid-market segment of the EU private debt industry**, which has proven to be a viable alternative channel to bank financing, through both diversified loan funds (already ongoing under the Private Credit Programme of EFSI's SME Window) and selective loan funds (currently stalled). There is a sound case for this strategy based on evidence of the strong market demand for EREM and the potential adverse effects on levels of bank financing to SMEs from future regulatory changes, such as the introduction of Basel IV by 2023. **Future interventions should have a greater focus in regions which have only recently implemented a legislative framework or have not previously benefited from public support. The EIF should also consider gradually phasing out intervention in regions where private debt markets are more mature** (to avoid market distortion), unless such interventions have a strong rationale (e.g. pan-European platforms).

- **Design bespoke financial and non-financial support for first-time teams** that contributes to reducing the scepticism of other market investors. For instance, increase the current cap of 50% of EIF shareholding, particularly at first closing, and provide capped first-loss protection to other investors (free of charge or at market price, depending on the provider of protection).

- **Explore and promote initiatives to reduce dependency on the supply side from pension funds and insurance companies**. This would increase the resilience of the asset class (against adverse future legislative and regulatory measures) and make it available to all sorts of investors, from large institutional limited partners to the general public.

- **At the same time, attract funding from large institutional limited partnerships – which currently do not even consider investing in the lower mid-market** due to minimum ticket size restrictions (generally > € 100 million) – through a fund-of-funds structure (e.g. dedicated compartments of the EIF's Asset Management Umbrella Fund), **which could then be fragmented into smaller investments to support the underserved lower mid-market**.

- From the experience acquired so far and the status quo, **undertake a gap assessment** (in the same spirit as the third pillar of the Juncker Plan) **on what is missing in terms of regulatory frameworks and harmonisation of national practices** (on disclosure, tax, recovery proceedings, etc.) **to develop a truly pan-European private debt industry.**

Evaluation of the Loan Funds Instrument

The evaluation of the Loan Funds Instrument was undertaken as part of a broader evaluation of the EIB Group Risk Enhancement Mandate (EREM) carried out by the Operations Evaluation Division of the European Investment Bank (EIB), under the supervision of Sabine Bernabè, head of evaluation. Charu Wilkinson (external consultant) led the team responsible for evaluating the Loan Funds Instrument, composed of Marco Mota (evaluator) and consultants from ICF.

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