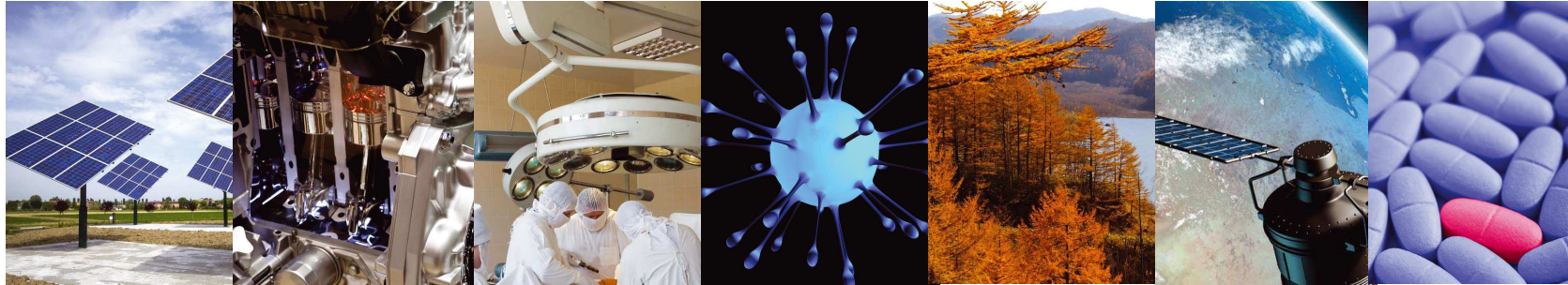




Not legally binding



# **“EU Financial Instruments for RTD and Innovation”**

**EU Financial Instruments for SME Competitiveness and Innovation**  
**EIF, Luxembourg – 25 January 2012**

**EC – DG Research & Innovation – Directorate C Research & Innovation – Jean-David MALO, Head of Unit**



**1- Current programming period: the Risk-Sharing Finance Facility (RSFF) and its new “Risk-Sharing Instrument” (RSI)**

**2- Financial Instruments for RDI and Growth proposed in future Horizon 2020 and COSME**



# **1.1- Risk-Sharing Finance Facility (RSFF) of the 7th Framework Programme for RTD**



# Risk-Sharing Finance Facility (RSFF)

Political mandate to increase financial support for R & D

## December 2005: European Council

*“The European Council invites **the Commission in cooperation with the European Investment Bank (EIB)** to examine the possibility of strengthening their support for Research and Development by **up to a maximum of € 10 billion** through a financing facility with risk-sharing components to foster **additional investment in European research and development**, particularly by the private sector.”*

## 5 June 2007: RSFF Co-operation Agreement (**within FP7**)

signed by Commissioner Potočník and EIB President Maystadt



# RSFF leverage effect

Not legally binding

€ 1 FP7/ EIB contribution → € 4 to 6 of RSFF lending

**FP 7 Contribution:**  
**up to € 1 billion**



**EIB Contribution:**  
**up to € 1 billion**

**RSFF: up to € 2 billion  
for Risk coverage**

for potential losses (non-repayment of RSFF loans by borrower/ beneficiary)

EIB sets aside, on average,  
**20%** of the volume of each  
individual loan **for risk  
coverage (provisions &  
capital allocations)**

**allows the EIB to provide  
up to € 10 billion  
for RSFF loans and guarantees**

in principal up to  
50% of the total  
project costs



# RSFF implementation

## Beneficiaries of RSFF financing

Not legally binding

- Mid-Caps and large corporates (typically unrated / sub investment grade / turnaround situations)
- SMEs
- Research Institutes
- Universities
- Special Purpose / Project Companies
- Research Infrastructure promoters



**Any size and ownership  
legal entity established in MS or FP7 AC**



# RSFF implementation

## RSFF products

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Not legally binding

- Corporate Loans (senior / junior)
- Guarantees
- Project Finance
- Mezzanine Loans
- Risk Sharing Facilities with banks
- Other structured products
- Development of specific RSFF products by the EIB



# RSFF implementation

EIB and its partner banks

Not legally binding

For loans of **EUR 7.5 million or more** - direct involvement by the EIB



For all loans of **less than EUR 7.5 million** (and if borrowers wish to work with their own banks) – indirectly through partner banks/ intermediaries







# RSFF implementation

## Eligible-cost categories

Not legally binding

<b>Fundamental research</b>	<b>EC window</b>
<b>Definition stage / feasibility studies</b>	<b>EC window</b>
<b>Industrial research</b>	<b>EC window</b>
<b>Pre-competitive development activity</b>	<b>EC window</b>
<b>Pilot and demonstration projects</b>	<b>EC window</b>
<b>Innovation</b>	<b>EIB window</b> partly EC window



# RSFF results and portfolio

Mid-2007 – End-of 2011

## Volumes:

- Loans **approved**: more than **EUR 9.4 billion (7.9 active)**
- Loans **signed**: more than **EUR 7.4 billion for 75 projects** in **21 European countries** (19 EU Member States & 2 FP7 Associated countries)
- Main sectors: Engineering/Industry, Life Sciences/Chemicals, ICT , Energy
- **Strong future project “pipeline” also for 2012**
- RSFF financing usually provided directly by the EIB to the beneficiary/borrower



### Innovative anticancer treatments: helping bring 4 cancer drugs to the market



**PharmaMar:** Spain's leading biotech company dedicated to developing **innovative anticancer treatments from marine origin**

- Biopharmaceutical research & development in the areas of oncology and orphan diseases
- Different forms of cancer targetted, including rare cancers
- **EUR 30 million RSFF loan**

[www.pharmamar.com](http://www.pharmamar.com)



## RSFF project examples

### Cleaner engines: improving energy efficiency



- **AVL:** Austrian family-owned specialist with strong reputation for producing fuel-saving technologies for **powertrain** systems
- Offers research and development support to many major car manufacturers worldwide.
- **EUR 30 million RSFF loan** to help AVL extend powertrain R&D and research in the areas of hydrogen fuel-cell technology, nanocomposites and engine technologies, supporting the European Union objectives of decreasing emissions and reducing the impact of transport on climate change.

[www.avl.com](http://www.avl.com)



## RSFF interim evaluation 2010 & future steps

- RSFF interim evaluation by independent experts concluded in August 2010 was **very positive**; recommendations to continue with risk-sharing finance until 2013 and even beyond
- RSFF loans have supported investments in **R&D and Innovation**; many projects comprise the entire spectrum from Research to Innovation
- RSFF has proven its added value as an “**anti-cyclical**” facility during the economic and financial crisis; it was one of the few funding sources in Europe for notably mid-sized and larger companies at that time
- Improvement possible in particular for SMEs



## **1.2- Risk-Sharing Instrument for SMEs and Smaller Mid-caps (RSI) in the FP7 RSFF**

SMEs means micro, small or medium-sized enterprise as defined in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36)

Smaller Mid-caps means autonomous enterprises within the meaning of the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) with less than 500 employees (full-time equivalent).



# Background: Rationale & Challenges

Not legally binding

- **Interim evaluation** (2010):
  - ▶ IEG recommendations 1 to 4 (for 2011-2013) endorsed by the Commission's Communication (09/02/11)
- **Political Request:**
  - ▶ European Council (04/02/11): asking for "scaling up the RSFF"
  - ▶ Competitiveness Council (09/03/11): agrees on the release of € 500m (2011-2013); asks to improve the take-up by currently underrepresented target groups (incl. **SMEs** and Research Infrastructures)
  - ▶ EP (*MEP Merkies and Audy reports*): positive feedback & similar requests
- **Challenges:**
  - ▶ High demand forecasted: RSFF limits to be reached end of 2011 (€ 9.4b approved loans/ € 7.5b signed)
  - ▶ Tackling current weaknesses (RI and SMEs)
  - ▶ Technicalities: EIB/EU unbalanced windows
  - ▶ Legal issues: Adaptation of the overall RSFF legal framework & to Lisbon Treaty



## ● Response to Interim evaluation & to political request:

- ▶ First-Loss Piece / Portfolio Approach: New approach to risk sharing
- ▶ Research Infrastructures: Clarified definition
- ▶ **SMEs: RSI (Annex VIII)**
- ▶ 3 Compartments:
  1. Standard operations
  - 2. SMEs**
  3. Research Infrastructures





# RSI: Key Principles & Value Added

Not legally binding

## Why?

- SMEs always were an important part of the RSFF but difficult to reach
- Proposed approach under RSI – guarantees for loans – is more attractive for banks (financial intermediaries) due to its direct risk-sharing element (50% guarantee rate)

## • Key Principles:

- ▶ EIF provides guarantees to banks and other financial intermediaries to extend loans + financial leases
- ▶ EIF provides a 50% guarantee for each eligible loan/ lease (within a portfolio)
- ▶ Guarantees cover loans from EUR 25,000 to EUR 7.5 million, max. 7 years duration
- ▶ EU financial contribution of EUR 120 million to RSI (2012 budget)
- ▶ Approx. EUR 1 billion of loans is expected for the period 2012-2013 (leverage effect: 8)
- ▶ Pricing: Guarantee fee of 0.25% p.a. for loans to SMEs (for loans up to EUR 3 million per transaction); 1% p.a. for loans to Mid-caps and for loans > EUR 3 million to SMEs

## • Value Added:

- ▶ Addressing a market gap for research-intensive and innovative small companies
- ▶ Complementarity with SMEG guarantees of the CIP
- ▶ “Pilot Action” during 2012-2013 ahead of H2020

- signed by Commissioner Geoghegan-Quinn and President Maystadt on 05/12/2012, in presence of EIF CEO Pelly.



# RSI: Complementary to SMEG

Not legally binding

- **Different objectives:**
  - ▶ **RSI:** supports **RDI investments**
  - ▶ **SMEG:** support all type of investments for SMEs
- **Different target groups:**
  - ▶ **RSI:** **Research-intensive & innovative SMEs & smaller Midcaps**
  - ▶ **SMEG:** Innovative SMEs are the least targeted – around 12% of beneficiaries (source: Court of Auditors, 2011; The Audit of the SME Guarantee Facility)
- **RSI: Higher loan volumes**
- **RSI Portfolio: Risk diversification at EU level through EIF**



# RSI for Innovative SMEs: Eligibility Criteria

Not legally binding

- **Eligible RSI Financial Intermediaries:** financial or credit institutions duly authorised to carry out lending or leasing activities, established in a Member States or Associated Country
- Selection of RSI Financial Intermediaries through an **open call for expression of interest** starting in February 2012 (open until end of 2013)
- **Transparent selection criteria** which include notably: Financial standing; capacity to manage risk and to assume own risks under RSI; experience in financing innovative companies and RDI investments
- Maximum guarantee volume of EIF per intermediary: EUR 60 million (equivalent to a **maximum loan portfolio volume of EUR 120 million**)
- **Eligible SMEs: research-intensive and/ or innovative SMEs and smaller Mid-caps**
- **Eligible investment: R&D and/ or innovation**  
Defined set of RSI eligibility criteria allows the inclusion of either RDI-intensive companies or the inclusion of RDI investment made by SMEs/ smaller Midcaps into portfolios of financial intermediaries



# RSI for Innovative SMEs: Eligibility Criteria

Not legally binding

- **Three different RSI eligibility criteria for inclusion of loan or lease transactions in a portfolio:**
- Investments in R&D and/ or Innovation which bear a significant technological or application risk or
- Fast-growing enterprises (>20% p.a. in terms of growth or employees, over a 3-year period) or
- Enterprises with a significant R&D and/ or innovation potential (catalogue of detailed criteria of which at least one of them needs to be fulfilled)

(Detailed criteria will be published by the EIF in 31/01 or 01/02 2012 in the course of the Open call for the expression of interest)



## **2- Financial Instruments proposed in future Horizon 2020 and COSME**



## Background and basics

- o Why EU intervention is needed
- o About EU financial instruments
- o Focus
- o Budget proposed
- o Implementation
- o Building on success

## Details

- o Horizon 2020 and COSME Financial Instruments
- o Joint support for Financial Instruments (H2020 and COSME)
  - o Equity instrument for R&I and growth
  - o Debt instrument for R&I and growth
- o Accompanying measures



# Why EU intervention is needed

Not legally binding

- Persistent financial crisis: banks increasingly risk-averse
- Continuing market failures and deficiencies
- Need to encourage more private investment in growth and R&I and to complement national and regional “access to finance” schemes
- Enduring difficulties for SMEs in accessing start-up/growth finance
- Scarcity of equity finance for early and growth stage investments, coupled with sub-critical size of venture capital funds
- Significant gap in the market between the demand and the supply of loans and guarantees for R&I and growth / expansion investments

***Commitments in Europe 2020 Strategy, Single Market Act, Innovation Union Flagship Initiative, SME Access to Finance Action Plan***



# About EU financial instruments

Not legally binding

- ❑ Another way of spending the EU budget besides grants, public procurement, prizes or subsidies
- ❑ Part of the EU budget-spending toolkit for over a decade
- ❑ Covers a broad range of interventions such as:
  - participations in equity funds
  - guarantees to local banks lending to SMEs
  - risk-sharing with financial institutions in infrastructure projects
- ❑ May be combined with grants
- ❑ Common features:
  - aim to increase access to finance by entities of all forms and sizes
  - typically delivered via financial intermediaries (banks, funds, etc) on behalf of the European Commission
  - first tier of intermediaries often includes the EIB Group (EIB, EIF)





## 2 programmes working together in synergy with specific focus:

- ❖ **COSME**: equity and debt facilities open to SMEs only (EU definition)
- ❖ **H2020**: equity and debt facilities open to R&I-based SMEs, other R&I-based enterprises (midsized and larger firms) and bodies of all sizes and forms of ownership conducting R&I



# Budget proposed

Not legally binding

- ❖ **H2020 (Industrial Leadership) – “Access to risk finance”**
    - **€ 3768.45 million** (net of admin costs) in current prices
    - no breakdown proposed between equity and debt
  - ❖ **COSME – “Actions to improve SME access to finance”**
    - **€ 1436.32 million** (net of admin costs) in current prices
      - Equity Facility for Growth: € 690 million
      - Loan Guarantee Facility: € 746.32 million
- *Budget for H2020 Access to Risk Finance (demand-driven) may be topped-up by contributions coming from other parts of H2020, other programmes in the EU budget, “third” parties (including EUREKA), etc...*
- *Budget transfers between items (including between debt and equity) will be possible in order to match changing levels of need and market demand*



# Implementation

Not legally binding

- Commission delegates European Investment Bank Group (EIB, EIF) and/or other financial institutions (cascade)
- Possibility to pool various EU budget sources, as well as with national/regional public funds and private funds (H2020)
- Revenues or repayments assigned to instrument concerned (revolving use of funds)
- Equity and debt facilities may pool resources with Member States willing to contribute part of their Structural Funds
- Funding via financial instruments may be combined with grants (H2020)



## *Continuity and development*

### Competitiveness & Innovation Programme (CIP)

- ✓ **SMEG** SME Guarantee Facility => **Loan Guarantee Facility**
- ✓ **GIF** High-Growth & Innovative SMEs Facility => **Equity Facilities**

### Seventh Framework Programme (FP7)

- ✓ **RSFF** Risk-Sharing Finance Facility => **Loans & Guarantees**  
**Service** over € 7.4 billion in EIB loans to 75 companies so far  
(signed projects)
- ✓ **RSI** (start early 2012) => **SMEs & Small Midcaps Guarantee Facility**



# Horizon 2020 and COSME financial instruments

Not legally binding

## — Horizon 2020

- o Loans and Guarantee Service for R&I (“RSFF II”)
- o SMEs & Small Midcaps Guarantee Facility for R&I (“RSI II”)
- o Equity Facility for R&I

## — COSME

- o Loan Guarantee Facility
- o SME loan securitization
- o Equity Facility for Growth



# Horizon 2020 and COSME will jointly support two EU financial instruments

Not legally binding

- **Equity instrument for R&I and growth**
  - o Equity Facility for R&I (H2020)
  - o Equity Facility for Growth (COSME)
- **Debt instrument for SMEs (R&I and growth)**
  - o Loan Guarantee Facility (COSME)
  - o SMEs & Small Midcaps Guarantee Facility for R&I (H2020)



# Joint support for the Equity instrument for R&I and growth

## *Investments in funds and funds-of-funds*

### ❖ **Equity Facility for R&I** (H2020)

- o focus: early stage (*but also covering growth stage*)
- o final beneficiaries: innovative SMEs and small midcaps  
*growth investments up to 20% of total EU investment*

### ❖ **Equity Facility for Growth** (COSME)

- o focus: growth stage (*but also covering early stage*)
- o final beneficiaries: growth-oriented SMEs  
*early-stage investments up to 20% of total EU investment*

*Seamless support for **multi-stage funds** (pro rata contribution)*



## Equity instrument for R&I and growth

Not legally binding

Two complementary facilities working together to support access to equity and stimulate the development of the VC industry

**Equity  
Facility  
for R&I**

*Mainly  
from  
H2020*

*Combined  
support for  
multi-stage  
funds*

*Mainly  
from  
COSME*

**Equity  
Facility  
for Growth**

from start-up/early stage  $\longleftrightarrow$  to expansion/growth stage





## Joint support for the Debt instrument for R&I and growth

### *Improving access by SMEs to debt financing*

❖ **SMEs & Small Midcaps Guarantee Facility** (H2020)  
guarantees for loans over € 150 000 for R&I activities

❖ **Loan Guarantee Facility** (COSME)  
guarantees for loans to SMEs up to € 150 000;

*\*€ 150 000 threshold modifiable in the light of changing economic conditions*



## Overview: Debt instrument for R&I and growth

### *Expanding the scope and scale of the RSFF*

Debt financing of R&I undertaken by larger firms, research bodies, etc

**Loans & Guarantees Service for R&I**  
*demand-driven window (RSFF successor)*  
*[+ support for SME Instrument (phase III) in H2020]*

### *Joint support for improving debt financing for SMEs*

**Loan Guarantee Facility  
(COSME)**

*loans up to € 150 000*

**SMEs & Small Midcaps  
R&I Guarantee Facility  
(H2020)**

*loans over € 150 000*

***SME loan securitisation***  
*(unlimited)*



# H2020 Access to Risk Finance: possible Accompanying measures

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*Ideas under development: observations welcome!*

- *Technical assistance for financial intermediaries*
- *Investment-readiness schemes (incubating, coaching, mentoring ...)*
- *Raising awareness of VC firms and business angels*
- *Encouraging philanthropic foundations / individuals to support R&I*
- *Fostering of corporate venturing and activities of family offices*



# More information

## ☐ Existing financial instruments (2007-2013)

- o **SMEG and GIF**

[http://ec.europa.eu/enterprise/policies/finance/cip-financial-instruments/index\\_en.htm](http://ec.europa.eu/enterprise/policies/finance/cip-financial-instruments/index_en.htm)

- o **RSFF**

<http://www.eib.org/products/loans/special/rsff/index.htm>

RSI: [http://www.eif.org/what\\_we\\_do/guarantees/RSI/index.htm](http://www.eif.org/what_we_do/guarantees/RSI/index.htm)

## ☐ Proposed (2014-2020)

- o **COSME** <http://ec.europa.eu/cip/cosme/>

- o **Horizon 2020**

[http://ec.europa.eu/research/horizon2020/index\\_en.cfm?pg=home](http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=home)



**Thank you very much  
for your attention !**

