



Financial Instruments for RDI and Growth 2014-2020

(specific focus on COSME and Horizon 2020)

Jean-David MALO

**European Commission - DG Research and Innovation
Head of Unit RTD C-03 – Financial Engineering**

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Workshop on EU financial instruments for RDI

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DG ECFIN Unit L2 - Financing of competitiveness, innovation and employment policies
DG ENTR Unit E3 – Financing innovation & SMEs
DG RTD Unit C3 – Financial engineering*

What are EU Financial Instruments?

Equity/risk capital: e.g. venture capital to SMEs with high growth potential or risk capital to infrastructure projects

Guarantees to financial intermediaries that provide lending to e.g. infrastructure projects, SMEs, persons at risk of social exclusion

Other risk-sharing arrangements with financial intermediaries in order to increase the leverage capacity of the EU funds

or a combination of the above with other forms of EU financial assistance

EU Financial Instruments: Why?

- ❑ An appropriate tool in times of budget constraints
- ❑ 3 types of benefits
 - ❑ **Leverage/Multiplier effects** – multiplication of scarce budgetary resources by attracting additional finance
 - ❑ **Policy impact** – financial intermediaries pursue EU policies
 - ❑ **Institutional know-how** – EU can use the resources and expertise of financial intermediaries
- ❑ A political priority (Europe 2020 strategy, Communication on a Budget for Europe 2020)
- ❑ Effective and efficient way to support Europe 2020 objectives of smart, sustainable and inclusive growth

EU Financial Instruments: When?

Guiding principles include:

1. Addressing **sub-optimal investment** situations
Funding gaps e.g. due to general economic uncertainty, high business/innovation risk, high transaction costs, asymmetric information
2. Ensuring **EU value added**
 - ☐ Effective targeting of policy goals
 - ☐ Catalytic effect on existing similar MS schemes or private investment, no crowding out
3. **Leverage effect**

Financial Instruments 2007-2013: SMEs & Innovation

☐ SME Guarantees (SMEG)

- ☐ 2007-2011: approx. EUR 300m of EU budget generated 9.4bn of lending
- ☐ 155.000 SMEs reached, volumes are increasing fast
- ☐ Target of 315.000 SMEs is attainable

☐ Equity: High Growth and Innovation (GIF)

- ☐ 2007-2011: so far, EUR 344m of EU resources generated EUR 1.9bn of total investment volume, amounts growing fast.
- ☐ 190 SMEs covered so far

☐ Risk-Sharing Finance Facility (RSFF):

- ☐ EUR 2bn of EU and EIB resources expected to generate over EUR 10bn of lending to RDI projects. By end 2011 approximately EUR 7.5bn of lending already signed and EUR 5bn disbursed to final beneficiaries. Dedicated RSI facility for SMEs and Small-Mid-caps launched in 2012 (efforts expected to be doubled in 2013 with counter-guarantees for promotional banks/guarantee societies).

☐ European Progress Microfinance Facility (EPMF, est. 2010)

- ☐ by 2020, the EU contribution of EUR 100m is expected to have generated EUR 500m of micro-loans.

Lessons learned

- ☐ Need for simplified implementation modalities with streamlined rules.
- ☐ Need for a clear and dedicated legal framework.
- ☐ Increased coherence and consistency between instruments is necessary. Close coordination with Structural Funds can increase efficiency.
- ☐ More can be done to raise visibility and transparency of instruments.
- ☐ New risk-sharing arrangements could achieve higher finance volumes.
- ☐ Audits and evaluations carried out of existing innovative financial instruments are positive regarding their output.

Next MFF: Simplification and Transparency

1. Fewer financial instruments (from 13 to 6)
2. Larger financial instruments ensuring critical mass
3. Minimisation of overlap between instruments
4. Standardised contractual arrangements including management structures, reporting, fees...
5. More transparent to stakeholders
6. Budget: No contingent liabilities
7. Dedicated regulatory framework (Title VIII of the Financial Regulation)

Legal Architecture

Horizontal legal framework		Sector rules
Norm	Content	Basic act
FR Title VIII (EP/Council Regulation)	Definitions, management modes, principles and conditions, limitation of liability, reflows, control, reporting, etc.	<p>Contains a general authorisation the use of a financial instrument. May define type, duration, specific features or targets of the instrument envisaged.</p> <p>The basic act may identify a specific entity entrusted with the implementation of the instrument</p>
Rules of Application (delegated act)	The delegated act is expected to supplement the FR in the following areas: combination of support, rules for direct/ indirect management, rules for fiduciary accounts, ex ante evaluation, management fees, etc.	
Operational requirements (equity and debt platforms):	A standard set of rules, provisions and templates, including homogeneous detailed provisions on governance, monitoring, , financial parameters, delivery modes, rules for dedicated investment vehicles (DIV), etc.	
Agreements with entrusted entities	Contractual conditions under which the Commission entrusts the implementation of a financial instrument to a financial institution in line with the above rules	

Financial Instruments included in proposals for 2014-2020 MFF

(*) Current price

Centrally managed by COM

Research,
Development
Innovation

Horizon 2020
Equity and Risk Sharing Instruments

EUR 4bn ()*

Growth, Jobs
and Social
Cohesion

**Competitiveness &
SME (COSME)**
Equity & guarantees
EUR 1.4bn ()*

Creative Europe
Guarantee Facility
EUR 210m

**Social Change
& Innovation**
Micro-finance EUR 192m

Erasmus for all
Guarantee Facility
EUR 881m

Infrastructure

Connecting Europe Facility (CEF)
Risk sharing (e.g. project bonds) and equity
instruments

Budget not yet decided

Shared Management

**Instruments under
Structural and Cohesion
Funds**

EU level

Off-the shelf instruments

Tailor made instruments

*Significantly higher amounts
than currently*

EU financial instruments

current and new

EQUITY INSTRUMENT FOR SMEs 2007-2013

High Growth and Innovative SME Facility (GIF) under the Competitiveness and Innovation Framework Programme (CIP)

- GIF 1 – invests in seed, start-up and early-stage SMEs
- GIF 2 – invests in expansion-stage SMEs

EQUITY INSTRUMENT FOR SMEs 2014-2020

**EU Equity
Financial
Instrument for
EU enterprises'
growth and
RDI**

Equity Instruments for Research and Innovation

- Mainly early stage

Horizon
2020

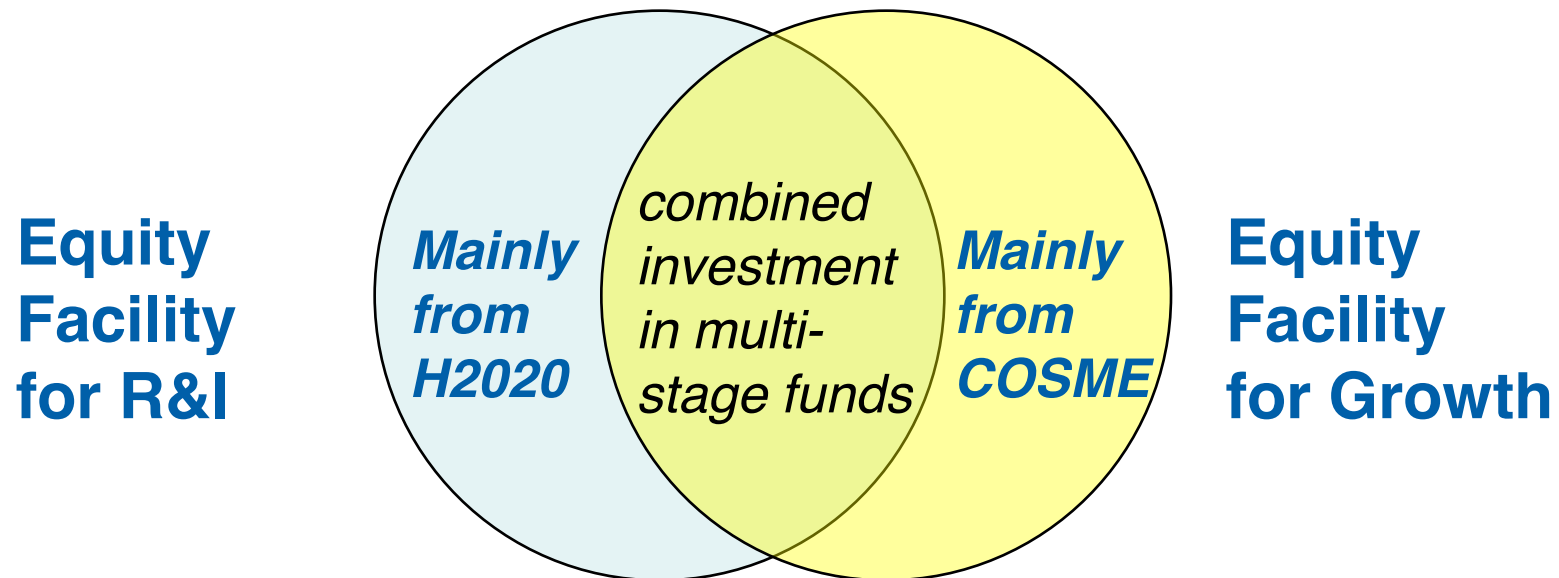
Equity Facility for Growth

- Mainly expansion stage

COSME

Equity instrument for SMEs' growth and R&I

Two complementary facilities working together to support access to risk capital and stimulate the development of the VC industry in the EU



from start-up/early stage \longleftrightarrow to expansion/growth stage
may make growth investments *may make early-stage investments*
up to 20% of total EU investment

EU financial instruments

current and new

DEBT INSTRUMENT FOR SMEs 2007-2013

- ☐ **SME Guarantee Facility (SMEG)** under the Competitiveness and Innovation Framework Programme (CIP)
- ☐ **Risk Sharing Instrument (RSI):** A dedicated compartment for SMEs under the Risk Sharing Finance Facility, created in 2011 and expanded in 2012/2013

DEBT INSTRUMENT FOR SMEs 2014-2020

Debt Instrument for EU Enterprises' Growth and RDI	Loan Guarantee Facility <ul style="list-style-type: none"> <input type="checkbox"/> Guarantees and securitisation on loans for all types of SMEs 	COSME
	RSI-II Facility <ul style="list-style-type: none"> <input type="checkbox"/> Guarantees on loans for R&I-intensive SMEs 	Horizon 2020
	Cultural and Creative Sectors Facility (new) <ul style="list-style-type: none"> <input type="checkbox"/> Guarantees for loans to creative and cultural entities 	Creative Europe

Debt instrument for SMEs' growth and R&I

- ❑ **Loan Guarantee Facility** (COSME)
 - guarantees for loans to SMEs up to € 150 000
 - securitisation of SME debt finance portfolios

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

Debt and equity instrument for SMEs' growth and R&I

☐ A support to Phase III of SME Instrument

- Via existing EU financial instruments
- Via existing national / regional instruments and investors



EU financial instruments current and new

DEBT INSTRUMENT FOR LARGE R&D PROJECTS 2007-2013

Risk Sharing Finance Facility (RSFF)

- ☐ under FP7
- ☐ provides loans and guarantees to R&D projects

DEBT INSTRUMENT FOR LARGE R&I PROJECTS 2014-2020

Loan & Guarantee Service for Research and Innovation

- ☐ Loans and guarantees to R&I (non-SMEs) activities of mid-caps and large firms, universities, research institutes, research infrastructures, etc.

Horizon 2020

Budget proposed

□ COSME – “Actions to improve SME access to finance”

- € 1 436 million in current prices
 - Equity Facility for Growth: € 690 million
 - Loan Guarantee Facility: € 746 million
- } indicative

□ H2020 (Industrial Leadership) – “Access to risk finance”

- € 3 768 million in current prices (net of adm. Costs) for financial facilities supporting all sizes of companies and types of entity (demand driven) + *additional budget possible for policy targets*
- At least 1/3 (ca. € 1.25 bn) likely to be absorbed by SMEs and small midcaps (no breakdown between equity and debt)



EU financial instruments current and new

COHESION POLICY 2007-2013

- ☐ Currently approx. 5% of ERDF delivered through financial instruments

COHESION POLICY 2014-2020

- ☐ Implementation options:
 - ☐ Joint instruments: CSF funds may contribute to support financial instruments set up at Union level managed directly/indirectly by COM in line with FR. OP contribution to be ring-fenced for investments in regions and actions covered by OP
 - ☐ Off-the shelf instruments: pre-defined, ready to use instruments allowing swift roll out
 - ☐ Tailored instruments (existing or newly created)
- ☐ Clearer rules on the combination of financial instruments and other forms of support, e.g. grants.
- ☐ Cohesion Fund will for the first time be open to financial instruments
- ☐ Volume of ERDF resources that could potentially be delivered through financial instruments could increase up to three times

Implementation principles

- ❑ Commission delegates to Financial Intermediaries (*e.g. European Investment Bank Group (EIB, EIF) and/or other financial institutions*) (*direct and/or cascade*) the implementation of the Financial Instruments
- ❑ To be implemented in full compliance with the existing legal frameworks (FR, RAPs, Operational requirements), except decided otherwise by basic acts adopted by EP and Council
- ❑ Common governance (Financial intermediaries / EU)

Accompanying measures in H2020

Examples

- ☐ Technical assistance for financial intermediaries
- ☐ Investment-readiness schemes (including coaching, mentoring, etc)
- ☐ Raising awareness of VC firms and business angels
- ☐ Encouraging philanthropic foundations and individuals to support R&I and growth
- ☐ Fostering corporate venturing and the activities of family offices and Business angels



Current status and next steps

2011: Commission proposals were adopted

2012: Discussions in Council and Parliament on the legal framework (Financial Regulation, delegated act) as well as on the basic acts for the specific instruments (H2020, COSME)

2013: Expected adoption of legal bases by European Parliament and Council, negotiations with IFIs, preparations for the roll-out

2014: Roll-out, instruments are operational

More information

☐ Existing financial instruments (2007-2013)

- o SMEG and GIF
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

☐ 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

☐ General information on innovative financial instruments :

http://ec.europa.eu/economy_finance/financial_operations/investment/innovative_financial_instruments/index_en.htm

Thank you for your attention