Access to Risk Finance in Horizon 2020

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Unit B.3 - "SMEs, Financial Instruments and State Aid"
InnovFin - Financial Instruments under H2020
Europe 17/06/2016
New EU Framework Programme for R&I (2014-20)

1. A core part of Europe 2020, contributing to the 3 O's:
   - Responding to the economic crisis to invest in future jobs and growth
   - Addressing people’s concerns about their livelihoods, safety and environment
   - Strengthening the EU’s global position in research, innovation and technology

2. A single programme bringing together three separate programmes/initiatives(*)

3. €77 billion (current price) for 3 main priorities: Excellent science
   Industrial Leadership
   Societal Challenges

4. Emphasis on innovation; Strong focus on SMEs; R&I as critical vector for growth and jobs

(*) The 7th Research Framework Programme (FP7), innovation aspects of Competitiveness and Innovation Framework Programme (CIP), EU contribution to the European Institute of Innovation and Technology (EIT)
Innovation

• A balanced approach to research and innovation
  – not only limited to the development of new products and services on the basis of scientific and technological breakthroughs
  – but also incorporating aspects such as the use of existing technologies in novel applications and continuous improvements

• Activities closer to the market emphasise the widest possible use of knowledge generated by the supported activities up to the commercial exploitation of that knowledge

• There is a particular emphasis on activities operating close to the end-users and the market, such as demonstration, piloting or proof-of-concept
  – can also include support to social innovation, and support to demand side approaches (standardisation, innovation procurement, user-centred measures …) to help accelerate the deployment and diffusion of innovative products and services into the market
Technology Readiness Level (TRL)

Where a topic description refers to a TRL, the following definitions apply, unless otherwise specified:

- TRL 1 – basic principles observed
- TRL 2 – technology concept formulated
- TRL 3 – experimental proof of concept
- TRL 4 – technology validated in lab
- TRL 5 – technology validated in relevant environment (industrially relevant environment in the case of key enabling technologies)
- TRL 6 – technology demonstrated in relevant environment (industrially relevant environment in the case of key enabling technologies)
- TRL 7 – system prototype demonstration in operational environment
- TRL 8 – system complete and qualified
- TRL 9 – actual system proven in operational environment (competitive manufacturing in the case of key enabling technologies; or in space)
Business-Oriented & SME-Friendly

- A strong challenge-based approach, allowing SME applicants to have considerable freedom to come up with innovative solutions
- Less prescriptive topics, strong emphasis on expected impact
- A strategic approach, with two-year work programmes
- Focus areas bring together different technologies, along entire innovation chain
Streamlined support environment throughout the innovation cycle

- **20 % budgetary target in LEITs (IL) & SC***
- **'Innovation in SMEs' (IL)***
- **'Access to Risk Finance' €1.5bn (IL)**

- (Collaborative) Research and Innovation Actions + Fast Track to Innovation Pilot (13%)
- SME Instrument (7%)
- Eurostars II
- Enhancing Innovation Capacity (Innosup)
- **InnoFin** EU Finance for Innovators
  - Debt & Equity Facilities & accompanying measures

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*EUR 8.33 billion (post-EFSI) of direct SME support, incl. close to EUR 3 billion to be allocated through the SME Instrument over the period 2014-2020

**EUR 589 million (post-EFSI) in direct SME support via Eurostars II, and in indirect support via innovation and market capacity building activities*
Financial Instruments
**Horizon 2020 Access to Risk Finance - Basics**

1) **What support will be on offer?**
   - Risk-sharing in the form of loans and guarantees
   - Risk finance in the form of equity
   - Accompanying measures

2) **For who or what?**
   - RDI-driven/innovative SMEs & small midcaps
   - Ambitious RDI projects carried out by a variety of recipients (companies, stand-alone projects, SPVs, Universities, Research Centres etc.)

3) **To serve which purpose?**
   - Stimulate more investment in research and innovation, notably by the private sector
   - No market distortion: intervention only to address financing gaps in the R&D&I delivery chain (notably due to high risk), and as such help translate R&D results to the market (innovation)
Financial Instruments Intervention Logic

- Guarantees & Debt Programmes
- Equity Programmes

SME Development Stages:
- PRE-SEED PHASE
- SEED PHASE
- START-UP PHASE
- EMERGING GROWTH
- DEVELOPMENT

Higher Risk

- ERASMUS+ Student loans

Lower Risk

- InnovFin Tech Transfer*

InnovFin SME Guarantee
COSME Loan Guarantee Facility
Cultural and Creative Sector Guarantee Facility*

InnovFin SME Venture Capital
EaSI* (Employment & Social Innovation)

Public Stocks

EIB InnovFin products**
COSME Equity Facility for Growth

InnovFin SME Guarantee

SME Initiative

EIB InnovFin products**
COSME Loan Guarantee Facility

* Not yet signed
** InnovFin MidCap Guarantee
InnovFin MidCap Growth Finance
InnovFin Large Projects

Research and Innovation

Higher Risk

Equity Programmes

Lower Risk

Guarantees & Debt Programmes
New Generation of Debt and Equity Instruments

- **Succeeding** FP7 debt (RSFF, RSI) and CIP early stage equity (GIF1)

- But **more ambitious**, in size (almost €3 billion) and in scope (from early stage to expansion/growth stage and up to larger, mature companies investing in RDI)

- **Implemented** by a Delegation Agreement between the **EU** and the **EIB Group** (EIB and EIF), on the basis of a partnership based on experience, trust and professionalism where:
  - EIB and EIF act as EU Entrusted Entities
  - EIB Group is matching EU financial contribution
  - EU and EIB Group are risk-sharing partners
# InnovFin: Product Overview

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- **SMEs**: SMEs and small Mid-Caps (less than 500 employees)
- **Mid-Caps**: Mid-Caps (less than 3,000 employees)
- **Large Caps**: Large Caps (typically more than 3,000 employees)
- **Thematic Finance**: SPV, Mid-Caps and Large Caps
- **Advisory**: Public and Private Sector Promoters

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**Key Terms**
- **SMEs**: Small and Medium-sized Enterprises
- **Mid-Caps**: Medium-sized Enterprises
- **Large Caps**: Large Enterprises
- **SPV**: Special Purpose Vehicle
- **Energy Demo Projects**: Energy Demonstration Projects
- **Infectious Diseases**: Infectious Diseases
- **Public and Private Sector Promoters**: Promoters from the public and private sectors
- **Financial Advisory**: Financial advisory services
**InnovFin SME Venture Capital - Key Features**

- VC and BA funds focusing on early stage companies
- Focus on Horizon 2020 objectives (e.g. ICT, life sciences, clean energy, technology)
- Companies in pre-seed, seed, start up phases
- Open Call for Expression of Interest until 30/09/2020
- Investment size up to EUR 30m up to 50% of total commitments (catalytic)

- 15 operations with Early Stage Intermediaries are currently considered.
- 4 signed out of which one nationally focused and 3 multi-countries (3 Multi + 1 early).
How does the product work?

- RSI (predecessor under FP7) was highly successful deployed in **18 countries** by **40 financial intermediaries**.
- New Call for Expression of Interest is published. Already **61 agreements signed** covering **27 countries**
- Enabling over **EUR 6.9bn of loans/leases** to innovative SMEs and Small Mid-Caps.
- In total **5395 SME transactions as of Q4 2015**.
What transactions can be supported?

Purpose of Financing (Term Loans + Revolving Credit Facilities):

- **Tangible & Intangible Assets**
- **Working Capital**
- **Business Transfer**

- Loan amount: min **EUR 25k** - max **EUR 7.5 m** (only Senior Debt)
- Loan maturity: min **1 year** - max **10 years**
- Currency: **EUR and local currency**
- Max (counter-)guarantee amount is **EUR 200m** per intermediary (EUR **500m** per intermediary group)
Two Products for Innovative Mid-Caps

1. **Indirect Financing (Risk Sharing) for Senior Loans**: Mid-Cap Guarantee

   - **European Investment Bank**
   - 50% Guarantee
   - EUR 25m
   - Financial Intermediary
   - New Loans
   - Innovative Mid-Caps
   - 3,000 Employees

2. **Direct Growth Financing (Mezzanine)**: Mid-Cap Growth Finance

   - **European Investment Bank**
   - Growth Finance / Mezzanine
   - EUR 25m
   - Innovative Mid-Caps
   - 3,000 Employees
How does MCG work?

- 50% Loss Coverage for new Mid-Cap Loans of up to EUR 50m not covered under InnovFin SMES
- Can be complemented with EIB Funding (Global Loan)
- Pari-passu sharing of risk and pricing
- Full delegation to Financial Intermediaries
How does MGF work?

- Direct long term debt and mezzanine finance: EUR 7.5m – EUR 25m
- Loans can be structured as economic equity (silent participation)
- For innovative Mid-Caps and SMEs (eligible counterparty concept)
- EIB can finance up to 50% of all investments over 3 - 5 years
- Light Due Diligence approximately 4 months.
Which projects can be supported?

- Pre-commercial stage; technology needs to be scalable
- Loan: EUR 7.5m – EUR 75m; EUR and local currency; maturity of max 15 years; EIB finances up to 50% of project costs.
- Comprehensive due diligence including project due diligence (technical, financial, economic)
- EIB standard documentation
Which projects can be supported?

- Projects which have passed pre-clinical stage and for which clinical validation is needed for further development
- Loan: EUR 7.5m – EUR 75m; EUR and local currency; maturity of max 7 years; EIB finances up to 50% of project costs.
- Broad range of products from standard debt instruments (i.e. senior, subordinated, and mezzanine) to risk sharing instruments (RSL) with forgiveness options
- Comprehensive due diligence including project due diligence (technical, financial, economic)
- EIB standard documentation
How does InnovFin Large Projects work?

- Senior debt (pari-passu with other senior lenders)
- Eligible Project required. EIB can only finance 50% of R&D and Innovation investments
- Comprehensive due diligence including project due diligence – 6 to 9 months.
**Project Advisory**

- Improve bankability/investment readiness
- Enable earlier/faster access to finance

- Hydrogen Mobility Germany
- Myrrha
- European Lead Factory (ELF)
- European Spallation Source (ESS)
- Global TB Vaccine Partnership
- Light Project Advisory (LPA) pipeline

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**Horizontal Activity**

- Improve framework conditions for financing
- Develop “business case” for new financing mechanisms in RDI sectors

- Infectious Diseases Financing Facility (IDFF)
- Circular Economy (CE)
- Key Enabling Technologies (KETs)
- Bio-Economy
- Strategic Energy Technology Plan (SET Plan)
- Financing options for Pan-European RI
- Web tool to guide innovative companies
New Web Tool

http://www.eib.org/products/helpingyouinnovate/index.htm
"a supply side approach to address access to finance issues must be accompanied by demand-side initiatives which enhance the quality of deal flow"

More Information

- **Horizon 2020**


- **Eurostars** - [http://www.eurekanetwork.org/activities/eurostars](http://www.eurekanetwork.org/activities/eurostars)


- **Horizon 2020 Financial Instruments**
  - Finance for Innovators (InnovFin products)

Thank you for your attention!

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EFSI SME Window

- EU Guarantee EUR 16bn
- EIB EUR 5bn

EFSI - European Fund for Strategic Investments EUR 21bn

- Infrastructure and Innovation Window EUR 16bn
  - Deployed by EIB
  - Financing: approx EUR 49bn
  - Final investments EUR 240bn

- SME Window EUR 5bn
  - Deployed by EIF
  - Financing: approx EUR 12bn
  - Final investments EUR 75bn

EIB Group leverage
Catalytic effect
Blended multiplier effect of x15
EFSI SME Window Objectives

- EUR 2.5bn provided by EIB
- EUR 2.5bn guarantee cover provided by EFSI

- Accelerated and additional financing support to SMEs and mid-caps
- Removing market gap

EUR 75bn of investments at SME and mid-caps level
EUR 2.5bn EIB contribution

EUR 2.5bn increase of Equity mandate

New capacity to invest into Private Equity / Venture Capital funds

With enlarged scope to better meet current market needs

Expected > EUR 30bn of investments at SMEs and mid-caps level
EUR 2.5bn EU contribution

- Uncapped Guarantee
- Securitisation
- Equity window *(including a National Promotional Institutions platform)*
- COSME Loan Guarantee Facility
- InnovFin SME Guarantee Facility

New guarantee products
New equity products
Enhancement of 2016-2020 budget Guarantee products

Expected > EUR 45bn of investments at SMEs and mid-caps level
EFSI SME Window (1)

Content (As of December 2015) and Links with Horizon 2020

- Increase of Risk Capital Resources Mandate (RCR) by the EIB to the EIF (i.e. + EUR 2.5 billion) Equity

  RCR supports technology and industrial innovation and targets early to lower mid-market funds that specifically focus on SMEs and midcaps.

  => full support benefitting to target R&I constituencies / stakeholders (innovative SMEs and midcaps)

- Frontloading on:
  - COSME Loan Guarantee Facility (i.e. 500 million) => possible support provided to target R&I constituencies / stakeholders (i.e. innovative SMEs requesting loans up to EUR 150,000)
  - Horizon 2020 InnovFin SME Guarantee (i.e. 750 million) => full direct support benefitting to Horizon 2020 programme and R&I constituencies / stakeholders (innovative SMEs and small midcaps)