

Access to Risk Finance in Horizon 2020



Ignacio Puente

DG Research & Innovation

Unit B.3 - "SMEs, Financial Instruments and State Aid"

InnovFin - Financial Instruments under H2020

Brussels 26/05/2016

New EU Framework Programme for R&I (2014-20)

1. A **core part** of Europe 2020, contributing to the 3 Os:
 - 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

20%
budgetary
target in
LEITs (IL) &
SC* for
SMEs

'Innovation in
SMEs' (IL)

'1.5bn for
SMEs
Access to
Risk Finance'
(IL)

MSCA (ES)

Collaborative
Projects
13%

SME Instrument
7% = ~ € 3 bn

Eurostars II

Enhancing
Innovation Capacity

Debt & Equity Facilities
& accompanying measures

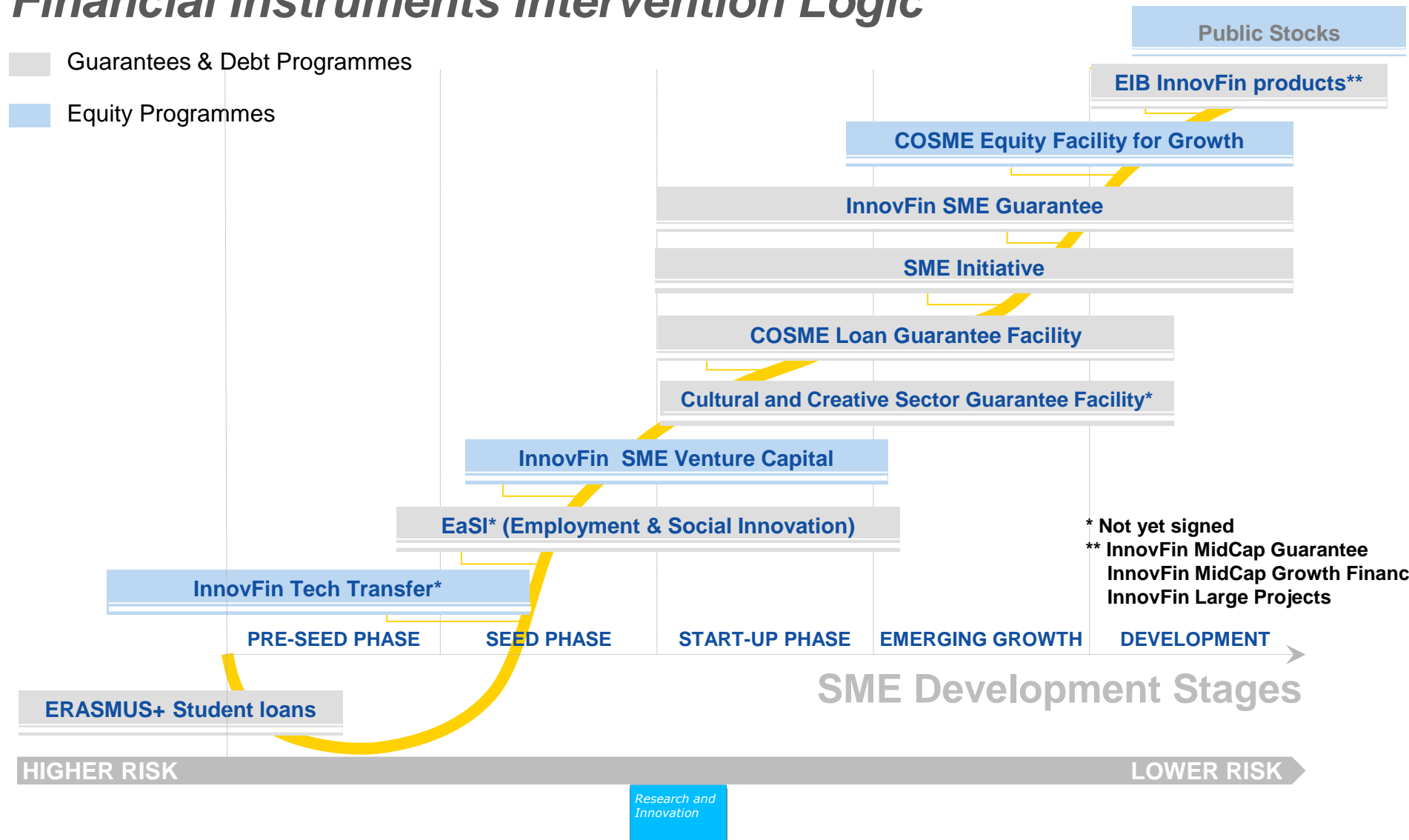
Fellowships
(Access to Skills)

*= EUR 8.65 billion (in constant prices) of direct SME support, over the period 2014-2020

Financial Instruments

Financial Instruments Intervention Logic

- Guarantees & Debt Programmes
- Equity Programmes



DG Research & Innovation

Access to Risk Finance



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?

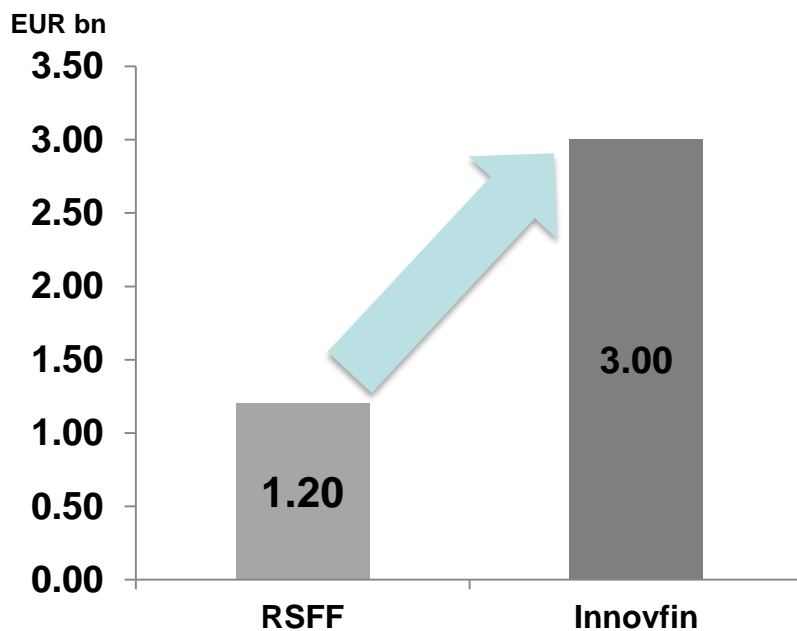
- Stimulate more investment in research and innovation, notably by the private sector
- No market distortion: intervention only to address financing gaps in the R&D&I delivery chain (notably due to high risk), and as such help translate R&D results to the market (innovation)

New Generation of Debt and Equity Instruments

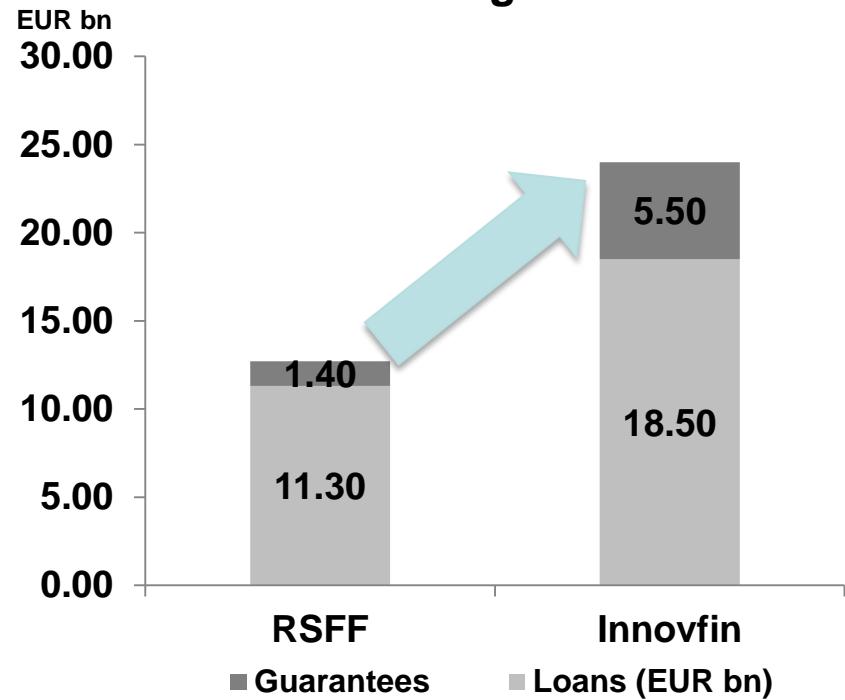
- **Succeeding** FP7 debt (RSFF, RSI) and CIP early stage equity (GIF1)
- But **more ambitious**, in size (almost €3 billion) and in scope (from early stage to expansion/growth stage and up to larger, mature companies investing in RDI)
- **Implemented** by a Delegation Agreement between the **EU** and 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 builds on the success of RSFF but will be much larger and broader

EU and EIB Group Contributions



Loans and guarantees



InnovFin: Product Overview



| SMEs | Mid-Caps | Large Caps | Thematic Finance | Advisory |
|--|--|--|--|--|
| InnovFin SME Guarantee | InnovFin MidCap Guarantee | InnovFin Large Projects | InnovFin Energy Demo Projects | InnovFin Advisory |
| InnovFin SME Venture Capital | InnovFin MidCap Growth Finance | | InnovFin Infectious Diseases | |
| SMEs and small Mid-Caps < 500 Employees | Mid-Caps < 3,000 Employees | Large Caps Typically > 3,000 Employees | SPV, Mid-Caps and Large Caps | Public and Private Sector Promoters |
| Intermediated SME/Mid-Cap Financing | Intermediated and/or direct Corporate lending | Direct Corporate Lending | Project Finance and/or Direct Corporate Lending | Financial Advisory |

 direct products

 indirect products

Research and
Innovation



Project advisory services;
Horizontal activities

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)

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

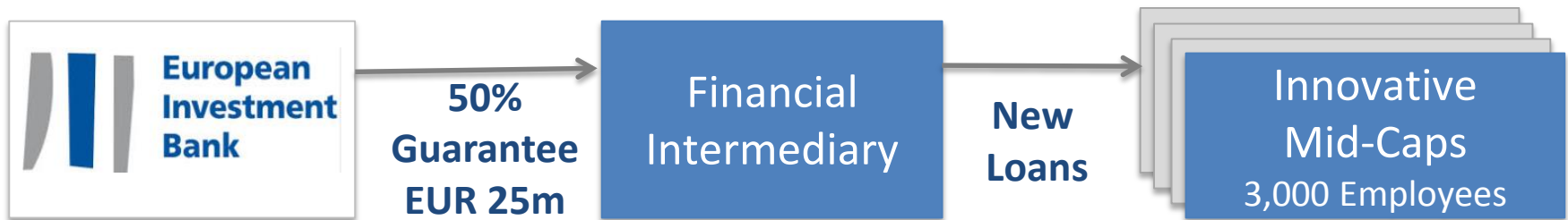
Pari-passu, at least
30%
investment from
private investors

Open Call for
Expression of Interest
until 30/09/2020

Investment size
up to EUR 30m
up to 50% of total
commitments
(catalytic)

Two Products for Innovative Mid-Caps

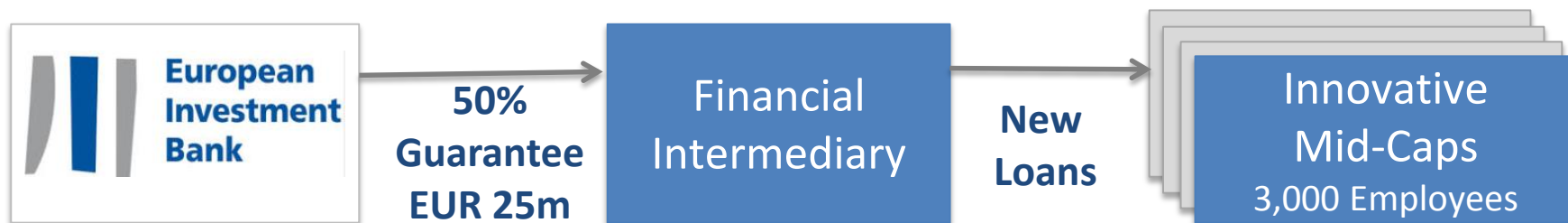
1. Indirect Financing (Risk Sharing) for Senior Loans: Mid-Cap Guarantee



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



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?

Renewable energy

Fuel Cells, Hydrogen

- 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?



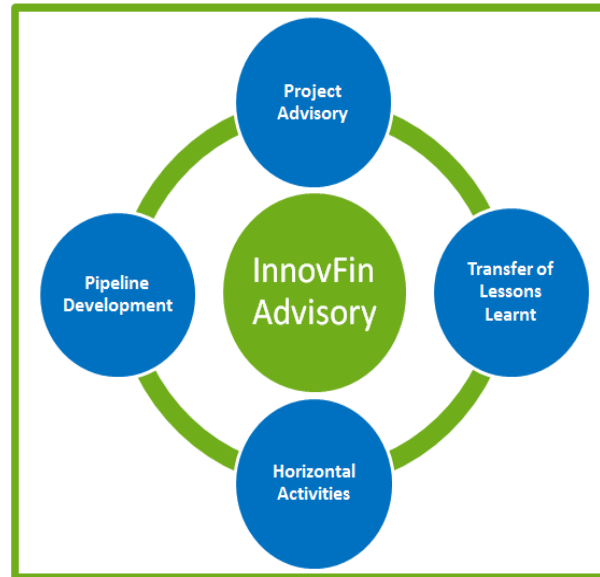
- Senior debt (pari-passu with other senior lenders)
- Eligible Project required. EIB can only finance 50% of R&D and Innovation investments
- Comprehensive due diligence including project due diligence – 6 to 9 months.

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



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



European
Commission

<http://www.eib.org/products/helpingyouinnovate/index.htm>

European Investment Bank The EIB bank

Helping you innovate

Back 1 2 3 4 5 6

How many employees do you have? Please select one

0 - 249 employees ☒

Between 250 - 499 employees ☐

Between 500 - 2999 employees ☐

Over 3,000 employees ☐

Total staff in the whole company. Full Time Employees, not just your business or subsidiary.

Next step

Supporting urban development (JEREMIE)
Transport infrastructure
Public-private partnership
JEREMIE: Flexible

Signalling confidence in innovation investment

The EIB Group has tailor-made a series of financial instruments in collaboration with the European Commission to:

- Ensure that funding for research and innovation is as accessible as possible for Europe's 20 million SMEs and Mid-caps.

European Investment Bank The EIB bank

Helping you innovate

Back 1 2 3 4 5 6

Loan amount needed Please select one

EUR 25,000 to EUR 7.5m ☒

EUR 7.5m to EUR 12.5m ☐

EUR 12.5m to EUR 25m ☐

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Back 1 2 3 4 5 6

Are you an unlisted innovative SME or small Mid-Cap business? Please select all that apply

(please select what applies to your company or, in case you request funding for an acquisition, to the company you intend to acquire)

(1) I am an SME and I will invest the money in producing or developing new or substantially improved products, processes or services that are innovative and where there is a risk of technological or industrial failure as evidenced by an external expert's evaluation ☒

(2) I am a "fast-growing enterprise". That is: I've been operating in a market for less than 12 years following the first commercial sale and turnover or staff has grown endogenously on average at least 20% a year over a three-year period (with at least 10 employees at the beginning of the reference period) ☐

(3) I have been operating in a market for less than 7 years following the first commercial sale and R&D costs represent at least 5% of the total operating costs in at least one of past three years (or in the current one, as certified by an external auditor in the case of a start-up enterprise) ☐

(4) I am an "R&D-intensive enterprise", as demonstrated by at least one of the following ☐

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Helping you innovate

Back 1 2 3 4 5 6

Please contact me

Thank you for requesting information about funding for innovation

Your choice of financing solution was based upon the information you provided below:

Employees: 0 - 249 employees Loan value: EUR 25,000 to EUR 7.5m Product: InnovFin MidCap Growth Finance

Please answer the following questions to help provide you with the best possible response:

Name

Email address

Tel number

Send enquiry

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Helping you innovate

Back 1 2 3 4 5 6

Please select a country

Click on your country to locate banks that provide InnovFin SME Guarantee support

Map of Europe showing countries.

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Back 1 2 3 4 5 6

What's available to me? Please select one

Based on what you've told us, we've highlighted the best match for you.

You can also click on any of the other un-highlighted products we offer, to find out if these might be suitable for you.

InnovFin SME Guarantee

Provides guarantees and counter-guarantees on debt financing of between €25,000 and €7.5 million, in order to improve access to loan finance for innovative small and medium-sized enterprises and small midcaps (up to 499 employees). This facility is implemented by the EIF, and will be rolled out through financial intermediaries, i.e. banks and other financial institutions.

☒ I confirm that my business is not excluded from this loan. [View exclusions \(pop-up\)](#)

Find out more

Go

InnovFin MidCap Growth Finance

Offers long-term senior, subordinated or mezzanine loans, in order to improve access to finance

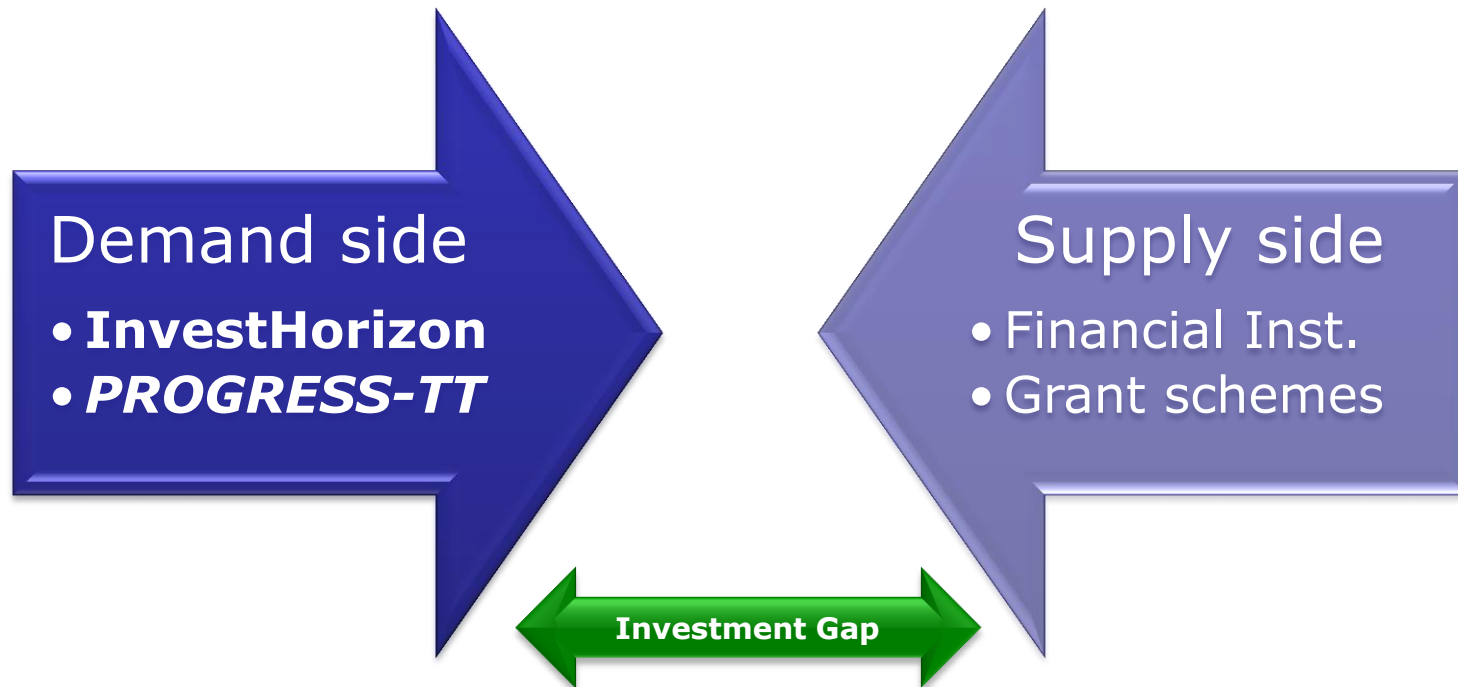
Find out more

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“a supply side approach to address access to finance issues must be accompanied by demand-side initiatives which enhance the quality of deal flow”

Mason, C. and Kwok, K. (2010)

- **Horizon 2020**
 - ❑ <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/index.html>
 - ❑ <http://ec.europa.eu/programmes/horizon2020/en/area/smes>
 - ❑ <http://ec.europa.eu/programmes/horizon2020/en/h2020-section/access-risk-finance>
 - ❑ <http://ec.europa.eu/programmes/horizon2020/en/h2020-section/innovation-smes>
- **EASME** – <http://ec.europa.eu/easme/sme/>
- **Eurostars** - <http://www.eurekanetwork.org/activities/eurostars>
- **SME Techweb** – http://ec.europa.eu/research/sme-techweb/index_en.cfm
- **Horizon 2020 Financial Instruments**
 - ❑ **Finance for Innovators (InnovFin products)**
<http://www.eib.org/products/innovfin/products/index.htm>
- **EU Access to Finance** – <http://www.access2finance.eu>

Thank you for your attention!



Ignacio Puente

Unit B.3 - "SMEs, Financial Instruments and State Aid"
DG Research & Innovation

+32 229-99725

ignacio.puente-gonzalez@ec.europa.eu