



# **Improving access to finance: financial instruments in COSME and Horizon 2020**

## ***Commission's proposal***

DG ENTR Unit E3 – Financing innovation & SMEs  
DG RTD Unit C3 – Financial engineering



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- **Budget proposed**
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## Why EU intervention is needed

- ❑ Continued market failures and deficiencies in debt and equity markets supporting R&I and Growth
- ❑ Need to encourage more private investment in growth and R&I and to complement national and regional “access to finance” schemes for SMEs
- ❑ Answering to banks/investors increasingly risk-averse behaviour in a context of reinforced prudential rules (Basel III, Solvency II) and difficult economic/financial times
- ❑ Significant gap in the market between the demand and the supply of loans and guarantees for enterprises’ growth and R&I
- ❑ Enduring difficulties for SMEs in accessing start-up / growth finance
- ❑ Equity finance scarce for early / growth-stage investments; VC fund sizes sub-critical; need to build an **integrated** European VC market



## About EU financial instruments

- ❑ Part of the EU instruments **for over a decade to support real economy**
- ❑ Efficient way of implementing the EU budget as they have leverage / multiplier effects
- ❑ Cover a broad range of interventions, such as:
  - Guarantees to mutual guarantee societies and banks lending to companies (including SMEs)
  - Equity participations for early and growth-stage investments
- ❑ Common features:
  - Aim to **improve access to finance**, especially for SMEs
  - Typically delivered via **financial intermediaries** (mutual guarantee societies, banks, funds, etc) **on behalf of (or in partnership with) the European Commission**
  - Typically operated by the EIB Group (EIB, EIF), but may also be operated by other financial institutions



## Building on success

### □ Competiveness & Innovation Framework Programme (CIP)

- **SMEG** SME Guarantee Facility => Loan Guarantee Facility

*By 30-09-2011, € 9.4 billion in lending mobilised, reaching 155 000 SMEs*

- **GIF** High-Growth & Innovative SMEs Facility => Equity Facility

*By 30-09-2011, € 1.9 billion in VC funding mobilised for SMEs*

### □ Seventh Framework Programme (FP7)

- **RSFF** (*Risk-Sharing Finance Facility*) => Loans & Guarantees Service

*Over € 7.4 billion in EIP loans to 75 companies so far (signed)*



## **Horizon 2020 and COSME will support two EU financial instruments for SMEs**

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



## Equity instrument for SMEs' growth and R&I

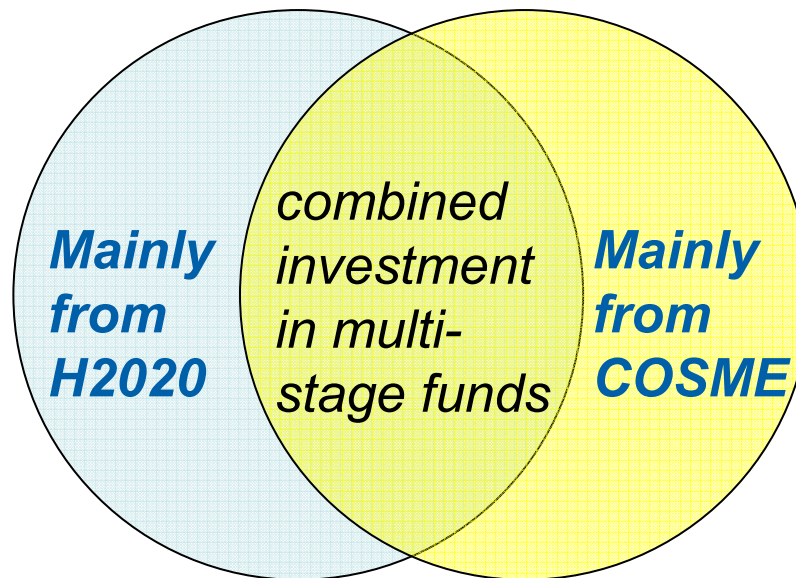
- **Equity Facility for R&I** (H2020)
  - focus: early stage
  - final beneficiaries: innovative SMEs and small midcaps
  - also covering growth-stage investments
- **Equity Facility for Growth for SMEs** (COSME)
  - focus: growth stage
  - final beneficiaries: growth-oriented SMEs
  - also covering early-stage investments
- **Multi-stage funds:** contributions from COSME and H2020 on a pro-rata basis (based on a fund's investment policy)



## 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

**Equity Facility for R&I**



**Equity Facility for Growth**

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





## 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**



# Horizon 2020 will also support debt financing for larger midcaps, large corporates, research bodies, etc

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]*



## 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
- **H2020 (Industrial Leadership) – “Access to risk finance”**
  - € 3 768 million in current prices for financial facilities supporting all sizes of companies and types of entity
  - At least 1/3 (ca. € 1.25 bn) likely to be absorbed by SMEs and small midcaps (no breakdown between equity and debt)

} indicative



Under discussion

## Implementation

- Commission delegates implementation to the EIB/EIF and/or other financial institutions (partnership, delegation, ...)
- Implementation in line with a common set of rules that will be incorporated in a regulatory framework (Financial Regulation – new Title VIII; its Delegated Act (implementing rules); Debt and Equity Platforms (operational requirements))
- Debt and equity funding can be combined; also with grants in H2020
- Demand-driven approach and Flexibility
- Equity and debt facilities can pool resources with Member States willing to contribute part of their Structural Funds
- Budget for H2020 “Access to Risk Finance” can be topped-up by ring-fenced contributions from other parts of H2020, other programmes in the EU budget, third parties (inc. EUREKA) etc

## Accompanying measures

### *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**



## More information

- ❑ Existing financial instruments (2007-2013)
  - 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)
  - 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)
  - COSME <http://ec.europa.eu/cip/cosme/>
  - Horizon 2020  
[http://ec.europa.eu/research/horizon2020/index\\_en.cfm?pg=home](http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=home)