

Financial Instruments for SMEs in COSME in conjunction with Horizon 2020 for the period 2014 - 2020

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Why is EU intervention needed

- ❑ Continuing market failures and deficiencies in debt and equity markets for financing of SMEs
- ❑ Information asymmetry and transactions costs are high for SME financing
- ❑ Need to encourage more private investment in growth and RDI and to complement national and regional “access to finance” schemes for SMEs
- ❑ Persistent financial crisis: banks and investors increasingly risk-averse
- ❑ Significant gap in the market between the demand and the supply of loans and guarantees for enterprises’ growth and RDI
- ❑ 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, need to build an integrated European venture capital market

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

About EU financial instruments for SMEs

- ❑ Part of the EU toolkit for over a decade
- ❑ Efficient way of spending the EU budget as it creates leverage
- ❑ Covers a broad range of interventions such as:
 - o Guarantees to mutual guarantee societies and banks lending to SMEs
 - o Equity participations for early and growth stage investments
- ❑ Common features:
 - o Aim to increase access to finance for SMEs
 - o Typically delivered via financial intermediaries (mutual guarantee societies, banks, funds, etc) on behalf of the European Commission
 - o Operated by the EIB/EIF

COSME in conjunction with Horizon 2020 will support two EU financial instruments for SMEs

☐ Equity instrument for SME's growth and RDI

- o Equity Facility for R&I (H2020)
- o Equity Facility for Growth (COSME)

☐ Debt instrument for SME's growth and RDI

- o Loan Guarantee Facility (COSME)
- o SMEs & Small Midcaps Guarantee Facility for R&I (H2020)

Equity instrument for R&I and growth of SMEs

❑ **Equity Facility for R&I** (H2020)

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

❑ **Equity Facility for Growth for SMEs** (COSME)

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

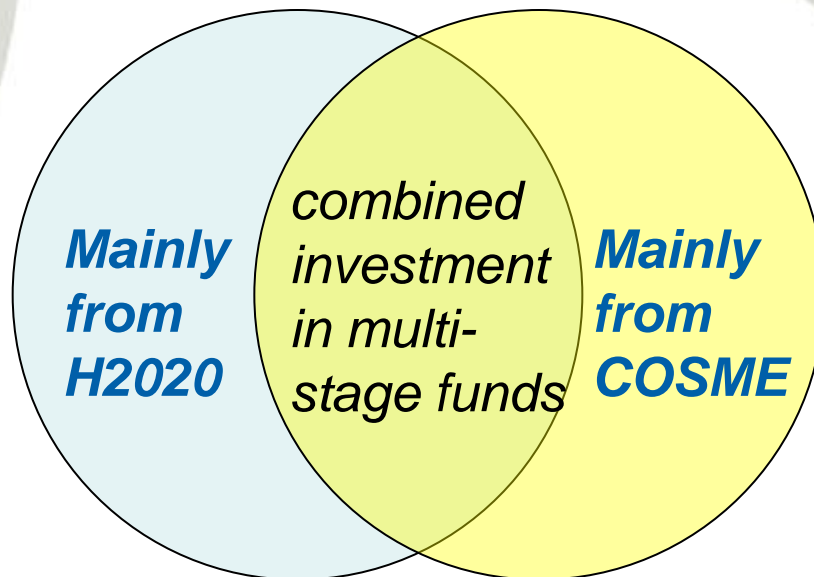
❑ **Multi-stage funds:** contribution of resources from COSME and H2020 on a pro-rate basis based on fund investment policy

* 20% threshold modifiable in the light of changing economic conditions

Equity instrument for growth and RDI for SMEs

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

Equity Facility for R&I



Equity Facility for Growth


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

Debt instrument for growth and RDI for SMEs

- ❑ **Loan Guarantee Facility** (COSME)
 - o guarantees for loans to SMEs up to € 150 000*
 - o securitisation of SME debt finance portfolios
- ❑ **SMEs & Small Midcaps Guarantee Facility** (H2020)
 - o guarantees for loans over € 150 000* for R&I activities

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

Debt instrument for R&I and growth of SMEs

			Horizon 2020
Type of operation	Loan Guarantees		Loan guarantee facility
	Guarantees for SME loans $\leq \text{€ } 150,000$	SME loan Securitisation	Risk sharing or Loan guarantees (RSI II) $> \text{€ } 150,000$
Target group	Growth oriented SMEs		RDI-driven SMEs & midcaps

Budget proposed

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

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

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

- o € 3 768 million in current prices for financial instruments to all sizes of companies
- o At least 1/3 likely (€ 1.3 bn) to be absorbed by SMEs and small midcaps (no breakdown between equity and debt)

Implementation

- ☐ Commission delegates implementation to EIB/EIF and/or other financial institutions
- ☐ Equity and debt facilities may pool resources with Member States willing to contribute part of their Structural Funds
- ☐ Debt and equity funding may be combined
- ☐ Demand-driven; applications to EIF
- ☐ Possibly using funds-of-funds

Accompanying measures to be supported through Horizon 2020

- ❑ This list serves as example for possible actions:
 - ❑ Technical assistance for financial intermediaries
 - ❑ Investment-readiness schemes (incubating, coaching, mentoring ...)
 - ❑ Raising awareness of VC firms and business angels
 - ❑ Attracting private investors
 - ❑ Encouraging philanthropic foundations / individuals to support R&I
 - ❑ Fostering of corporate venturing and activities of family offices

Building on success

- ❑ Competitiveness & Innovation Framework Programme (CIP)
 - SMEG SME Guarantee Facility => Loan Guarantee Facility
By mid 2011 € 5.6 billion in guarantees mobilised, reaching 155,000 SMEs
 - GIF High-Growth & Innovative SMEs Facility => Equity Facility
By mid 2011 € 1.6 billion in VC funding mobilised for SME
- ❑ Seventh Framework Programme (FP7)
 - RSI (started 2012) => SMEs & Small Midcaps Guarantee Facility

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



Thank you for your attention!