



Risk-Sharing Finance Facility

A new financing FP7 instrument for more and riskier investment in R&D and Innovation.

Third NCP Meeting on Legal and Financial matters

Brussels, 22 January 2008

Anna Krzyzanowska
RTD B.4



Risk-Sharing Finance Facility

Why is the RSFF necessary and what is its added value ?

- FP 7 context, the financing gap for RDI in Europe, the new approach of the RSFF

How does the RSFF work ?

- Risk-sharing between the EU and the EIB, leverage effect

Who can benefit from the RSFF ?

- Eligibility criteria, beneficiaries, EIB and its network of partner banks

Monitoring and Budget

Summary and next steps



A political request to increase financial support to R&D

- **December 2005 European Council:**

*“The European Council invites **the Commission in cooperation with the European Investment Bank (EIB)** to examine the possibility of strengthening their support for Research and Development by **up to a maximum of € 10 billion** through a financing facility with risk-sharing components to foster **additional investment in European research and development**, particularly by the private sector.”*

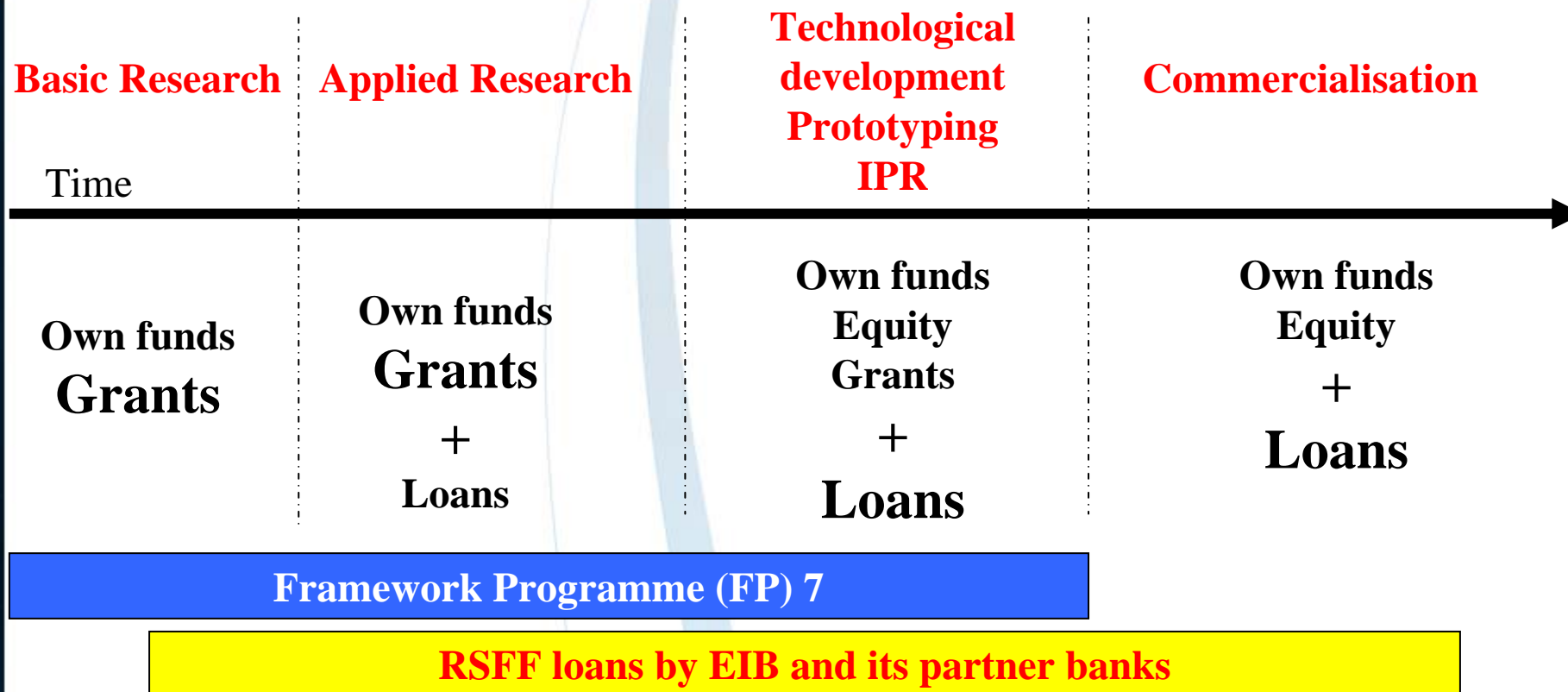


The investment and financing gap

- Despite increased FP 7 budget for 2007 – 2013 (**EUR 54,6 billion**), there is a **lack of funding** for excellent and top quality R&D projects at EU level
- Investment in R&D is crucial for **Europe's competitiveness** and growth potential
- **Lack of private investment** in R&D has been identified as the single key factor for Europe's relatively weak total investment in R & D (2004: EU 1.84%, US 2.68%, Japan 3.18%)
- R&D investment carries a high(er) risk and uncertainty; scarce financing resources in Europe for such risky projects (**market failure**)



Approach: Loans for R&D





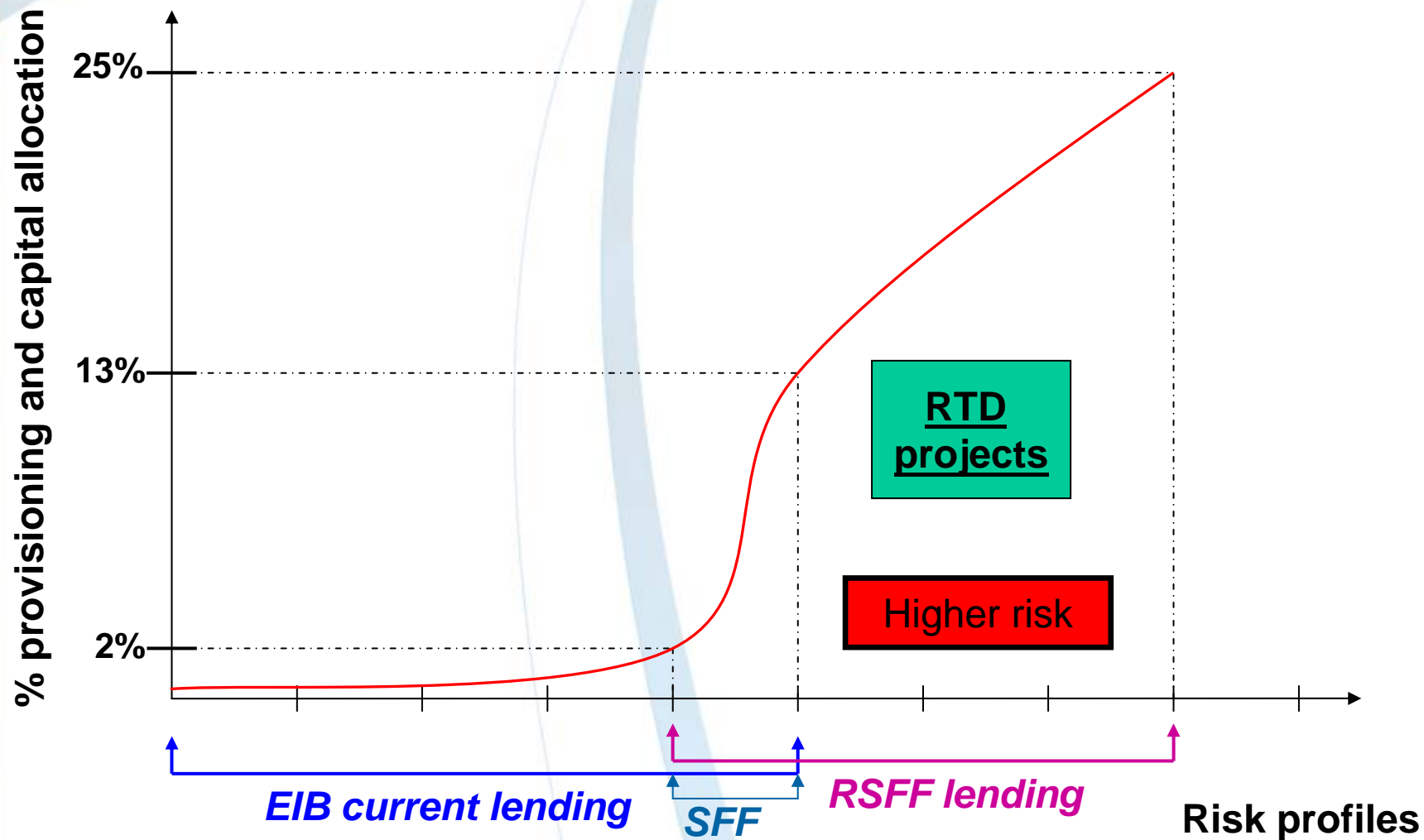
Objectives and added value

An innovative financing mechanism to:

- Foster increased **private investment** in research by improving access to **loan finance**.
- **Risk-sharing** between the Community and EIB to allow:
 - Larger volume of risky lending to R&D
 - Financing of riskier, but creditworthy projects
- Generate a **leverage effect** so that the volume of extra lending by EIB and its partner banks is a 4 to 6 multiple of the Community funds provided to the facility.
- Rely on an **existing EIB facility (SFF)**, and therefore benefit from EIB' s experience and management.



Financing of R&D projects: Loan Risk Profiles





Why is the FP7 contribution needed?

- R&D projects carry a **higher level of uncertainty and risk**. To allow the financing of such projects, a higher level of intervention in the form of risk protection is necessary (“provisions and capital allocation”).
- Through the RSFF, the EIB will be able to provide loan finance to higher risk projects than it can do now. The FP7 contribution will be used to **cover such higher risk** thus making financial support to high- risk R&D projects possible.



Key principles

- “First come, first served”: RSFF is a demand-driven instrument; projects will **not** be selected through call for proposals (opposite to the usual procedure for FP 6/ 7 grant funding)
- Two different internal “windows” within the RSFF (FP 7 window for RTD, EIB window for commercial innovation) but no difference from the applicant’s/ beneficiary’s point of view
- Eligible projects must also be considered **creditworthy** by the EIB in order to receive financing under the RSFF



Matching contribution by EC and EIB



up to EUR 1 billion

up to EUR 1 billion

Provisioning and capital allocation (= risk coverage)
for RSFF lending/ guarantees



“Doing more with less”: The leverage effect

Risk coverage



**FP7
Contribution:
up to €1 billion**

+

**EIB
Contribution:
up to €1 billion**

**x 4 to 6
(average: 5)**

Provisioning and Capital Allocation representing **15% to 25% (average 20%) of volume** of individual loan



**EIB loans and guarantees:
up to €10 billion**

**x 3
(average)**

RSFF/ EIB loans representing on average **one third of total cost** of financed research projects



**Additional private investments in research:
up to €30 billion**



EIB and its partner banks (intermediaries)

For loans of **EUR 7.5 million or more** - direct involvement by the EIB

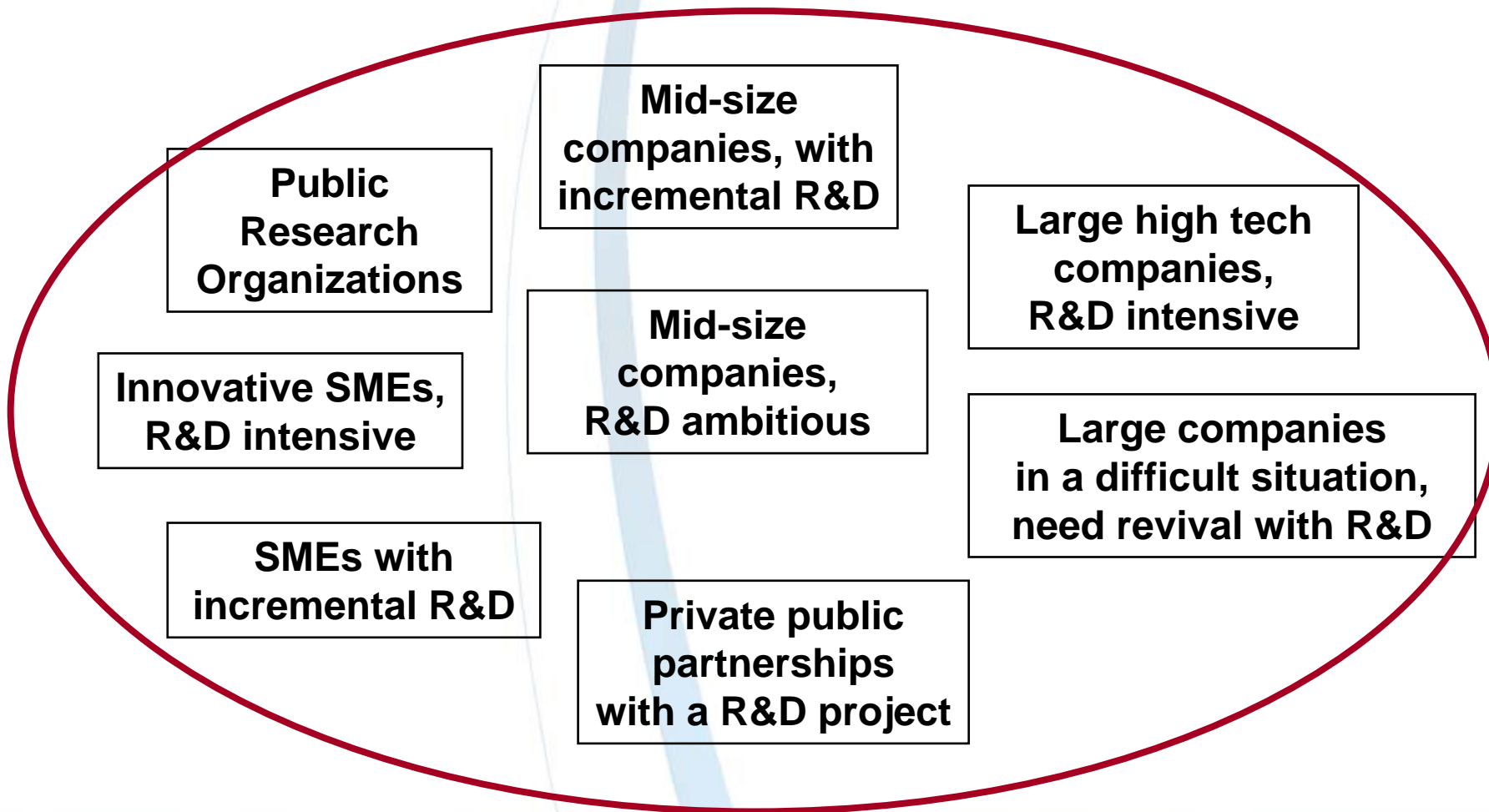


For all loans where borrowers wish to work with their own banks, in particular those of **less than EUR 7.5 million** - sharing of RSFF benefits with intermediaries (e.g. through partial guarantees)





Beneficiaries





What projects can be supported ?

With the FP 7 contribution:

- **Actions supported by an FP 7 grant** (JTI, Collaborative Projects, NoE, Research for the benefit of SMEs) and research infrastructures funded by FP 7
- **Research infrastructures** needed by the European Research Community (if ownership/ operation/ request involves at least three Member States or Associated Countries)
- **All other European actions (whether trans-national or not)** concerning RTD and falling within the scope of the contributing FP 7 themes (Energy, Transport, Environment, Space, ICT, Health, Nano-science etc.)

With the EIB contribution:

- All other R&D and Innovation projects including commercial innovation



Appraisal and pricing

- RSFF loans will not be subsidized but priced at best possible individual conditions (EIB's low refinancing costs, administrative fee, risk premium but no profit margin)
- EIB will assess eligibility and creditworthiness of projects; decision-making time will depend on complexity of projects and due diligence needs, approximately 3-6 months
- Details for lending through EIB's banking partners currently being discussed (individually)



Budget and Monitoring



- The Community will closely monitor the payments of the contribution to the EIB to ensure there are no unused funds left at the end of FP7
- If demand for RSFF supported loans is lower than projected, the unused part of the Community contribution will be used for grants under FP 7
- Regular information + importance of **Mid-Term Review** in 2010 (Council/ Member States and European Parliament)



Key facts and figures



- **5 June 2007** - RSFF signed by Commissioner Potocnik and President Maystadt
- **14 RSFF** operations approved by the EIB.
- Total financing over **EUR 1.5 billion** requested from the EIB
- Authorised RSFF supported financing volume is of **EUR 888** million.
- Close to **70%** of that amount is currently covered by provisions and capital allocations from the Community contribution.
- Sectors: renewable energy technologies, engineering and automotive, life science.
- Location: Austria, Germany, Spain, Italy, Sweden and Turkey.
- Financial instruments corporate loans, project finance and risk-sharing bank facilities, the latter primarily for projects carried out by midsize and smaller companies.



Summary and next steps

- RSFF is a new financing instrument of FP 7 to provide more and riskier loan financing for investment in RTD and Innovation in Europe
- RSFF is not limited to FP 7 projects but a complementary source of finance for RTD and innovative projects
- RSFF addresses a wide target group including SMEs
- Official start of RSFF in June 2007; first projects have already been approved and project pipeline looks promising

What next?

- Further promotion of the RSFF in the EU Member States and Associated Countries ("Awareness raising")
- Expanding co-operation with partner banks (intermediaries)



DG RTD contact points

- **DG RESEARCH (RTD)**

Directorate B: European Research Area: Research programmes and capacities

Unit B-04: Regions of Knowledge and Research Potential/ **RSFF Sector**

- **RSFF Sector Team**

- Jean-David MALO – jean-david.malo@ec.europa.eu

- Martin KOCH – martin.koch@ec.europa.eu

- Anna KRZYZANOWSKA – anna.krzyzanowska@ec.europa.eu

- Roberta PROFETA – roberta.profeta@ec.europa.eu

- Telephone: + 32 2 2984599



Thank you for your attention !