Final Report

Independent Expert Group (IEG)

Second interim evaluation of the RSFF

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EXECUTIVE SUMMARY

1. FINDINGS OF THE RSFF IMPACT IN THE EUROPEAN FINANCIAL AND RDI LANDSCAPE

General Impact

The RSFF proved to be an attractive financial instrument for RDI companies. The main advantages of the RSFF for enterprises are multiple (stable funding source, long maturities, large single loan sizes, strong technology expertise, no cross selling, EIB as a quality stamp, …).

The RSFF's instruments generally met or exceeded their quantitative targets (end of 2012 figures, 1 year before its term (expected vs. realized):

- EIB Group loans & guarantees: € 10 billion (expected) / € 11.747 billion (realised) (out of which €11.074 billion in "normal RSFF Operations" (i.e. Compartments 1 and 3) and €650 million in RSI (i.e. Compartment 2)) ;
- Leverage effect on EU financial contribution : 10 (expected) / 11.6 (realised) and;
- Additional private investment in research and innovation (i.e. multiplier effect): € 30 billion (expected) / €34.102 (realised).

The joint financial instruments between the EC and EIB blend well the financial resources and expertise of EIB with the budgetary resources of the EC providing a guarantee. The Commission has fully committed its initial tranche of EUR 1bn and increased this by another EUR 150m for RSI.

RSFF projects seem to have a potentially high economic impact and positive externalities although these are insufficiently monitored and reported.

RDI dimension and coverage

The performance in achieving the targeted geographic, sector and beneficiary coverage has systematically been improving:

- RSFF operations have already been signed in 23 countries (including 3 FP7 Associated Countries) but the geographical disbursement balance can be improved;
- Capital allocation across sectors with engineering (37%), life sciences and specialty chemicals (25%), ICT and energy (each 16%) represent a good distribution;
- Research Infrastructures (6%) are not well represented and represented initial take up difficulties but recently there has been an acceleration in the origination of loans;
- The initial lack of outreach to SMEs is tied to the EIB's direct delivery mode which was addressed in good part by the RSI Facility, launched by the EIB group through the EIF in earnest in 2012, and;
- SMEs are now supported through the RSI Facility (indirect financing instrument) but medium-sized companies needing between EUR 7.5 and 25 million are hardly covered.

The eligibility criteria for both the RSFF and the RSI facilities seem to be line with the Cooperation Specific Programme objectives and RDI activities appear appropriately present in the projects financed.

The RSFF's eligibility checking process has nurtured a cooperative approach between the EC and the EIB. Useful documentation is delivered enabling the EC DGs to ensure that RSFF Operations support RDI activities. However, the verification of the eligibility and bankability seems to take a long(er) time (than usual for the EIB).

The difference of criteria between the EC and EIB RSFF windows was leading to unaligned interests in allocating projects and the 2 windows should be aligned in respect of eligibility criteria.

The eligibility criteria for the RSI compartment of the RSFF seem more pragmatically defined (what makes an innovative SME or small Mid-Cap) and financial Intermediaries have handy eligibility checklist to originate loans.

There is however too little information monitored, collected and reported from the portfolio to sufficiently assess its detailed RDI composition, progress and impact.

Recently, there has been a surge of demand for the RSFF instrument possibly beyond the availability of current budgets.

2. FINDINGS OF THE RISK-SHARING METHODOLOGIES AND IMPLEMENTATION

<u>RSFF Risk Sharing and Design</u>

The RSFF clearly provided for an increased capacity of the EIB to lend to riskier projects and companies investing in RDI. The demand-driven orientation of the instrument is an efficient method to support the most important economic needs in essence fulfilling a countercyclical role.

However, the EIB initially faced a higher total risk than EC. Therefore, the ultimate financial risk would not be equally shared between both partners (EC/EIB). With an increasing demand on the EIB to lend and to overcome the Bank's constraints, a different approach was needed which presented itself in the "First Loss Piece (FLP)" risk sharing model.

Under the FLP Model, the EC takes more risk but there is an improved multiplier effect as there is a reduced EIB regulatory capital allocation and a pricing grid on RSFF loans is possible. The new First Loss Piece (FLP) risk sharing model offers the flexibility to adapt further for important target groups (SMEs with different financing levels, Research Infrastructures,…) which could not effectively be addressed under the initial risk-sharing scheme. The FLP model provides for a modular, scalable and flexible risk sharing model for financial instruments for the next budget period.

The RSFF's direct delivery mode favors loans with big amounts (average of EUR 110m) with the difficulty to reach SMEs, Mid-Caps and Research Infrastructures (until end 2011 without RSI and before the new scope and definition for Research Infrastructures were implemented). As the RSFF's project cycle operations appear longer and costlier than usual EIB projects such preference for larger projects in the direct approach is not easily re-orientated. The direct approach also has less leverage impact vs. the indirect approach as the EIB's role in originating, negotiating and closing the financing packages together with other financiers appears important.

The RSFF's delivery mode was expanded to an indirect approach through Financial Intermediaries (FIs) to SMEs needing financing below EUR 7.5 million (see below the RSI scheme).

The RSFF-financed projects appear largely very sustainable. So far, there have been no defaults under RSFF (only two minor cases of provisioning) but it is obviously still early in the maturity of the portfolio. Nevertheless, the appropriate risk provision levels and risk sharing taken on respectively by the EIB and by EC should be pragmatically evaluated and possibly adjusted in line with actual demand and progressing portfolio risk on the different compartments. At least, for the future the risk provision and risk-sharing levels should be regularly assessed and be adjustable.

The RSFF processes are now appropriately tested and deployed with full operational capacity in both the EIB group and the EC. The FLP risk-sharing model is capable of scale by the leverage it can support. The ability of the RSFF's design to adapt to weaknesses in its initial design and amend its design accordingly has been one of the facility's great strengths.

RSI Scheme

The RSI Scheme has rapidly been implemented with a tight timeframe since the Amendments. The strong interest and contracts signed by diverse financial intermediaries (FIs) demonstrate the demand and need for the instrument. The RSI compartment has also proven resilient even within the short time frame as being able to cater for bigger demand, provide access to promotional lending institutions and being able to offer guarantees with diverse counterparties (regional banks, promotional institutions, commercial banks, etc.). The pricing between the different types of intermediaries should be aligned.

Monitoring, reporting and costs

The EIB Group delivers a range and number of reports per year to DG RTD or DG ECFIN providing the Eligibility Committee with the information necessary to perform eligibility checks. The number, template and structure of RSFF reports may need to be optimised in the light of the evaluation of the partnership and of the evolving EU financial and budget regulations. The administrative costs calculation approach now appears balanced between the EC and EIB group.

The need for stringent reporting may inhibit a true cooperative approach based on mutual trust and hinders the possibility for the EIB to generate business by dedicating too much team resources to reporting matters. On the other hand, the EC services need to be able to verify the RDI impact as well as the financial risks. However, in between these interests, there seems to be scope to optimise the format of reports as well as to shorten the eligibility verification process.

3. RECOMMENDATIONS FOR THE DESIGN OF FUTURE EU DEBT-INSTRUMENTS UNDER HORIZON 2020

Relevance for Horizon2020

The financial crisis adversely affects the financial position of innovative enterprises by slowing demand for innovation and by decreasing the financing supply and risk-taking. The supply of private capital for innovative enterprises risks to become too risk averse to adequately finance the innovation or growth potential of highly innovative enterprises, structurally fragmented across Europe and increasingly government dependent. Venture capital fund has also consolidated to sub-optimal low levels and risks to fade out for years to come due to lack of private capital. Increasing the supply of government investment alone cannot be the solution especially in the longer-term. The financing challenges for innovative enterprises seem to have become a permanent structural problem which could affect the growth of our economies as innovation in private enterprises is key for our competitiveness in the longer term.

The EU Council has rightly and repeatedly requested for 1) an EU-wide venture capital scheme together with national operators, 2) The roll out of an increased EIB lending of EUR 20 billion per year 2013-2015, and 3) fast-acting measures to support growth measures in particular for energy efficiency, the digital economy, research & innovation, SMEs (and youth).

In this policy context, it appears that financial Instruments are now a well-tested, efficient and effective way of supporting growth, jobs and innovation. They are a necessary instrument to complement the RDI grant instruments which take up the lions' share of funding. That is why financial instruments should be continued and expanded but due to limited resources they should be deployed to situations and needs with the highest EU added value.

Recommendation 1 – Continue, strengthen and expand the current Partnership

The partnership approach between the EC and the EIB Group (EIB and EIF) should be continued and reinforced. The EC and the EIB Group should continue implementing together the debt and equity financial instruments under "RSFF-2" in support of Research, Development and Innovation (RDI), building on their respective complementary strengths and competences.

A continuation of the current partnership between EC, EIB and EIF will allow for more flexibility, as opposed to a mandate, and allow each of the partners to deliver their best possible contribution to the Programme.

Insofar technically possible and adequate, it is best to pool the assets ideally into one global risk portfolio. A small number of portfolio or even one global portfolio if feasible will improve leverage, cost efficiency, monitoring and risk management, communication and coordination. It will also better support an integrated market approach and a more consistent and coherent product offer to the potential beneficiaries of all products under the Programme.

It is recommended, if technically and legally feasible, to have a flexible roll-over and re-allocation approach for unused funds, as well as risk-level adjustment mechanisms if the actual portfolio risks are lower than initially anticipated.

Recommendation 2 – Provide a scalable Platform

The legal and structural design as well as the joint resources of the EC and the EIB Group should provide the basis for a scalable RSFF-2 platform allowing for the participation of additional entities, in order to achieve a higher multiplier effect.

This platform would streamline the cooperation between the EU, the EIB Group and other possible entrusted entities if interested to do so, on the basis of one delegation agreement implementing Horizon 2020 financial instruments. Furthermore, this platform should also clearly set out the risk-sharing arrangements between the EC and the EIB Group (and other partners) that should also be specified in the legal basis implementing Horizon 2020 financial instruments.

For the future, we recommend one single platform (covering at least all debt facilities and sub-facilities of Horizon 2020 financial instruments, and, if possible, also the equity facilities) in partnership between the EC and the EIB Group (EIB + EIF) but accommodating for other entrusted entities (the latter joining for the whole platform or only for a part of it, with therefore adequate rights and obligations). It should be open to other institutions, promotional banks and national and regional authorities to bring in additional financial capacity or provide ring-fenced top-up budgets for sustainable facilities in support of RDI across Europe, to share resources, expertise, networks and also risks.

Its capital increase allows the EIB now also to consider and implement those strategies that best leverage the RSFF-2. This may give the possibility to the EIB to provide also regulatory capital in order to at least match the EU financial contribution for Horizon 2020 debt financial instruments

For the debt instrument, the First Loss Piece portfolio model should remain the basis for the risk-sharing between the EC, the EIB Group and any other additional participants, whereby the risk sharing levels may be adjustable in function of the characteristics and risk profile of each of the underlying product groups (direct vs. indirect products).

Subject to technical feasibility, such common platform would foster the investment of enterprises in RDI and strengthen cooperation with specialised, competitive and sustainable Financial Intermediaries (FIs), and the facilities could with top up funding also foster cohesion and smart specialisation across Europe. The broader platform would also be essential to share risks and thereby generate the financing leverage to multiply the EC/EIB Group resources impact.

The successful take-up of the new Risk Sharing Instrument (RSI) in support of RDI-intensive SMEs and small Mid-Caps, demonstrates that the role and participation of other Financial Intermediaries (FIs) should be expanded to strengthen risk-sharing, financing leverage, demand adhesion, sufficient coverage and avoid crowding out.

In addition to the demand-driven approach, more policy-driven products in order to better achieve particular EU policy targets (including specific sector, regional or early stage coverage) could also be covered but would need to be financed with additional ring-fenced budgets, allowing additional project sourcing in:

- Innovative areas where societal needs warrant additional public intervention (energy, ageing, ICT, transport/mobility, health…);
- Research infrastructures widened to include commercialization, innovation, knowledge transfer, incubation and acceleration activities of public research organizations to further facilitate Technology Transfer activities;
- Regions where managing authorities may decide to contribute to their regional objectives of smart specialization by ring-fencing part of their European Structural and Investment Funds (ESIF) under Horizon 2020 Financial Instruments, and;
- Equity-type risk financing as its financing by private capital is endangered.

<u>Recommendation 3</u> – Complete the instrument and product mix

The current demand-driven approach remains valid for the future, but the instrument and product mix should be optimised to serve the full enterprise RDI financing spectrum:

- financings up to EUR 7.5m, mainly for SMEs and small Mid-Caps;

- financings of up to EUR 25m, mainly for Mid-Caps (not efficiently served until now under RSFF), and;
- financings of more than EUR 25m, mainly for Large Counterparts.

The products should be expanded to include also higher-risk finance such as junior debt and mezzanine, in particular for rapidly growing innovative Mid-Cap companies which were one of the original RSFF target groups when the RSFF was set-up in 2007. In addition, and subject to its technical feasibility, an extension of the successful RSI model to an intermediated Mid-Caps risk sharing product for senior debt would allow RSFF to reach this segment with a significant improvement in scale, cost efficiency and leverage. A direct approach to this market segment also covering mezzanine financing would be a welcome complementary approach to the indirect products, as recent market studies suggest.

There should be a balanced approach to financing this full range of demand with all compartments appropriately served. The future products should be more focussed on SMEs and growth-oriented Mid-Caps, based on the demand of various market segments in order to ensure the best possible alignment with market needs.

Referring to the successful introduction of the “eligible innovative counterpart” concept in RSI, we strongly recommend that this eligibility approach should be privileged for all financings up to EUR 25m, rather than the traditional but less relevant and flexible notion of “eligible project costs”.

<u>Recommendation 4</u>– Increase, roll-over and top-up budget resources for “RSFF-2”

The EC’s Horizon 2020 should allocate a maximum of its new budgetary resources approved for financial instruments, with EUR 2.5 billion targeted as a minimum. The recommended increase of the EU financial contribution should be complemented and matched by at least an equivalent contribution by the EIB Group (for the debt and if possible equity instruments). Such contribution could take the form of regulatory capital according to EIB/EIF’s standards for regulatory capital allocations.

Subject to the decision of the EP and the Council we recommend the reassignment of both revenues and repayments of similar existing financial instruments set up under FP7 and CIP to new financial instruments to be established under H2020 in order to ensure continuity as well as bigger impact.

In order to send a very strong political signal to the market, we also recommend a strong initial financial commitment in the first two years, instead of flat commitments trend over the 7 years programming period.

The recommended additional sector or regional coverage should be financed with ring-fenced top-ups from additional budgetary and financial resources.

The deployment of the resources through First Loss Piece structures leveraging EIB Group and other capital (leverage factor: around 15 times the EU investment) is much more effective than using the scarce EU resources for funding investment directly or through grants (almost no direct leverage).

The EIB’s recent capital increase may now allow more easily for matching contribution in regulatory capital, and thought should also be given to applying EIB’s funds ‘at risk’ in the most effective and efficient way within the new Programme, for instance considering the balance between direct and indirect market products, resources for smaller growth-oriented SMEs as compared to larger RDI investments (> EUR 100 million) to be covered by the additional lending capacity facilitated by the capital increase. This would allow greater focus on

SMEs and Mid-Caps given the higher risk profile while maintaining a balanced portfolio of larger and smaller financings

But even then the risk remains that demand will exceed the available resources, in which case the slowdown or drying up of the instrument's resources would have an adverse market impact. This could be at least partly be addressed by:

- Ring-fenced top-up budgetary resources from national or regionalauthorities (including via European Structural and Investment Funds) which should be additional to the common platform. They should fully provide for and fund the additional risks sharing, costs and fees including the appropriate accompanying measures costs.
- Capital and risk contributions from other financial institutions, and;
- Flexible and transparent use of the EIB Group matching contribution, to put it at best use within the product mix and depending on the actual needs.

In addition, the possibility to launch joint instruments between the EIB Group (and/or any other interested financial institutions) and the EU, in particular through the combination of EU centralised programmes (like Horizon 2020 and COSME) and shared-managed programmes (like SF and CAP), in order to enhance access to finance for innovative SMEs and small Mid-Caps, should be explored. In particular, such an approach may offer products to financial intermediaries in order to allow indirectly for more liquidity to finance innovative SMEs and small Mid-Caps (via, for example, Guarantee and/or Securitisation schemes). Moreover, it could provide a higher leverage effect on EU centrally managed funds, as the largest contribution would come from shared-managed programmes.

Recommendation 5 – Strengthen the Advisory support

The recently launched RSFF RDI Advisory activity within EIB is a welcome and promising development to stimulate additional instrument capacity towards underserved segments.

The EIB's Advisory work programme for its pilot phase comprises two elements, (i) upstream project-related advisory, and (ii) the development of an RDI expertise network. Additional technical assistance should be on offer by the EIB Group and the EC so as to cater for the demand or take-up of the facilities (with or without specific top-up programmes but at the additional advisory services full cost) amongst:

- Development banks, regional agencies and other services designated by the management authorities of European Structural and Investment Funds (ESIF);
- Public research and knowledge transfer organisations, incubators and accelerators;
- Innovative clusters, and;
- EC societal programmes and thematic public-private partnership and cluster organisations and specific sector- or technology focused projects.

Based on a successful pilot phase currently under implementation until the end of 2013, RDI advisory activities should be continued in the context of the future Horizon 2020 financial instruments through a technical assistance agreement.

Such an operational engineering may also improve the project sourcing, particularly at regional level or at least at 'hubs' levels, taking into consideration the limited budgetary resources. This will also contribute to maximise the impact of the Horizon 2020 financial instruments and minimise the risk of crowding out, to demonstrate that financial instruments target those beneficiaries which are unable to secure loan financing from commercial and other lenders.

Recommendation 6 – Address the main risks upfront in the design

The main political risks seem linked to a possible decision of the budgetary authority to significantly decrease the budget allocated to “Access to Risk Finance” under Horizon 2020. In the context of budgetary constraints, the political risk may be to not allocate the needed support to financial instruments, although they would complement traditional grant funding and would generate a revolving capacity and a much higher leverage effect than classical grant funding.

An important funding risk is that demand exceeds the resources in which case the slowdown or drying up of the instruments resources would have an adverse market impact. This should be addressed by setting quantified objectives for the programme period with targets annually revised by compartment. Also, the top-up funding could remedy the issue of demand exceeding the available supply. Taking duly into consideration the inherent portfolio dynamics, risk management constraints and the potential market effects, one risk-mitigating measure could be to allow the possibility of a limited re-allocation of the budget according to market needs, including new products initiatives.

The organizational risks are largely linked to non-aligned interests between the EIB, the EIF and the EC and possible other entrusted entities, in case the risk-sharing mechanism would not clearly be defined in the legal basis. This was one of the recommendations of the Court of Auditors which should be addressed.

The risk provisioning itself could appear as potentially being too low or too high. This should be addressed by the annual reviews of the risk adjustment mechanisms as it is already the case under FP7-RSFF.

There is an unwelcome risk that the use of financial instruments in some circumstances (e.g. using regional funds) may be considered or re-classified as state aid. In order to avoid uncertainty, notably at the level of financial intermediaries, appropriate improvement of the State Aid framework should be carried out, notably at regional level and regarding risk capital, in order to strengthen RDI, while ensuring no distortion of competition. In particular any EU centrally managed programme or any EU shared-management programme where national and/or regional authorities have no discretionary power on the use of EU funds must be fully exempted. The General Block Exemption Regulation in particular, as well as any other appropriate guidelines, must be clearer on this issue.

4. RECOMMENDATIONS FOR THEFUTURE ARTICULATION & MANAGEMENT OF THE INSTRUMENTS

Recommendation 7 – Strengthen the Governance

The governance of the Facility should be further developed in line with the expansion of the Facility. The role and scope of the Steering Committee should be strengthened and better supported by specific Designated Services in EC and EIB Group, with appropriate resources.

In view of ensuring complementarities and economies of scale, there should be a single Steering Committee covering all financial instruments under Horizon 2020 (with possible variable configurations by product). This single Steering Committee should be chaired by the Director in charge of the EC Designated Service, in order to ensure the compliance with the overarching policy objectives. The Chair should be supported by a Secretary General coming from the EIB.

Due consideration should be given to the tasks of the Steering Committee, in the light of the increase of the number of products under the Facility, and its supervisory and coordinating role should be enhanced to ensure the achievement of the objectives and intended portfolio impact. A number of preparatory and support tasks could be delegated to a limited number of ad hoc working groups or sub-committees reporting to the Steering Committee.

More operational and on-going tasks (e.g., eligibility checks for larger projects) should be delegated to one Designated Service in the EC and its resources should be strengthened. This EC Designated Service should be located in the policy DG in charge of the implementation of Horizon 2020 (i.e. DG Research and Innovation), in order to ensure streamlining of financial instruments, consistency between initiatives, economy of scale and global cohesion with the Horizon-2020 policy objectives.

Recommendation 8 – Better defined objectives, impact measurement and evaluation

The Programme should be assessed against clear and quantifiable objectives for the full budgetary period, up to the mid-term and revised and approved at least annually by the Steering Committee.

The impact measurement and evaluation of the instruments and products under “RSFF-2” should be optimised. The following should be considered:

- Define a limited set of relevant key indicators to flag and monitor the progress of RDI operations; with a view to facilitate their operational use;
- Define a set of relevant reporting data to be provided on a regular basis by the EIB (including a breakdown of the projects/entities supported in line with Horizon 2020 structure) ;
- Issue (an) annual report(s) by the entrusted entity(ies) reviewed by independent auditors providing impact and portfolio data, notably across the key indicators;
- Make better use of European observatories assessing the state of the financing of innovative enterprises drawing upon annually updated market indicators, the RSFF portfolio impact reviews as well as the accompanying measures that could provide relevant support for decisions based on solid data; and
- Mid-term review by independent expert reviews to assess the strategy of the instruments and progress towards its objectives.

Recommendation 9 – Build and even more efficient organisation

The rationale is to have an organisational approach that is beneficiary (customer)-centric which will optimise effectiveness and efficiency as well as the demand-driven approach.

The EIB should remain the key entrusted entity for direct products (focusing on Mid-Caps and large caps) and the EIF should develop its role as the partner of the EU/EC for indirect products (focusing on SMEs and (small) Mid-Caps).

Within the Commission, the management of the EC's Horizon 2020 Financial instruments should be delegated to one designated service. It should cover all its tasks across the Instruments on the Platform as this is important for preserving an efficient partnership with the EIB Group and clarity towards the enterprises and counterparts in the EC.

The operational services of the EIB and EIF and designated EC teams should be strengthened so as to ensure an effective deployment of the instruments.

As a close interconnection should be ensured with COSME, joint steering committees (or appropriate joint governance) should be ensured regarding the governance of debt and equity facilities for SMEs. Subject to EP and Council final decisions regarding financial instruments of Horizon 2020 and COSME, each programme should focus on specific target groups or at least in a complementary way in order to avoid overlaps and ensure sound financial management of EU budget.

Recommendation 10 – Raise pro-actively awareness and market demand

While the demand driven principle prevails, the marketing and effective promotion and roll-out of the future Programme should be improved. The following measures should be considered for the future:

- Develop a coherent and consistent strategy for a targeted market awareness raising covering all H2020 (as well as COSME) products and counterparts with an appropriate budget, more in particular for under-represented sectors;
- Introduce better and more market oriented brand names for RSFF products and work through the intermediaries;
- Develop an open (internet) access gateway (if appropriate in cooperation with other EC Directorates and EIB Group) on which both the potential beneficiaries and supply-side would be registered and can select suitable promoters matching their criteria, based on and developing on-going initiatives developed by the EC and the EIF.

Furthermore, the following accompanying measures appear as an efficient and necessary addition to the effective promotion and roll-out of the financial instruments themselves:

- Investment-readiness (coaching) and "bankability booster" schemes;
    - small firms: venture and other forms of investor forums, etc.
    - large firms, PPPs, JTIs, complex multi-stakeholder projects, etc.:"R&I Advisory Service" (pilot now running with EIB under RSFF)
- Awareness-raising (demand stimulation) in under-represented represented sectors;
- Fostering business angels, corporate venture funding and crowd-funding, and;
- Encouraging philanthropic foundations (incl. family offices, endowments…) and individuals to support RDI instruments
- Awareness-raising in innovative regions and clusters (Cooperation with the Innovative Cluster European Observatory)

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1. EVALUATION OF THE RSFF IMPACT IN THE EUROPEAN FINANCIAL AND RDI LANDSCAPE

1.1. RSFF IMPACT: HAVE THE RSFF ADDRESSED RELEVANT MARKET GAPS IN THE EUROPEAN FINANCIAL LANDSCAPE AND RESPONDED TO ITS OBJECTIVES?

KEY QUESTIONS

Q1. Relevance: To what extent has the RSFF addressed market needs and gaps — in terms of transaction size, groups of beneficiaries targeted or not targeted, financial value-added and attractiveness of pricing, risk spectrum — and deficiencies in the availability of debt financing for R&I investments, especially in the light of the financial and economic crisis? [What could be improved in the future?]

Q2. Relevance: To what extent are the RSFF's objectives still pertinent to the needs, priorities, problems and issues that it was originally designed to address?

Q29. Sustainability: Are the impacts of the RSFF, as far as they can be assessed at this stage, in line with expectations? Can any socio-economic impacts be determined?

1. WHAT IS THE RSFF?

As part of FP7, RSFF is a joint EU/EIB financial instrument that supports investments in Research, Development and Innovation (RDI). RSFF is not providing grants but loans or guarantees either (i) directly to promoters or (ii) indirectly through other banks (for SMEs and Mid-Caps). RSFF is a demand driven instrument that is in principle available for companies of all size and ownership. RSFF financing is normally based on market pricing (no subsidy element).

RSFF, the Risk Sharing Finance Facility, was set up as a EUR 10bn EIB loan facility to finance high value-added high-risk investments in Research, Development and Innovation (RDI). RSFF provides substantial additional risk sharing finance to complement more conventional sources of finance such as grants, equity and loans.

RSFF is being implemented in joint cooperation between the European Commission and the EIB, each of which have provided EUR 1bn capital cushion to cover the risks borne by the EIB when financing RDI projects under RSFF for the period 2007-2013.

RSFF is made available through two equally sized eligibility «windows». An EU window covering only R&D and an EIB window covering RDI:

- Each window can provide approximately EUR 5bn of loans and guarantees.
- RSFF EU window loan losses are shared between the EU and the EIB on a portfolio first loss basis. The EIB assumes the full risk for its own window.

Within the EU window, SMEs and small Mid-Caps are served through RSI, a new intermediated guarantee sub-product to support smaller senior transactions through risk sharing with house banks (> max loan size EUR 7.5m).

2. GENERAL PROGRESS OF THE RSFF

RSFF has shown good results to date. By the end of 2012, 5.5 years since RSFF was launched, loans worth EUR 11.8bn, (118% of the total RSFF Facility initial target) have been approved and loans of EUR 10.1bn (101% of total initial target) have been signed.

RSFF is performing well also in view of the performance indicators as agreed between the EC and the EIB. In terms of disbursements, the EIB is well on track and expects compliance ahead of schedule. The RSFF business evolution has proven to be anti-cyclical and rather volatile. Based on the business pipeline for 2013, the EIB assumes that RSFF will reach its capacity limits some time during 2013. The overall target of EUR 10bn in RSFF loan commitments will be achieved before the end of 2013.

The Commission has fully paid in its initial commitment of EUR 1bn, and in fact has increased this by another EUR 150m for RSI 2, coming from FP7 third-countries appropriations. The demand for RSFF is expected to continue at high levels.

This demonstrates the demand for this type of risk-sharing debt financing for RDI, as well as confirming that this joint financing instrument is effective in meeting the financing needs of a wide range of enterprises for investment in RDI throughout the EU. The key economic value of RSFF is the anti-cyclical nature that provides promoters with a long-term financial stability to perform RDI even in times of crisis. RSFF targets the larger RDI spenders directly with tailor made products and the smaller ones through financial intermediaries.

The RSFF's value-added proposition for enterprises can be summarized as follows:

- Complementary stable funding source
- Long maturities of up to 10 years
- Large single loan sizes (< EUR 300m)
- Strong technology/industry expertise
- No cross selling / take and hold strategy
- Signaling effect: EIB as quality stamp towards other financial institutions
- The RSFF is not considered as state-aid, as it is not subsidised

This assessment as mirrored by a survey of the Court of Auditors amongst RSFF beneficiaries which listed the following key benefits in descending order:

- The RSFF loan offers a long maturity that was not offered by other sources of debt financing (65%)
- The RSFF loan increased the confidence of other banks to grant additional debt financing for your project (58%)
- The financial advantage of the loan interest rate was a decisive/major reason for taking an RSFF loan (58%)
- You had access to debt finance for research, development and innovation but at a higher interest rate from another private/public bank (47%)
- You had a limited access to debt finance for research, development and innovation and RSFF could increase the volume of the total loan (37%)
- The RSFF loan offers more flexibility than other sources of debt financing (28%)
- Difficulties to access debt finance during the financial crisis and RSFF provided a solution at that time (21%)

- No access to other debt finance as there is no debt financing market for such projects (11%)

3. ASSESSMENT OF THE ACHIEVEMENT OF OBJECTIVES

The RSFF can be considered as an important and successful pilot undertaking or a large-scale laboratory for increasing the risk appetite of the EIB. In spite of the difficulties the EC and EIB face in determining the eligibility of projects for provisioning under the EU Window, the eligibility check has resulted in the development of a cooperative approach between the two parties.

For the EIB, the RSFF has meant:

- An increased lending capacity towards riskier projects (without increased exposure).
- A better understanding of the entire supply chain of markets.
- A better connection with the scientific community.

RSFF has financed more than EUR 20bn of RDI investments promoted by counterparts facing high financial risks (sub-investment grade). RSFF achieved its goal of EUR 10bn of financial commitments ahead of the end of the programme. Almost all Performance Indicators have already been met or will be met by the end of the programme.

The RSF and RSI Facilities allow a substantial increase of investments of businesses in innovation projects and RDI. Innovation is very important for the business continuity and competitiveness of enterprises.

The **Global Objectives** were:

- To fill markets gaps in the financing of RDI and accelerate the pace of investments in RDI in EU 27 and Associate Countries.
- To contribute to total R&D investment reaching 3% of Europe's GDP.
- To contribute to the transformation of Europe into world's leading knowledge-based economy.

Expected vs. realised RSFF financing data shows that the leverage and catalytic effect of the Facilities meets or exceeds expectations:

- EIB-Group loans & guarantees: € 10 billion (expected) / € 11.747 (realised) (out of which €11.074 billion in "normal RSFF Operations" (i.e. Compartments 1 and 3) and €650 million in RSI (i.e.; Compartment 2));
- Leverage effect on EU financial contribution : 10 (expected) / 11.6 (realised); and
- Additional private investment in research and innovation (i.e., multiplier effect): € 30 billion (expected) / €34.102 (realised).

The breakdown of the RSFF portfolio is as follows (March 2013)

- 237 projects initiated for pre-appraisal.
- Of which 129 projects have been approved.
- The total approved loan amount is EUR 12.9 billion.
- Of which 101 projects have been signed.
- The total signed amount is EUR 11.7 billion.
- Of which 71 projects have been disbursed.
- The total disbursed amount is EUR 6.8 billion.

The **Operational Objectives** were:

- EIB to provide loans up to a total of EUR 10bn for RDI projects mainly sub-investment graded (by drawing on a risk-sharing component creating a five times multiplier effect)
- EIF to provide guarantees to 10 to 15 selected financial intermediaries for up to EUR 500m.
- To promote the RSFF to a wide range of potential beneficiaries.

The RSFF has performed well in terms of operational effectiveness, as:

- It has already met its two Signatures Performance Indicators;
- It remains on track to meet its Disbursement Performance Indicator;
- The EIF is on track to meet its target of signing EUR 500 million in direct financial guarantees with 10 Financial Intermediaries (RSI);
- The EIF has promoted the RSFF to a wide range of potential beneficiaries

The **Intermediate Objectives** were:

- To trigger a catalytic effect on other financiers;
- To reduce the risk aversion of financial intermediaries towards financing RDI projects;
- To enable the selected financial intermediaries to provide loans of up to EUR 1bn for RDI projects conducted by innovative SMEs and small Mid-Caps;
- To reach out to all target groups;
- To seek a wide geographical distribution across the EU and FP7 Associated Countries.

In terms of intermediate objectives, the following can be reported

- Satisfactory performance in achieving a wide geographical and sectorial distribution of operations
- It has also reached out to all target groups identified but with important disparities:
  - Most of the facilities so far involved larger companies although it is expected that the RSI facility will improve the coverage of SMEs;
  - Amendment No.6 to the RSFF Co-operation Agreement will improve the facility's outreach to medium and large Mid-Caps;
  - Research infrastructures have intrinsic difficulties to raise loans and therefore the take-up of the RSFF by these organizations has been slow.

RSFF operations have already been signed in 23 countries (including 3 FP7 Associated Countries) and it is planned to extend financing for RDI projects to more EU Member States and Associated Countries in 2013.

The main sectors covered so far are Engineering (37%), Life Sciences and Specialty Chemicals (25%), ICT and Energy (each 16%), but include also Research Infrastructures (6%) and SMEs which are mainly supported through RSI, an innovative financing instrument under RSFF set up by EIB and EIF.

The RSFF has performed well in reaching out to Large-caps but not so well in reaching out to Mid-Caps, SMEs, Research Infrastructures and other initially targeted beneficiaries. However, the RSFF clearly has been successful in contributing to the filling of the long-term debt financing gap.

The lack of outreach to Mid-Caps and SMEs is tied to the EIB's delivery mode being geared to large companies. The EIB's delivery mode is an important factor in describing the risk distribution of the RSFF loan portfolio as the loan project cycle for small transactions is comparable to that of large ones. In addition, higher ranked, eligible loan grades (with greater size limits) are better suited to achieving RSFF volume objectives. Although

EUR 7.5 million is the minimum (as 50% of the EIB deal part), there have only been a few loans at below EUR 25 million.

The EIB, through activities related to (i) awareness raising, (ii) project pipeline identification and (iii) preliminary market analysis, has been able to promote the RSFF and to reach out to a wide range of potential beneficiaries in 27 Member States and FP7 Associated Countries.

Uncertainty remains as regards the likelihood that these activities have yet been able to fill the most important economic gaps of the market and to reach out to the beneficiaries having faced the most important needs or having the wider socioeconomic impact at EU level. Despite the unpredictable character of market needs for RDI financing, the lack of an ex-ante evaluation or a market gap analysis resulted in the RSFF not aligning a priori its policy and lending priority objectives with market and beneficiary needs.

Nevertheless, the RSFF has taken a market-based and flexible approach to filling the debt financing gap of RDI. RSFF projects potentially have very positive externalities but such externalities are often not documented, quantified and monitored.

CONCLUSIONS

RSFF proved to be an attractive financial instrument for RDI companies. The main advantages of the RSFF for enterprises are multiple.

The RSFF's instruments generally met or exceeded their quantitative targets (end of 2012 figures, 1 year before its term (expected vs. realised).

There is a rapidly-improving performance in achieving the geographic, sector and beneficiary targeted coverage.

RSFF projects seem to have a potentially a high economic impact and positive externalities although such impact and externalities are insufficiently monitored, quantified and reported

The joint financing instrument between the EC and EIB blends well the financial resources and expertise of EIB with the budgetary resources of the EU. The Commission has fully committed in its initial budget of EUR 1bn and increased this by another EUR 150m for RSI, coming from FP7 Third-Countries appropriations.

1.2. R&D&D&I DIMENSION: WHAT HAS BEEN THE RSFF CONTRIBUTION TO INCREASE THE FINANCING OF RESEARCH, DEVELOPMENT AND DEMONSTRATION IN EUROPE, BASED ON ELIGIBILITY CRITERIA?

1.2.1. ELIGIBILITY CRITERIA, R&D FINANCING AND PROCESS

KEY QUESTIONS

Q4. Relevance: Are the eligibility criteria used to judge whether a project can be financed as a normal RSFF operation clearly related to the RSFF's objectives?

Q5. Relevance: Is it necessary to better clarify what kind of projects (i.e., R&D, demonstration, first-of-a-kind, deployment, etc.) are eligible under RSFF [and the future debt facility in Horizon 2020]?

Q24. Efficiency: How efficient have the processes of checking the eligibility of projects and the bankability of associated loans been? How could these two checking processes be made more efficient? Are the two processes sufficiently well articulated? [What lessons can be drawn for the operation of the analogous part of the debt facility under Horizon 2020?]

1. FOLLOW-UP AFTER THE 1ST MID-TERM REVIEW

The following recommendations of the 2010 Independent Expert Group Mid-Term evaluation were implemented:

- Council and EP decision on release of the 2nd Tranche of EUR 500m;
- Utilisation of (part of) the EC Contribution within the present RSFF Agreement as a First Loss Piece for specific subsectors such as SMEs and Research Infrastructures;
- Increase the numbers and range of RDI intensive SMEs financed under RSFF through appropriately specialised financial intermediaries;
- Provide RDI intensive SMEs with a single, simple and more adapted scheme from the generation of knowledge until commercialisation (e.g. including risk sharing mechanism for lending operations);
- Increasing RSFF resources available to Universities and Research Organisations, by adopting a different RSFF risk sharing approach taking into account the complex and difficult nature of the investments involved as well as their limited revenues;
- Expand the risk profile of the EC Window to bring it into line with the risk profile applied for the EIB Window including using RSFF to finance equity in Innovation Funds and other comparable instruments.

2. FINDINGS ON THE PROCESS AND CRITERIA

The RSFF's eligibility-checking process

- Has nurtured a cooperative approach between the EC and the EIB.
- Enables EC DGs to ensure that RSFF Operations support FP7; In approximately 50% of the cases, additional information is required by the EC DGs:
- Ensures the delivery of useful documentation by the EIB to the EC; But confidentiality agreements held by the EIB with project promoters restrict the EIB's ability to transfer sensitive RDI information; the EC's ability to delimit the boundary between a RDI project's development and Innovation activities may therefore be hindered.
- The difference of criteria between the EU and EIB RSFF windows was leading to unaligned interests in allocating projects and the 2 windows should be aligned in respect of eligibility criteria.

The verification of the eligibility and bankability seems to take a long(er) time (than usual for the EIB) and probably too long for many smaller or younger innovative enterprises. Therefore, the RSI Facilities were designed. The eligibility criteria by the EIF and the EC for the RSI compartment of the RSFF seem more pragmatically defined (what makes an innovative SME or small Mid-Cap) and financial Intermediaries have a very handy eligibility checklist to originate loans

The advantage of the cooperative approach between the EIB group and the EC is exemplified by the eligibility criteria definition for the RSI compartment of the RSFF

- Pragmatic way to define what makes a SME or a small or Mid-Caps innovative company
- Financial Intermediaries have a very handy eligibility checklist to originate loans.

There is however too little information collected from the portfolio and reported to assess its full RDI progress and impact.

3. CONCLUSIONS

The eligibility criteria for both the RSFF and the RSI facilities seem to be line with the Cooperation Specific Programme objectives and RDI activities appear appropriately present in the projects financed.

The RSFF's eligibility checking process has nurtured a cooperative approach between the EC and the EIB. Useful documentation is delivered enabling the EC DGs to ensure that RSFF Operations support RDI activities.

The verification of the eligibility and bankability seems to take a long(er) time (than usual for the EIB) and probably too long for many smaller or younger innovative enterprises.

The difference of criteria between the EU and EIB RSFF windows was leading to unaligned interests in allocating projects and the 2 windows should be aligned in respect of eligibility criteria.

The eligibility criteria by the EIF and the EC for the RSI compartment of the RSFF as well as for Mid-Caps should be more pragmatically defined (what makes an innovative SME or Mid-Cap) and financial Intermediaries have handy eligibility checklist to originate loans.

There is however too little information collected from the portfolio and reported to assess its full RDI progress and impact.

1.2.2. RESEARCH INFRASTRUCTURES AND UNIVERSITIES

KEY QUESTION

Q17. Effectiveness: Regarding research infrastructures, to what extent have the provisions introduced by the Fourth Amendment — enabling loans to be made not only to infrastructures themselves but also to their suppliers and to enterprises commercialising their results and services — made it possible for more RSFF operations to be undertaken in this area?

1. FOLLOW-UP AFTER 1ST MID-TERM REVIEW ASSESSMENT

The initial RSFF eligibility criteria for Research Infrastructures (RI) were considered too tight:

- RSFF can support the development of new and existing RI which involve independent legal entities in at least 3 EU Member States or Associated Countries (ownership or operation) or
- RI services are/ will be used or requested for use by research communities from at least 3 EU Member States or Associated Countries.
- RI included in the ESFRI Roadmap are automatically eligible for RSFF finance and are regarded as priority projects

Therefore, it was recommended by the 1st Mid-Term Evaluation to widening of eligibility criteria for RI and consider an operation as eligible if one of the following non-cumulative conditions is fulfilled:

- The operation concerns the development of a RI (new or existing and publicly and/or privately owned) within the scope of Capacities;
- The potential beneficiary of the operation could be (i) the owner or operator of the RI itself (either a public or a private body, and regardless of the credit risk assigned by EIB to the EIB Financing Agreement), or (ii) a supplier participating in or contributing to the development or construction of a RI, or (iii) an entity dedicated to the commercialisation of the RI services.

In addition, the operation should involve one or several legal entity/entities established in a Member State or an Associated Country. Legal entities established in non-EU countries other than Associated Countries are also eligible if they participate in FP7 indirect actions and their costs are eligible for EU funding. RIs which are established outside Members States or Associated Countries are considered as eligible provided that their services are used or requested for use by research communities from at least three Member States or Associated Countries.

The 1st Mid-Term evaluation furthermore recommended “to improve access to RSFF loans for RI, part of the EC Contribution could be used for a different risk-sharing approach (“first-loss” taking) given the complex nature and limited revenue base of RI projects.” This has effectively been done with the implementation of a different First Loss Piece compartment for RI.

2. RECENT FINDINGS

Despite considerable efforts made by the EC and EIB (awareness-raising, product development, direct negotiations with ESFRI list project promoters), only a few RI have been approved/ signed so far, for a total amount of EUR 625.8m.

It is clear that many (if not most) of the R&D&I institutions in Europe are not in a legal position to be able to take loans. It therefore may not be possible nor appropriate to broadly widen the RSFF mechanism to many R&D&I institutions as it creates more inequality and unfair competition. Here are the main obstacles:

- Loan finance is usually not foreseen in the statutes of RI organisations (legal and political restriction);
- Public nature of RI and limited or grant revenue generation for loan repayment make it difficult to structure a bankable project;
- Delays in project planning and implementation in many if not all RIs.

Also it should be taken into account that most of the Research Institutions function on taxpayers' money managed by governments, local governments or their associations. Obviously, in most cases the loans will not create any considerable private income, but will be paid back by the same taxpayers (directly or indirectly).

Nevertheless, the Facilities in a demand-driven approach can incite Research Institutions to develop a better financing mix. Those benefiting reported that loan operations worked well with EIB and better than with national institutions. It saved time as compared to a solution at national level – and also cheaper loan than from some national governments. The technical assessment by EIB also allowed to better structure the financing solution.

The added value for RSFF loans for RI generally appears to be:

- Secure total financing of RI projects at the earliest possible stage and thus accelerate their implementation;
- RSFF loan finance can be used as bridge finance or project finance (longer-term);
- RSFF is a tool for leverage: every EUR invested in a RI via a RSFF loan results in an investment of a multiple;
- RSFF is a complement to direct EU spending which is not sufficient to overcome gaps in the financing of RI.

3. CONCLUSIONS

Despite considerable efforts made by the EC and EIB (awareness-raising, product development, direct negotiations with ESFRI list project promoters), only a few Research Infrastructure (RI) financings have been approved/ signed so far.

Research Infrastructures (6%) are therefore not well represented and represent take up difficulties but recently there has been an improvement in the origination of loans.

It should also be considered whether through targeted financial intermediaries (development) banks) and/or targeting activities that have more potential for generating recurrent income (e.g. incubation, acceleration, tech/knowledge transfer) the activities will not lead to better results.

1.2.3. GEOGRAPHIC DISTRIBUTION

KEY QUESTION

Q26.<u>Efficiency:</u> Have the country coverage indicators sufficiently incentivised the EIB to extend the geographic coverage of RSFF operations? Have the country performance indicators specified in the RSI sufficiently incentivised the EIF to reach the desired country diversification? [What lessons can be learnt regarding an incentive scheme for the debt facility under Horizon 2020?]

CONCLUSIONS

Regional diversification and concentration targets are largely fulfilled with 23 countries (including 3 FP7 Associated Countries) covered by signed RSFF loans out of a maximum of 35 countries (23 Member States + 12 Associated Countries) (i.e. 2/3 coverage).

A satisfactory geographical distribution has been achieved with a relative concentration on Western Europe (46% on Germany, Spain & France). It is easy to see that countries differing in size and territorial organization are underrepresented in RSFF (Italy, UK, Sweden, Poland, Belgium, Slovenia and others….). A more proactive awareness policy could focus on involving all innovative regions.

Clusters also have to be better taken into consideration: some are well equipped with teams of experts and with specialised funds, able to constitute a network of competences at disposal of EU and the EIB, to contribute to the selection of projects linked to high-tech sectors and enhance their feasibility, increase the part of SMEs and Mid-Caps and diminish the global risk of losses.

The new organisational regulations of European Structural and Investment Funds (ESIF) ought to lead to a better coordination of the different funding EU programs at a local level, mainly in countries deciding to transfer of new responsibilities to local areas. This will also allow a stronger disbursement across the regions.

2. EVALUATION OF THE RSFF RISK-SHARING METHODOLOGY AND PRELIMINARY EVALUATION OF THE RSI IMPLEMENTATION

2.1. RSFF RISK-SHARING AND DESIGN

KEY QUESTIONS

Q11.Effectiveness: To what extent has the change in the risk-sharing mechanism introduced by the Fourth Amendment improved the leverage effect of EU funds and enhanced the EIB's capacity to finance loans?

Q12.Effectiveness: Looking at the risk-sharing arrangements in each of the three RSFF compartments, is the EU contribution, in each case, appropriate in terms of achieving the RSFF's objectives?

Q13.Effectiveness: Are the risk-sharing arrangements appropriate in terms of ensuring an alignment of interest between the EU and the EIB Group?

Q19.Effectiveness: Are appropriate measures in place to minimise the displacement or substitution of private investment by the RSFF?

Q28.Efficiency: What use was made of EU funding to cover losses, and what was the overall return on EU funds? What lessons can be learnt for the future, especially regarding loan pricing and the competitiveness of RSFF-type loans?

1. CHALLENGES WITH THE INITIAL RISK SHARING APPROACH

The EIB initially faced higher total risk than EU. Therefore, the ultimate financial risk would not be equally shared between both partners (EU/EIB). Should the project fail completely and no funds could be recuperated, the EU would lose its CA and GP (13% of the total RSFF loan), while the remaining losses of 87% would have to be supported by the EIB.

With an increasing demand on EIB to lend for various types of «Special Activities» (i.e. with a higher risk profile than EIB would usually be prepared to accept) and the Bank's constraints with regard to an efficient allocation of its capital resources to its risk weighted assets, there is for EIB virtually no alternative to an "FLP-type Model".

Also, the FLP Model offers the flexibility to focus on other target groups (SMEs, Research Infrastructures) which could not be effectively addressed under the initial scheme. The FLP Model provides for a modular and scalable approach, which is an absolute necessity as the re-design of RSFF will provide a model for the design of RSFF and other future financial instruments under the next MFF.

EIB seems set to respect its engagement and continue to allocate transactions not eligible under EU Window (innovation-type projects) to its own Window until the agreed EUR 1bn allocation target is met.

2. THE FIRST LOSS PIECE (FLP) RISK-SHARING APPROACH

The key principle of the PFL is that the EIB and the EU share the credit default risk of a given portfolio according to different risk layers/tranches. Under FLP any portfolio loss would be at the risk of the EU. Only after the FLP is used up, EIB would cover additional losses through the RRT. The principle of the FLP is that any portfolio loss would be at the risk of the EC (95% of the FLP) and of the EIB (5%). Only after the FLP is used up, EIB would cover additional losses through the Residual Risk Tranche (RRT). Hence, the FLP carries the highest risk (portfolio expected loss + part of the portfolio unexpected loss). The RRT will have a lower risk.

The objective is to optimise (i) the multiplier effect of EC funds, (ii) EIB's financing capacity in joint policy areas (optimised capital consumption), (iii) the value added for eligible project promoters as well as (iv) to overcome most technical problems of the existing RSFF scheme.

The FLP structure foresees 3 compartments, of which the first and largest one represents the successor of the existing RSFF EU Window. The FLP thickness of this first compartment is 16% (split between EIB: 0.8%; and EU: 15.2%) and the target FLPP volume is EUR 3.4bn.

The second compartment is a designated to the SME and small Mid-Caps guarantee product (RSI), in collaboration with the EIF that can be complemented by the existing EIB Loan for SMEs scheme. The FLP thickness will be 20% (fully provided by the EU) and the target volume is EUR 1.0 to 1.2bn.

Research Infrastructures (RIs) are (i) either public sector risk or (ii) carry very high equity-type risks. Many of these projects, on a stand-alone basis, do not fulfill the Bank's Credit Risk Policy Guidelines. The third compartment therefore carries a FLP of 25% and a target volume of EUR 540m. In view of the likely portfolio composition at end February 2012, the FLP % will be lowered significantly.

The FLP was implemented according to the principles and best market practice. The Risk Transfer will be made through "ear-marking" of the transaction on the EIB balance-sheet as being allocated to the RSFF portfolio (EU Window). As actual portfolio losses occur, the EIB would call 100% of the loan amount from the FLP. A portfolio loss is defined as: capitalised interest + default interest + outstanding principle amount + work-out/liquidation cost. EIB will then perform recovery and/or restructuring of the loan according to its established standards. Any recovery proceeds would flow back to the FLP (EU) until the initial FLP level for the portfolio is reached.

3. RECENT DEVELOPMENTS

The current business pipeline of up to EUR 4.8bn consists of EUR 1.3bn in approved (but unsigned) stock, EUR 800m of pilot operations (for Mid-Caps and universities) and EUR 2.7bn of new business.

Based on experience, not the full business pipeline will materialise. However, due to an approved stock and some advanced larger transactions, we believe that some EUR 3.5bn could be achieved with a fairly high degree of confidence. This amount could exceed the RSFF lending capacity by approximately EUR 1bn.

It is to be considered by the EIB in the interest of the overall program and the strong momentum for the transition into 2014, not to slow down origination and execution activities. The Bank could park any RSFF operation that exceeds the EU lending capacity on its own balance sheet (within the approved Special Activities limit). At least part of these transactions could be transferred to H2020, subject to EC approval.

4. CONCLUSIONS

The RSFF clearly provided for an increased capacity of the EIB to lend to riskier projects and companies investing in RDI. Its demand-driven orientation allows supporting the most important economic needs, in essence fulfilling a countercyclical role.

However, the EIB initially faced a higher total risk than the EU. Therefore, the ultimate financial risk would not be equally shared between both partners (EU/EIB). With an increasing demand on EIB to lend and the EIB's constraints with regard to an efficient allocation of its capital resources to its risk weighted assets, there was for the EIB virtually no alternative to a "First Loss Piece (FLP)-type Model".

The instrument is capable for more scale as also its delivery mode was adapted (delegation to Intermediary Financial Institutions (IFIs or FIs) and its processes tested and deployed with full operational capacity in both the EIB group and the EC.

The ability of the RSFF's design to adapt to weaknesses in its initial design (EIB faced higher total risk under EU Window and the instrument initially was not suitable for SMEs and RIs) and amend its design accordingly has been one of the facility's great strengths.

The new First Loss Piece (FLP) risk sharing model offers the flexibility to adapt further for important target groups (SMEs with different financing levels, Research Infrastructures…) which could not be effectively addressed under the initial scheme. The FLP Model appears to provide for a modular, scalable and appropriate risk-sharing model for financial instruments for the next budget period.

The risk level coverage offered by the EU across the different compartments may need to be evaluated in line with effective risks and market demand; Under the FLP Model, the EC takes more risk but there is an improved multiplier effect as there is a reduced EIB regulatory capital allocation and a pricing grid on RSFF loans possible. Most of RSFF projects appear sustainable. So far, there have been no defaults under RSFF (only two minor cases of provisioning).

The RSFF's direct delivery mode favors loans with big amounts (average of EUR 110m) with the difficulty to reach SMEs, Mid-Caps and Research Infrastructures (until end 2011 without RSI and before the new scope and definition for Research Infrastructures were implemented); As the RSFF's project cycle management appears longer and costlier than usual EIB projects such natural preference for larger projects in the direct approach will not be easily re-orientated.

2.2. RSI INITIAL IMPLEMENTATION (AFTER 1 YEAR OF IMPLEMENTATION)

KEY QUESTIONS

Q14.<u>Effectiveness:</u> Regarding the RSI, what are the preliminary indications from financial intermediaries regarding their expectation about the effectiveness of the eligibility criteria in channeling debt finance to RDI-driven SMEs and small Mid-Caps?

Q15.<u>Effectiveness:</u> To what extent have the RSI eligibility criteria led to the effective selection of RDI-driven SMEs and small Mid-Caps? In what way, if any, could the eligibility criteria be improved to make the selection process more effective in an RSI-like facility under Horizon 2020?

Q16.<u>Effectiveness:</u> How successfully has the RSI managed to ensure the transfer of financial benefit to final beneficiaries? In what way, if any, could this be improved?

Q25.<u>Efficiency:</u> Regarding the RSI, how efficient has the process been of selecting financial institutions to become financial intermediaries? What interest in the RSI has been shown to date by financial intermediaries? (as evidenced by, for example, number of applications received, number of financial intermediaries preselected and selected, proposed volumes, etc).

RSI OBJECTIVES AND OPERATION

The RSI provides a 50% Guarantees to Financial Intermediaries, providing eligible financing:

- new loans and/or financial leases;
- to be originated within a two-year period by the selected intermediary.

The RSI provides the following volume guarantee to Financial Intermediaries:

- Max guarantee amount (revised) per intermediary: EUR 80 m;
- With a 50% guarantee rate, this means max portfolio of EUR 160 m per intermediary;
- Target RSI portfolio: up to c. EUR 2.5 Billion European-wide (guarantee amount of c. EUR 1.125 bn);
- Target countries: ≥ 16 countries including at least 2 Associated Countries* and at least 2 countries of a defined Sub-group**;
- Guarantee agreements with c.25 FIs are expected to be signed in the pilot phase.

The Risk sharing principles are:

- Guarantee Rate: 50% of net losses on each defaulted loan;
- Minimum 20% of economic exposure on each loan to be retained by FI throughout the loan life (on the remaining 50%).

The Key Guarantee Terms are:

- guarantee covering principal and interest loss;
- payment upon default, with pro-rata sharing of recoveries;
- Guarantee Fees (to EU budget):
  - Direct guarantee:
    - 0.25% p.a. for SMEs with loan/lease amount equal or lower than EUR 3 m
    - 1% p.a. otherwise (SMEs with loan/lease amount > EUR 3 m and Small Mid-Caps)
    - Payable either quarterly based on the average portfolio balance or up-front on a discounted basis
  - Counter-guarantee:
    - 0.5% p.a. for SMEs (EC definition) with loan/lease amount equal or lower than EUR 3 m
    - 1.25% p.a. otherwise (SMEs with loan/lease amount > EUR 3 m and Small Mid-Caps

The Financial Intermediaries are required to transfer the benefit of the guarantee (in terms of reduced interest rate) to SMEs & Small Mid-Caps.

The following SME financings are targeted:

- SMEs (EC definition) and Small Mid-Caps (< 500 employees);
- Operating in EU-27 and other RSFF eligible countries (Norway, Turkey…); and
- Purpose of financing:
  - investment in tangible and intangible assets, and/or
  - working capital
  - Loan amount: minimum EUR 25,000; maximum EUR 7.5 m;
- Loan maturity: minimum 2 years, maximum 7 years;
- Fixed repayment schedule (no revolving loan);
- Currency: EUR and local currency.

The RSI SME loan eligibility criteria checklist for Financial Intermediaries:

- Loan is for investments in R&D or innovation with significant technology or application risk
  or
- Loan is to a "fast-growing" enterprise(meaning >20% p.a. in growth or employees over last 3 years)
  or
- Loan is to an "enterprise with significant R&D or innovation potential" — as defined by a catalogue of criteria — just one of the criteria below must be met
  - expenditure in innovation in last balance-sheet is at least 20% of loan volume, *or*
  - at least 90% of loan is earmarked in business plan over next 2 years for R&D/innovation expenses or investment, *or*
  - firm awarded grants, loans or guarantees from EU or national R&I support schemes within last 2 years, *or*
  - firm awarded an innovation prize within last 2 years, *or*
  - firm registered a patent within last 2 years, *or*
  - firm has been invested in by high-tech VC fund, *or*
  - firm is based in science, technology or innovation park, *or*
  - firm received tax benefits linked to RDI investment within last 2 years.

2. RSI: STATE OF PLAY

The RSI Scheme has been rapidly implemented with a tight timeframe since the Amendments and the strong interest demonstrated and contracts signed by diverse intermediary financial intermediaries (IFIs) demonstrates the demand and need for the instrument. The following milestones can be reported:

- Pilot project launched in December 2011;
- Call for Expression of Interest published in February 2012;
- First guarantee agreement signed in October 2012;
- First loans to innovative SMEs included in Q4 2012 in RSI portfolio;
- Amendment of RSI scheme signed in January 2013 to enable counter-guarantees;
- Publication of an updated Call for Expression of Interest to be published in early March 2013;
- Latest application by financial intermediaries to be received by 31 December 2013; An EUR 150 million additional EU contribution was committed in early 2013 to:
- scale up existing direct guarantee facility (including better access for promotional banks); and
- extend the RSI to guarantee institutions via counter-guarantee schemes.

Moreover, a counter-guarantee facility was introduced and structured follow market testing phase. This included that the fees for counter-guarantee were slightly increased compared to the direct guarantee scheme to take into account higher risk appetite of counter-guarantee institutions.

The quantitative roll-out status of the RSI implementation at the end of spring 2013 was as follows:

- Number of signed guarantee agreements: 12
- Total amount of signed guarantee agreements: EUR 650 million
- Number of countries covered by signed agreements: 10
- Amount of guarantee agreements in pipeline: EUR 262.5 million
- Total RSI amount of guarantees foreseen: EUR 1.125 billion
- Number of loans already signed by financial intermediaries: 111
- Amount of loans already signed by financial intermediaries: EUR 80 million
- Total RSI amount of loans foreseen: EUR 2.25 billion

3. RSI ASSESSMENT

It seems that the RSI is one its way to overcome key challenges:

- Raise awareness about RSI in all MS and FP7 associated countries;
- Tight timeframe to deploy the product throughout Europe as all applications should be received before 31 December 2013;
- Sign guarantee and counter-guarantee agreements with very diverse counterparties (regional banks, promotional institutions, commercial banks, etc.);
- Achieve a diversified portfolio in line with the level of risk expected by the EU as of end 2015.

The following weaknesses of RSI were identified which should be addressed:

- Pilot with limited budget and tight timeframe;
- No reallocation possible if an intermediary does not meet its objectives;
- Limited financial sustainability (reliance on contingency buffers).

Potential recommendations for RSI Successor (by the EIF):

- Maintain the core structure of RSI, so as to leverage systems and procedures that have been developed;
- Improve RSI Eligibility Criteria (i.e. these related to innovation), based on the experience in the pilot phase;
- Expand the amount and possibly the scope of RSI (portfolio size, target);
- Better combine RSI Successor guarantee scheme with EIB Funding;
- Leverage RSI and RSI Successor portfolios with equity financing for such innovative corporate companies;
- Joint EC/EIB/EIF legal framework with possibly product specifics.

CONCLUSIONS

The RSI Scheme has been rapidly implemented with a tight timeframe since the amendments; and the strong interest demonstrated and contracts signed by diverse financial intermediaries (FIs) demonstrates the demand and need for the instrument.

The RSI has also proven resilient even within the short time frame as being able to cater for bigger demand, better access for promotional lending institutions and being able to offer guarantees with diverse counterparties (regional banks, promotional institutions, commercial banks, etc.)

2.3. MONITORING, REPORTING AND RSFF MANAGING COSTS

Q9. Effectiveness: How effective has the monitoring and reporting system been in enabling the RSFF's managers to have a timely and adequate overview of the state of play?

Q20. Efficiency: To what extent are the financial costs of managing the RSFF reasonable and in line with expectations?

1. REPORTING AND MONITORING PROCEDURES

The credit appraisal ("bankability") check by the EIB involves the following:

- Usual credit appraisal / due diligence performed by the EIB:
  - credit risk appraisal is a key element managed in accordance with the EIB's usual practices.
  - one of the key tools is the Loan Grading (LG) reflecting the estimated expected loss.
- LG is used to calculate the General Loan Reserve (covering expected losses): the lower the LG, the higher provisioning rate applied.
- Existence of a second reserve, the Special Activities Reserves dedicated to activities such as RSFF operations that entail a risk greater than the risk generally accepted by the Bank.
- Further analysis should be undertaken in 2013 to assess:
  - the impact of the existing RSFF LG limits on the actual loan distribution across LGs;
  - the risk management and reserve calculation process;
  - the cancelled and/or transferred operations that are initiated but that do not reach the signature stage (possibly due to the eligibility criteria or the credit risk appraisal of the EIB).

The EIB Group delivers to the EC up to 15 different types of reports per year to the Designated Service (DG RTD) or the Asset Management Designated Service (DG ECFIN), some produced bi-annually or quarterly. This provides the Eligibility Committee with the necessary information to perform eligibility check including the innovative nature of the project.

In addition, in spite of the existing range of reports produced, several EC DGs have called for better or wider RSFF reporting:

- some asked for greater attention to be paid to project potential and relevance to policy;
- others proposed to better align the facility's financial reporting with the financial rules applicable to the general budget of the Union (in reference to the Regulation N° 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union).

Therefore, the number, template and structure of RSFF reports may need to be reviewed in the light of the evaluation of the partnership and of the EU financial and budget regulations.

However, there should be a balance as such additional reporting requirements may inhibit a true cooperative approach (based on mutual trust) and hinders the possibility for the EIB to generate business by dedicating team resources to reporting matters.

As a risk-sharing instrument in partnership by its very nature, has developed a cooperative approach between the EIB and EC. This cooperation has meant for the EC also high degree of ownership of its contribution to the

RSFF's capital cushion both through its role in performing eligibility checks but also through its representation within the Steering Committee and its contribution to the RSFF developments.

This cooperation should not become unstable with remaining unsolved questions related the selection and reporting process:

- The necessity –or not– to correct the demand-driven principle.
- The extent to which EC-DGs should –or not– be involved in the investment decision-making process
- The adequate degree of reporting and monitoring.

The Administrative Costs calculation approach has been beneficial to the EU but costly to the EIB. A new approach on administrative costs approach will have to take into account the evolution introduced by the new financial regulation adopted for the forthcoming budgetary period.

2. CONCLUSIONS

The EIB Group delivers a range and number of reports per year to DG RTD or DG ECFIN providing the Eligibility Committee with the information necessary to perform eligibility checks.

The number, template and structure of RSFF reports may need to be optimised in the light of the evaluation of the partnership and of the evolving EU financial and budget regulations. The need for stringent reporting, however, may inhibit a true cooperative approach based on mutual trust and hinders the possibility for the EIB to generate business by dedicating too much team resources to reporting matters.

The administrative-costs calculation approach has been beneficial to the EU but costly to the EIB but the costs seem to have recently been revised in a more balanced manner.

3. WHICH LESSONS FOR THE DESIGN OF FUTURE EU DEBT-INSTRUMENTS UNDER HORIZON 2020?

3.1. RELEVANCE OF FUTURE DEBT-FINANCING INSTRUMENTS UNDER HORIZON 2020?

KEY QUESTIONS

Q3. Relevance: To what extent are the RSFF's objectives still in line with the priorities of the EIB Group and of the EU 2020 strategy?

Q1. Relevance (future): What could be improved in the future? [i.e. to addressed market needs and gaps — in terms of transaction size, groups of beneficiaries targeted or not targeted, financial value-added and attractiveness of pricing, risk spectrum — and deficiencies]

Q5. Relevance (future): Is it necessary to better clarify what kind of projects (i.e., R&D, demonstration, first-of-a-kind, deployment, etc.) are eligible under the future debt facility in Horizon 2020?

Q8. Relevance: Could a more beneficial effect have been produced by focusing on other groups of beneficiaries than those targeted so far? If so, which?

1. IMPACT OF THE ECONOMIC AND FINANCIAL CRISIS ON INNOVATION AND THE FINANCING OF SMES.

General impact of the global financial and sovereign debt crises on innovation

Following the crisis, the recovery in most developed economies has often been short-lived and incomplete. By mid-2011 prospects for a rapid recovery had dimmed as a result of increased concerns over sovereign debt and the deleveraging that limited opportunities for consumption to recover quickly.

The global financial crisis exposed the vulnerabilities of the global financial system. Fragilities in the banking sector affect innovative businesses' opportunities to obtain external financing. With markets speculating in sovereign default risks, moreover, the banking sector in Europe remains at risk.

Public support for innovation faces potential challenges given the priority attached to fiscal consolidation. Fiscal consolidation has been at the forefront of policy discussions in Europe, the United States and Japan. High levels of sovereign debt and market speculation about potential sovereign default restrict the scope for policy interventions.

Economic downturn affect finance supply but also demand

Reduction in loans due to deleveraging affects all types of investments, notably those of SME s (which rely more on financing from loans than large firms). Market failure in credit markets may worsen as lower cash flows mean firms have less collateral. Investors have fewer resources to allocate across investment projects.

The lack of financing negatively affects innovation during downturns. The volume of venture financing varies with the business cycle. The reduced entry of innovative start-ups negatively impacts firm dynamics. Lower financial capital lowers investments in riskier, potentially higher pay-off innovations.

Policy makers cannot either solve the needs to recover demand or increased need for innovation, given other priorities and/or lower public resources. Recovery packages *vs.* fiscal discipline affects public expenditure as it relates to innovation.

Furthermore, innovative businesses in many developed economies have suffered from lower demand for their products and substantial uncertainties over future trends in consumption. The magnitude of the global financial crisis even exceeded some negative records established by the Great Depression. Innovators have suffered and high-technology companies saw their revenues decrease markedly with the drop in demand for higher-quality innovative products that tends to occur during recessions.

Firms may be less willing to face uncertainties and risks associated with introducing new products and/or processes since their survival might be compromised if demand evolves unexpectedly. Entrepreneurs might postpone entry of innovations until markets recover and demand is higher.

Limited start-up entry can also be caused by uncertainties. Entrepreneurs prefer to wait until demand and financial markets have recovered. Small and young firms may lower their investments as they face greater risks of being forced to exit and face stronger financing constraints.

2. FINANCING OF INNOVATIVE ENTERPRISES - MARKET FAILURES AND SUBSTANTIAL NEEDS

EU RDI funding should reach 3% of GDP (Lisbon target) but currently still is at 1.5% vs. US and Japan at approx. 3% of GDP; Moreover, there are:

- Significant differences in R&D funding among individual Member States; Only a few Member States have similar R&D expenditure rates like the US, Japan and South Korea and some large Member states are significantly lagging behind.
- National Budget unlikely to increase and the European Council decided on cuts to the EU budget for 2014-2020.

The 2013 Innovation Union scoreboard identified amongst 25 indicators that the sharpest decrease came from "*enterprise innovation expenditures"* which dropped by 5.2% annually, followed by *"venture capital investments"* that were declining at an average rate of 3.1% annually.

The market gaps and deficiencies in debt and equity markets for financing of enterprises, and especially innovative SMEs are deepening:

- 75% of SME s dependent on external financing and 'access to finance' is the second most pressing problem for Eurozone SMEs, right after getting customers;
- Persistent financial crisis adversely impacted on the risk appetite of lenders, tightening of credit standards. This is worsened by new regulations (Basel II/III…) and capitalisation and solvency requirements which are designed to prevent future crises, but may impact lending capacity.
- We can take as a reasonable assumption that private/commercial banks will be less and less willing and hence the increasing importance of public development banks,
- As a result bank and credit financing are down as well as equity finance. Equity Finance is still important as a base to allow credit leverage.
- However, pprivate capital risks to exit the equity financing of innovative SMEs. The poor state of the venture capital markets is illustrated by the following facts:
    - Venture-capital fundraising and investment levels at one quarter of 2006 levels, as average profitability is not attractive enough for private investors;

- Fundraising and investment down (EUR 4bn in 2011 from EUR 17bn in 2006);
- In 2012, almost 40% of fundraising from public sources (and temporarily 57% in H1 2011!), private investors withdrawing from the market.

Without an adequate finance supply, innovative enterprises risk to sell out their ownership early and cheaply to large, often non-EU corporations not able to pursue growth strategies. The financing challenges especially for innovative enterprises seem to become a permanent structural problem. Therefore, the impact of the crises is becoming “permanent”. The financing of innovation cannot be anymore separated from survival. Working capital needs are important and will increasingly be mixed with innovation expenditure.

Therefore, the EU Council has rightly and repeatedly requested for 1) an EU-wide venture capital scheme together with national operators, 2) The roll out of an increased EIB lending of EUR 20 billion per year 2013-2015, and 3) Fast-acting measures to support growth measures in particular for energy efficiency, the digital economy, research & innovation, SMEs (and youth).

3. HIGH-LEVEL NEED FOR FINANCIAL INSTRUMENTS

Financial Instruments now appear as a well-tested, efficient and effective way of supporting growth, jobs and innovation. That is why one should build on the successful experience and use them more.

The EIB & EC are already in a key partnership with cooperation stretching over 15 years and 3 generations of financial instruments for SMEs. Now, the RSFF will need to be mainstreamed as an increased share of EIB lending is RSFF-related. The capacity on EU RSFF window can be widened by the EIB as well, thanks to its capital increase.

There was and is ongoing a clear market demand from large corporate to smaller Mid-Caps, due to banking crises and also due to Basel II/III regulations and from loans only to hybrid, including mezzanine.

It is also optimal to use the EIF's expertise also more in the future. The EIF successfully implemented the RSI which needs to be continued with facilities to cover SMEs up to EUR 7.5m (RSI). There is a need to also cover Mid-Cap funding where there is a need for an action between EUR7.5m and EUR 50m. Here, one needs to work also still through Financial Intermediaries with a dedicated compartment that is different from the RSI SMEs and small Mid-Caps below 7.5m.

Generally, there should be an increased role for Financial Intermediaries offering risk-sharing, higher leverage, local and sector knowledge and expertise to reach final recipients. Although the FIs were less interested due to financial crises, the EC responded by taking more risks through the RSI compartment. EC was able (thanks to an EUR 270m extra FP7 budget total injection, notably from FP7 Third-Country appropriations) to start the guarantee and counter guarantee (RSFF guaranteeing existing guarantees). Generally, the fragmentation of the European SME-financing market should be addressed and the Financial Instruments can put in place mechanisms to allow credit institutions to stay in the markets and enter new geographic markets. Within this group, there is a particular need – even an imperative – of working with national or regional public financial institutions as well as development banks.

Of course, financial instruments have limited resources and should be deployed only in situations with highest EU added value. Further financing may in addition be provided through the Structural Funds, national and regional programmes and financial intermediaries. Such top-up funding could be ring-fenced.

For increased sector or technology coverage, there is a possibility to top-up the RSFF Budget within H2020 for specific needs/sectors on top of the demand driven approach. For example demand in the energy market is important but shifts from renewable energy to energy efficiency where there is also a market gap and policy need.

There is also a need to assess the risk sharing between EU and EIB (the current 16%/20%/25%), as they may not be optimal and may be to the advantage of the EIB. They appear rather conservative and our interim evaluation recommends that they are looked at in light of actual evolving risks and re-evaluated on a regular basis.

Finally, there is a need to clarify the market positioning of the instruments, even to over-communicate. The impact is good but needs to be better explained to financial intermediaries and beneficiaries alike. Clarity is however also an issue of design not merely of communication.

4. CONCLUSIONS

The financial crisis adversely affects the financing of innovative enterprises by slowing demand for innovation and a decrease in financing supply and risk-taking. The financing challenges especially for innovative enterprises seem to become a permanent structural problem. Increasing the supply of government investment alone cannot be the solution.

The supply of private capital for innovative enterprises risks to become too fragmented across Europe, government dependent and risk averse to adequately finance the innovation or growth potential of our SMEs . Venture-capital fund management has consolidated to sub-optimal low levels and risks to fade out for years to come due to lack of private capital.

Financial Instruments are now a well-tested, efficient and effective way of supporting growth, jobs and innovation. That is why they should be continued and used more but due to limited resources they should be deployed to situations and needs with the highest EU added value.

3.2. WHICH CONSIDERATIONS FOR THE DESIGN OF A FUTURE RSFF-LIKE (INCLUDING RSI) PRODUCT?

KEY QUESTIONS

Q1. <u>Relevance (future)</u>: What could be improved in the future? [i.e. to addressed market needs and gaps — in terms of transaction size, groups of beneficiaries targeted or not targeted, financial value-added and attractiveness of pricing, risk spectrum — and deficiencies]

Q6. <u>Relevance</u>: What recommendations can be made for the design of a future RSFF-like product?

Q5. <u>Relevance (future)</u>: [In terms of checking processes of projects and the bankability of associated loans] what lessons can be drawn for the operation of the analogous part of the debt facility under Horizon 2020?

1. HIGH LEVEL CONSIDERATIONS FOR THE FUTURE SCHEME

The following **general considerations** can be made:

- Continued partnership between the EU and the entrusted entity (EIB Group), and other possible entrusted entities if interested to do so;
- Provide one platform flexible to respond to evolving needs & capable to develop:
    - Open to other financial institutions (e.g., long term investors) to join the network with co-financing and risk-sharing capacity/leverage;
    - Support to the full enterprise life cycle and spectrum of demand across the various types of innovative companies and research organisations;
    - Develop the instrument/product range from debt / guarantee / mezzanine to equity-type products (i.e.., RSFF II, RSI II, mezzanine, etc.);
    - Increasingly work though financial intermediaries to optimize risk sharing, financing leverage, coverage, bankability diligence, operating costs and adhesion to demand (indirect approach);
    - Articulate with structural funds and other EU budget sources in terms of project sourcing, technical assistance and possible risk-sharing and leveraging through top-up ring-fenced contributions;
- New initiatives and products should be complementary (no overlaps) to other EIB Group offerings, target clear market gaps and provide attractive multiplier effects as well as additionality (i.e. lead to incremental economic investment); New initiatives and products should build on the expertise and track record of EIB and EIF respectively;
- RSFF should develop into an integrated and complementary RDI financing tool covering the entire value chain of RDI investment ; RSFF can improve in product coverage, leverage, cost efficiency as well as risk capacity;
- New initiatives and products under RSFF should be self-sustainable (no subsidy) and cost effective (limited additional administrative burden for the EIB/EIF and the EC). RSFF should not be re-invented but built on successful models and products to close persisting "gaps";
- New initiatives and products should be flexible and adjustable in order to react to changes in market needs during the MFF ; Flexibility in product design and pricing will be key to respond to our volatile economic environment and financial markets;
- New initiatives and products should more allow for the participation of other financial institutions in order to generate additional leverage; This will improve the demand-driven approach and pan-European coverage; Furthermore, access to RSFF across Europe can be improved through better tools and a more targeted communication strategy.

2. DETAILED TECHNICAL CONSIDERATIONS FOR THE FUTURE SCHEME

Considerations to reduce complexity

- Align the eligibility criteria between the two RSFF Windows (EIB/EU, including EU compartments) into one larger unified RDI scheme(debt + equity) framework linked to the H2020 Agenda and in line with the new Financial Regulation;
- Standardise and streamline monitoring/reporting for all EU/EIB instruments.
- Reduce the number of sub-portfolios (ideally to one), in order to improve leverage, cost efficiency, monitoring and risk management;

- Common legal framework (with potential product specific sub-arrangements) between the EIB, the EIF and the EU and engage EIF in the governance framework as an equal partner;
- Reduce the number of product groups in the cooperation agreement, taking into consideration Direct RSFF Financing and Indirect Financing through financial intermediaries;
- Allow for a flexible allocation of funds among the various products depending on market needs but have similar risk sharing principles /framework in line with EU regulations;
- Allow for an open platform to blend in (i) Structural Funds, (ii) other EU budget resources (e.g. DG AGRI) and (iii) other Financial Institutions so that they can benefit from the «infrastructure» and existing portfolio effect.

Considerations to simplify and de-risk the eligibility criteria:

If the EIB and the EC Window will be merged, eligibility criteria need to be unified and streamlined among all partners involved in any case. Therefore, it is recommended to:

- Maintain flexibility to adapt the products and develop new ones;
- Eligibility (at project/company level) should be straightforward, transparent with no risk of interpretation (security for intermediaries);
- We should adapt the eligibility mechanisms to the approach
    - Ex-ante evaluation be kept for bigger direct loans (with relevant EC experts)
    - RSI/indirect: ex-ante eligibility criteria (expertise provided by intermediaries);
- Develop specific eligibility criteria depending on loan size but irrespective of direct or indirect intervention):
    - SMEs + small Mid-Caps up to EUR 7.5m
    - Larger Mid-Caps with financings between EUR 7.5 and EUR 25m
    - Large Entities with financings of > EUR 25m;
- Recommendations regarding the RSI scheme (<EUR 7.5m) would include:
    - Eligibility verification should be clear and granted ex ante
    - Structure of projects could be broader – i.e. maturity up to 10 years, better conditions for working capital financing
    - Grant component should be possible and the potential combination with other grants and support schemes – clarification needed (local programs, EU subsidies etc.);

- Build on the concept of eligible counterpart (rather than eligible project) but link it better to the EU RDI policy objective of creating incremental RDI (promoters would need to do more than without RSFF financing), especially for smaller counterparts. A more pragmatic and precise definition of eligible SMEs appears possible, as it was reported that many RSI projects were eliminated just to make sure that the criteria are met. If project costs are defined, the entire RDI budget of a given company should be taken into account under the condition that:
    - the company increases its RDI investment in absolute terms in the future (incremental RDI) within the EU (Lisbon target);
    - The company has or will have an above sector-average RDI investment ratio;
- Develop a system of indicators to identify and monitor positive as well as negative externalities. The risk evaluation should not only be on the financial position of the company but also on the risk or possible value of their innovative products. If more attention will be paid to the quality of research and development of the companies, this inevitably creates a need for them to collaborate much more with RDI institutions and buy from them technological developments on contract basis. It is therefore clear that focusing further debt/equity financial instruments to the innovative quality of products of the companies will considerably enhance the level and practical orientation of many European R&D&I institutions.

Considerations to improve market reach and sector coverage:

- Demand-driven approach can be balanced with a better sourcing through the open and indirect approach:
  - Open to other financial institutions (e.g., long term investors) to join the network with co-financing and risk-sharing capacity/leverage;
  - Develop the instrument/product range from debt / guarantee / mezzanine to equity products (i.e., RSFF II, RSI II, mezzanine, etc.);
  - Increasingly work though financial intermediaries to optimize risk sharing, financing leverage, coverage, bankability diligence, operating costs and adhesion to demand (indirect approach);
  - Articulate with structural funds and other EU budget sources in terms of project sourcing, technical assistance and possible risk-sharing and leveraging through top-up ring-fenced contributions;
- Creation of a portfolio at EU level (access to European financing where there is failing local supply): exchanges of good practices, European catalytic effect, increased geographical coverage, projects “marketplace";
- Maintain a pool of expertise & human resources at the EIB group for better project sourcing and instrument implementation responding to the demand of regions, innovation sectors, specific instrument, etc.;
- EC should find mitigating measures to avoid EIB going mostly to big projects;
- Develop a coherent and consistent marketing strategy with targeted awareness raising in under-represented segments;
- Public financial intermediaries appear as appropriate commercialisation channels for reaching the desired targets.

3.3. WHICH SUGGESTIONS FOR AN OPTIMAL FINANCIAL-INSTRUMENT MIX ALL ALONG THE COMPANIES' LIFE CYCLE?

KEY QUESTION

Q22.Efficiency: What recommendations can be made to ensure that each and every type of targeted beneficiary is addressed with a financial instrument tailored to their specific needs?

1. HIGH LEVEL IMPACT OF A COMMON PLATFORM

The consideration of a common platform as described in the previous section would come a long way in ensuring that the following impact would be achieved:

- Involvement of Financial Intermediaries (FIs) optimised to second the EIB and the EIF ; The scheme would have the capacity to Involve and motivate private sector which are pulling out of risk, longer terms, unguaranteed/non-fixed return instrument also due to Basel II/III;
- The possibility of working with national institutions is a blessing for bringing down barriers. In this context, the role of development Banks is very important and the use of Financial Instruments through National Operators is supported. For example, the on-lending principle of KfW is a great model to follow as they work with all major banks;

- The open architecture model that allows to link in other national or regional institutions and Structural Funds for Innovation while maintaining separate compartments for different target groups with specific objectives, performance indicators, and FLP;
- Cover the Entrepreneurs needs across the financial instruments in increasing global competition and support the financing need at 3 stage levels:
    - Early-stage with smaller amounts ; Experience showed that the direct intervention model via RSFF Compartment was geared towards larger transactions starting from ca. EUR 25m but the RSI continuation with recommended adjustments will allow the segment below EUR 7.5m to be covered;
    - an intermediated Mid-Cap risk sharing product would allow RSFF based on the successful RSI model to reach the mid-sized companies segment with a significant improvement in scale, cost efficiency and leverage; Experience shows that the direct intervention model via RSFF Compartment 1 is geared towards larger transactions starting from ca. EUR 25m. Smaller direct transactions with SMEs and Mid-Caps are the exception and do not reach a satisfying level of scale and market share.
    - Larger financings for global market access; There is only a few EU investors who do put in funding of > 50 million in innovative SMEs, often that is done by US investors – the RSFF needs to address the challenge of EU investors being able to finance companies until they are sustainable global leaders;
- The sector specific top-up approach with additional funding will allow a targeted and connected focus with specific sectors; New emerging sectors take a long time to understand and a long-term approach is needed;
- Innovation and knowledge transfer, incubation, acceleration (or shared research) capacities of public research organisation will be strengthened. This may include also thematic/sector specialization and partnering with the private sector;
- In Regions where the financing of innovative SMES needs improvement, the competent authorities may decide to provide funding for the scheme and pick the right instruments.

2. NEED FOR COVERING THE MID-MARKET

There is a need to develop operations aiming to provide debt and mezzanine financing to innovative mid-market companies facing the so-called second “Valley of Death” (i.e. the stage where rapidly growing larger Mid-Cap companies expand beyond the scope of VC funding but lack the cash flow stability and asset quality to have access to sufficient debt financing).

An ex-ante market study conducted by PwC in Q4 2012 covered almost 30,000 European Mid-Caps investing in RDI and entering into a stage of growth. The market survey indicated that larger mid-market companies (500-3,000 employees) have a key role in delivering the Horizon 2020 targets.

The mid-market companies have tried to maintain or increase their RDI efforts over the last few years despite the market slowdown and the recent conditions in the financing sector. However, they had difficulties finding appropriate financing. Two-thirds indicated a lack of appropriate senior debt financing, which will be targeted by the new Mid-Cap Initiative (under RSFF compartment 1), while one-third indicated interest in, but no access to, equity-risk debt financing (mezzanine), which could be addressed as well. The survey also showed that an average mid-market company expects to invest between EUR 15m and EUR 50m in RDI over the next three years.

A complementary RSFF financing model to provide such debt financing was one of the original RSFF objectives back at its set-up in 2007; based on the successful RSI model, a Mid-Cap risk sharing product would allow RSFF to reach this segment with a significant improvement in scale, cost efficiency and leverage.

- Purpose is to improve access to senior or junior debt finance for innovative Mid-Caps and larger SMEs;
- Delegated model: Financial Intermediary (FI) includes loans based on eligibility criteria (except for the pre-approval by EIB of the largest eligible project) through quarterly reporting;
- Provides a funded (contingent loan) or unfunded (financial guarantee) risk sharing to the selected FI;
- 50% guarantee rate covering losses (principal and interest) incurred on each loan.

It should be assessed whether a direct senior and equity-risk debt financing for operations between EUR 7.5m and EUR 25m is required. Direct projects for such amounts are currently possible in theory but, in practice only 5% of the RSFF portfolio was comprised of Mid-Caps; The EIB Group's seems to be testing this approach towards direct high value-added mid-market operations Instrument. However, the advantages of a direct vs. an indirect approach should be assessed. It may well be, if technically feasible, that the indirect approach could also be applied to the junior debt segment. Such instrument would have the following features:

- Junior debt (e.g. subordinated, mezzanine) or debt with equity-risk features
- Purpose: to finance future RDI activities (staff costs, Capex, Opex)
- Maximum Loan Size: individual loans above EUR 7.5m and of up to the smallest of: i) EUR 25m, and ii) 50% of the defined RDI costs
- Minimum Loan Size: EUR 7.5m
- Tenor: up to 7 years

3. CONCLUSIONS FOR THE MID-MARKET

There is a need to develop operations aiming to provide debt to innovative mid-market companies facing the so-called second "Valley of Death" (i.e. the stage where rapidly growing Mid-Cap companies expand beyond the scope of VC); A complementary indirect RSFF financing model to provide such senior debt financing was one of the original RSFF objectives back at its set-up in 2007; based on the successful RSI model, an intermediated Mid-Cap risk sharing product would allow RSFF to reach this segment with a significant improvement in scale, cost efficiency and leverage.

- Purpose is to improve access to debt/mezzanine finance for innovative Mid-Caps and larger SMEs
- Delegated model: Financial Intermediary (FI) includes loans based on eligibility criteria (except for the pre-approval by EIB of the largest eligible project) through quarterly reporting

3.4. WHICH CONSIDERATIONS FOR THE ARTICULATION BETWEEN DEMAND-DRIVEN APPROACH, INCENTIVE AND PROJECT SOURCING?

KEY QUESTIONS

Q18. Effectiveness: What are the main factors determining the RSFF project pipeline?

Q26 Efficiency: (future): What lessons can be learnt regarding an incentive scheme for the debt facility under Horizon 2020?

Q27.Efficiency: Is there scope for the wider use of technical and financial advisory services in fostering the take-up of RSFF loans and guarantees?

CONSIDERATIONS

The demand driven approach remains valid for the future across the financing spectrum:

- SMEs + small Mid-Caps up to EUR 7.5m (indirect)
- Mid-Caps with financings between EUR 7.5m and EUR 25m (direct and possibly indirect)
- Large Entities with financings of > EUR 25m (direct)

Sector, regional, equity and innovation capacities/knowledge transfer coverage should however be improved (financed with ring fenced top-ups) which would be additional to the demand driven approach with strengthened project sourcing; This could include:

- Sectors where societal needs warrant additional public intervention (energy, ageing, communications infrastructure, transport/mobility…);
- Equity financing as its financing by private capital is endangered;
- The coverage of research infrastructures should be further widened to innovation and knowledge transfer, incubation, acceleration (or shared research) capacities of public research organization which needs to be strengthened including with thematic/sector specialization and partnering with the private sector;
- Regions where the financing of innovative SMES needs improvement, as decided by the competent authorities.

In this context, the new EIB's RDI Advisory team is welcomed and is evidence of the EIB's commitment to utilise EIB's expertise. The work programme is just starting and structured on a twin track approach, with

- (i) upstream project-related advisory, and;
- (ii) an RDI expertise network in preparation for a possible wider roll out under the EU Framework Programme for Research and Innovation (2014-2020), starting in 2014, subject to obtaining the necessary approvals.

Additional technical assistance measures and resources should be deployed by the EIB Group and the EC so as to foster the coverage, negotiation, preparation and take-up of the facilities by the following target audiences:

- Development banks, regional agencies and other services designated by the management authorities of Cohesion Funds;
- Public research and knowledge transfer organizations, incubators and accelerators, and;
- Thematic networks and cluster organisations with specific sector- or technology focused projects.

3.5. WHICH CONSIDERATIONS FOR AWARENESS-RAISING ACTIVITIES, INCLUDING THROUGH MULTIPLIERS

KEY QUESTION

Q10.Effectiveness: How effective has the communications strategy been in terms of selecting target audiences and multipliers, developing messages and media, and the choice and organisation of awareness-raising events? To what extent has it supported the take-up of the RSFF?

CONSIDERATIONS

The marketing of the RSFF direct instrument could have been wider and deeper. Many intermediaries were not aware it existed nor its advantages and requirements. Therefore the following remedial actions should be considered:

- Develop a coherent and consistent strategy for a targeted market awareness raising covering all H2020 as well as COSME products and counterparts with an appropriate budget;
- Introduce better and more market oriented brand names for RSFF products and work through the intermediaries;
- Develop an open (internet) access gateway on which both the potential beneficiaries and supply-side would be registered and can select suitable promoters matching their criteria, based on and developing on-going initiatives developed by the EC and the EIF.

The common platform model that would allow to link in other entrusted entities, if willing to do so, extra budgetary resources and Structural Funds for Innovation would be an essential step forward.

Furthermore, the following accompanying measures appear an efficient addition to the promotion and roll-out of the financial instruments themselves:

- Investment-readiness (coaching) and “bankability booster” schemes
  - small firms: venture and other forms of investor forums, etc
  - large firms, PPPs, JTIs, complex multi-stakeholder projects, etc: “R&I Advisory Service”(pilot now running with EIB under RSFF);
- Awareness-raising (demand stimulation) in under-represented sectors;
- Fostering business angels, corporate venture funding & crowd funding;
- Encouraging philanthropic foundations (incl. family offices / endowments…) and individuals to support R&I.

4. WHICH CONSIDERATIONS FOR THE FUTURE ARTICULATION AND MANAGEMENT OF EU FINANCIAL INSTRUMENTS UNDER HORIZON 2020?

4.1 WHICH CONSIDERATIONS FOR THE FUTURE GOVERNANCE STRUCTURE IN ORDER TO ENSURE APPROPRIATE SYNERGIES BETWEEN FUTURE FINANCIAL INSTRUMENTS?

KEY QUESTION

Q7. Relevance: Is the governance structure fit for purpose? What lessons can be learnt for the governance of future financial instruments under Horizon 2020, and in particular for ensuring appropriate synergies between Horizon 2020 instruments or facilities and those managed by other EU programmes?

CONSIDERATIONS

Regarding the governance structure in the future, the following recommendations can be made:

- Continue the partnership approach between EIB Group and the EC
- Associate the EIF in the EIB's role as the entrusted entity to avoid conflict of interests between the direct and indirect approach
- Continue the portfolio FLP model as the basis for the risk sharing between the EIB and EC and other additional participants
- Governance of the RSFF as it stands appears to work quite well (as a partnership vs. a mandate)
- Continue, strengthen and tighten the Steering Committee fulfilling a supervisory role and a mission ensuring the achievement of the portfolio impact as delegated to the entrusted entity and managed by the designated EC services
- Delegate more operational and ongoing tasks (e.g. eligibility checks) to one Designated Service in the EC and strengthen its resources
- Envisage to install:
    - An annual report issued by the entrusted entity reviewed by independent auditors and audit committee providing reliable and independent impact and portfolio data
    - Regular independent expert reviews
    - Regular studies drawing upon observatories of the financing of innovative enterprises governed by the advisory committee and drawing upon annually updated indicators, the portfolio impact reviews as well as accompanying measures
- Mid-term review to ensure future flexibility
- Flexibility to efficiently merge/evolve the existing and future financial instruments so as to facilitate continuity and their revolving nature
- Better monitoring tools needed to assess the achievement of policy objectives

4.2. WHICH CONSIDERATIONS FOR COMBINING BUDGETARY RESOURCES?

KEY QUESTION

Q21.Efficiency: What recommendations can be made regarding the combined use of different budgetary resources for a single purpose – i.e., the financial support of RDI activities for a range of beneficiary target groups?

1. FINDINGS ABOUT THE RELATIONS WITH OTHER DGS

The RSFF and RSI models seem to be a model for innovation financing in other technology areas such as the Transport, Media or Energy, where the need for RSFF-type instruments seems demonstrated.

It seems important to complement the existing RSFF resources with additional resources to allow a policy driven approach in specific technology areas. This also confirms the need for the RDI Advisory.

For example, the energy area has a very ambitious financing agenda. If we follow only a demand driven approach then one is faced with an increasing corporate RDI demand but too loosely linked to the Programme objectives. In the energy sector, there is significant demand on renewables (e.g. offshore wind & solar) and not sufficiently on policy priority areas such as energy efficiency.

2. CONSIDERATIONS

It is recommended that the EC's Horizon 2020 allocates a maximum of its budgetary resources for financial instruments to risk sharing (FLP guarantees); the risk sharing facilities leveraging external capital investment is far more effective than deploying investment of the scarce resources.

To respond to potential demand, the increase of the EU guarantee budget should be complemented with a maintained matching contribution by the EIB. Also, following the EIB's capital increase, the EIB's larger investments may be best financed through the additional lending capacity enabled by the capital increase. This would allow the EC's resources to be focussed on smaller growth-oriented SMEs with a bbetter balance between direct and indirect products.

The recommended additional sector or regional coverage should be financed with ring fenced top-ups from additional budgetary resources. These could include:

- Research budgets for societal needs (energy, ageing, communications infrastructure, mobility…);
- Regions where the financing of innovative SMES needs improvement as decided by the competent authorities of the Cohesion Funds.

These latter and other (ring fenced) top-up budgetary resources should be additional to the common platform although they would use the same facilities but finance the risk-sharing, additional costs and fees including the appropriate accompanying measures.

Additional advisory services and resources should be deployed by the EIB Group and the EC in fostering the coverage and take-up of the financial instruments.

4.3. WHICH CONSIDERATIONS FOR MITIGATING RISKS?

KEY QUESTION

Q30.Sustainability: What are the main types of risk — political, organisational, institutional, regulatory, environmental, social, financial, and economic — that an RSFF-like mechanism is likely to face in future? What could be done to mitigate such risks?

CONSIDERATIONS

The main political risks seem linked to a possible decision of the budgetary authority to significantly decrease the budget allocated to "Access to Risk Finance" under Horizon 2020. In the context of budgetary constraints, the political risk may be to not allocate the needed support to financial instruments, although they would complement traditional grant funding and would generate a revolving capacity and a much higher leverage effect than classical grant funding.

An important funding risk is that demand exceeds the resources in which case the slowdown or drying up of the instruments resources would have an adverse market impact. This should be addressed by setting quantified objectives for the programme period with targets annually revised by compartment. Also, the top-up funding could remedy the issue of demand exceeding the available supply. Taking duly into consideration the inherent portfolio dynamics, risk management constraints and the potential market effects, one risk-mitigating measure could be to allow the possibility of a limited re-allocation of the budget according to market needs, including new products initiatives.

The organizational risks are largely linked to non-aligned interests between the EIB, the EIF and the EC and possible other entrusted entities, in case the risk-sharing mechanism would not clearly be defined in the legal basis. This was one of the recommendations of the Court of Auditors which should be addressed.

The risk provisioning itself could appear as potentially being too low or too high. This should be addressed by the annual reviews of the risk adjustment mechanisms as it is already the case under FP7-RSFF.

There is an unwelcome risk that the use of financial instruments in some circumstances (e.g. using regional funds) may be considered or re-classified as state aid. In order to avoid uncertainty, notably at the level of financial intermediaries, appropriate improvement of the State Aid framework should be carried out, notably at regional level and regarding risk capital, in order to strengthen RDI, while ensuring no distortion of competition. In particular any EU centrally managed programme or any EU shared-management programme where national and/or regional authorities have no discretionary power on the use of EU funds must be fully exempted. The General Block Exemption Regulation in particular, as well as any other appropriate guidelines, must be clearer on this issue.

4.4. WHICH CONSIDERATIONS FOR HUMAN-RESOURCE ALLOCATION?

KEY QUESTION

Q23. Efficiency: Have adequate human resources been deployed by the European Commission and the EIB Group to manage and implement the RSFF, and to what extent have these been managed efficiently?

CONSIDERATIONS

The EC's Horizon 2020 should:

- Operate its supervision through one continued but strengthened and tightened Steering Committee with representation for significant additional top-up contributors if these are sustained;
- Delegate to one designated service within DG R&I all its tasks across the Instruments on the Platform as this is important for preserving an efficient partnership with the EIB and clarity towards the enterprises and counterparts in the EC.

The split of tasks with COSME should be on the type and amount of beneficiary intervention as contracted with specific intermediary financial institutions. The rationale is to have an organizational approach that is beneficiary (customer)-centric which will optimize effectiveness and efficiency as well as the demand-driven approach.

The EIB should remain the entrusted entity for direct products and the EIF as the EIB's designated management resource for indirect products.

The operational services of the EIB and EIF teams should be strengthened so as to ensure an effective deployment of the instruments.

The resources of the EC designated service should be strengthened.

The additional (ring fenced) top-up facilities and budgets should also finance the additional risks, costs, fees as well as the necessary accompanying measures.

ANNEXES

ANNEX I – INDEPENDENT EXPERT GROUP SHORT CVS, LIST OF MEETINGS & MEETING PARTICIPANTS

INDEPENDENT EXPERT GROUP (IEG)

- **Edwige Avice**, Chair, IEG
- **William Stevens**, Rapporteur, IEG
- **Erika Mann**, Member, IEG (Chair of IEG 2010 – 1st RSFF interim evaluation)
- **Jose-Fernando Figueiredo**, Member, IEG
- **Toivo Maimets**, Member, IEG

Edwige AVICE, born in Nevers (Nièvre) with French nationality. Graduated in Arts, Law, Politics (IEP Paris) and International Trade. Elected member (four times) of the Assemblée Nationale (lower house of French parliament), representing Paris then the department of Isère. Elected member of the Conseil de Paris (Paris Council) from 1983 to 1989.

French government Minister for nine years: Minister for Youth Affairs and Sports (1981-1984), State Secretary for Defence (1984-1986), Minister with special responsibility for Foreign Affairs (1988-1991), Cooperation and Development Minister (1991-1992).Since 1994, university teacher in Development Economics, for foreign students, at Ecole des Hautes Etudes Diplomatiques et Stratégiques.

Created in 1993 Financière de Brienne, a company financing innovation and specialized in high-tech SMEs/SMIs in the defence, aeronautical and space sectors: development capital activity for the diversification of companies.In 1996, creation of Brienne Conseil et Finance, a company specialized in financial priming and engineering activities.

Vice-Chairwoman of the selection board for the national business creation competition since 1999. In 2005, Vice Chairwoman of BIPE (Information and Economic Prevision Office, a CDC spin off, Caisse des Dépôts et Consignations), responsible for new activities in the field of the poles of competitiveness, strategic industries, and environmental issues. Founder and Chairwoman of the Conseil Economique de la Défense (Economic Council for Defence) from 1998 to May 2003. Member of Euro Défense. Founder in 2001 and President of the French National Council of Sports and Physical Activities. Responsible of the Defense Working Group in the French think tank CEPS. Chairwoman of the Foundation for French Sports in 2010.

A Belgian national, **William STEVENS** graduated from EAP-European School of Management (Paris, Oxford, Berlin – Diplôme de Grande Ecole de Gestion – Diplom Kaufmann) in 1989 and previously from the Catholic University of Brussels in Economics. He embarked on his professional career at the European Venture Capital Association (EVCA) where he was appointed Secretary General at the age of 25. He launched several ambitious initiatives, one that led to the creation of EASDAQ (Nasdaq Europe) while significantly growing revenues, profits and membership. William founded Europe Unlimited in 1998 to be a much-needed European hub for fast-growing entrepreneurs raising their profile with investors. Today, Europe Unlimited has achieved that difficult mission and is a profitable company. Europe Unlimited organises 25 international venture and technology partnering forums with over 1,000 presenting entrepreneurs every year attracting a real network of venture capital investors, corporate partners, university tech transfer groups, innovation policy makers and deal makers. William started also the International Venture Club as a collaborative platform for investors and brokered a strategic partnership between Europe Unlimited, the International Venture Club and Tech Tour. William speaks English, French, Dutch and German and gets by in Italian. His interests are his family and friends, reading politics, travelling, cycle - and hike touring. He is married and has 2 daughters.

Erika MANN joined Facebook's Global Public Policy Team in October 2011. She heads the company's new office in Brussels and is the lead spokesperson on EU affairs. Prior to joining Facebook, between December 2009 and October 2011, Erika was Executive Vice President for the Computer & Communications Industry Association in Brussels. She joined the board of ICANN in December 2010, and is also a non-resident Senior Fellow of the Atlantic Council, Washington, a Trustee of Friends of Europe and the Vice President of the Advisory Board of the European Policy Centre. Erika was a member of the Transatlantic Task Force on Trade, created in 2011 by the Swedish Ministry for Foreign Affairs, the European Centre for International Political Economy (ECIPE), and the German Marshall Fund of the United States (GMF). She was a Member of the European Parliament between 1994 and 2009. As an MEP, she concentrated on trade, research, ICT and transatlantic relations, and was a founder of the European Internet Foundation, which she chaired until summer 2009. Erika has a degree in social science from the University of Hannover, Germany. She is a lecturer and author of numerous publications on trade, research, transatlantic relations, and technology.

José Fernando FIGUEIREDO was elected in 2007 for Chairman/President of AECM, the European Mutual Guarantee Association, which represents 34 guarantee schemes of 18 countries in Europe. AECM members serve around 2 million SME across Europe, being responsible for an outstanding portfolio of SME guarantees around 70 billion euros supporting more than 120 billion euros in credits to SME.

He is co-founder of REGAR – Iberoamerican Network of SME Credit Guarantee Organisations and Invited Member of the Consulting Council of ALIGA, the Latin American Guarantee Institutions Association.

José is Chairman and Executive President of NORGARANTE - Mutual Guarantee Society (MGS), LISGARANTE - MGS, GARVAL - MGS and AGROGARANTE - MGS, the four Mutual Guarantee Societies existing in Portugal. The MGS are the private commercial units of the Portuguese SME Guarantee Scheme, with a global share capital of 180 million euro and a portfolio of more than 3,75 billion € in both individual and portfolio guarantees.

Chairman and CEO of SPGM – Holding of the Portuguese Credit Guarantee Scheme, that manages the Portuguese public counter-guarantee mechanism, the FCGM, with equity capital of around 600 million euro. SPGM also deals with the public agencies and the European Investment Fund – EIF, acting as back-office to all the Mutual Guarantee Societies (MGS) in the national scheme.

Alongside with the credit guarantee activities José is one of the promotors and Chairman of 2BPartner – Sociedade de Capital de Risco, a small private Venture Capital firm connected with tech universities, SME organisations and a strong group of private entities, investing in early stage companies and recently joined the Oporto Business Angels network.

He is one of the shareholders of a small family business, producing port wine and table wines, and acts as international expert to organisations like the European Commission and FAO. Previously and among other activities related with VC and SME investments he was Chairman and Executive President of PME Investimentos, one of the 2 biggest Portuguese Venture Capital firms and served as executive member of the board of IAPMEI (the Portuguese SME Agency) for 3 years, responsible for the management of the financial innovation programme and the financial management of the budget of the EU structural funds programmes dedicated to SME, co-financed by the European Union (5 billion euros budget in a 6 years period). He started his career at Inter-Risco Private Equity & VC, a joint venture between the British private equity firm 3i and the Portuguese investment bank, Banco BPI.

José holds a degree in Economics by the Oporto University (FEP) and the frequency of the Industrial Economics Master at the same school. He was invited professor at the Fernando Pessoa University in the field of financial management.

Toivo MAIMETS (born 1957, Estonia) graduated from the University of Tartu as a biologist-geneticist in 1980 and after that he joined the Laboratory of Molecular Biology in Tartu. He got his cand.sci.(kandidat nauk) degree from Moscow State University in 1984 for the studies on molecular mechanisms of bacterial protein synthesis. In 1995-1999 he was a British Council student and research scientist at the Marie Curie Cancer Research Institute (United Kingdom), where he started to study the genetics of cancer and the role of tumor suppressor genes in cell cycle regulation. In 1991 he received PhD degree for studies of human oncoprotein p53 (University of Tartu) and became Professor of Cell Biology at the same university in 1992. His research involves characterization of intracellular signal transduction pathways responsible for cell cycle regulation, DNA damage control and tumorigenesis. More concretely, his group presently studies the molecular mechanisms governing cell developmental potency and their role in human tumorigenesis. He is also developing methods for screening low-molecular weight compounds to modulate protein-protein interactions in vivo and use this to design new anti-tumour drugs. In 2006-2007 he was Visiting Professor of University of Newcastle, UK.

Professor Toivo Maimets is member of several international research organisations and advisory groups, including European Research and Innovation Area Board (ERIAB), European Molecular Biology Conference (president), Science Europe (member of Board), European and American Associations for Cancer Research and Academia Europaea. He is also member of the European Medicines Agency Committee of Advanced Therapies and has served as a member and vice-president of UNESCO International Bioethics Committee (2004-2011).

He has occupied numerous administrative posts with responsibilities in research and education, including Dean of the Faculty (1993-1995), vice-rector of the University of Tartu (1995-1998), director of the Institute of Molecular and Cell Biology (1999-2003 and from 2008), Minister of Education and Research (2003-2005) and since 2012 member of Tartu University Governing Board. In 2009-2012 he was Chairman of Estonian Science Foundation, now member of Estonian Research Council Governing Board. In 2001-2007 he was the director of National Centre of Excellence for Gene and Environmental Technologies.

He has been PhD supervisor for several students and also PhD examiner both in Estonia and abroad. His list of publications includes about 60 papers in international research journals as well as many articles in local press to enhance public understanding of science. His research has been supported by numerous grants from Estonia and abroad.

LIST OF MEETINGS

1st meeting ("Kick-off") of the Independent Expert Group (IEG)
Thursday 7 February 2013, 09:00-17:00, Brussels

2nd meeting ("Strategy") of the IEG
Monday 4 March 2013, 9:00-18:30, Luxembourg

3rd meeting ("Users")
Tuesday 12 March 2013, 14:00-18:00, Brussels

4th meeting of the IEG ("Stakeholders")
Wednesday 13 March 2013 – 9.00-17.15, Brussels

5th meeting of the IEG ("Preliminary Findings & Recommendations")
Tuesday 16 April 2013 – 14.00-18.15, Brussels

IEFG Chair and Rapporteur participated as observers in the RSFF Steering Committee meeting
Wednesday 17 April 2013 – 9.00-17.15, Brussels
Presentation of the Preliminary Findings & Recommendations

6th meeting of the IEG ("Draft Final Report")
Thursday 30 May 2013 – 15.00-18.15, Brussels

7th meeting of the IEG ("Final Report")
Friday 28 June 2013 – 09.30-14.00, Brussels

LIST OF CONTRIBUTORS IN THE MEETINGS

European Commission:

- **Clara de la Torre**, Chair, RSFF Steering Committee, and Director, 'Research and Innovation', DG Research & Innovation
- **Jean-David Malo**, Head of Unit 'Financial Engineering' and Head, EC RSFF Designated Service, DG Research & Innovation
- **Steve Rogers**, Deputy Head of Unit 'Financial Engineering', DG Research & Innovation
- **Martin Koch,** EC RSFF Designated Service, DG Research & Innovation
- **Marie-Cécile Rouillon**, EC RSFF Designated Service, DG Research & Innovation

- **Gerassimos Thomas**, Director, DG ECFIN
- **Roger Havenith**, Head of Unit, DG ECFIN

- **Astrid Bartels**, Policy Officer, DG ENTR

- **Stephane Ouaki**, Head of Unit, DG MOVE
- **Pierre Marro**, Policy Officer, DG CONNECT
- **Karl Kellner**, Adviser, DG ENER

- **Georges Kolivas**, Policy Analyst, DG REGIO
- **Rachel Lancry**, Deputy Head of Unit, DG REGIO

- **Pierre Godin**, Policy Analyst, DG REGIO
- **Bogna Filipiuk**, Policy Officer, DG REGIO
- **Gregorio Davila Diaz**, Policy Officer, DG AGRI
- **Maciej Szymanowicz**, Policy Officer, DG EAC

European Investment Bank:

- **Philippe de Fontaine Vive**, Vice-President, EIB
- **Pierluigi Gilibert**, Director General, Directorate for Operations in the European Union and Candidate Countries, EIB
- **Nick Jennett**, Secretary, RSFF Steering Committee, and Director, New Products & Special Transactions, European Investment Bank
- **Christoph Kuhn**, Head of Division, Knowledge Economy / RDI, EIB
- **Marc D'hooge**, Deputy Head of Division, RDI – Structured Finance & Advisory/AGI-EY, EIB
- **Sarah McCann**, RDI, EIB

- **Ivory Yong Prötzel**, Head of Division, Operations Evaluation, EIB
- **René-Laurent Ballaguy**, Senior Evaluator, Operations Evaluation, EIB

European Investment Fund:

- **Richard Pelly**, Chief Executive, EIF
- **Alessandro Tappi**, Head of Guarantees, Securitisation and Microfinance, EIF
- **Rémi Charrier**, Head of Strategic Development – Guarantees and Debt, EIF
- **Vincent Van Steensel**, Head of Risk Sharing Instrument, EIF
- **Marc Schublin**, Director, Strategic Development and EU Policies, EIF

External experts:

- **Fabio D'Aversa**, Director Advisory Services, PricewaterhouseCoopers (PwC)
- **Luis Mora Capitán**, CEO, Zeltia Marine Pharmaceuticals
- **Carlo Rizzuto**, Chairman, Sincrotrone Trieste (phone conference)
- **Ladislav Dvořák**, Project Manager, Ceska Sporitelna
- **Hans Klomp**, Specialist Groei&Innovatiedesk, ABN AMRO
- **David Denzer-Speck**, Network of European Financial Institutions for SMEs(NEFI)
- **Kurt Leutgeb**, Austrian SME Development Agency (AWS)
- **Christian Dubarry**, OSEO
- **Gerhard Huemer**, European Association of Craft, Small and Medium-sized Enterprises (UEAPME)
- **Reginald Vossen**, Business Angels Europe (BAE)
- **Paulo Andrez**, European Business Angels Network (EBAN)
- **José Furtado**, Caixa Capital and Caixa Geral de Depositos Banco de Investimento
- **Iwona Mertin**, Advisor, European Association of Chambers of Commerce and Industry (Eurochambres)

Interviewed by the Chair of the IEG

- **Jean Pierre Jouyet** and **Pascal Lagarde**, CDC
- **Thierry Letailleur**, IRDI
- Responsables Europe, Chambre de Commerce et d'Industrie Ile de France
- Les business angels, IDF

ANNEX II - TERMS OF REFERENCE FOR THE GROUP OF INDEPENDENT EXPERTS UNDERTAKING THESECOND INTERIM EVALUATION OF THE RISK-SHARING FINANCE FACILITY (RSFF)

1. INTRODUCTION

These are the terms of reference for a Group of very high-level Independent Experts set up by DG Research & Innovation of the European Commission[1] to undertake the second interim evaluation of the Risk-Sharing Finance Facility (RSFF). This will be a forward-looking exercise whose main aim is to contribute to the design of financial instruments supported by Horizon 2020.

2. BACKGROUND

2.1 About the RSFF

Private investment in research and innovation (R&I) is still well below the levels necessary to achieve the Europe 2020 goal of 3% of GDP. In addition to the lack of private investment, market finance is scarce due to the risks and uncertainties associated with R&I.

To help foster private sector investment in R&I, the European Commission and the European Investment Bank (EIB), following a request from the European Council in December 2005, established a new financing instrument with risk-sharing elements, the RSFF. The RSFF is a debt-based financial instrument implemented and managed by the EIB to support R&I across Europe. It aims to add value in areas where the market cannot provide the required funding and to catalyse private investment. An FP7 contribution to the RSFF helps EIB to partly cover its risks when lending to R&I projects in EU Member States and FP7 associated countries[2].

The RSFF was established in June 2007 via a Cooperation Agreement between the EU and the EIB. The Agreement has been amended four times, most recently in December 2011[3] (see section 2.4), when a portfolio first-loss piece risk-sharing arrangement was introduced, the definition of research infrastructures enlarged, and a guarantee facility for SMEs and small Mid-Caps[4] launched (see section 2.2).

The EU is providing a contribution of up to €1 billion over the 2007-2013periodto the RSFF. This increases the capacity of the EIB to assume and manage risk, and so enables a larger volume of EIB lending and guarantee operations to be undertaken and riskier operations to be financed than would otherwise be the case. The €1 billion has been released in two tranches: €500 million for 2007-2010, and a second tranche of €500 million for 2011-2013. It is matched by a contribution of up to €1 billion from the EIB's own funds. With a combined

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[1] This evaluation and the expert group are foreseen in the 2012 work-programme (second revision) of the Coherent Development of Research Policies (CDRP) programme within the Capacities specific programme of FP7.

[2] Regarding research infrastructures, third countries may be eligible under certain conditions described in the Cooperation Agreement.

[3] Press-release: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1505

[4]The Risk-Sharing Instrument (RSI): seehttp://www.eif.org/what_we_do/guarantees/RSI/index.htm. In this context, small Mid-Caps have up to 500 employees or full-time equivalents.

volume of €2 billion for risk coverage via the RSFF, loan finance and/or guarantees of at least €10 billion are expected to be provided to eligible R&I investments over the 2007-2013 period. The RSFF has two windows: an EU window covering EU RSFF operations signed and disbursed before the amendment of December 2011, plus the three compartments to which risk-sharing arrangements apply; and an EIB window, which is fully at the EIB's own risk.

For a full explanation of the rationale for the RSFF and examples of the projects it supports, see the June 2011 edition of *research*eu focus*[5]. To see how the RSFF is marketed to potential beneficiaries, see the EIB Group's websites[6]. For full information on the legal basis of the RSFF, see the Fourth Amendment to the RSFF Cooperation Agreement and any subsequent amendments.

2.2 First interim evaluation

The report of the first RSFF interim evaluation[7], conducted in 2010 by a group of independent experts, was very positive. The experts concluded that the RSFF had been successfully introduced into the EU's research funding scheme within FP7; was a model example of an EU financial instrument; and should be further developed and strengthened. Their ten recommendations, which were partly inspired by an evaluation of RSFF activities conducted by the EIB's Operations Evaluation function[8], can be grouped as follows:

for2011-2013

- Immediate release of the EU contribution of up to €500 million to the RSFF under the conditions foreseen in the EC FP7 legal basis *(recommendation 1*); additional[9] EU contribution of up to € 500 million to RSFF for 2011-2013 coming from the FP7 Specific Programme 'Cooperation' and/or non-FP7 resources*(5*); better targeting of some already supported but under-represented target groups (SMEs, research infrastructures) through introducing specific approaches and changing the risk-sharing arrangement*(2, 3, 4*).

for the post-2013 period

- Continuation and expansion of the scale and the scope of the RSFF as a specific part of the successor programme to FP7 with a dedicated revolving EU financial contribution of no less than €5 billion*(7, 9, 10*); rationalisation of existing and future EU financial instruments, avoiding duplication and ensuring synergies*(6*); regular monitoring*(8*).

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[5] Special edition of *research*eu focus* on the RSFF, June 2011
ftp://ftp.cordis.europa.eu/pub/news/research-eu/docs/focus-10_en.pdf

[6] On the RSFF overall, see *http://www.eib.org/products/loans/special/rsff/index.htm* On the RSI facility for SMEs, *see* http://www.eif.org/what_we_do/guarantees/RSI/index.htm

[7] For the report by a group of independent experts on the first interim evaluation of the RSFF, see http://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/mid-term_evaluation_of_the_risk-sharing_financial_facility_(rsff)_-_expert_group_report.pdf

[8] *Evaluation of Activities under the Risk-Sharing Finance Facility (RSFF)*, EIB Operations Evaluation, April 2010, http://www.eib.org/attachments/ev/ev_rsff_en.pdf

[9] Additional means "In addition to the release of the second Phase" (e.g.: 0.5 + 0.5 = € 1 billion of EC contribution for the period 2011-2013).

In its response to the FP7 and RSFF interim evaluations[10], the Commission endorsed recommendations 1 to 4 (above), and welcomed those for the post-2013 period.

2.3 Political recognition

In 2011, all three EU institutions — Commission, Council and Parliament — called for the continuation of the RSFF until 2013 and its expansion in the next, post-2013 programming period. Success in implementing the RSFF was politically acknowledged on several occasions:

- The European Council, in its conclusions of February 2011[11], asked for the scaling-up of the RSFF, and in its conclusions of March 2011, the Competitiveness Council acknowledged the success of the RSFF, agreed with the additional €500 million to be released by the Commission for the period 2011-2013, and called for measures to improve the participation of under-represented target groups (namely SMEs and research infrastructures).
- The ITRE Committee of the European Parliament drew similar conclusions (Audy and Merkies reports). The Merkies report on "Innovation Union: transforming Europe for a post-crisis world" calls for "increasing current funding [of the RSFF] from EUR 1 billion to EUR 5 billion after 2013"[12].
- The Innovation Union Flagship Initiative proposed a risk-sharing debt facility as one of the key future instruments for R&I[13], and the Commission's proposal for the Horizon 2020 Framework Programme includes a scaled-up debt instrument, building on the RSFF[14].

2.4 Fourth, Fifth and Sixth Amendments

Fourth

In the light of the recommendations of the first interim evaluation and the conclusions of subsequent European and Competitiveness Councils, the aim of the Fourth Amendment was to change the risk-sharing mechanism for the RSFF from a project-by-project to a portfolio first-loss-piece (PFLP)[15]approach for the EU window, with the EU assuming a higher risk. It was judged that this would optimise the leverage effect of EU funds, enhance

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[10] Reference: COM (2011) 52, adopted 9 February 2011.

[11] Reference: EUCO 2/11 4 February 2011 Conclusions, page 8, point 22

[12] See Article 95 in
http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2011-0236&language=EN&ring=A7-2011-0162

[13] See Commitment no. 10 in
http://ec.europa.eu/research/innovation-union/pdf/innovation-union-communication_en.pdf

[14] See section 2.1 on p.45 of
http://ec.europa.eu/research/horizon2020/pdf/proposals/proposal_for_a_council_decision_establishing_the_specific_programme_implementing_horizon_2020_-_the_framework_programme_for_research_and_innovation_(2014-2020).pdf

[15] In the PFLP approach, first the EU contribution is used to cover potential losses in a portfolio of loans, but only up to a pre-defined percentage of losses (first-loss piece or cushion). If losses exceed the EU contribution, the EIB contribution covers further losses.

the EIB's capacity to finance loans (specifically to SMEs and research infrastructures), and overcome some technical problems of the previous, project-by-project risk-sharing mechanism.

These changes required several adjustments to the Agreement: a modified risk-sharing mechanism, new principles of risk-sharing, apportioning of revenues to reflect PFLP remuneration principles, and the introduction of wider eligibility criteria for research infrastructures, taking in upstream (supplier) and downstream (commercial) operations.

Under the Fourth Amendment (which entered into force in December 2011), three compartments were created: "normal" RSFF operations (i.e., primarily corporate finance and project finance transactions); the RSI, an SME and mid-sized company[16] guarantee facility run by the EIF; and research infrastructures, covering the infrastructures themselves, enterprises commercialising their outputs, and suppliers. A limited number of older RSFF operations (all signed and disbursed before the Fourth Amendment) continue to be governed by the previous version of the Cooperation Agreement. On this basis, the outlook for 2012-2013 is as follows: normal RSFF operations, up to €3 billion further loans; research infrastructures, up to some €600 million loans in total (i.e., from 2007-2013)[17]; and SMEs and mid-sized companies, up to €2.5 billion of partially guaranteed loans, benefitting some 1000 companies (with the expected volumes depending on the overall risk profile of each compartment — details below).

Fifth

The Fifth Amendment (October 2012) was largely technical, involving the specification of asset management guidelines, administrative costs and performance indicators

Sixth

The Sixth Amendment, which is anticipated to come into force in January 2013, covers changes to facilitate direct lending by the EIB to universities and public research institutions, and also loans to medium and large Mid-Caps via intermediaries of the EIB. It introduces a counter-guarantee mechanism for the RSI (see below), and specifies the way in which the EIB can provide technical and financial advice to prepare potential projects for the possibility of RSFF support. In addition, this Amendment modifies RSFF reporting and monitoring procedures in view of the provisions for financial instruments contained in the new Financial Regulation that enters into force in 2014.

2.5 Risk-Sharing Instrument for SMEs and Small Mid-Caps (RSI)

The RSI, a key component of the Fourth Amendment, aims to encourage banks to provide loans of between €25 000 and €7.5 million to SMEs and small Mid-Caps undertaking research, development and/or innovation, with loan terms from two to seven years, and with the risk finance covering investments in assets (tangible or intangible) and/or working capital. The RSI is funded by €120 million from the 2012 FP7 Cooperation budget. A

[16] Small Mid-Caps have up to 500 employees or full-time equivalents.

[17] On the basis of a total EU contribution over the period 2007-2013 of €200 million from the Capacities specific programme and a first-loss piece (FLP), for this compartment of the RSFF, of 50% (2 x €200 million). The FLP may be reduced during 2012, as the risk profile of several projects in the research infrastructures pipeline is more favourable than previously anticipated. If this adjustment is done, the leverage of EU funding will be raised and the volume of potential loans increased accordingly.

further €150 million from the 2013 FP7 Cooperation budget will allow the extension of the RSI in terms of volume and scope (introduction of a counter-guarantee product; see Sixth Amendment, above).

The EIB has mandated the EIF to implement the RSI. The EIF, in turn, is entering into individual agreements with a number of banks on the basis of applications submitted to the EIF under an open call for expressions of interest. Under the terms of each agreement, the EIF provides, in return for a fee, a guarantee to the bank concerned against loan defaults. For each default, the bank receives 50% of the amount of the loan outstanding. The call opened on 6 February 2012[18]. At time of writing, the EIF has received 9 applications from intermediaries in 7 countries. 6 applications for an RSI guarantee have already been approved by EIB's Board of Directors, and two agreements have been signed up to now.

The anticipated outcome of the 2012 pilot is as follows: total loan volume of €1 billion; some 500-plus beneficiaries, split between SMEs and Mid-Caps; median loan size of €1 to 2 million; expected loan default rate of 15-20%;10 or so banks operating as financial intermediaries in at least 8 countries (of which at least one EU-12 and one FP7 associated country)[19]; and with a typical bank portfolio comprising 40 to 60 plus beneficiaries, depending on the granularity and size of bank portfolios. The extension in 2013 is expected to increase the total loan volume to some €2.5 billion, cover up to 1000 beneficiaries and involve 20 financial intermediaries (of which 5 guarantors) operating in up to 18 countries.

2.6 Research Infrastructures

In 2006, ESFRI[20] published a roadmap identifying 35 priority EU-scale infrastructures required in key scientific areas. The Fourth Amendment was designed to enable loans to be made not only to such infrastructures themselves, but also to their suppliers and to enterprises commercializing their results and services.

2.7 RSFF state of play as of mid-November 2012

€8.477 billion of signed loans covering 88 operations. The RSFF is likely to exceed the original €10 billion target for end-2013 by a comfortable margin.

3. Second Interim Evaluation

3.1 Background

The new features of the RSFF introduced by the Fourth Amendment, based on the experience of implementing the RSFF from 2007 to 2010,are in many way a pilot and rehearsal for the scaled-up and expanded debt facility that the Commission has proposed as part of the Horizon 2020 package.

This debt facility should launch in 2014 in close conjunction with complementary facilities in COSME[21], the programme for the competitiveness of enterprises and SMEs. As proposed by the Commission, the Horizon 2020 debt facility will comprise the successor to RSFF normal operations, dubbed the "Loans & Guarantees Service for R&I", and the successor to the RSI, dubbed the "SMEs & Small Mid-Caps R&I Guarantee Facility" (see

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[18] See http://www.eif.org/what_we_do/guarantees/RSI/rsi-call-for-expression-of-interest-_060212.pdf

[19] This reflects the performance target set for the EIF.

[20] For more on ESFRI, see http://ec.europa.eu/research/infrastructures/index_en.cfm?pg=esfri

[21] COSME proposal: http://ec.europa.eu/cip/cosme/

diagram below). The latter will handle loans over €150 000, complementing debt financing for SMEs by the Loan Guarantee Facility under COSME, which will deal with loans up to this amount. Horizon 2020's debt facility will also support phase 3 (commercialisation) of the dedicated SME Instrument[22]. The COSME and Horizon 2020 debt facilities will together constitute the EU Debt Instrument for R&I and growth.

3.2 Scope

The second interim evaluation of the RSFF must be based on RSFF operations until the end of 2012 and draw on the whole experience of the RSFF to date, taking into account, as a key source of evidence, the report of the first interim evaluation.

The focus should be on the institutional context, functioning and design of the RSFF, rather than its impacts, which will be assessed as part of the ex-post evaluation of the Seventh Framework Programme in 2015.

The evaluation must be conducted from December 2012 until May 2013, with the Experts' report delivered by June 2013.

3.3 Aims and means

The aim of this evaluation is to assess the implementation of the RSFF since its start in 2007 until the end of 2012 with a view to drawing lessons for the design of the proposed debt facility under Horizon 2020.

To this end, particular attention must be paid to what has been learnt in 2012 following the changes implemented on the basis of the Fourth Amendment to the Cooperation Agreement, while bearing in mind that the new features of the RSFF will not have had much time in which to prove themselves.

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[22] For more on the SME Instrument, see http://ec.europa.eu/research/horizon2020/pdf/press/fact_sheet_on_sme_measures_in_horizon_2020.pdf

The Group of very high-level Independent Experts is expected to base its evaluation conclusions primarily on the following three elements:

1) An assessment of the extent to which the RSFF has operated in accordance with the Cooperation Agreement, taking particular account of a review of the RSFF's strategy, procedures and operations, as well as an analysis of governance, looking at the role and performance of the EIB, the EIF, the EU RSFF Designated Service[23], the Commission's Asset Management Designated Service[24] and the RSFF Steering Committee[25].
2) A review of RSFF portfolios (single portfolio before the Fourth Amendment, three portfolio compartments thereafter), looking at their overall relevance and quality[26]; and as a complement to this portfolio analysis, an assessment of the extent to which a sample of individual operations have fulfilled or are on track to fulfilling their objectives (mainly, but not exclusively, focusing on the operations that were evaluated in the Mid-Term Review).
3) An assessment of the current RSFF product offering, risk spectrum and value proposition compared to the financing needs of the groups of beneficiaries targeted and also of those (such as universities and medium to large Mid-Caps[27]) which have not been specifically targeted so far. This will take into account the preliminary views of financial intermediaries that have applied for the RSI guarantee, final beneficiaries (in the case of RSI, to the extent available), and other stakeholders.

The EU RSFF Designated Service will coordinate the evaluation and serve as the secretariat of the Group of Experts. The Service will provide the Experts with an initial orientation and information pack.

The RSFF Steering Committee will act as the steering group.

The Experts will be assisted by EV, the EIB's independent Operations Evaluation function. EV will provide the Experts with an evaluation study covering the three elements described above. EV will also participate in any meeting of the RSFF Steering Committee that deals with evaluation issues and in any ad hoc evaluation committee or working group convened during the evaluation. The mandate given to EV by the RSFF Steering Committee is in Annex I.2.

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[23]Unit C.3 in DG Research & Innovation. It would also be useful to look at the interaction of the Designated Service with Commission structures developing the Commission's approach to the design and deployment of EU financial instruments, such as the Commissioners' Group on Innovative Financial Instruments and the interdepartmental Financial Instruments Interservice Experts Group (FIIEG).

[24]Unit L.5 in DG Economic & Financial Affairs.

[25] Composed of directors representing DGs Budget, Economic & Financial Affairs, Energy, Communications Networks, Content & Technology (formerly Information Society & Media), Mobility & Transport, and Research & Innovation, plus equivalents from the EIB and, when the RSI is discussed, the EIF.

[26] A substantive evaluation of the relevance and quality of the RSI portfolio would be premature at this stage. During 2012, EIF has been receiving applications for the RSI and has started signing guarantee agreements with selected financial intermediaries. As these intermediaries have up to 2 years to ramp up their portfolios, the overall RSI portfolio will only be in an early ramp-up phase by the end of 2012.

[27] In line with the EIB's definition, these are companies with 500 to 3000 employees or full-time equivalents.

3.4 Evaluation questions

Drawing on the evaluation study referred to above, the Group of very high-level Independent Experts should address the evaluation questions listed below. These have been grouped under the standard evaluation criteria employed by the European Commission and the EIB Group.

This is not an exhaustive list and is not presented in priority order. The Group is invited to take these items as a starting-point for further reflection and to use them as a springboard for identifying further relevant issues in discussion with the RSFF Steering Committee.

Relevance

1. To what extent has the RSFF addressed market needs and gaps — in terms of transaction size, groups of beneficiaries targeted or not targeted, financial value-added and attractiveness of pricing, risk spectrum — and deficiencies in the availability of debt financing for R&I investments, especially in the light of the financial and economic crisis? What could be improved in the future?
2. To what extent are the RSFF's objectives still pertinent to the needs, priorities, problems and issues that it was originally designed to address?
3. To what extent are the RSFF's objectives still in line with the priorities of the EIB Group and of the EU 2020 strategy?
4. Are the eligibility criteria used to judge whether a project can be financed as a normal RSFF operation clearly related to the RSFF's objectives?
5. Is it necessary to better clarify what kind of projects (i.e., R&D, demonstration, first-of-a-kind, deployment, etc.) are eligible under RSFF and the future debt facility in Horizon 2020?
6. What recommendations can be made for the design of a future RSFF-like product?
7. Is the governance structure fit for purpose? What lessons can be learnt for the governance of future financial instruments under Horizon 2020, and in particular for ensuring appropriate synergies between Horizon 2020 instruments or facilities and those managed by other EU programmes?
8. Could a more beneficial effect have been produced by focusing on other groups of beneficiaries than those targeted so far? If so, which?

Effectiveness

9. How effective has the monitoring and reporting system been in enabling the RSFF's managers to have a timely and adequate overview of the state of play?
10. How effective has the communications strategy been in terms of selecting target audiences and multipliers, developing messages and media, and the choice and organisation of awareness-raising events? To what extent has it supported the take-up of the RSFF?
11. To what extent has the change in the risk-sharing mechanism introduced by the Fourth Amendment improved the leverage effect[28] of EU funds and enhanced the EIB's capacity to finance loans?

[28] "Leverage" is defined as total funding (i.e., EU funding plus contributions from other financial institutions) divided by the EU financial contribution.

12. Looking at the risk-sharing arrangements in each of the three RSFF compartments, is the EU contribution, in each case, appropriate in terms of achieving the RSFF's objectives?
13. Are the risk-sharing arrangements appropriate in terms of ensuring an alignment of interest between the EU and the EIB Group?
14. Regarding the RSI, what are the preliminary indications from financial intermediaries regarding their expectation about the effectiveness of the eligibility criteria[29] in channelling debt finance to RDI-driven SMEs and small Mid-Caps?
15. To what extent have the RSI eligibility criteria led to the effective selection of RDI-driven SMEs and small Mid-Caps? In what way, if any, could the eligibility criteria be improved to make the selection process more effective in an RSI-like facility under Horizon 2020?
16. How successfully has the RSI managed to ensure the transfer of financial benefit to final beneficiaries? In what way, if any, could this be improved?
17. Regarding research infrastructures, to what extent have the provisions introduced by the Fourth Amendment — enabling loans to be made not only to infrastructures themselves but also to their suppliers and to enterprises commercialising their results and services — made it possible for more RSFF operations to be undertaken in this area?
18. What are the main factors determining the RSFF project pipeline?
19. Are appropriate measures in place to minimise the displacement or substitution of private investment by the RSFF?

<u>Efficiency</u>

20. To what extent are the financial costs of managing the RSFF reasonable and in line with expectations?
21. What recommendations can be made regarding the combined use of different budgetary resources for a single purpose – i.e., the financial support of RDI activities for a range of beneficiary target groups?
22. What recommendations can be made to ensure that each and every type of targeted beneficiary is addressed with a financial instrument tailored to their specific needs?
23. Have adequate human resources been deployed by the European Commission and the EIB Group to manage and implement the RSFF, and to what extent have these been managed efficiently?
24. How efficient have the processes of checking the eligibility of projects and the bankability of associated loans been? How could these two checking processes be made more efficient? Are the two processes sufficiently well-articulated? What lessons can be drawn for the operation of the analogous part of the debt facility under Horizon 2020?
25. Regarding the RSI, how efficient has the process been of selecting financial institutions to become financial intermediaries? What interest in the RSI has been shown to date by financial intermediaries? (as evidenced by, for example, number of applications received, number of financial intermediaries preselected and selected, proposed volumes, etc.).

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[29]See the Indicative Term Sheet — p.25 of
http://www.eif.org/what_we_do/guarantees/RSI/rsi-call-for-expression-of-interest-_060212.pdf

26. Have the country coverage indicators sufficiently incentivised the EIB to extend the geographic coverage of RSFF operations? Have the country performance indicators specified in the RSI sufficiently incentivised the EIF to reach the desired country diversification? What lessons can be learnt regarding an incentive scheme for the debt facility under Horizon 2020?
27. Is there scope for the wider use of technical and financial advisory services in fostering the take-up of RSFF loans and guarantees?
28. What use was made of EU funding to cover losses, and what was the overall return on EU funds? What lessons can be learnt for the future, especially regarding loan pricing and the competitiveness of RSFF-type loans?

Sustainability

29. Are the impacts of the RSFF, as far as they can be assessed at this stage, in line with expectations? Can any socio-economic impacts be determined?
30. What are the main types of risk — political, organisational, institutional, regulatory, environmental, social, financial, and economic — that an RSFF-like mechanism is likely to face in future? What could be done to mitigate such risks?

3.5 Timetable and deliverables

Meetings

The Group of very high-level Independent Experts will work from December 2012till the end of June 2013. The members will meet up to six times, whereas the chairman and the rapporteur up to nine times. All meetings will be held in Brussels on Commission premises unless it is deemed appropriate to meet elsewhere.

If, for any reason, an expert wishes to travel to a meeting of the group from a point of origin other than that mentioned in the specific conditions of the expert's appointment letter, written consent must be obtained from the Commission beforehand.

Deliverables

- **Progress report** by 15 March 2013 describing the structure and outline of the final report, outstanding information needs, documents and other data-sources consulted, still to be consulted or not locatable, and next steps. The Progress Report must be in English and comprise an executive summary of up to two pages and a core text of up to 10 pages.
- **Presentation of emerging findings** to RSFF Steering Committee in April 2013.
- **Draft final report** by 31 May 2013.
- **Final report** by 30 June 2013.

  The final report must be in English and comprise an abstract of not more than 1 page, an executive summary (including recommendations and an action plan) of up to 6 pages, a core text of up to 30 pages, and annexes.

  This report will be published on European Commission and EIB Group websites.
- **Presentations:** the Chair of the Group will be expected to make a presentation of the final report to the ITRE Committee of the European Parliament and to one or more Council Working Parties.