



## Equity and grants for innovation 2021-2027

**Panagiotis Sevdalis**, Policy Officer, DG RTD,  
European Commission

**José Romano-López**, Investment Officer,  
European Investment Bank

**Anna Zurek**, Financial Instruments  
Advisor, European Investment Bank

**Aneta Stoica**, Counselor, ADRVest, Romania

**Mario Mustilli**, Full Professor of Corporate  
Finance, Università di Napoli, Italy

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# Equity and grants for innovation 2021-2027

**Panagiotis Sevdalis**

Policy Officer, DG RTD, European Commission

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## EIC PRIZES

- Women innovators
- Capital of innovation
- Innovation procurement
- Social innovation
- Horizon
- Humanitarian Innovation



## SEAL OF EXCELLENCE

Fast track to other funding

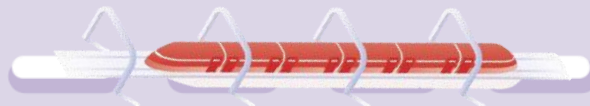


## EIC ACCELERATOR SERVICES

- Mentors, coaches
- Global partners
- Innovation ecosystems
- EIC Community Platform

## EIC ACCELERATOR

- For single companies
- Grants up to **€2.5 million**
- Equity up to **€15 million** or above
- To enter the market & scale-up (TRL 6-9)



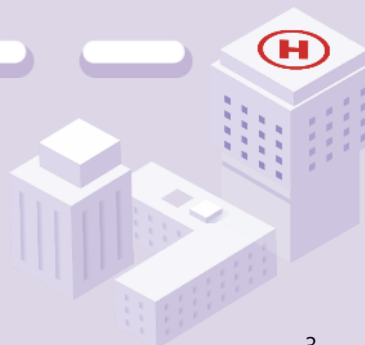
## EIC TRANSITION

- For consortia & single companies
- Grants up to **€2.5 million**
- To develop business cases (TRL 4-6)



## EIC PATHFINDER

- For consortia
- Grants up to **€4 million**
- To research technology breakthroughs (TRL 1-4)





**Start-ups and SMEs** seeking to **scale-up** high impact innovations with the **potential to create new markets** or disrupt existing one

Innovation building on **scientific discovery** or technological breakthroughs („**deep tech**“)

Innovations where **significant funding** is needed over a **long timeframe** and are **too risky** for private investors alone

# EIC Accelerator

What can companies apply for?



## EIC Blended Finance

**Equity**  
0.5 to €15  
million

**Grant**  
Less than  
€ 2.5  
million



## Also

Grant only

With other  
finance

Equity only

If previous  
grant  
received



## Grant component



## Investment component

- maximum of less than **€ 2.5 million**
- eligible costs are reimbursed up to a maximum of **70%**
- small mid-caps are not eligible for a grant only

- € 0.5 million and **maximum € 15 million**
- usually in the form of direct **equity** or quasi-equity
- **minority ownership** (maximum 25% of the voting shares of the company)
- **“patient capital” principle** (7-10 years perspective on average, max 15 years)

# Seals of Excellence



- The EIC Accelerator and EIC Transition SoEs are awarded following **highly rigorous, multi-step evaluation** to highly innovative companies with potential to scale up.
- Companies **must give consent** to share data to be eligible for EIC SoE (for limited set of data, e.g. contact details, abstract of the proposal, the amount of financial support requested).
- EIC SoEs receive **access to EIC Business Acceleration Services** (coaching, events, partnering, etc)
- **Enterprise Europe Network** (EEN) supports SoEs to secure other sources of funding



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## **EIC Accelerator: Supporting EU Strategic Deeptech**

**José Romano-López**

Investment Officer, European Investment Bank

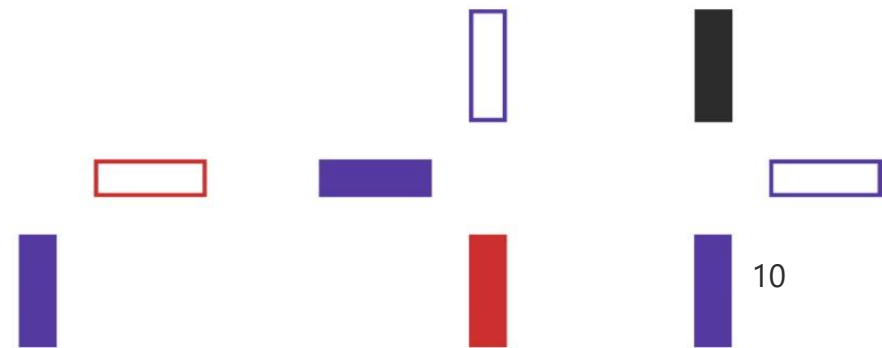
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# EU policy addressing the deep tech challenge



- Science + engineering + digital = **Tech transfer gap**
- Large investments at high risk for long periods = **Finance gap**
- Entering highly regulated markets (health, energy, transport, education, construction, food, etc) = **Regulatory gap**



# What is the European Innovation Council?

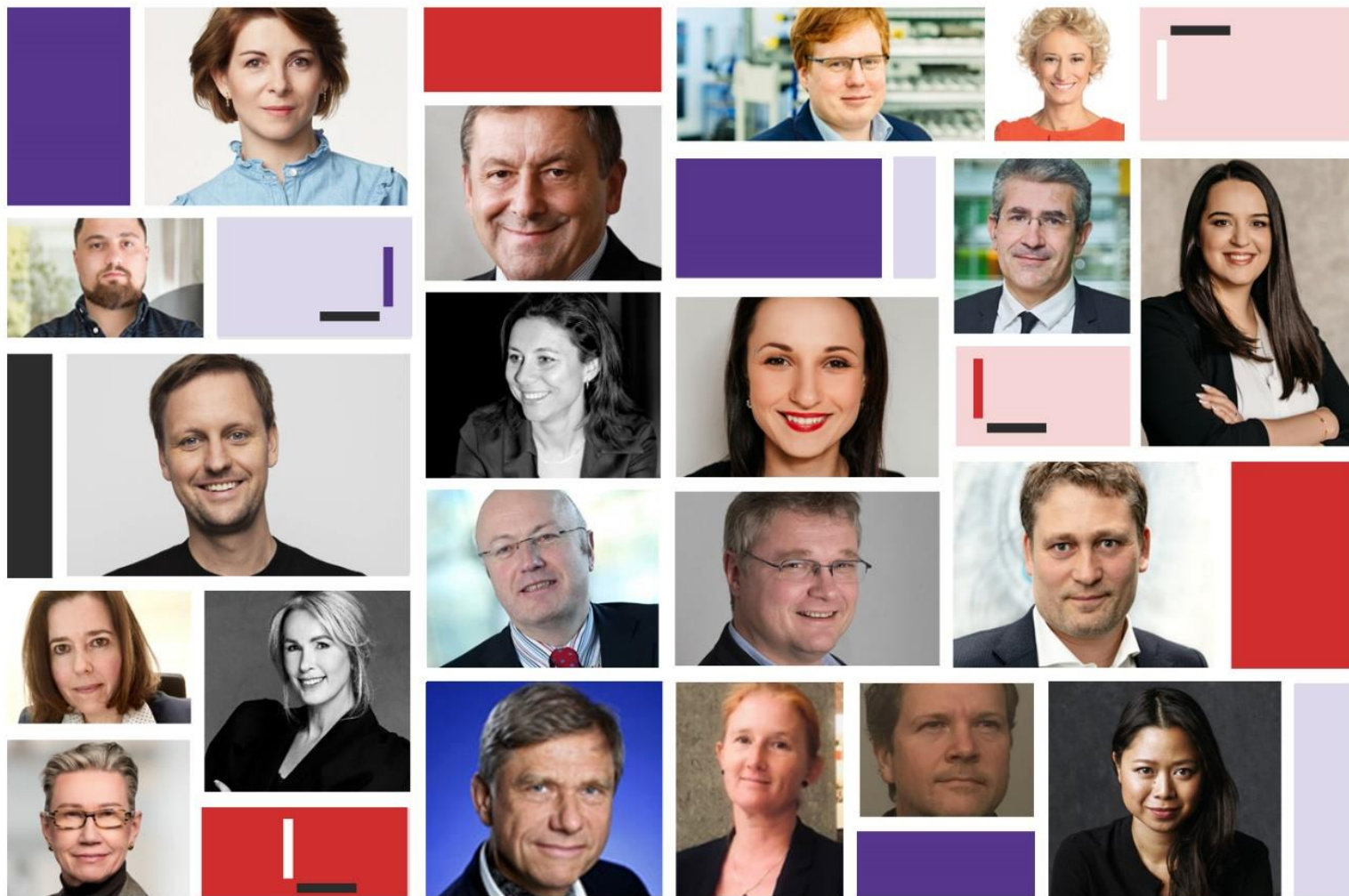


- **Europe's most ambitious innovation programme:**
  - Over **€10 billion budget** to identify, develop and scale up breakthrough technologies and disruptive innovations in Europe
  - Approx. **€7 billion Accelerator for startups/ spinouts in equity & grants** for pipeline of investable, scalable deep tech companies
  - Approx. **€3 billion for DARPA style advanced research** for portfolio of breakthrough technologies (civilian)

# EIC set up



- **EIC Board** to steer EIC strategy, implementation, wider innovation policy
- **EIC Agency (EISMEA)** to implement EIC programmes with in-house Programme Officers
- **EIC Fund** as dedicated investment fund for startups selected by EIC, with support from European Investment Bank (EIB)



# The role of the European Investment Bank

European  
Innovation  
Council



- **Investor of record in the EIC Fund legal vehicle**
- **Advisor on the equity transactions**
- **EIB does NOT**
  - **Originate transactions**
  - **Price the transactions**



**European  
Investment Bank**



## Pathfinder

- Early stage research on breakthrough technologies (TRL 1-4)
- Grants up to 3 to 4 million EUR

## Transition

- Technology maturation from proof of concept to validation (TRL 3-6)
- Grants up to 2.5 million EUR

## Accelerator

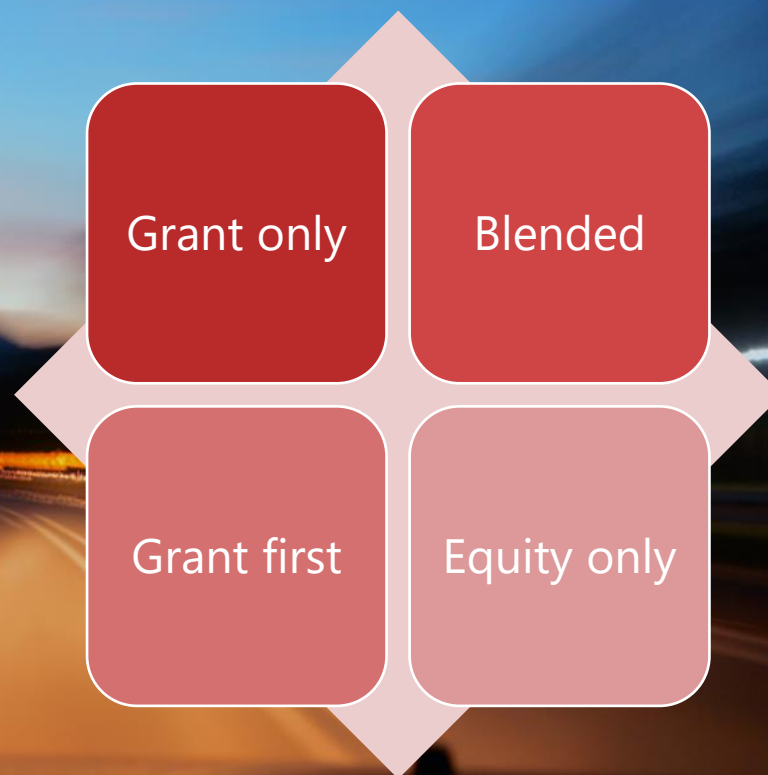
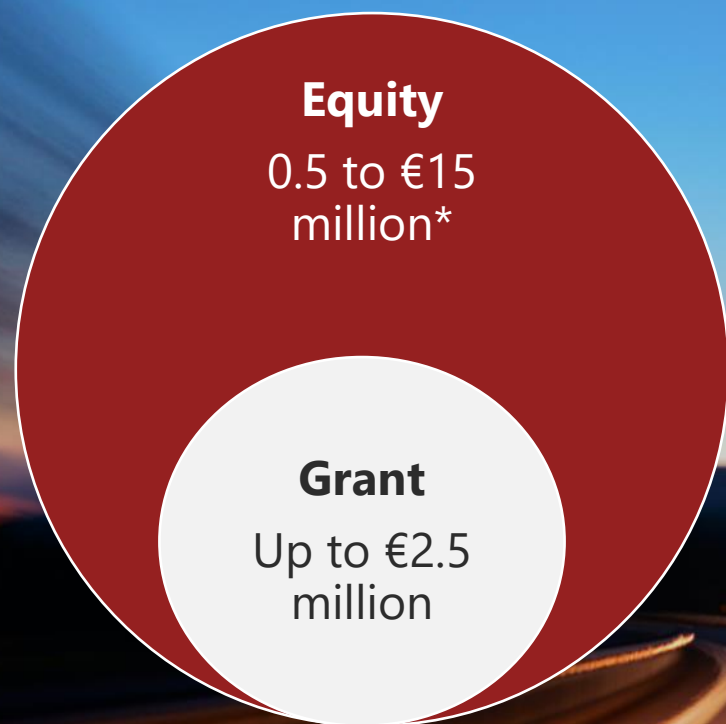
- Development & scale up of deep-tech/disruptive innovations by start-ups/SMEs (TRL 6-9)
- Blended finance (grants up to 2.5 million EUR; equity investment up to 15 million EUR)

**European Innovation Council (EIC)**



# EIC Accelerator

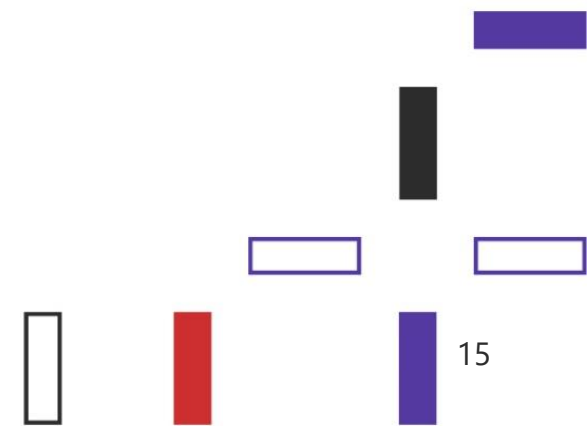
European  
Innovation  
Council



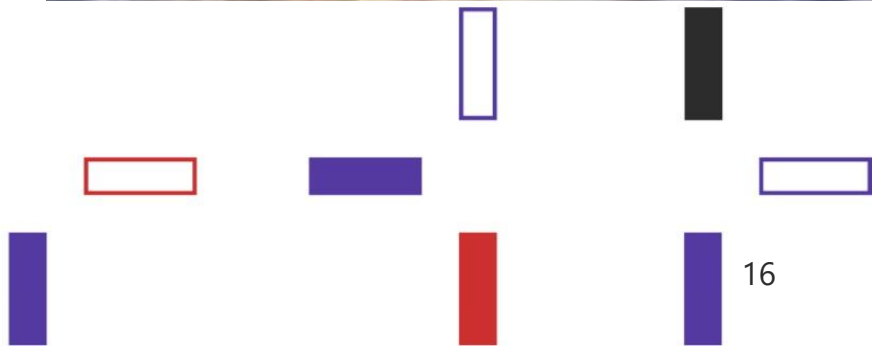
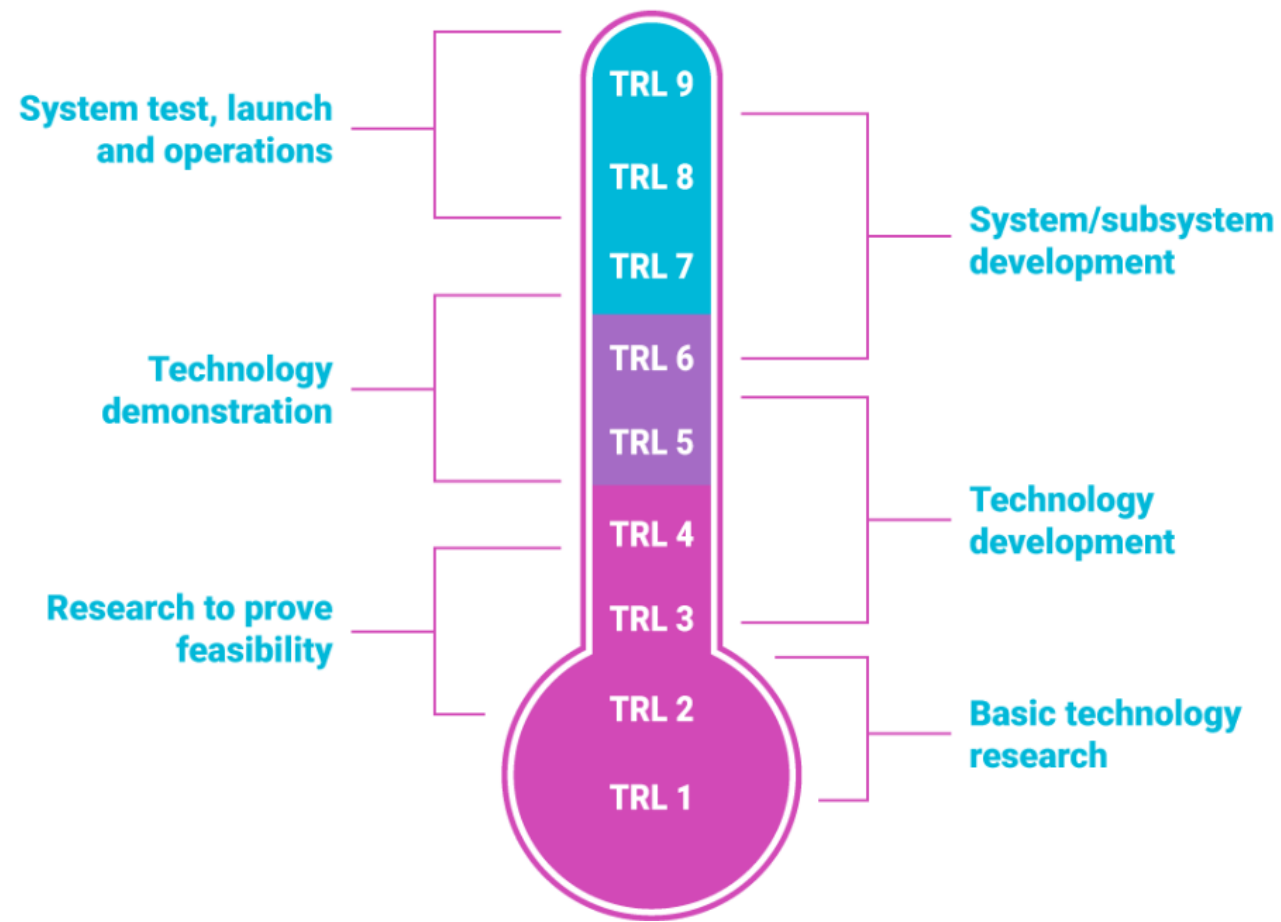
## What can we offer?



(\*) In duly justified cases the investment component can be higher than EUR15 million



# Technology Readiness Levels





# EIC Fund investment process



- Applications coordinated by the **EC (EISMEA)**
- Review and selection by **independent experts**
- **Companies selected for equity investment transferred to the EIC Fund**

EIB acts as **Investment Advisor** to the EIC Fund, in charge of **equity investments** (DD, structuring, negotiation, monitoring, exits).

## DUE DILIGENCE

### INVESTMENT DECISION

- **Market-standard equity DD** on typical DD areas (financial, market, technical, KYC etc.)
- **Investment recommendation** based on DD outcome

## NEGOTIATION & CLOSING

### INVESTMENT SIGNATURE

- **Negotiations and transaction closing** (legal DD)
- **Deal closing support**

## MONITORING AND EXIT

- **Monitoring, reporting on transactions and active investment management** (follow-ons, exits etc.).

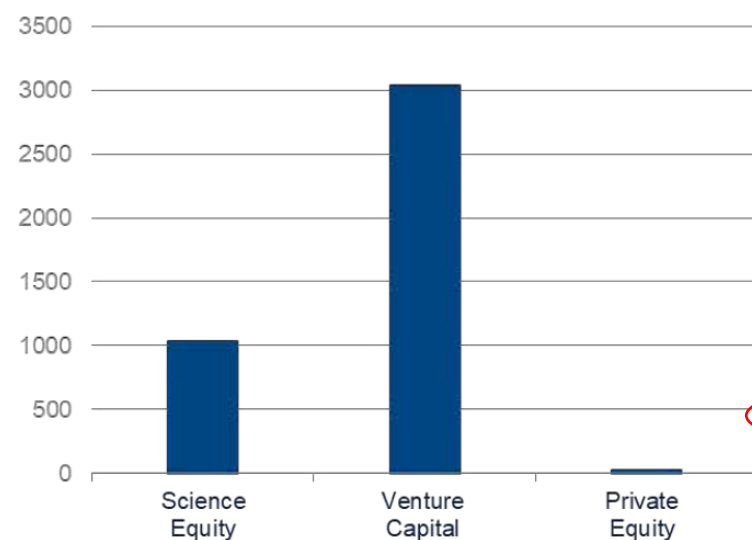
# Efficiency and scalability of public intervention



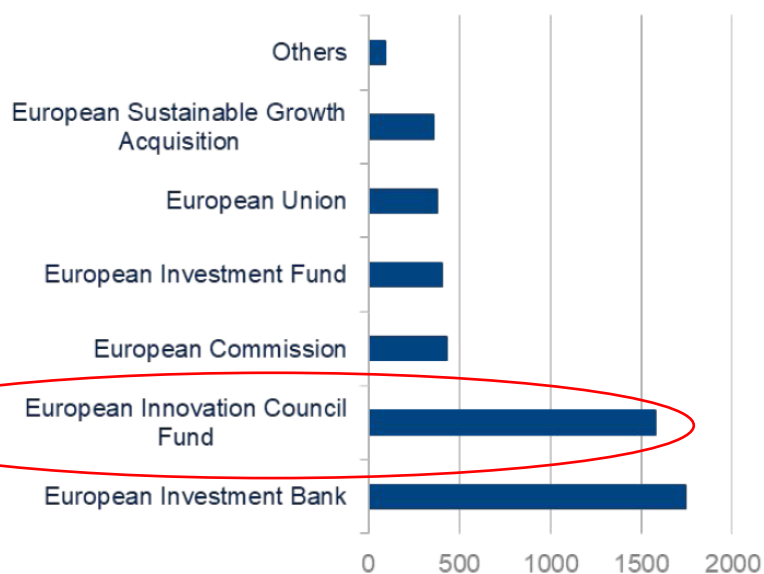
## EU institutions are investing in the equity ecosystem of deep science

### DEEP SCIENCE EQUITY INVOLVING EU-LEVEL PUBLIC INSTITUTIONS, 2012-2022 (MILLION DOLLARS)

#### BY TYPE OF EQUITY INVESTMENT

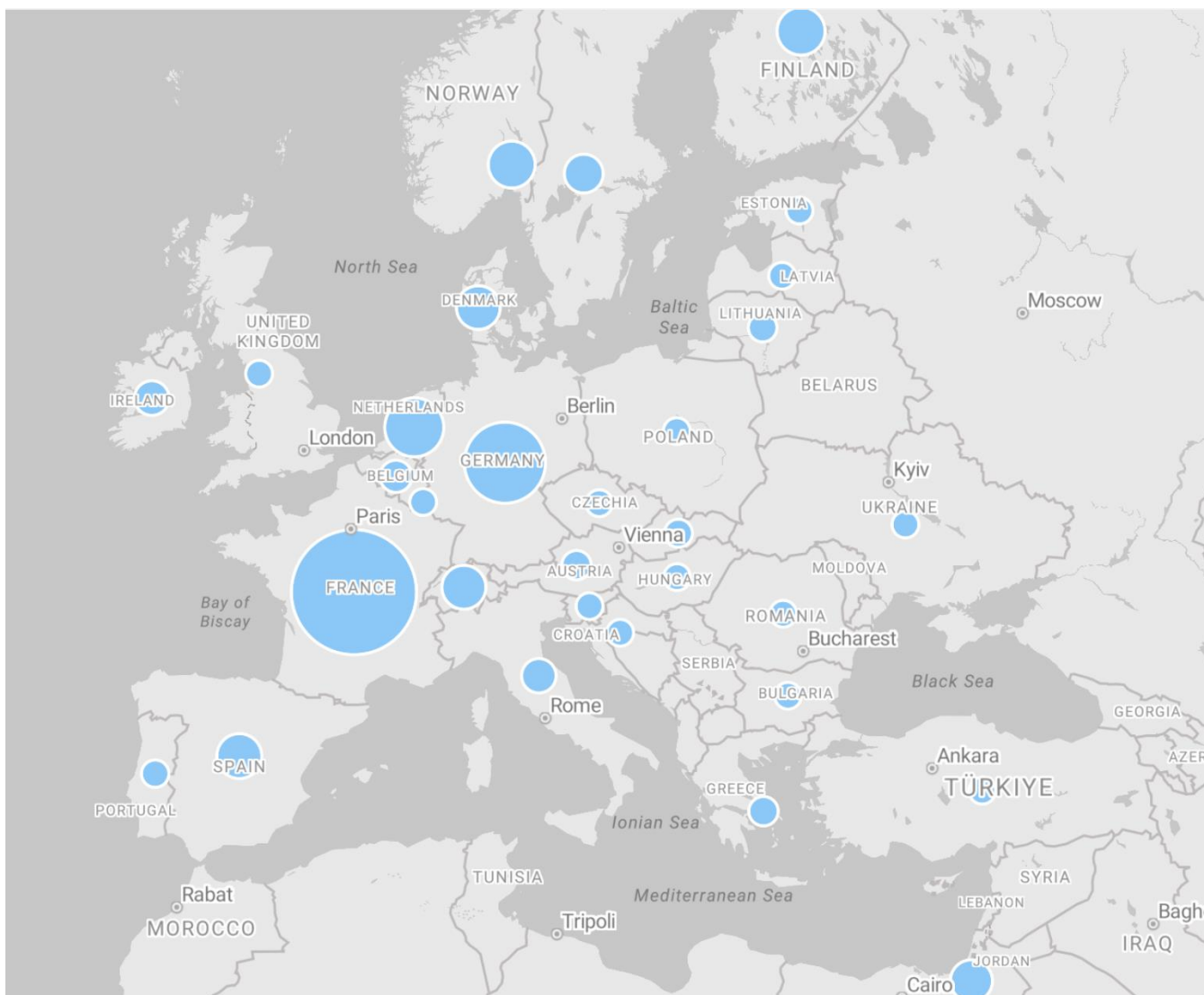


#### BY EU INSTITUTION INVOLVED



Source: BBVA Research and BeAble Capital from PitchBook Data, Inc. Data has not been reviewed by PitchBook analysts.

# Demand-led support across geographies



**> € 2.0bn\***

Approved Deals

**211\***

Investee Companies

**€ 4m**

Average Equity Ticket

**>3x**

Average Round Multiplier

(\*) Information as at 31/01/24

# EIC Fund value added for companies

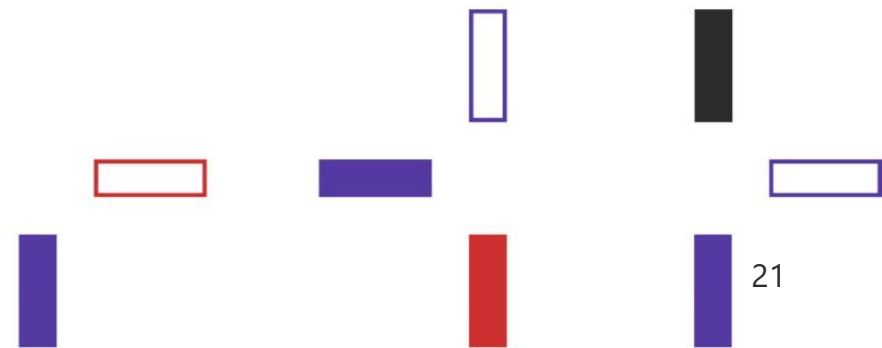


- Combination of up to **€2.5m of grant** and up to **€15m of equity**
- **Founder-friendly lifecycle equity investment support** from seed to Series B/C rounds
- **Stable and patient capital**
- **“Smart-money”** - access to fundraising and business acceleration support
- EIC award and EIC Fund investment - **a stamp of approval?**

# Grant + equity combination value added



- **Non-dilutive** nature of funding
- Allows you to **de-risk a technology**
- **Catalyst for private** investment
- Application to **regional policies?**





# Application process



## Welcome to the EIC AI Platform

In order to access this platform please authenticate yourself with **EU LOGIN**.

→ Login with EU LOGIN

# Examples of EIC supported Deep Tech Scale ups



## **IQM Quantum Computers**

A leading European startup building quantum computers for HPC centers, research institutes businesses



## **NEL Hydrogen**

Developing technologies to produce, store and distribute hydrogen from renewable energy



## **SparingVision**

Genomic medicines company, translating pioneering science into vision-saving treatments.

Spin out established in 2016



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# Techstart, Northern Ireland: 2014-2020 ERDF proof of concept grants and seed capital

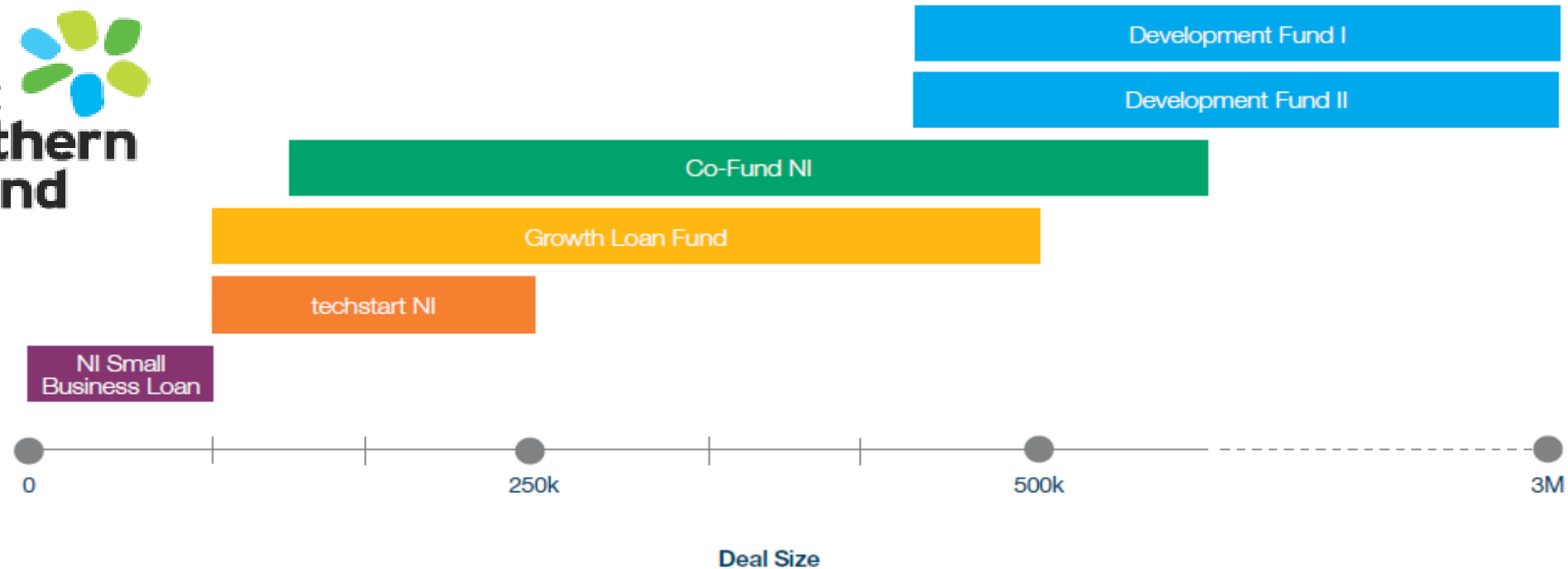
**Anna Zurek**

Financial Instruments Advisor,  
European Investment Bank

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# techstart NI: ERDF grants and equity as part of NI's Access to Finance Strategy



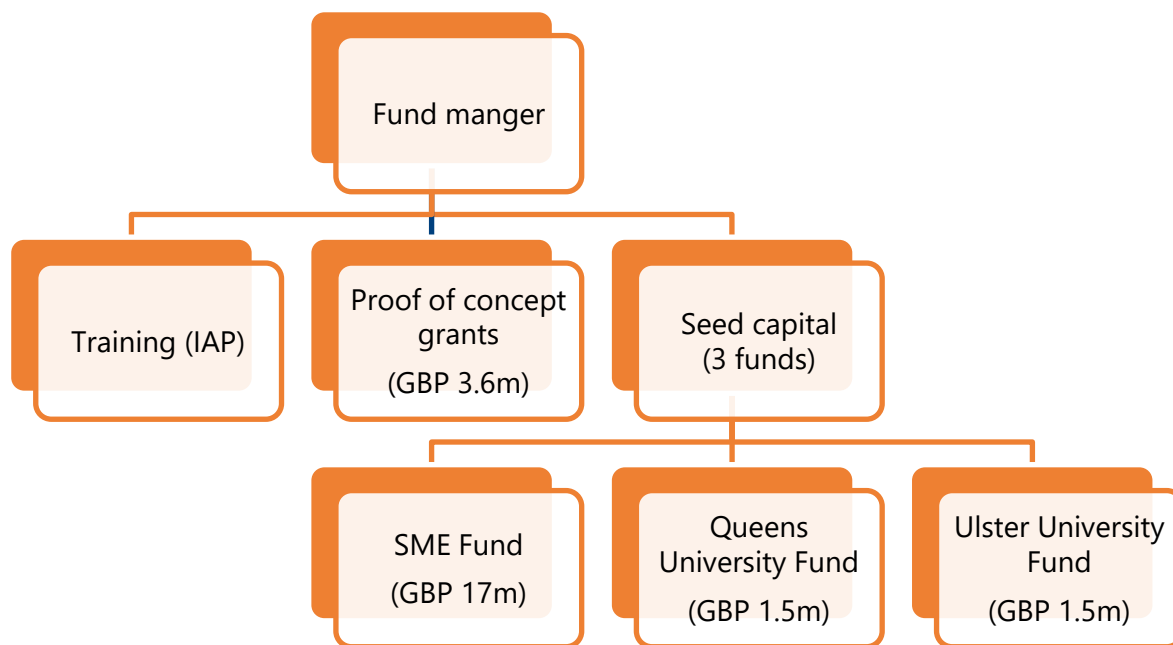
- NI Small Business Loan Fund (£5m) (Debt)
- techstart NI (£29m) (Equity & Grant)
- Growth Loan Fund (£50m) (Debt)
- Co-Fund NI (£28m) (Equity)
- Development Funds (£60m) (Equity)



# Techstart NI: 2014-2020 ERDF grants and equity



**Integrated suite of products focussed on start up and early stage companies in Northern Ireland, provided by the same fund manager**



*Disclaimer: Fund sizes based on 2017 data*



## Proof of concept grants

- Grants to tease out whether or not an idea has commercial potential
- Amounts of up to GBP 25 000
- Recipients can be individuals or companies

*Helping feed the pipeline for equity investments*

## Seed capital

- Seed and early stage investments targeting innovative SMEs based in NI
- Three separate funds
- Focus on broad technology market
- Initial investment range GBP 50 000 - 250 000
- SME funds and universities can co-invest
- Investments made via equity or convertible loan notes



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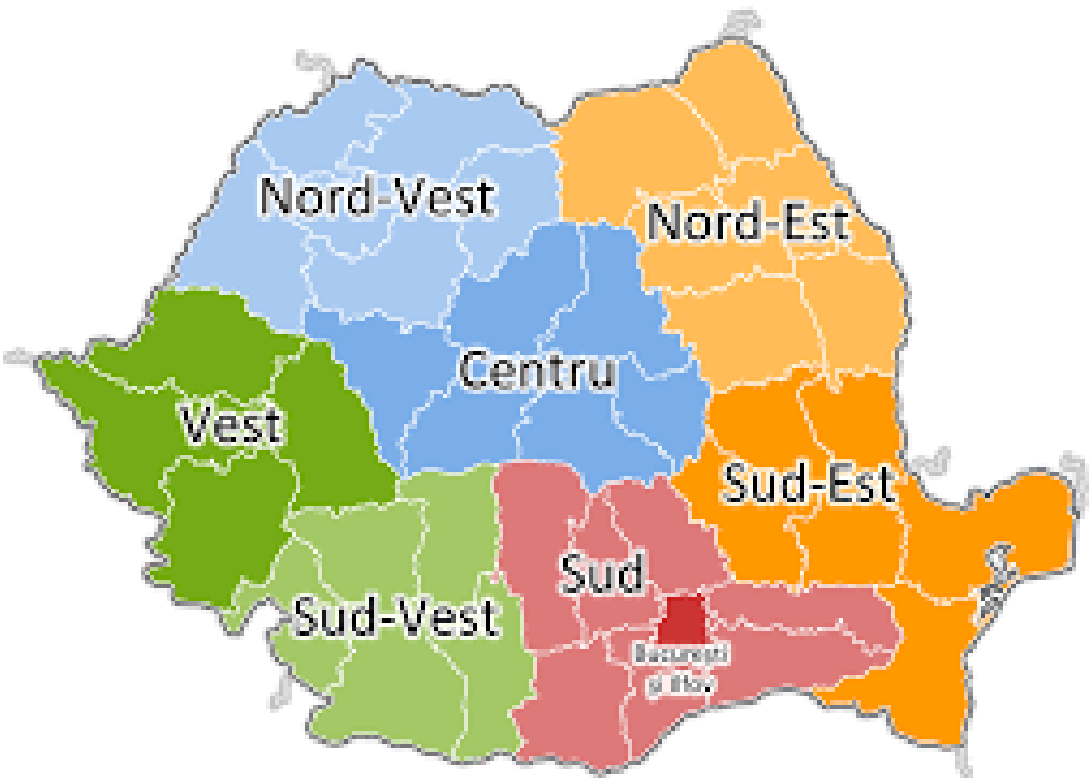
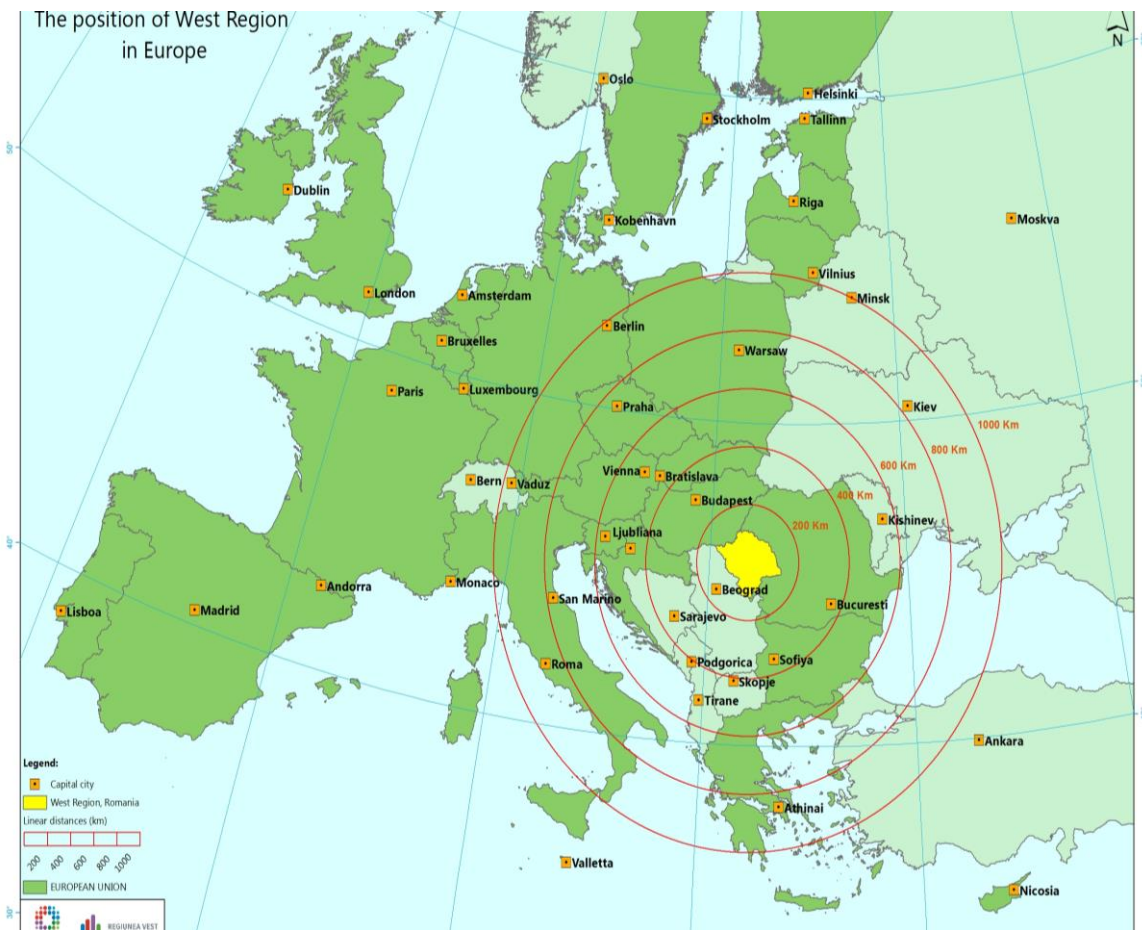
## **ERDF Combination of grant with equity Financial Instrument for Business Acceleration (FIBA) in West Region of Romania**

**Aneta Stoica**  
Counselor, ADRVest, Romania

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# Romanian West Development Region



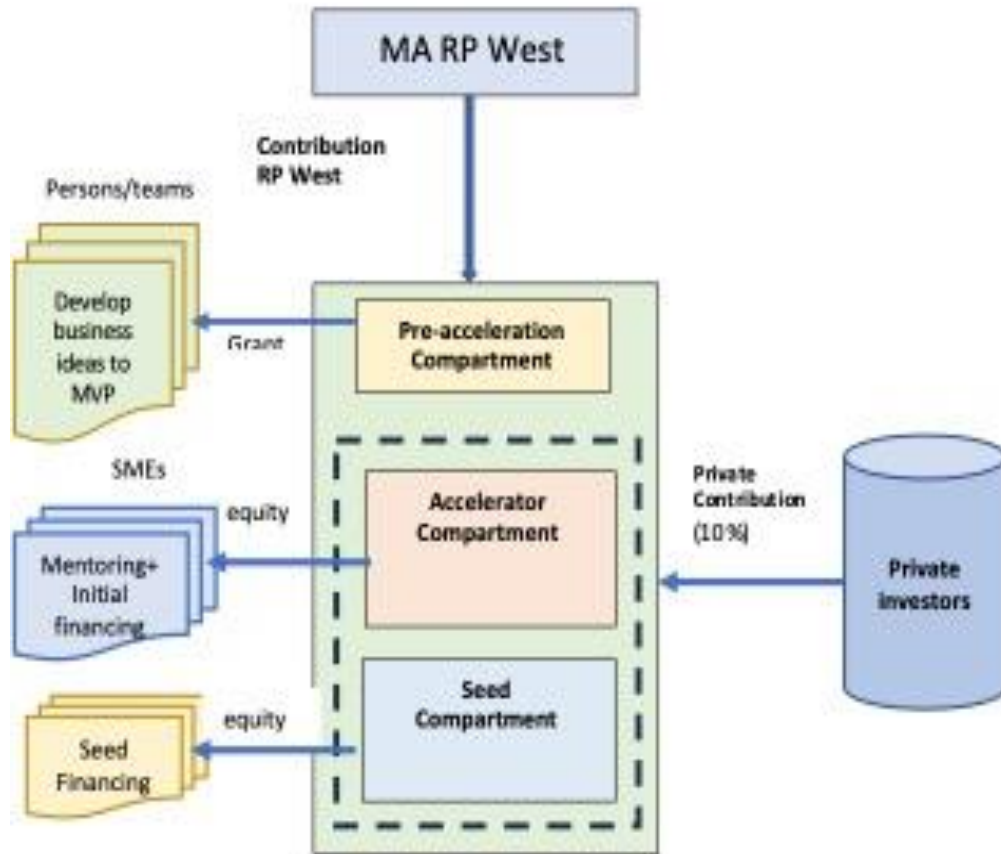


# Combination of equity with grant



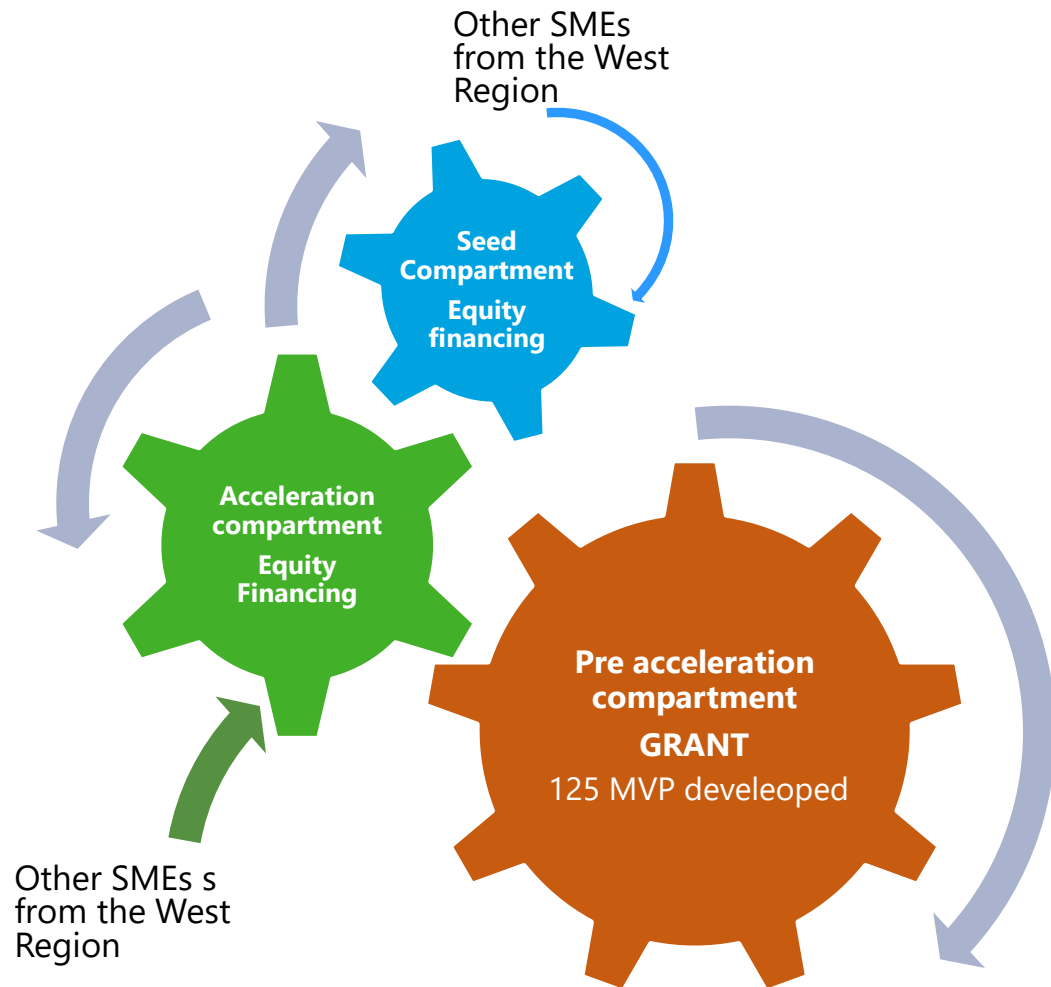
**Financial instrument for business acceleration (FIBA)-allocation from RP West: 14 mil. Euro**

## Structure of FIBA



- **Grant part of FIBA (500,000 Euro)**
  - ✓ **Pre-acceleration compartment: consultancy** for the development of business ideas until MVP (cca.125)
- **Equity part of FIBA (11.5 mil. Euro)**
  - ✓ **Accelerator compartment** (4.6 mil.Euro):
    - **mentoring and coaching** for validate the product
    - **financing** pilot production and commercial applications (min. 50 SMEs)
  - ✓ **Seed Compartment** (6,9 mil. Euro): **financing** initial commercial production/sales before break-even and marketing expenses (min. 10 SMEs)
- **Management fees for FIBA:** 2,000,000 Euro (18%).
- **Final beneficiaries:** SMEs from the West Region
- **Eligible investments:** products/services in the smart specialisation areas identified in the Regional Smart Specialization Strategy

# Characteristics of the grant part in FIBA



- Grant part of FIBA **respects all requirements of the Regulation**
- It contributes **to avoid the FI implementation risks** due to the lack of enough eligible SMEs
- **Grant type:** consultancy support to the target group
- **Result based grant:** payments provided based **on the number of MVP realized**
- **Target group:** persons /teams with new business ideas based on technology
- **Selection criteria for participants:** novelty and feasibility of business ideas
- **Services provided from the grant part of IF:**
  - **training, mentoring, consulting, coaching** for the development of the new business ideas to MVP
  - **support for establishing new SMEs** (if it is the case).



# Main challenges for the Managing Authority



- **Difference between classical “grant” and “grant combined with FI”**
- Shortage of examples related **the combination of equity with grant.**
- **Challenges in the selection process: the elaboration of the public procurement documentation and the process of selection** itself:
  - Procurement procedure (*Competitive with negociation*) not applied in Romania until now;
  - Selection criteria for the bidders;
  - Expert consultancy in equity industry needed for negociation process;;
  - Specialized Company law necessary for negotiating and signing Funding Agreement;;
  - Waterfall distribution if the Fund Manager will propose a sophisticated model.
- **Challenges in the implementation process:**
  - Establishing the implementation system in MA
  - Supporting Fund Manager for establishing a good implementation system to cope with the requirements of the audit ( according the art. 81 from CPR)



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## Equity for innovation

**Mario Mustilli**

Full Professor of Corporate Finance, President of Sviluppo Campania, University of Naples, Italy

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# Agenda

- Driving Economic Growth: The Nexus of Technological Innovation and Ecosystem Dynamics
- Innovation Financing: Understanding Firms' Phases and Risks
- Market Failure: The Shifting Landscape of Venture Capital
- The *Campania Region* response to VC market failures in Italy
- Equity Financial instruments



ERDF equity for innovation 2021-2027

26-27 FEBRUARY 2024, ATHENS, GREECE



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 **Sviluppo** Campania





# Driving Economic Growth: The Nexus of Technological Innovation and Ecosystem Dynamics

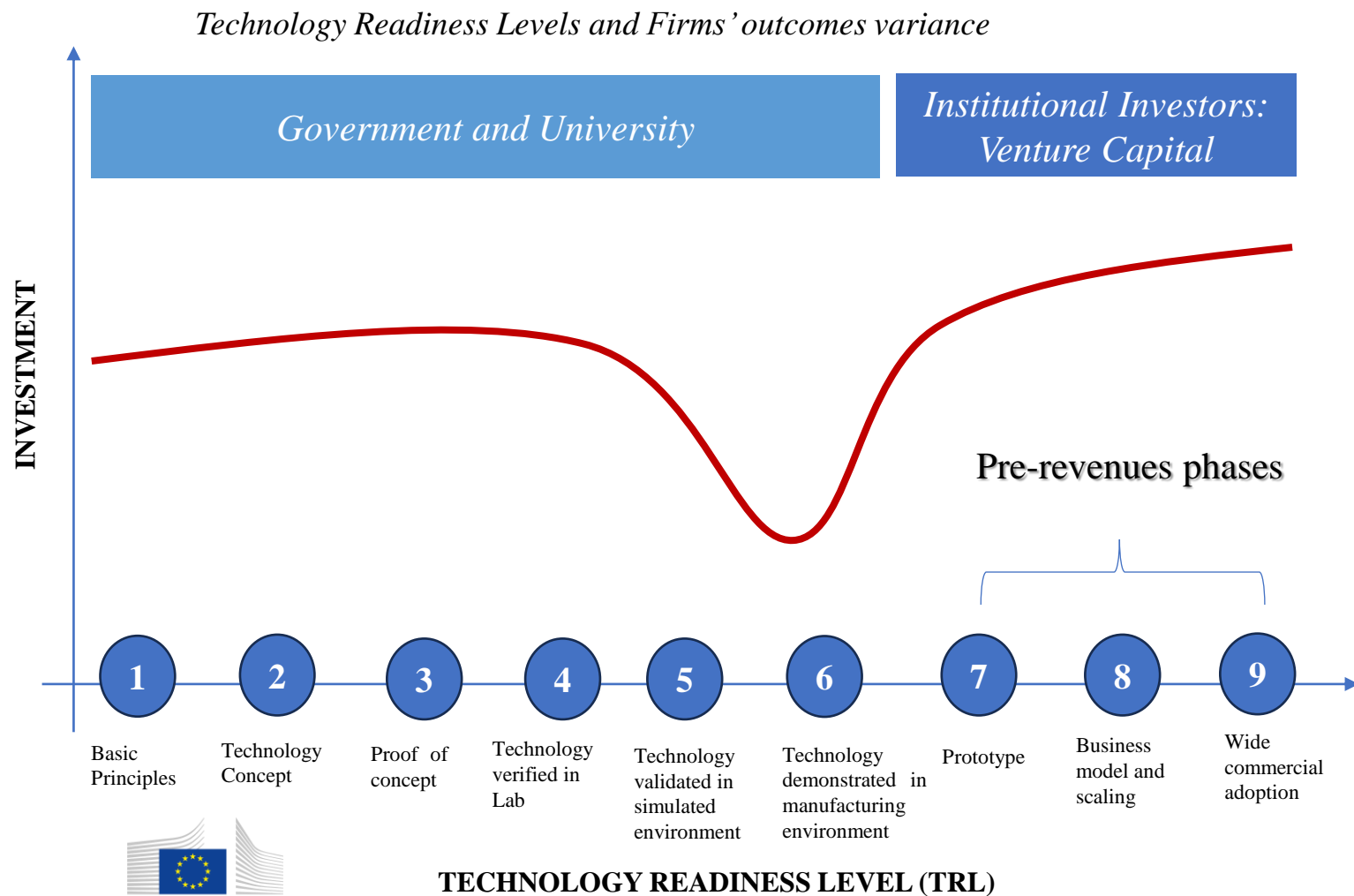
The growth and resilience of the global economies relies significantly on the technological innovation and the alignment of firms with sustainable initiatives, beyond financial resources.

- **Technological Innovation**
- **ESG** (Environment, Social & Governance) risk and opportunities
- Diversified **network and resources** (e.g., public-private)

*As Marshall elucidates, driving economic growth requires an ecosystem comprised of a variety of actors: Universities, local authorities, accelerators, incubators, and research centers represent pivotal actors in the empowering of innovative projects.*



# Innovation Financing: Understanding Firms' Phases and Risks



Considering the TRL scale, up to level 5/6, the risk related to new initiatives is exceedingly high, requiring public resources.

Following public intervention, *if the capital market lacks efficiency*, there is a risk of undermining the public support provided during phases of significant variability.

When examining the firms' life cycle alongside the TRL scale, **high variances are prominent in the so-called seed (or pre-seed) phases**, corresponding to the technology transfer phases up to 7/9.

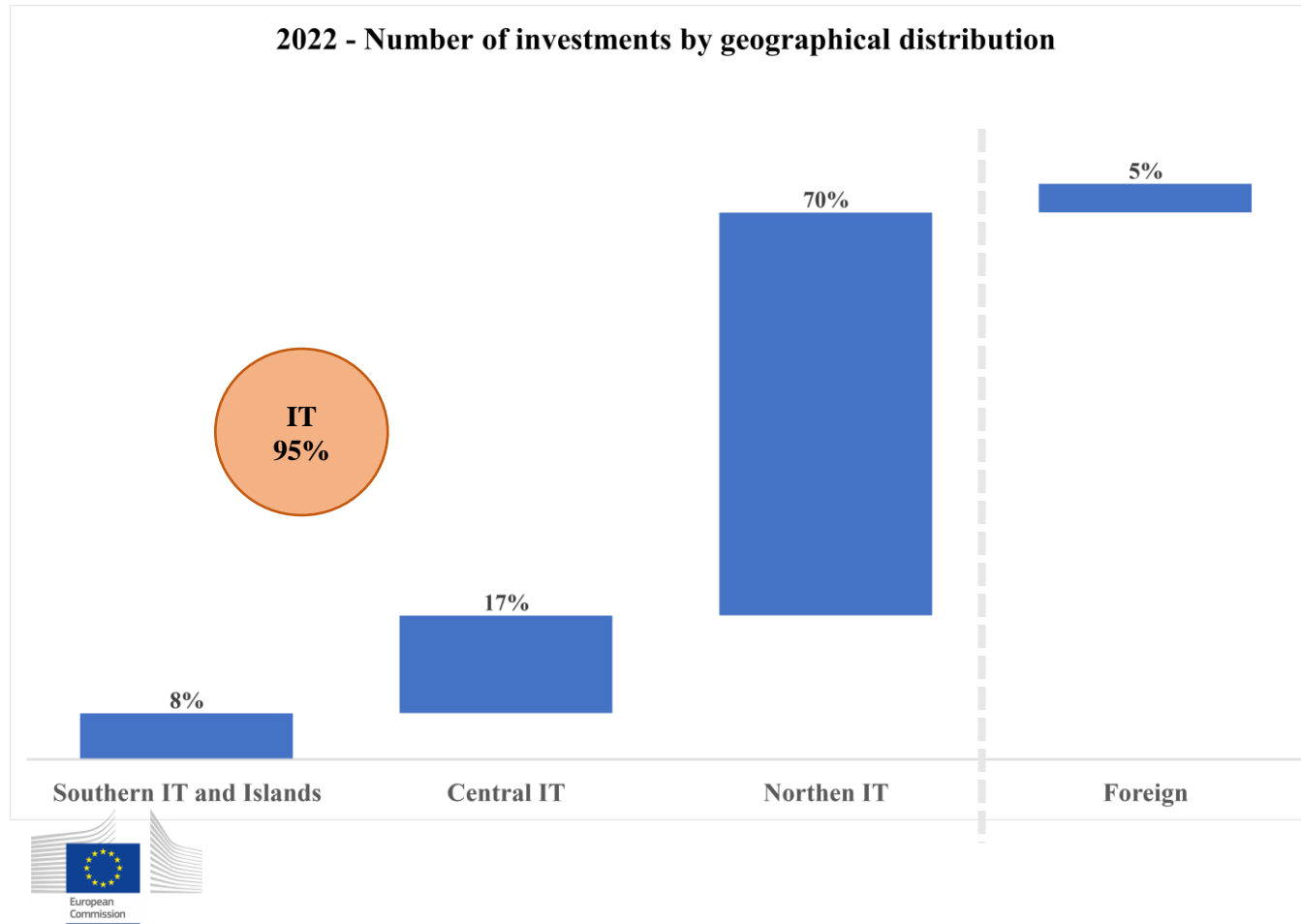
During these phases, **Venture Capital** historically serves as a bridge between public resources and businesses development.



# Market Failure: The Shifting Landscape of Venture Capital



The Italian finance market presents some interesting signals to observe. Figures on investments made during 2022 in the Italian VC industry confirm a distortion in the VC investment logic.



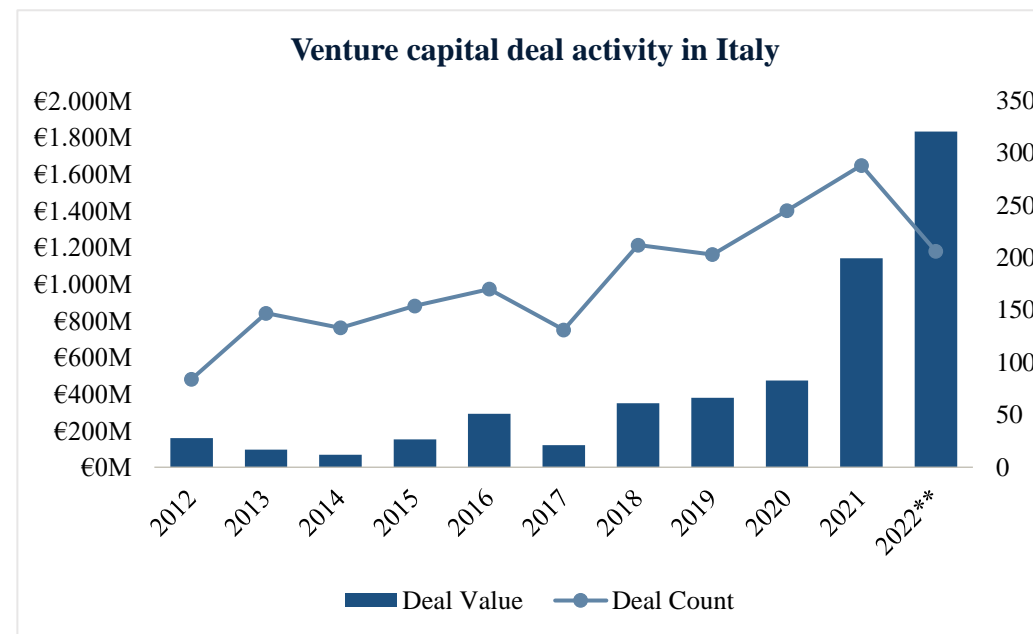
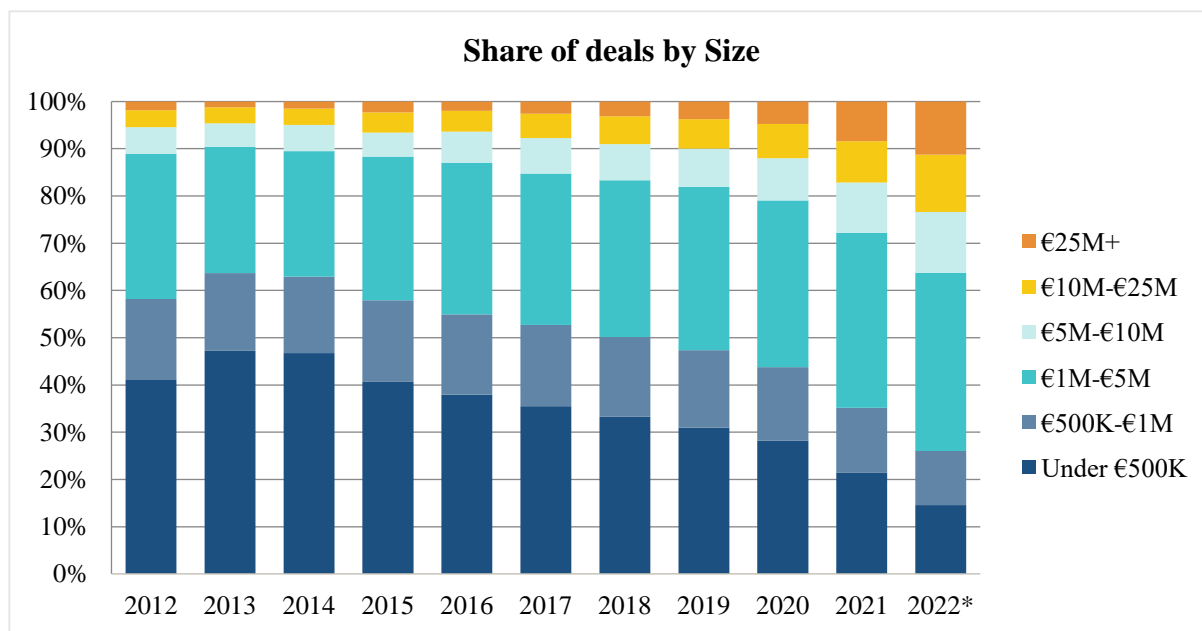
- Strong concentration of VC deals in the North;
- VC are increasingly directing their attention towards **large-scale deals**, which often result in misalignment with the average size of Southern firms;
- This occurs also in the **early-stage phase**, where investment size of the individual initiatives increases.

# Market Failure: The Shifting Landscape of Venture Capital



- *Italy follows the EU trend: VC are positioning in the late stage, as highlighted by the average of investment per deal (from 3.9M in 2021 to 8.8 in 2022);*
- *The late-stage fund offering is highly structured, with a great diversification of specialized funds;*
- *Conversely, in the early-stage segments, institutional investors are few and not specialized;*
- *Almost half of the funds interested in transactions less than <1M are attributable to **emergencies measures**, rather than structural measures.*

The segment of VC funded early-stage startups is *dramatically drying up*





# The *Campania Region* response to VC market failures in Italy



The IT VC finance market gap sized as an opportunity: *a growing number of private investors in the early-stage segment represents an opportunity for institutional investors to share and differentiate the risk of investment made.* The **Campania Region**, through **Sviluppo Campania**, developed a range of financial instruments and tools to support the early-stage growth of new firms in Campania:

- *Non-repayable grants*
- *Equity interventions*
- *Basket Equity in the Private Equity market*



## Non-repayable grants

Year	EU / Regional Resources	Financial resources	Beneficiary firms
2018	POR FESR 2014 -2020 – TECHNOLOGY TRANSFER	€ 10.000.000	72
2020	POR CAMPANIA FESR 2014 – 2020	€ 25.200.000	118
2022	POR FESR 2014 -2020 TECHNOLOGY TRANSFER	€ 30.000.000	152
2023	PR CAMPANIA FESR 2021 – 2027	€ 30.000.000	871 start-up applications



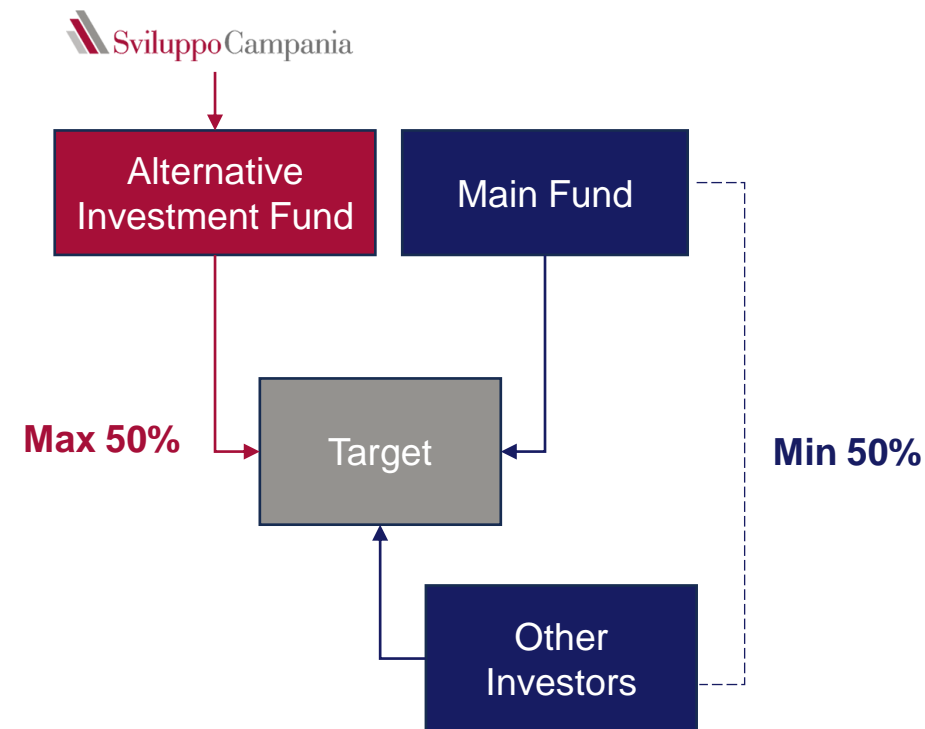
# Equity Financial instruments

The Campania Region has allocated a fund of **42 Mln/€** under PO 21-27 directed to support investments in:

- **Equity or quasi-equity** in start-ups and innovative firms in *the pre-seed, seed, and technology transfer phases* (58% of funds)
- **Equity or quasi-equity** in the *venture building, first, and second round phases* (42% of funds)

## THE PARALLEL-FUND LOGIC

- ❖ **Main Fund:** with other investors invests in target firms according to the investing mandate;
- ❖ **Alternative Investment Fund (AIF):** fully subscribed by Sviluppo Campania and managed by a management asset company, this vehicle invests in the same targets in which the Main Fund will invest.
- The funds are private market operators, operating in accordance with EU regulations.
- Both funds have two compartments dedicated to the two lines of intervention.
- The two funds will involve other private investors, especially in the pre-seed and seed phases.





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