

March 2006



Financing RTD and Innovation in the ERA:

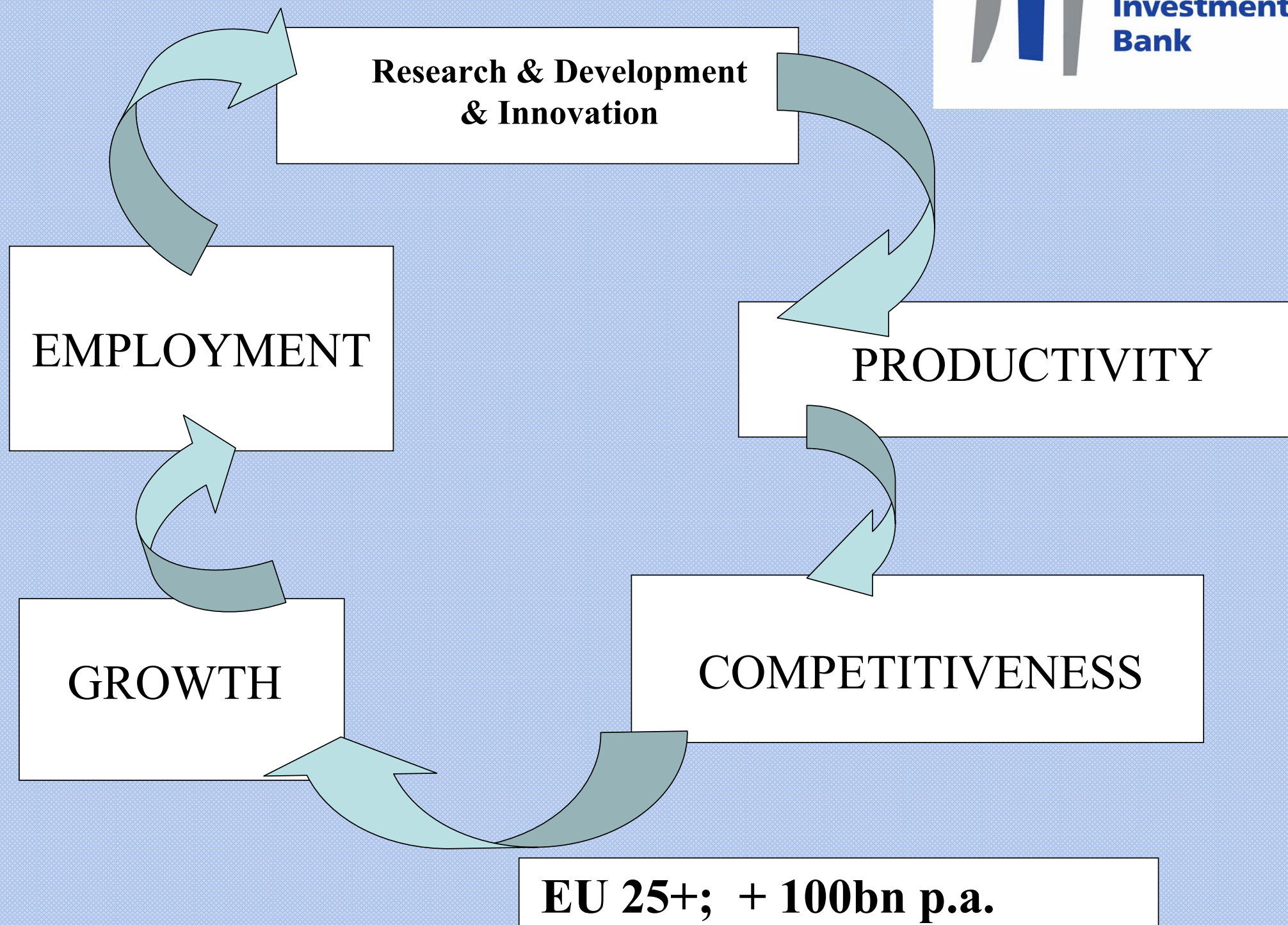
The role of the EIB

**Design of National ICT Programmes in the
context of ERA Coordination**

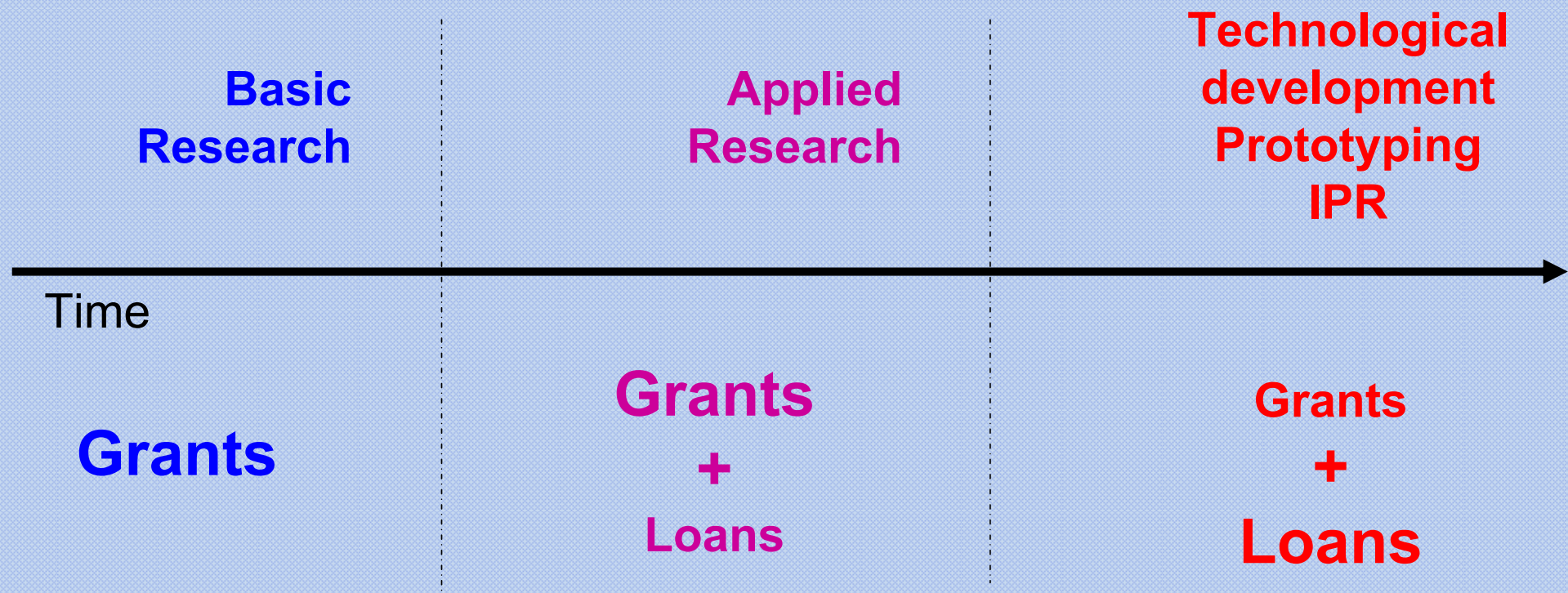
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Why should RTD activities be financed only through grants ?



Many RTD projects, which are currently undertaken thanks to subsidies, or abandoned for lack of them, have a financial profile that could give them access to loans
“bankability”

EIB - European Union's financing institution:



- Created by the Treaty of Rome in 1958, to provide long-term finance for projects promoting European integration;
- Subscribed capital EUR 163.7bn;
- EIB shareholders: 25 Member States of the European Union;
- EIB's lending in 2005: EUR 47.4 bn, EUR 42.3 bn within the EU-25 (of which 5.8 bn in EU+10);
- EIB's borrowing: EUR 49.8 bn in 2005 in 15 currencies;
- Very limited transfers from EU budget;
- AAA-based funding conditions.

STRATEGIC OUTLOOK: Corporate Operational Plan 2006-2008



5 priorities in the EU

- economic + social cohesion in the enlarged EU;
- implementation of i2i – the innovation 2010 initiative:
> 50 bn 2000-2010;
- TEN, Trans-European Networks;
- environmental protection and improvement.
- Support to SMEs

**EIB implements EU policies;
a policy driven Bank**

What the EIB can do?

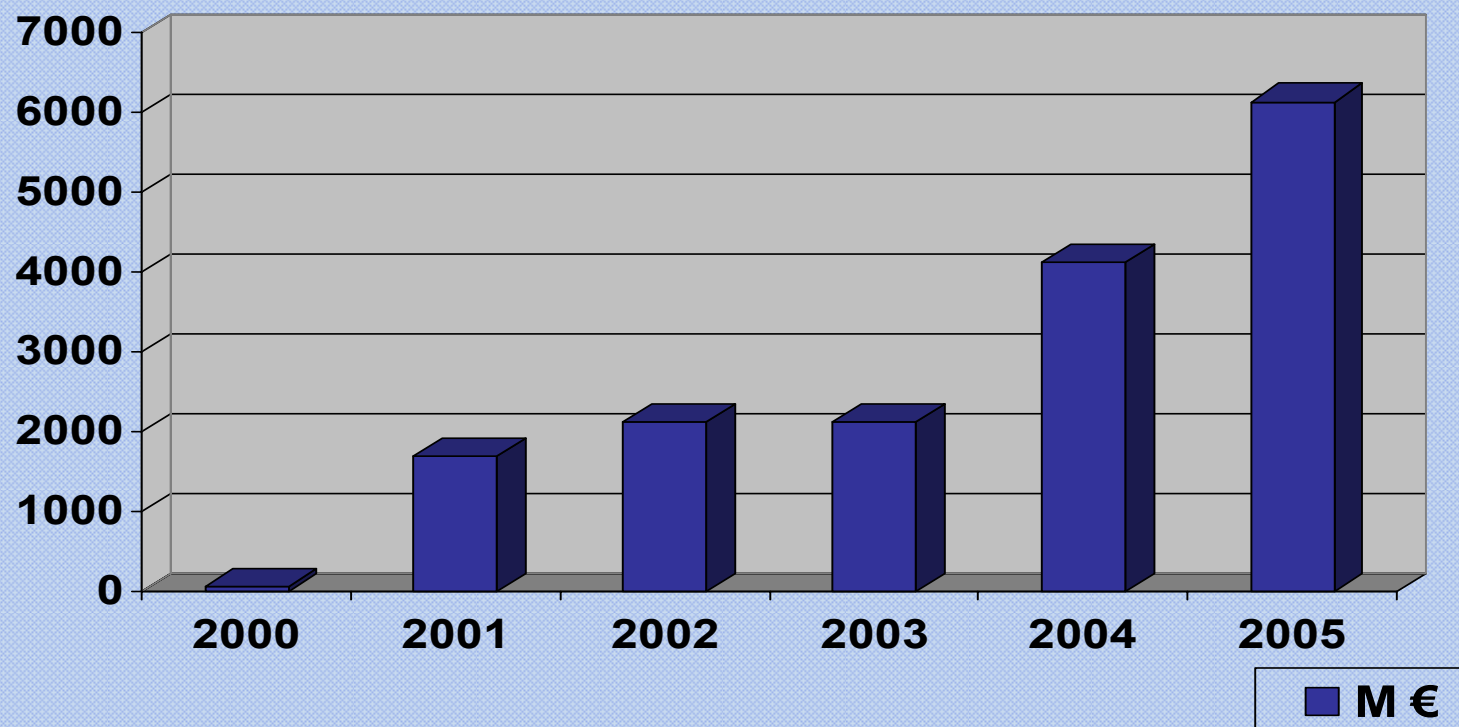


- Funding Supply: Increase market supply for loans/guarantees for innovation projects from EIB own resources; from EIB SFF resources; through joint financial productions with commission (RSFF) and through co-financing with financial markets.
- Funding Costs: Pass-on funding advantage of EIB after “risk pricing” to private/public sector innovators in order to reduce the cost of innovation
- Risk Sharing: Share financial risks with promoters in innovation projects and consequently reduce their risk adjusted cost of capital
- Signaling Effects: Due to the Bank’s reputation for its prudent lending policy and its strong market/technology know-how, the EIB provides learning/signaling effects for other Banks

Results of i2i: signatures 2000-2005

Signatures	Education & e-learning		RDI		I C T		Total	
	M EUR	Nr of projects	M EUR	Nr of projects	M EUR	Nr of projects	M EUR	Nr of projects
2000 May-Dec.	482	9	54	1	1 628	8	2 164	18
2001	1 418	11	1 688	12	1 931	17	5 037	40
2002	952	11	2 118	15	547	10	3 617	36
2003	2 711	28	2 130	17	1 378	13	6 219	58
2004	1 678	18	4 131	27	1 257	13	7 066	58
2005	2 289	25	6 230	35	1 869	9	10 678	73
Total 2000-2005	9 530	102	16 351	107	8 610	70	34 780	283
	27%		47%		25%			

EIB Innovation 2010 Initiative : increased lending to RDI



- Industrial RDI (pilot plants, labs, research activities) (Boeringer Ingelheim, Advanced Mask House Dresden, VATech)
- Research organisations (Cancer Centre Madrid)
- Large Infrastructures (LHC of CERN, IMEC, FELs)
- Science parks, incubators (EMBL, Turku)
- Specific global loans for innovative SME's (ICO, SPIMI)
- Projects from Techn Platforms/FP7 (H2, Nanotechs, new mobile telecoms...)

i2i projects in Hungary (examples)

- New production lines for innovative products and techniques of mid-sized FDI car component manufacturer
- Student loan scheme with Diakhitel Kozpont (100m)

Leveraging part of EIB's annual surplus

- Creation of EIF (1994);
- Finance Venture Capital through provisioning out of annual surplus (Governors!) (1997);
- Create Structured Finance Facility (2001) for loans with higher risks
- Gradually diversify spectrum of SFF:
 - TENs/PPP
 - Education/PPP
 - Audiovisual
 - new: Mediterranean
 - new: RDI ←

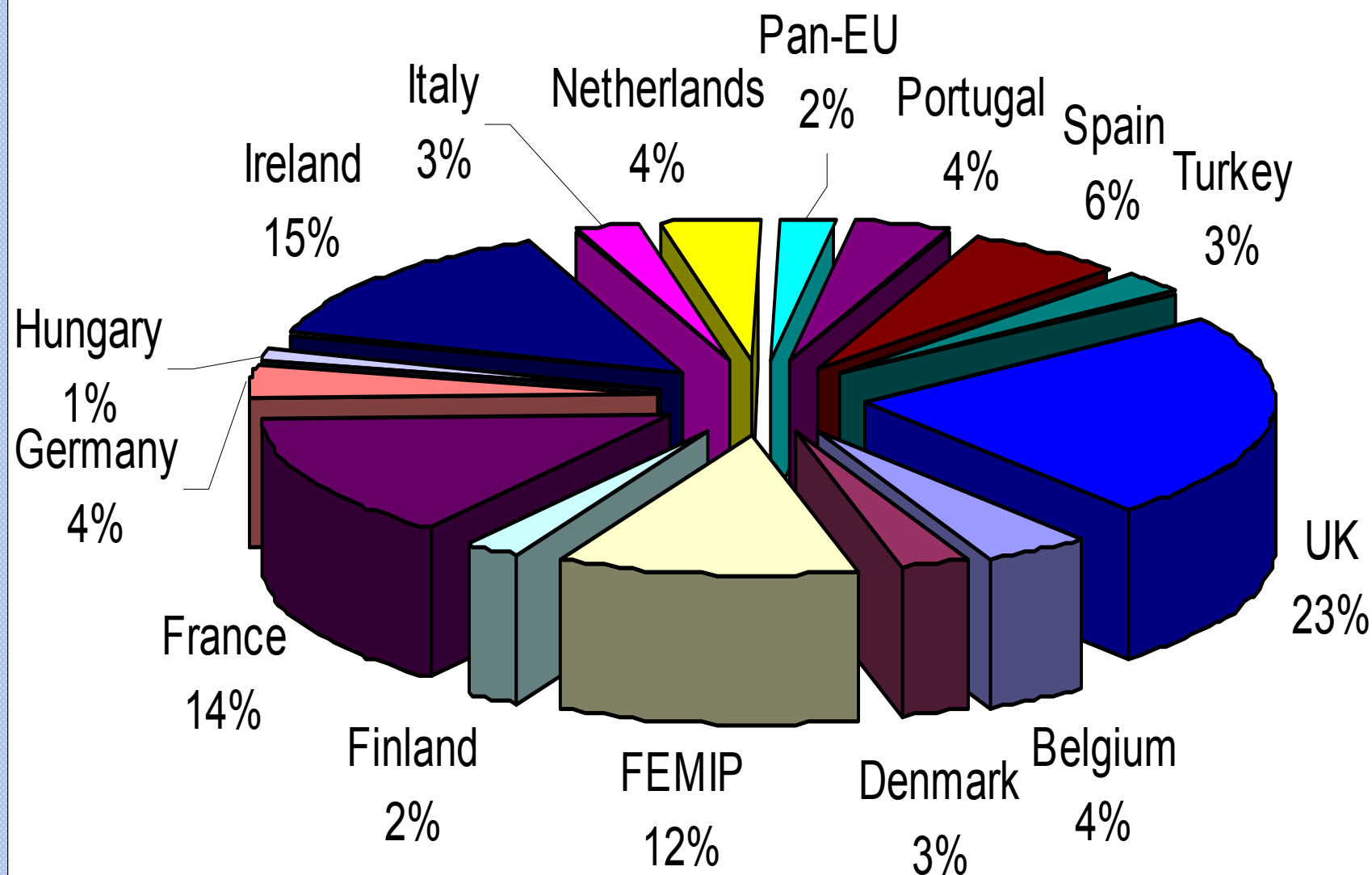
Higher risks but limited volumes

EIB's main instrument for increased risk taking: SFF

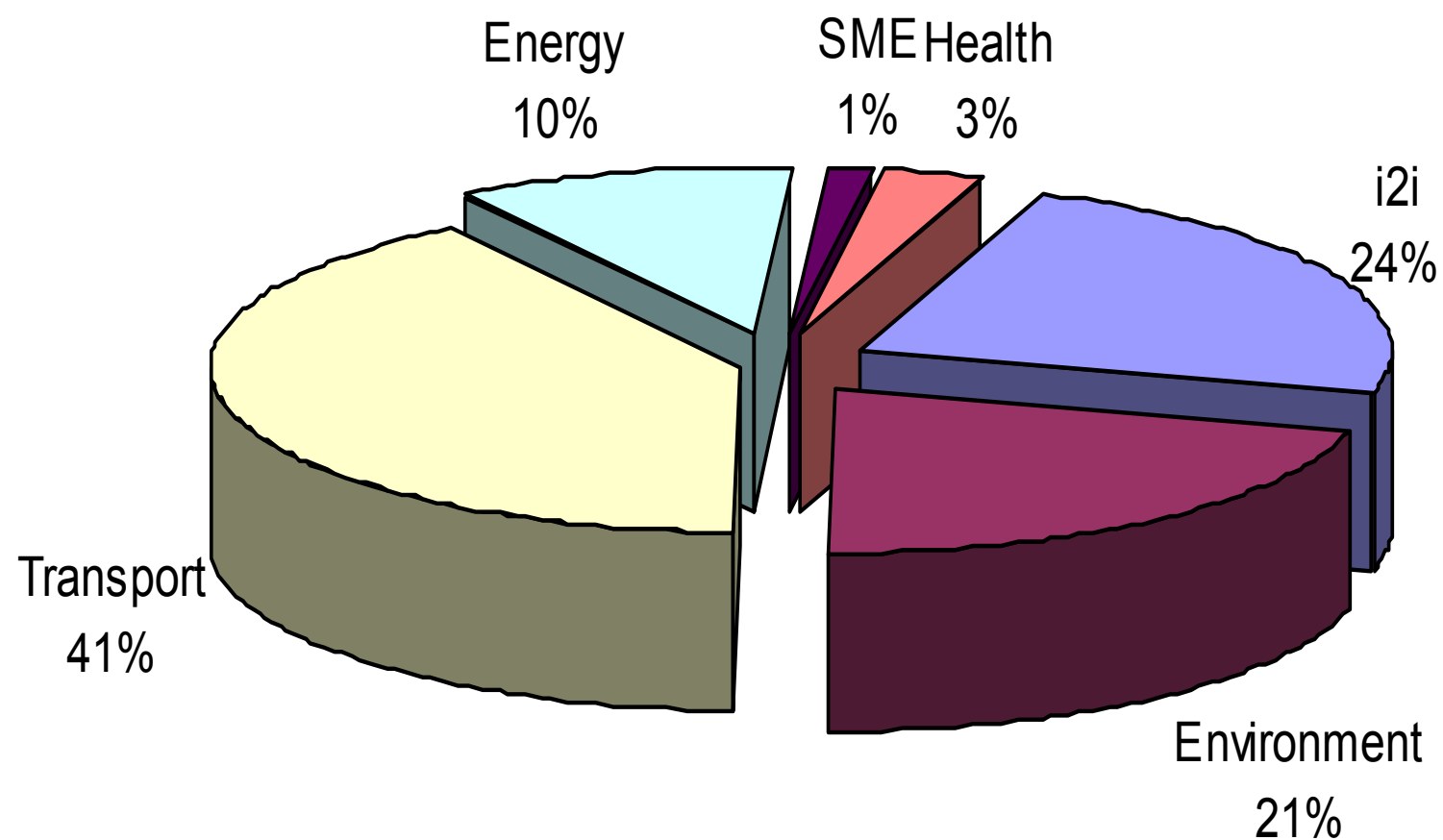
Total reserves of EUR 750 m; target: Operations amounting to between EUR 2.3 and EUR 5.0 bn; products:

- senior loans and guarantees incorporating pre-completion and early operational risk;
 - subordinated loans and guarantees ranking ahead of shareholder subordinated debt;
 - mezzanine finance, including high-yield debt for industrial companies in transition from SME scale or in the course of restructuring;
 - project-related derivatives.
- | | |
|-------------------|---------------|
| ■ Signed | 600m |
| ■ Approved | 2 900m |
| ■ Under appraisal | <u>2 100m</u> |
| ■ Total | 5 600m |

SFF Portfolio & Pipeline by Geography



SFF Portfolio by Priority Objective in EU-25



Risk-Sharing Finance Facility (RSFF):

A Commission-EIB Joint Initiative

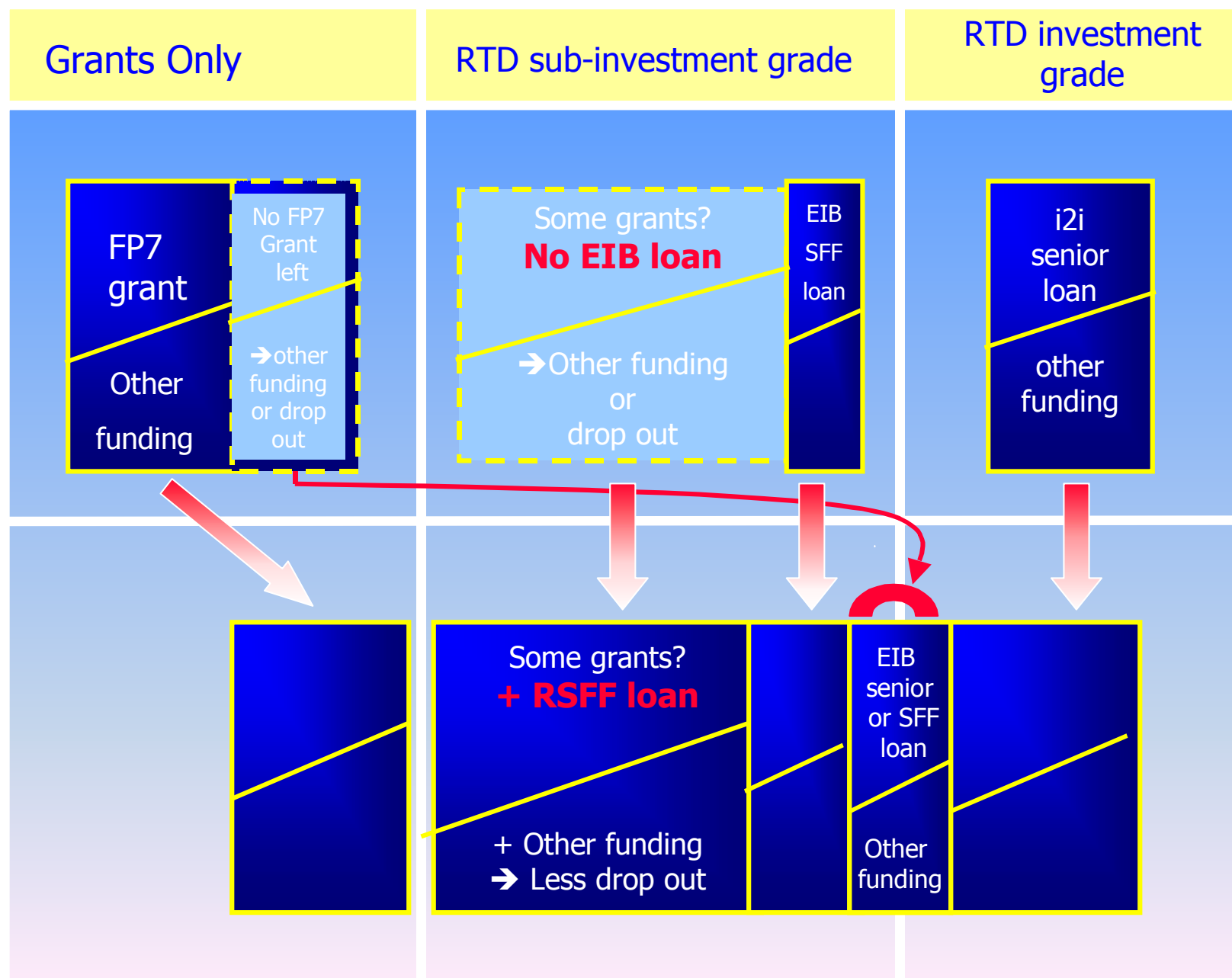
- **Boost private investment in RDI; overcome Europe's main weakness identified by the Lisbon strategy.**
- **Conclusions of the December 2005 European Council :**
“invites the Commission in cooperation with the EIB to examine the possibility of strengthening their support for R&D by up to a maximum of EUR 10 billion through a financing facility with risk-sharing components to foster additional investment in European research and development, particularly by the private sector.”
- **EIB is the partner of the Commission :**
 - ✓ Common policy mandate under Lisbon Agenda
 - ✓ EU–institution lending in all EU countries
 - ✓ Experience gathered in RDI through existing i2i and SFF
 - ✓ Cooperate with financial institutions at national level
 - ✓ Long term strategy and thus medium/long term lending

Risk-Sharing Finance Facility (RSFF): Objectives and added value

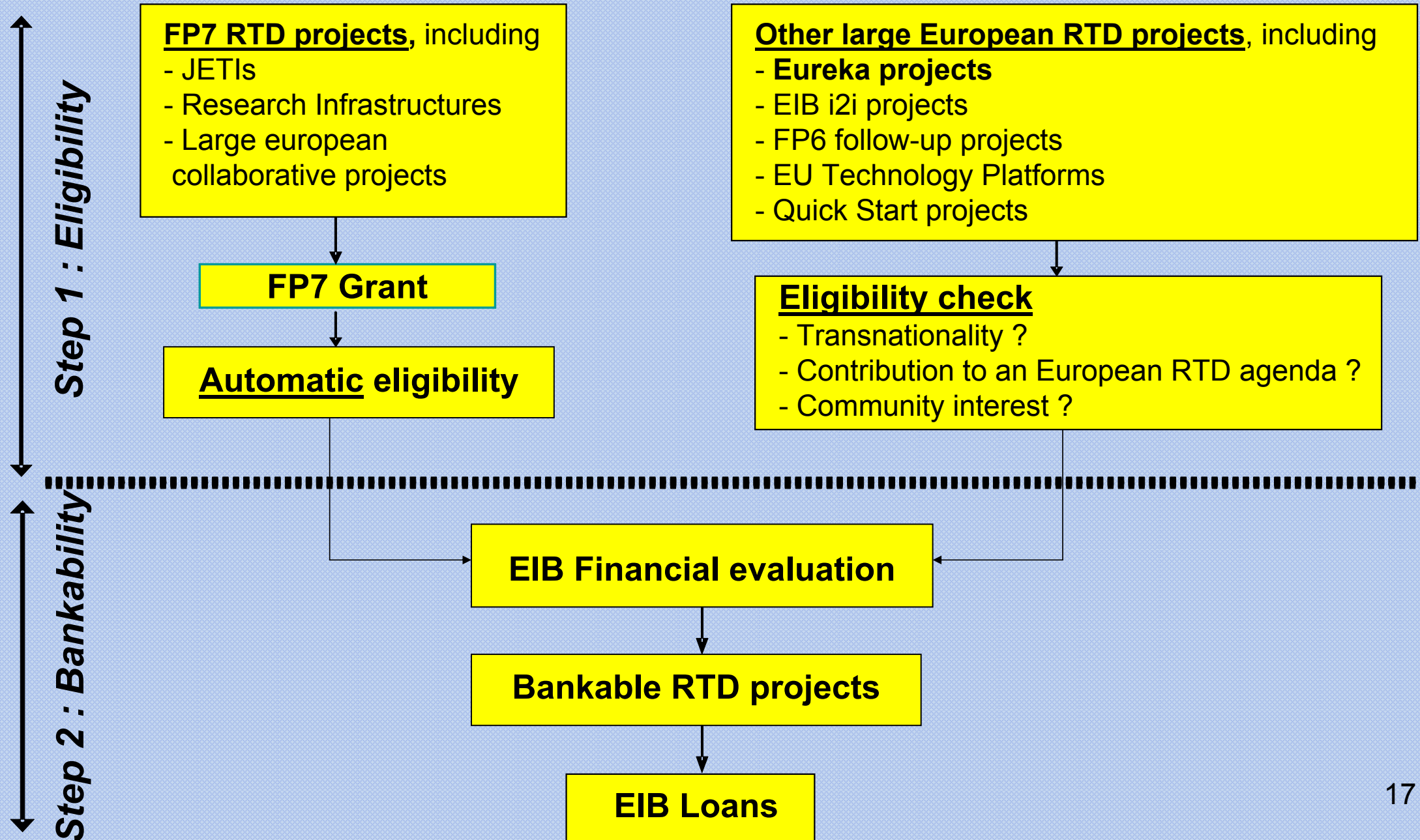
An innovative financing mechanism to:

- Foster increased private investment in research by improving access to EIB loan finance.
- Risk-sharing with EIB to allow:
 - Larger volume of more risky lending to RDI
 - Financing of riskier, but bankable projects
- Generate a leverage effect so that the volume of extra lending by EIB is a multiple [4 to 6] of the Community funds allocated to the facility.
- Rely on an existing EIB facility, \Rightarrow benefit from experience throughout EU markets and sectors.
- Catalytic effect of EIB involvement

RSFF broadens RDI's access to EIB finance



Risk-sharing finance facility: Eligibility and bankability checks



Risk-sharing finance facility: Possible mid-term evolution

