



## Financial Instruments provided by the European Investment Bank (including Risk Sharing Finance Facility)

M. D'hooge

Financial instruments for Innovations, Research and Development

30 November 2009, Prague

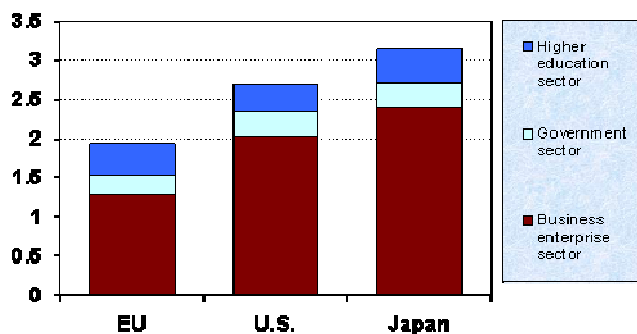
## European Investment Bank

### EIB Profile

- The EIB has been created by the Rome Treaty 1958
- The EIB is owned by the 27 EU member states
- The European Union's long-term financing institution
- An **autonomous body** up to finance capital investment furthering European integration by **promoting EU policies**
- The EIB is a policy driven, non profit institution following sound banking principles
- The EIB has a subscribed capital EUR 232.4 bn
- The EIB collects its funds on the capital markets (2008: EUR 59.5 bn)
- The EIB signed loans amounting to EUR 57.6 bn in 2008
- Knowledge Economy is one of EIB's Six Strategic Priorities



## Lisbon Agenda



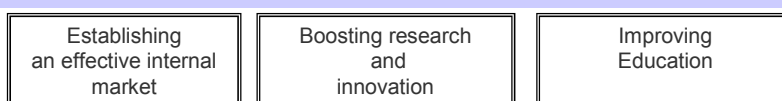
- In March 2002 the Barcelona European Council launched a call for action: investment in RDI should rise to 3% of GDP in the EU by 2010 and the share funded by private sector should rise to 2/3 of the total in order to close the gap to the USA and Japan.

3

## Lisbon Agenda Objectives

**The EU to become “the most dynamic and competitive knowledge-based economy in the world” by 2010.**

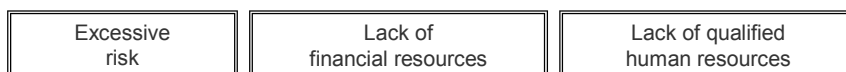
### Main Areas For Action



### Plan for Action

**Encourage private-sector to do more...**

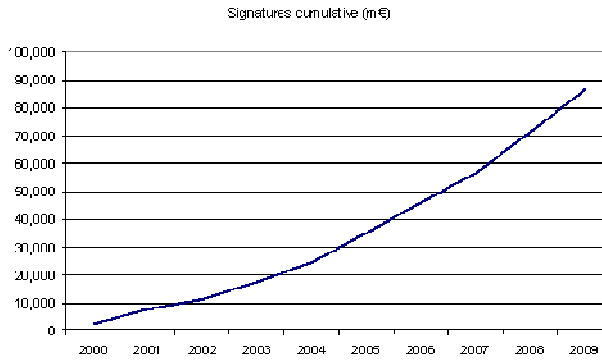
### Main Obstacles to Innovation



**Remove one obstacle to R&D by facilitating access to debt financing.**

4

## European Investment Bank Knowledge Economy

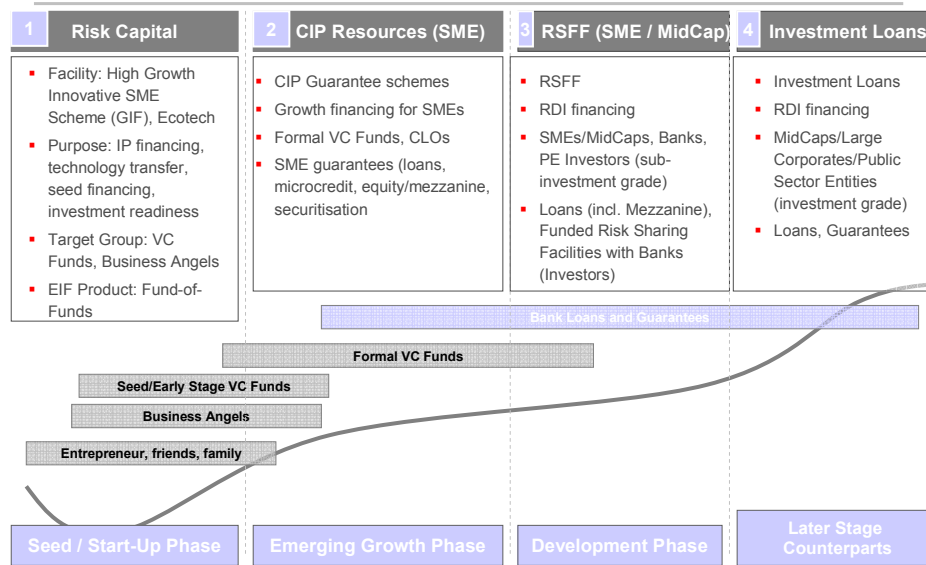


- In 2000 EIB pledged to make loans worth €50bn for the “Knowledge Economy” target by 2010. The €50bn barrier was already surpassed in 2007.

5

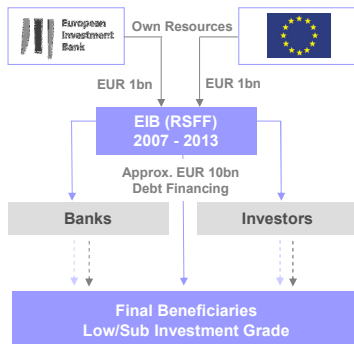
## The Risk Sharing Finance Facility

### EIB and EIF



6

## Risk Sharing Finance Facility A new Source of Risk Capital



- EIB RSFF funds complement other sources of debt capital available for low/sub investment grade RDI intensive corporates
- EIB RSFF funds are highly attractive for potential beneficiaries because of:
  1. Highly attractive terms & conditions (AAA rating and non-for-profit pricing)
  2. Long maturities of up to 10 years or more
  3. Direct EIB participation of up to EUR 200m per transaction (depending on rating)
  4. Strong technology/industry expertise
  5. EIB does not sell assets on the secondary market (buy and hold strategy)
  6. No cross selling (just long-term lender)
  7. Signalling Effect: EIB as a quality stamp
  8. Debt and Mezzanine Debt Product

7

## Risk Sharing Finance Facility Risk categories



Moody's	S&P and Fitch
...	...
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-

- RSFF is a debt based instrument not a grant
- Financing does not involve a subsidy element
- The facility does not concern risk capital such as venture capital

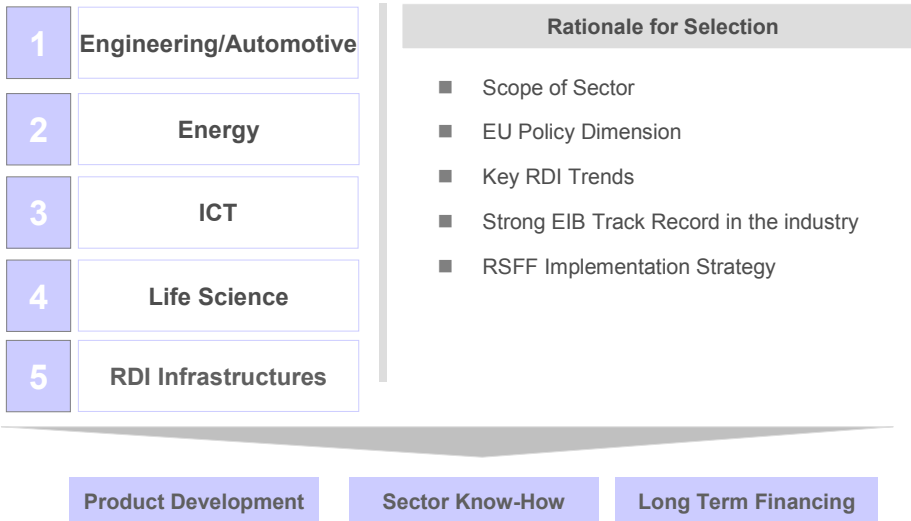


- RSFF concerns companies or projects mature enough to demonstrate capacity to repay debt on the basis of a credible business plan.
- An external rating is not required.

8

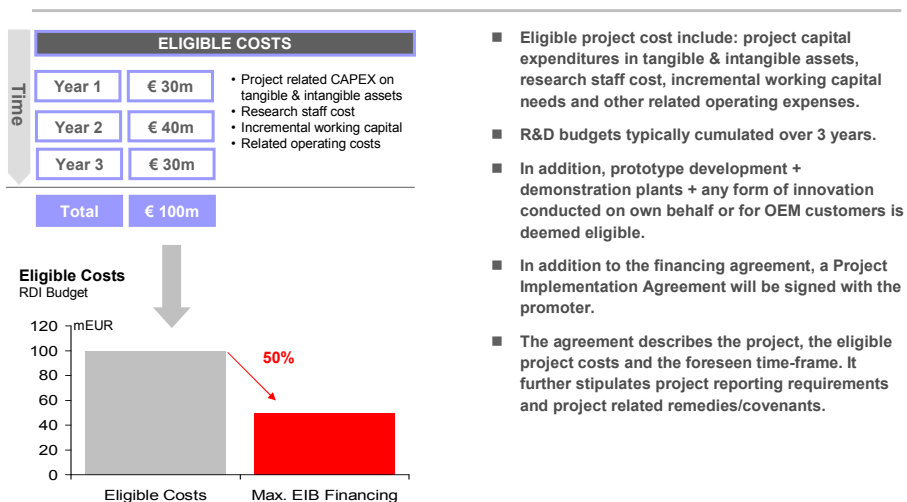
## Risk Sharing Finance Facility

### Key Sectors



9

## RSFF Eligible Cost Definition



10

## EIB financing solutions under RSFF



### Key counterpart groups

#### I. Corporate / Project Finance

- **Targeted beneficiaries:** Mid-sized and large corporations (low/sub-investment grade),
- **Product Ideas:** RSFF loans and guarantees (Structured individual corporate loans - senior/junior debt, mezzanine),
- **EIB value added:** Lower Financing Cost, increase of debt capacity (in case of subordination), project risk sharing.

#### II. Risk Sharing with Universities

**Targeted beneficiaries:** Universities, research institutes, science parks,  
**Product Idea:** RSFF loans and guarantees; Royalty fund,  
**EIB value added:** Increased access to financing for universities; facilitates partnerships and PPPs; monetize royalty streams of research results (e.g. patents).

### NEW PRODUCT DEVELOPMENTS

**Targeted beneficiaries:** Joint Technology Initiatives (JTIs), European Technology Platforms (ETPs), Multi country Research Infrastructures (ESFRI),  
**Product Ideas:** PPPs, SPVs and RSFF/ERCF loans and guarantees for R&D programmes,  
**EIB value added:** facilitate both public and private sector financing of Research Infrastructure through conventional as well as structured finance.

**Targeted beneficiaries:** SMEs & Mid Caps (low / sub-investment grade),  
**Product Ideas:** RSFF loans and guarantees, Risk Sharing Global Authorisations,  
**EIB value added:** Beneficiaries: risk sharing, higher debt capacity, lower financing cost; Banks: risk sharing, capital relief, customers cross selling.

#### III. R&D and Infrastructure Consortia

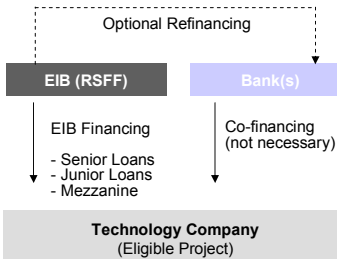
#### IV. Risk Sharing with Banks

11

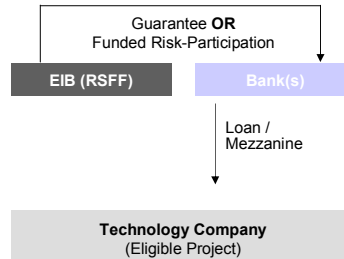
## Corporate Finance



#### OPTION 1: Parallel Financing Approach



#### OPTION 2: Back-to-Back Financing Approach

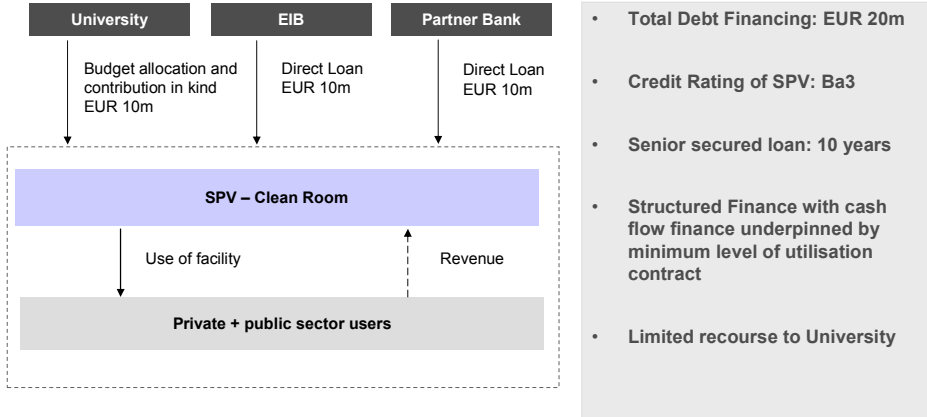


- To finance individual projects, EIB can either act as the sole financing provider or as a co-financing partner to other bank(s).
- In the case of co-financing, EIB could provide a direct financing agreement in parallel to other financing(s) from financing partner(s) or provides back-to-back to the financing partner(s).
- EIB financing contracts normally are in line with market standards (protective clauses, covenants, etc.) but will always be structured according to the needs of the borrower.
- EIB financing can also be junior to co-financing banks (e.g. Mezzanine financing)

12

## Project Finance University Finance Example

University investing EUR 30m in clean room technology and seeking partial debt financing to leverage budget allocation :



13

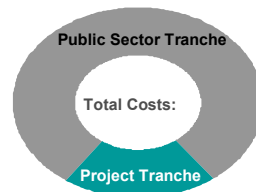
## R&D and Research Infrastructure Consortia The ESFRI RSFF Capital Facility (ERCF)

**Public Sector Tranche:**  
Facility to finance peak & bridge financing requirements faced by committed partner countries

- The repayment of the public sector tranche is made through budgetary commitments of partner countries over the long term (5-30 yrs)
- **Key Advantages:**
  1. Meet peak & bridge financing requirements;
  2. Provide contingency cover for cost overruns;
  3. Can finance eligible operating costs & associated infrastructure

### ERCF... The ESFRI RSFF Capital Facility

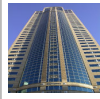
**Project Specific Tranche:**  
Finance individual projects including associated facilities  
With limited recourse to committed partner countries



14

## Risk sharing with banks for SMEs

### Rationale and potential synergies



#### Partner banks

- Direct access to promoters with national geographical focus
- Structuring and due diligence expertise & capacity
- Track record in direct/indirect low/sub- investment grade lending (incl. Mezzanine financing)
- Regulatory capital constraints, rating sensitivity, Basel II impacts



#### Synergies

#### Partner banks / EIB Co-financing of RDI

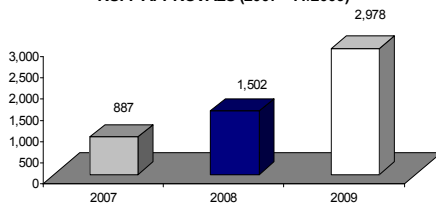


#### European Investment Bank

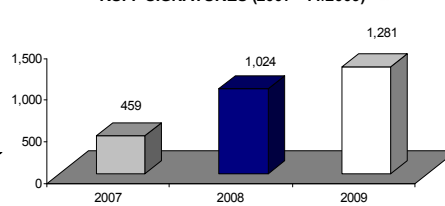
- RSFF resources (European Commission) -> high long-term capacity for low/sub-investment grade lending to RDI intensive counterparts / projects
- Attractive funding costs, competitive risk pricing
- Strong sector/technology know-how in key RDI sectors and activities
- European scope
- Strong track record in co-financing and risk sharing with commercial/promotional banks across Europe (>150 Partner Banks; more than EUR 7bn of finance for more than 30 000 SMEs in 2008)

## RSFF Update - RSFF Signatures to date

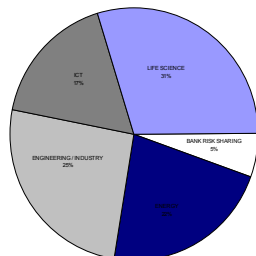
RSFF APPROVALS (2007 - 11/2009)



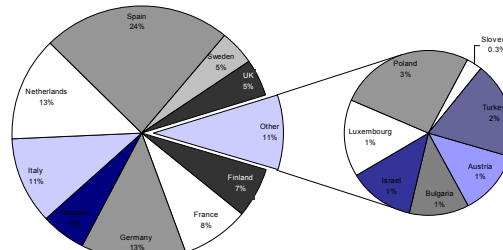
RSFF SIGNATURES (2007 - 11/2009)



Signed RSFF Projects by Sector



Signed RSFF Projects by Country



- Total RSFF signatures amount to EUR 2.764 m. Approvals reach EUR 5.368 m in November.
- Main sectors financed so far: renewable energy technologies, engineering industry and life science.

## Open Innovation

EIB supports the implementation of Open Innovation in promoting collaborative R&D in Europe



Open Innovation has benefits. Using each other's strengths, knowledge, experience and expensive research equipment will result in efficient and effective technology developments.

Combining views and visions can create synergies, a win-win situation and make successful research accessible for all parties, including SMEs, large Corporates, research institutes, etc.

The success rate of new initiatives that emerge from open innovation is substantially higher than the success rate of closed research centres.

Open innovation also creates space for specialist companies to develop their core business at a high level and to market new products effectively.

17

## Added value of EIB involvement



- Financing flexibility: provide debt financing adapted to project implementation and the borrower's repayment capacity
- Improved financing conditions; advantage of EIB's AAA based funding is passed on to the borrower in order to reduce overall project cost
- Increased access to financing: additional supply of loans/guarantees from EIB; joint financial products with Commission (RSFF, leveraging FP7 funds) and through co-financing with financial markets
- Risk sharing: share financial risks with promoters and consequently reduce their risk adjusted cost of capital
- Signalling Effects: Due to the Bank's reputation for its prudent lending policy and its strong market/technology know-how, the EIB provides learning/signalling effects for other Banks

18

## Contact



### **Marc D'hooge**

Phone: (+352) 4379 87211

Fax: (+352) 4379 67292

email: [dhooge@eib.org](mailto:dhooge@eib.org)

European Investment Bank  
100, boulevard Konrad Adenauer  
L-2950 Luxembourg

