



## European Investment Bank Group 2005



In 2005, the European Investment Bank lent a total of EUR 47.4bn (2004: 43.2bn) for projects furthering the European Union's political objectives. Financing in the EU-25 Member States totalled EUR 42.3bn, of which EUR 5.8bn in the 10 new Member States. EUR 5.1bn was made available in non-EU countries, of which EUR 2.0bn in the Acceding Countries (Bulgaria, Romania) and Accession Countries (Croatia, Turkey).

In 2005 the European Investment Fund (EIF) – the EIB Group's specialised venture capital arm and guarantee provider – invested EUR 368 million in venture capital funds, bringing its aggregate portfolio to EUR 3.1bn, and provided a total of EUR 1.7bn in guarantees for SME portfolios of financial intermediaries.

To fund its lending, the EIB raised an aggregate amount of EUR 49.8bn on the international capital markets through 330 bond issues in 15 currencies.

As at 31 December 2005, the EIB's outstanding lending amounted to EUR 294.2bn and outstanding debt to EUR 248.3bn.

Below is an outline of the EIB Group's activity in its priority sectors in support of EU policy, its borrowings on international

markets for funding its activity, and the new strategy endorsed by its Governors.

### **Economic and social cohesion in the enlarged EU (EUR 34bn)**

Fostering the EU's cohesion by contributing to the reduction of imbalances between regions has remained the EIB's core lending objective. With almost all of the regions of the new Member States qualifying as "convergence regions", this operational priority has become even more important.

Within the EU-25, individual loans (loans for individual projects appraised by the Bank) worth EUR 28bn were granted in 2005 for investment contributing to the strengthening of the economic potential

- **Top financing priority for cohesion**

of these regions. A further EUR 6bn was made available as credit lines (global loans) to partner banks for the financing of SMEs and smaller-scale public investment. The total lending of EUR 34bn for regional development represents about 80% of the EIB's aggregate lending within the EU-25.

The main sectors of lending in regional development areas were communications infrastructure (accounting for 46% of the individual loans granted), investment in industry and the services sector (22%), and health and education infrastructure (9%). In the new Member States the bulk of the EIB's financing again went on transport (45% of total lending to the NMS), as this is most important for their integration into the Single Market. The EIB also continued its efforts to support foreign direct investment, as this

• **Further intensified cooperation with the Commission**

contributes to the transfer of both know-how and

capital into the region and, therefore, most effectively to the modernisation and restructuring of industry in the NMS.

The cooperation with the European Commission's Regional Policy Directorate-General has been further intensified. Two new initiatives have been developed. Firstly, JASPERS aims at offering technical assistance to countries and regions to ensure that the Cohesion Funds available in 2007-2013 are used for the best investments in terms of stimulating economic growth and job creation. JASPERS is managed by the EIB; experts of the EIB, the Commission and EBRD will join forces to assist national authorities of the recipient countries in the preparation and implementation of investment projects that are suitable for co-financing by grant money from the Commission. Secondly, JEREMIE, which is managed by the European Investment Fund,

Examples	• <i>Paper production machine for Kvarnsveden Mill in the Norra region, Sweden</i>
	• <i>Construction and upgrading of hydroelectric power plants in Lapland, Finland</i>
	• <i>Water and wastewater infrastructure In the City of Poznan, Poland</i>

will use European Regional Development Fund money provided, on a voluntary basis, by recipient countries to transform it into new financial products, such as regional venture capital funds, guarantees for SME loan portfolios or global loans for micro finance institutions with the objective of improving, in regional development areas, SMEs' access to finance.

**Innovative and knowledge-based European economy (EUR 10.7bn)**

Through its "Innovation 2010 Initiative" ("i2i"), the EIB supports the EU's Lisbon Strategy for an information and knowledge-

based economy. The EIB's target is to mobilise EUR 50bn by the end of the decade to increase the EU's innovative capacity and enhance its longer-term competitiveness.

Since the start of "i2i" in 2000, the EIB has advanced loans for innovative investment worth EUR 34.8bn, of which EUR 10.7bn in 2005 alone. The EIB's lending is concentrating on three main areas:

(1) research, development and innovation (RDI), with projects ranging from funda-

• **Shifting smoothly from financing physical assets to financing knowledge**

mental research undertaken by universities/research centres to applied research done principally by private sector businesses (45% of individual loans provided since 2000); (2) education and training for furthering employability, with the bulk of the Bank's financing being directed to the enhancement and technological upgrading of higher education facilities (30%); and (3) development of information and communication technologies and networks, such as broadband, and dissemination of their use throughout society (25%).

The modernisation of education facilities often includes university hospitals or other centres of medical excellence and research. Increasingly, such investments are financed via public-private partnership (PPP) models, particularly in the United Kingdom, with other countries catching up with this trend of involving the private sector in the provision of services. The EIB has managed to establish itself as one of the most important financiers for PPPs in Europe.

The EIB has made an effort to distribute its financing of "i2i" projects throughout the EU-25. About two thirds of total "i2i" lending so far has been within regional development areas, in order to help bring these less developed regions into the knowledge-based economic fold. With a full "i2i" pipeline at

Examples	• <i>Construction of new launch pad at Guyana Space Centre and adaptation of Soyuz rocket launcher, France</i>
	• <i>Public sector basic research of Deutsche Forschungsgemeinschaft, Max-Planck-, Fraunhofer-, Leibnitz-Gesellschaft, Germany</i>
	• <i>Student loan scheme, Hungary</i>
	• <i>Development of broadband telecommunications network in southern Italy</i>
	• <i>Upgrading of academic and research facilities of Milan technical university and University of Trento, Italy</i>

present, the EIB is well set to meet its objective of mobilising EUR 50bn in support of the Lisbon Strategy by 2010.

• **Innovations in financing**

Financing RDI involves different risks from those encountered in financing physical assets. The EIB has therefore gradually reinforced its capacity to grant loans that entail a higher lending risk by increasing the provisioning reserve for its Structured Finance Facility (SFF). Loans under the SFF are made available for higher-than-usual risk operations. The EIB has also taken the initiative to make better provision for the specific financing needs of medium-sized enterprises (“mid-caps”, i.e. businesses with more than 250 but fewer than 3 000 employees), which are frequently major innovators. Also, the EIB is coordinating and co-financing with the European Commission projects that come under the current EU Framework Research Programme. With a view to the Framework Programme 2007-2013, efforts are being made to develop new financial instruments that combine loans and grants (typically from the EU) and will therefore enable more resources to be mobilised for RDI. To this end, a Risk-Sharing Finance Facility (RSFF) will start operating in 2007 under which the EIB will use EU grant resources, together with its own funds, to cover part of the risks of RDI projects with a strong European dimension.

• **EIF venture capital for high-tech companies and guarantees for SMEs**

The European Investment Fund (EIF) strongly supports the Innovation 2010 Initiative, mostly by taking equity stakes in venture capital funds. In 2005, the EIF invested EUR 368 million in venture capital funds (2004: EUR 358 million), expanding its portfolio of participations to EUR 3.1bn, spread over some 217 funds operating in the EU-25. The EIF operates as a fund of funds, with a bias (56% of its portfolio) towards funds specialising in early-stage financing (primarily information and communication technologies and life sciences). It is now one of Europe’s largest venture capital providers in this segment. Last year, the EIF further broadened its investment policy to include also mid and later-stage funds.

The European venture capital market still faces a difficult environment, particularly in the early-stage segment. The presence of private investors remains fragmented, mainly because of strong risk aversion. In such difficult times the EIF’s presence

in the market in venture capital funds is all the more important as a stable source of funds for innovative businesses and the creation of jobs. Owing to its recognised competence in identifying successful venture capital funds, the EIF helps to attract private sector funding that leverages its own financial commitments in different venture capital funds.

The EIF further assists the investment activity of SMEs indirectly by providing guarantees for the SME loan portfolios of financial institutions and public guarantee agencies. In 2005, the EIF provided a total of EUR 1.7bn (2004: 1.4bn) in guarantees for SME portfolios, bringing its guarantee portfolio to EUR 9.3bn. These guarantees facilitate the securitisation of such portfolios or reduce regulatory capital allocation to such assets, which gives partner banks greater scope for further lending to SMEs.

**Trans-European Networks (EUR 8.2bn)**

Efficient transport and energy networks are vital for the economic integration of the enlarged EU and for secure energy supplies. Hence Trans-European Networks (TENs) are another priority activity of the EIB. Successive EU initiatives, including the European Action for Growth (December 2003), have identified the essential TENs and priority projects in the EU-25. The EIB has therefore further scaled up lending in support of TENs. It has also introduced new financial instruments, such as the Structured Finance Facility for financing higher-risk TEN projects, and proposed an EU TENs Guarantee Instrument, which is still under consideration, covering risks in the early years of a project when the flow of revenues may be below expectations. In TEN projects, the EIB’s value added continues to rest on its ability to mobilise, on the keenest terms, the huge sums necessary to co-finance large infrastructure projects and offer maturities and repayment terms tailored to the individual project. In special cases it is possible for loans to be granted for periods of up to 35 years and up to 75% of the investment costs, with flexible repayment terms.

In 2005, signed loans in support of TEN projects within the EU-25 totalled EUR 7.7bn, with a further EUR 550 million signed in Romania.

<b>Examples</b>	• <i>High-speed rail line Madrid-Barcelona-French border, Spain</i>
	• <i>Motorway between Prague and Dresden in Pan-European Corridor IV (Berlin/ Istanbul), Czech Republic</i>
	• <i>Construction and operation (PPP model) of Motorway E18 (priority TEN), Finland</i>

## Environmental protection (EUR 12.3bn)

In 2005, the EIB signed individual loans for environmental projects totalling EUR 12.3bn, of which EUR 1.4bn outside the EU-25. The EIB's target of devoting 30-35% of its individual loans in the EU-25 to projects aimed at protecting or improving the natural or urban environment has therefore been attained. Over 60% of this lending in the EU-25 was directed to the urban environment (i.e. public transport and urban renewal) and 20% to water supply and sanitation projects and the reduction of industrial pollution. Most of the remaining 20% went on investments in energy efficiency and renewable energy.

Examples	<ul style="list-style-type: none"> <li>• <i>Wastewater treatment plants, collectors and sewerage systems, Belgium</i></li> <li>• <i>Construction and equipment of metro line connecting Buda and Pest, Hungary</i></li> </ul>
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The EIB had, in 2004, undertaken to increase renewable energy's share of total new electricity generation capacity financed by the Bank in the EU from some 15% to 50% by 2010. In 2005, a share of 64% was attained. In support of the EU's Lisbon Agenda, the EIB has also started to fund renewable energy projects involving new and innovative technologies that, although not meeting the Bank's standard criteria for economic viability, can demonstrate that they have the potential to become economically viable within a reasonable timeframe. Examples include a loan for R&D activities for more efficient wind-driven electricity generators in Spain and an offshore wind farm project in the UK.

## Support for EU development and cooperation policies (EUR 3.6bn)

FEMIP aims to develop the private sector and social and economic infrastructure in the Mediterranean partner countries. The Finance Facility provides the regional business community (including foreign investors) with access to financial products that are not easily available in the region (long-term loans, risk-sharing finance, risk capital and funding for technical assistance).

- **Reinforced Facility for Euro-Mediterranean Investment and Partnership**

In 2005, lending under FEMIP totalled EUR 2.2bn, split between four key fields: the private sector (49%); transport infrastructure (34%); energy (13%); and the environment (4%).

- **Cotonou Partnership Agreement**

In the EU's ACP (African, Caribbean and Pacific) partner countries covered by the Cotonou Agreement, the EIB is mandated, for the period 2003-2007, to provide loans from its own funds of up to EUR 1.7bn and manage an Investment Facility of EUR 2bn. The latter is designed as a revolving fund, with the repayments being invested in new projects.

In 2005, political problems or difficult economic situations in some countries and the resulting sluggish foreign direct investment hampered the EIB's activity. Loans granted from EIB resources and the Investment Facility totalled EUR 540 million, with the focus on infrastructure projects and support for SMEs via local banks.

Examples	<ul style="list-style-type: none"> <li>• <i>Construction of natural gas liquefaction train, Egypt</i></li> <li>• <i>Creation of five regional technology parks for research, training and production, Tunisia</i></li> <li>• <i>Construction of cement plant, Nigeria</i></li> </ul>
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## Borrowing activities in 2005

The pillars of the Bank's funding strategy remained in place. These are in particular the optimisation of funding costs on a sustainable basis, and enhancement of market liquidity and transparency. The strategy is based on a coordinated approach to benchmark and targeted issuance, while maintaining the EIB's responsiveness to changing investor needs. Benchmark issuance in the EIB's three core currencies (EUR, GBP and USD) is at the heart of this strategy, and in 2005 the Bank once again maintained its credentials as the sole issuer to offer such comprehensive liquid yield curves across these three currencies.

- **Unique presence in core currencies**

Under the 2005 funding programme, the Bank raised EUR 49.8bn through 330 transactions across 15 currencies. While overall volume was almost identical to 2004, the composition of funding shifted significantly in response to changing mar-

ket conditions. Noteworthy growth areas included long-dated issuance (maturities of 10 years or above), notably in EUR benchmarks, and also structured issuance in EUR. Long-dated issuance raised over EUR 23bn equivalent, double last year's issuance in this maturity spectrum. Overall, issuance in EUR (39% of the total) accounted for the largest share of funding, followed by USD (29%) and GBP (20%). Currency diversification continued, with issuance in 12 additional currencies (12%). This reflects the Bank's ongoing contribution to the development of capital markets in currencies of the new Member States and Acceding/Accession Countries, where issuance in local currency also supports the development of the EIB's lending activities. The market's positive reception for the EIB's funding strategy was reflected in the EuroWeek poll, where market participants voted the EIB the 'Most Impressive' and 'Most Innovative' borrower as well as 'Best Supranational/Agency' borrower for the second consecutive year.

- **Top awards for funding**

In EUR the EIB cemented its distinctive sovereign-class positioning by extending and renewing the Bank's curve in the challenging maturities of 30 years and 10 years, thus becoming the only borrower to complement sovereigns with outstanding benchmark issues of EUR 5bn size from 3 years out to 30 years. The EIB was also the largest non-US issuer in USD. In GBP, the Bank underscored its status as the leading non-gilt issuer. The strength of structured issuance was noteworthy, accounting for EUR 11bn equivalent (22% of total issuance).

### **Governors endorse new strategic orientations**

At its 2005 annual meeting, the EIB's Board of Governors endorsed the EIB Group's new strategic orientations.

The key words of the new strategy are innovation and quality.

Innovation means developing new financial instruments and new ways of collaborating with the banking sector in order to strengthen the support for SMEs and enhance their capacity to generate employment. Consequently, lending to SMEs has been added to the five EIB lending priorities outlined above. Innovation also implies a common approach to clients on the part of the EIB and the EIF and the joint development of financial products tailored to the specific needs of SMEs operating in the different national and regional markets.

Quality comprises giving further attention to value added, meaning support for sound investment contributing to the priority objectives of the EU, which can be pressed ahead with thanks to the financial benefits of EIB funding.

A major additional feature of the new strategy is the gradual increase in the risk profile of the EIB's lending. Under strict limits and with appropriate controls, the Bank will take on risks that are not easily absorbed by the market, such as those attaching to investment in new, unproven technologies with a high potential impact.

Implementing these changes will take time and involve a gradual approach. They do not entail a revolution for the EIB Group, but rather the continuation of a shift of direction initiated in recent years. ■



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### Additional sources of information

*Further details may be obtained from the briefing notes on the following topics:*

1. Economic and Social Cohesion
2. Innovation 2010 Initiative (i2i)
3. Development of the Trans-European Networks (TENs)
4. The EIB's environmental activities in 2005
5. EIB Group support for SMEs
6. Human Capital
7. FEMIP
8. ACP/Cotonou Agreement
9. Asia and Latin America (ALA)
10. EIB Capital Market Operations in 2005
11. Transparency policy, governance and relations with NGOs
12. European Investment Fund

The briefing notes, together with the press release and the brochure "The EIB Group in 2005: projects financed", are accessible on the EIB's website [www.eib.org](http://www.eib.org). For further information, please contact the EIB Press Office: [press@eib.org](mailto:press@eib.org); 📠 +352 43 79 31 89 – ☎ +352 43 79 21 57.