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European Investment Fund

EIF: a public-private partnership supporting SMEs and Innovation in Europe

The European Investment Fund (EIF) in which the Bank is lead shareholder (almost 60%) alongside the European Commission (30%) and a cluster of banks and financial institutions, specialises in **venture capital**, **SME guarantees** and advisory services. The EIF operates through financial intermediaries (some 350) using its own or those entrusted to it by its shareholders or third parties. EIF operations are driven by twofold objectives: **servicing EU policies** and **generating financial returns**. EIF enjoys a triple A rating and a Multilateral Development Bank (MDB) status. As at 31 December 2004, EIF total portfolio amounted to some EUR 10.5 bn.

EIF as an actor of the Lisbon agenda

For the remainder of the decade, the core underpinning for EIF will remain primarily the **Lisbon Strategy** in favour of European competitiveness; and also within the framework of the European Research Area, the objective of enhancing the **commercialisation of European Research and Development**.

Through the European Investment Bank, the Fund has mobilised some EUR 4bn for venture capital investments in high-growth SMEs, contributing to the financing of innovation. Another example of support to research and innovation is the Technology Transfer Accelerator project, an EIF initiative (in cooperation with EC and EIB) to bridge the seed financing gap through a new type of investment vehicle focused on the financing of commercialisation of research.

Furthermore, the proposed European Commission "Competitiveness and Innovation Framework Programme" (CIP) will further develop a number of existing and planned Community programmes to support competitiveness and innovation by concentrating on SME finance. Covering the period between 2007 and 2013, the programme will notably include financial instruments to be managed by EIF.

EIF venture capital operations

In the current venture capital market conditions, the presence of private investors remains still fragmented, mainly because of the uncertain economic environment with unsure prospects for this asset class, in particular in the early-stage segment. In such an environment, **EIF's participation** definitely has an important role in attracting private sector funding, thanks also to the emphasis EIF operations put on **SME values and good governance**. Moreover, **EIF's stable presence** symbolizes the value of public funding in times of market difficulties.

Lately, EIF has broadened its investment policy to include, alongside the early stage, also mid and later-stage funds. In terms of sector and stage, the EIF's VC portfolio is concentrated on early stage technology (primarily ICT and life sciences) forming close to two-thirds of the portfolio.

Venture capital operations amounted to **EUR 357m in 2004**, representing 2.5 times the volume of last year operations, for a total portfolio of **EUR 2.770m**. EIF has made last year commitments in some 15 venture capital funds representing a good range of operations in Italy, Spain, France, the UK and Germany, as well as some operations in the new Member States.

SME guarantees

The EIF offers two main product lines for its guarantee activity: credit enhancement for securitisation and credit insurance/re-insurance (including for microcredit loans). EIF financial standing and MDB status allows for reduced regulatory capital allocation on assets guaranteed by EIF and allows financial institutions to expand their lending capacity and improve their return on equity, facilitates the risk transfer to third party investor, and eases the credit risk transfer to the capital markets through bond issuances guaranteed by EIF.

In 2004, 49 guarantee operations amounted to **EUR 1 450m** were signed and contributed to facilitate the issuance of EUR 27 000m of securities backed by SME portfolios, a leverage factor of 20 times.

Under the Multi Annual Programme for Enterprises and Entrepreneurship (MAP), a mandate managed by EIF on behalf of the European Commission, EUR 750m operations were signed. MAP guarantee operations consists notably in loan guarantees and micro-loan guarantees. A particular feature of these guarantee schemes is that they aim to '**incentive**' guarantee schemes (or banks, in countries where there are no guarantee schemes) **to lend more** to SMEs, or to lend **on better terms** or **with reduced security**, in return for which EIF picks up part of the expected losses up to an agreed cap or ceiling. The number of operations in the new Member states and accession countries have been particularly important in 2004 (Poland, Romania, Czech Republic, Estonia, Bulgaria, Hungary, Lithuania, Turkey, Malta, Slovenia and Slovakia republic).

Some EUR 700m operations were signed for credit enhancement. The main role of EIF in securitisation transactions is to support enhanced debt finance to SMEs, by facilitating the SME risk transfer from the originating banks to the capital market. This is achieved through guaranteeing the junior tranches of SME debts via securitisation operations.

EIF Advisory Services

The new advisory activity was launched late 2002 and aims at offering technical assistance and advisory services to institutions, drawing on its expertise in the fields of Venture Capital and SME Portfolio Guarantees or a combination of both. The activity has been notably used to aid regional and financial organisations in creating more favourable investment mechanisms, and enhanced access to finance, for SMEs. Current examples concern a Spanish region's deployment of venture capital investments and financial institutions preparing for their first time a guarantee scheme and a venture capital facility.

For more information on the EIB, visit the internet site www.eib.org.

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