

The EIB, financial instruments and innovation

Belgrade

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EIB and financial instruments

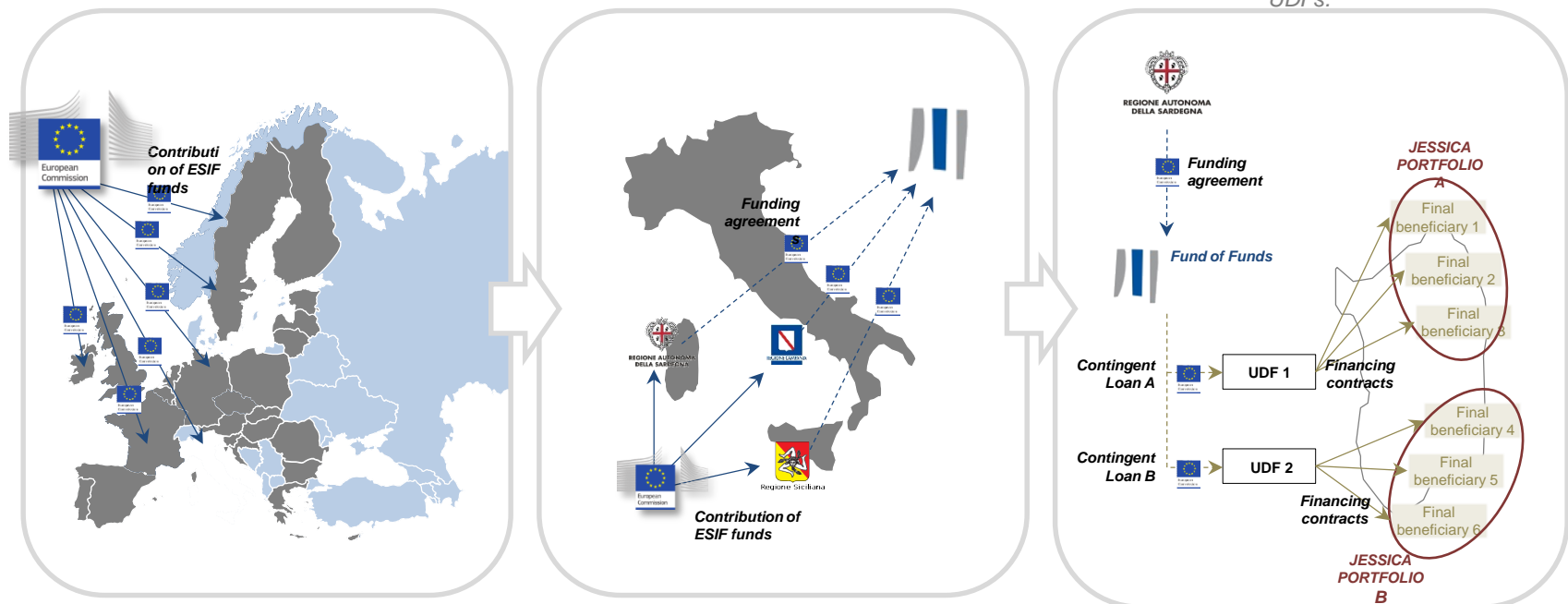
An innovative way of managing EU structural funds

- **Financial instruments** are an innovative way of efficiently and effectively employing EU structural funds in a rotating manner; the use of “non-grant” instruments also creates strong incentives for successful project implementation;
- An example of the successful use of financial instruments is the **JESSICA programme** (Joint European Support for Sustainable Investment in City Areas), an initiative of the European Commission (“EC”) developed jointly with the EIB and in collaboration with the Council of Europe Development Bank;
- Aimed at promoting integrated, sustainable urban-renewal projects in urban areas, the EIB has so far created under this programme EU-wide **18 Holding Funds** (funds of funds), which were invested into **41 Urban Development Funds (“UDF”)** and 2 Technical Assistance Funds, with a total of **EUR 1.8 billion under management**.

During every Programming Period, the European Commission contributes European Structural and Investment Funds (“ESIF”) to the convergence regions of the EU.

Under the JESSICA initiative, the EIB undertakes the management of part of ESIF resources on behalf of Managing Authorities (“MA”).

On behalf of the MAs, the EIB lends ESIF to selected financial intermediaries, which on-lend the resources to final beneficiaries (public and private entities) through separate UDFs.



- **Funding Agreements** with **three Italian regions** (Sicily, Campania e Sardinia);
- Funds contributed by the regions during the 2007-2013 period: EUR 328 million;
- **Sectors:** Sustainable urban development, including energy efficiency and renewable energy;
- The EIB established three **fund of funds** and selected financial intermediaries which manage six **Urban Development Funds** (UDFs);
- The UDFs received funding from the EIB through contingent loans which allows them to provide loans and equity to eligible projects;
- **Key results:** 75 projects with a total volume of EUR 775 million thanks to co-financing of the financial intermediaries (leverage effect of 2.4x);
- **Strong performance:** All projects in the portfolio are performing;
- **EIB's role:** Fund of funds management, advisory and financing of UDFs through contingent loans.

ESIF funds
contributed

EUR 328 m

Projects
financed

75

Total
volume of projects

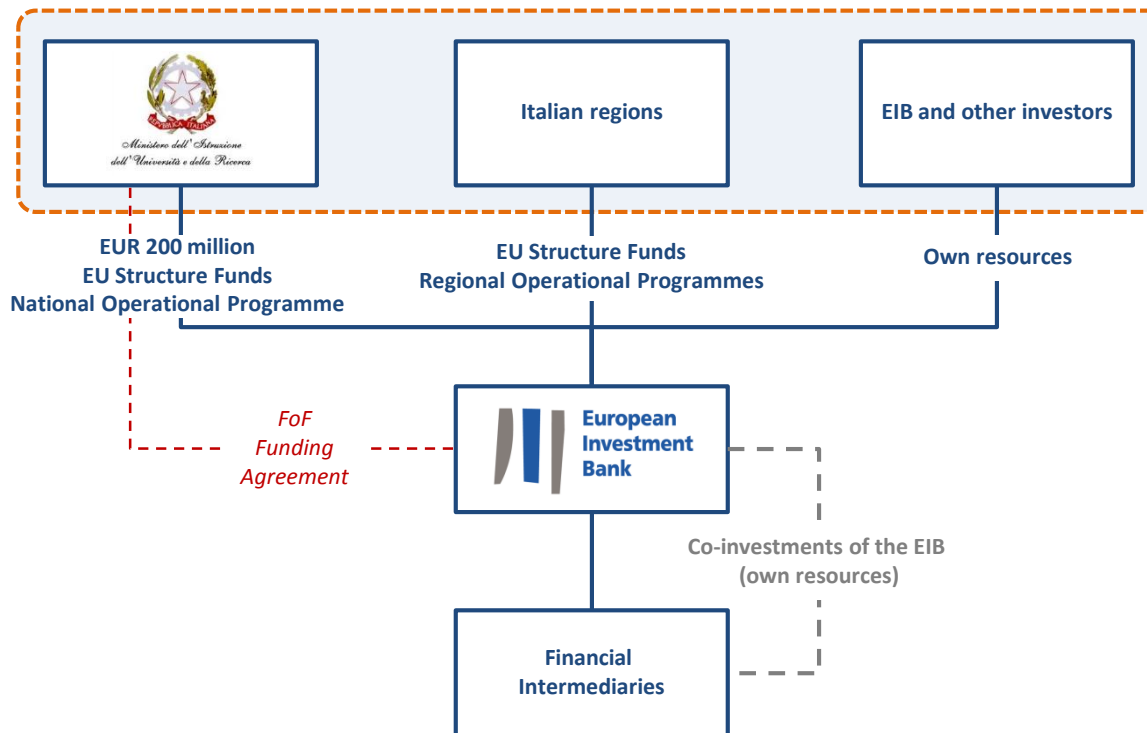
EUR 775 million

Portfolio leverage
effect

2.4x

Following the identification of market failure and suboptimal investment conditions for R&I in a number of regions in the south of Italy (Ex-ante assessment – Art 37(32) of the Common Provisions regulation (“CPR”)) a Fund of Fund (FoF) was implemented in December 2016 to finance research, development and innovation projects in these regions with a EUR 200 million contribution of EU Structural Funds (ESIF) from the National Operational Programme 2014-2020 managed by the Ministry for Education, University and Research (MIUR).

ITALIAN INNOVATION PLATFORM – Fund of Funds



- **Purpose:** contributing in eight regions in the south of Italy (Abruzzi, Apulia, Basilicata, Calabria, Campania, Molise, Sardinia and Sicily) to (i) reducing the existing investment gap in R&I activities, and (ii) tackling suboptimal investment conditions for R&I financing (identified in an ex-ante assessment);
- **Products:** loans, equity and quasi-equity to eligible R&I projects;
- **Eligible final beneficiaries:** Small, medium or large size companies, public entities, universities and research centres;
- **EIB’s role:** FoF management, advisory, selection of the financial intermediaries through a public procurement process, financing of the financial intermediaries through contingent loans; potential co-investor;
- **Financing plan:** ESIF funds will be paid to the FoF from MIUR in multiple tranches.

Financial instruments for innovation- key advantages

Risk tolerance advantages

Reduction of risks connected to the project structuring

- Wide range of financial products:
 - ✓ Junior/subordinated debt
 - ✓ Mezzanine
 - ✓ Equity
 - ✓ Quasi-equity
- Risk coverage instruments:
 - ✓ Loss absorption mechanisms
 - ✓ Guarantees
 - ✓ Subordinated financing

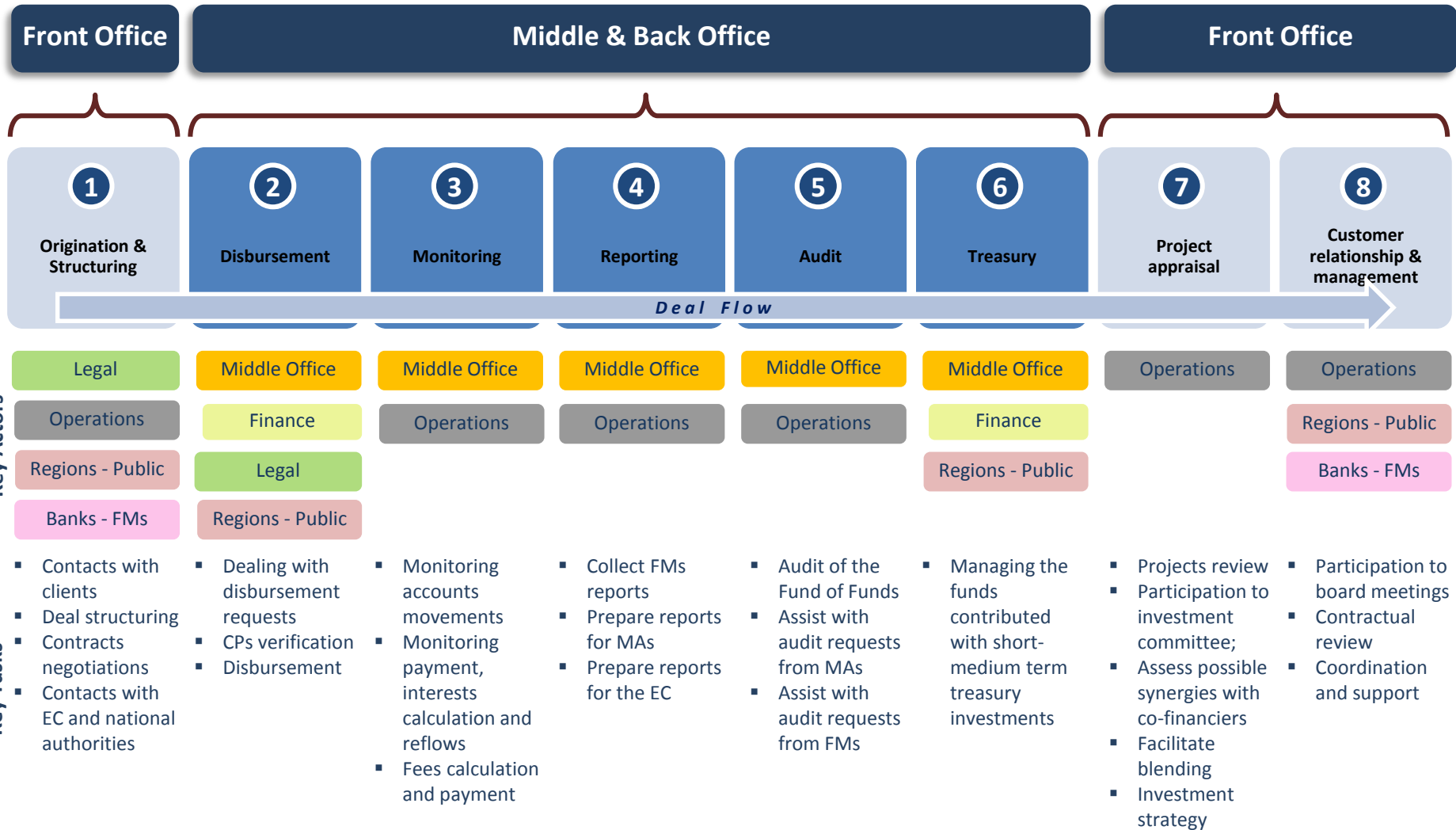
Financial advantages

Attractive conditions / incentives

- Long term financing (up to 25 yrs) vs shorter term offered commercial banks
- Competitive pricing (EC reference rate, market conform)
- Upfront disbursements for project promoters (vs grants contribution)
- Co-financing and leverage effect

Implementation of financial instruments

A strong tool but a complex process



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