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No one left behind



EIB's Scope for supporting ICT and content production

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EIB – Europe's long-term financing institution

- **Created by the Treaty of Rome in 1958, to provide long-term finance for projects promoting European integration;**
- **EIB shareholders: 25 Member States of the European Union;**
- **Subscribed capital EUR 163.6 bn;**

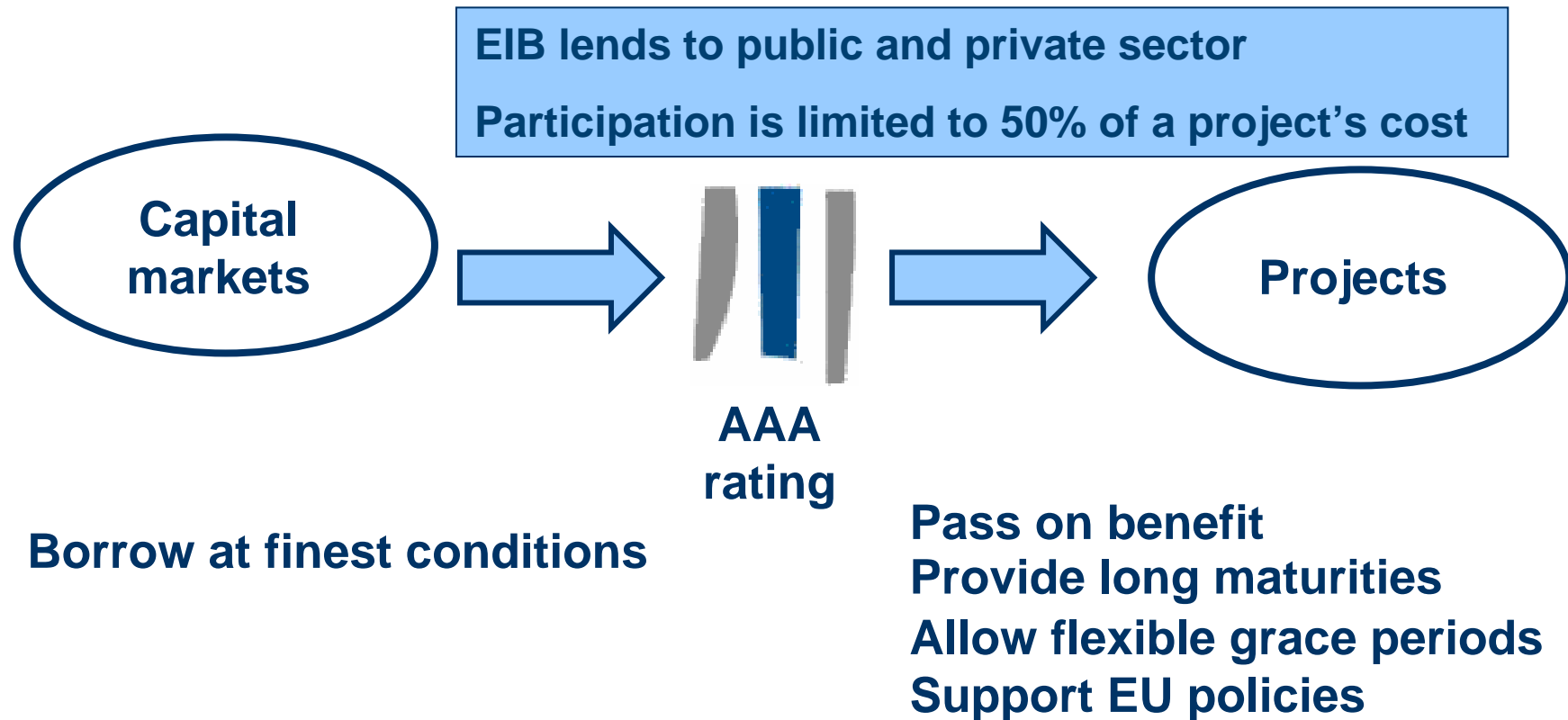


EIF – EIB's venture capital and SME guarantee vehicle

- **Established in 1994;**
- **Subscribed capital EUR 2 bn;**
- **Tripartite structure:**
 - **EIB (60%) + EU Commission (30%)**
 - **financial institutions (10%)**
- **Annual volume of operations (2005):**
 - **EUR 1.7 bn for guarantee operations**
 - **EUR 468 mn for venture capital operations**



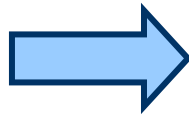
Long-term lending institution





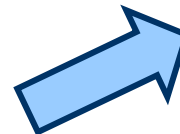
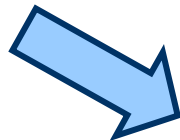
Direct and global / midcap loans

Large projects (> 25 million Euro total investment cost)



Projects

Smaller projects (< 25 million Euro total investment cost)

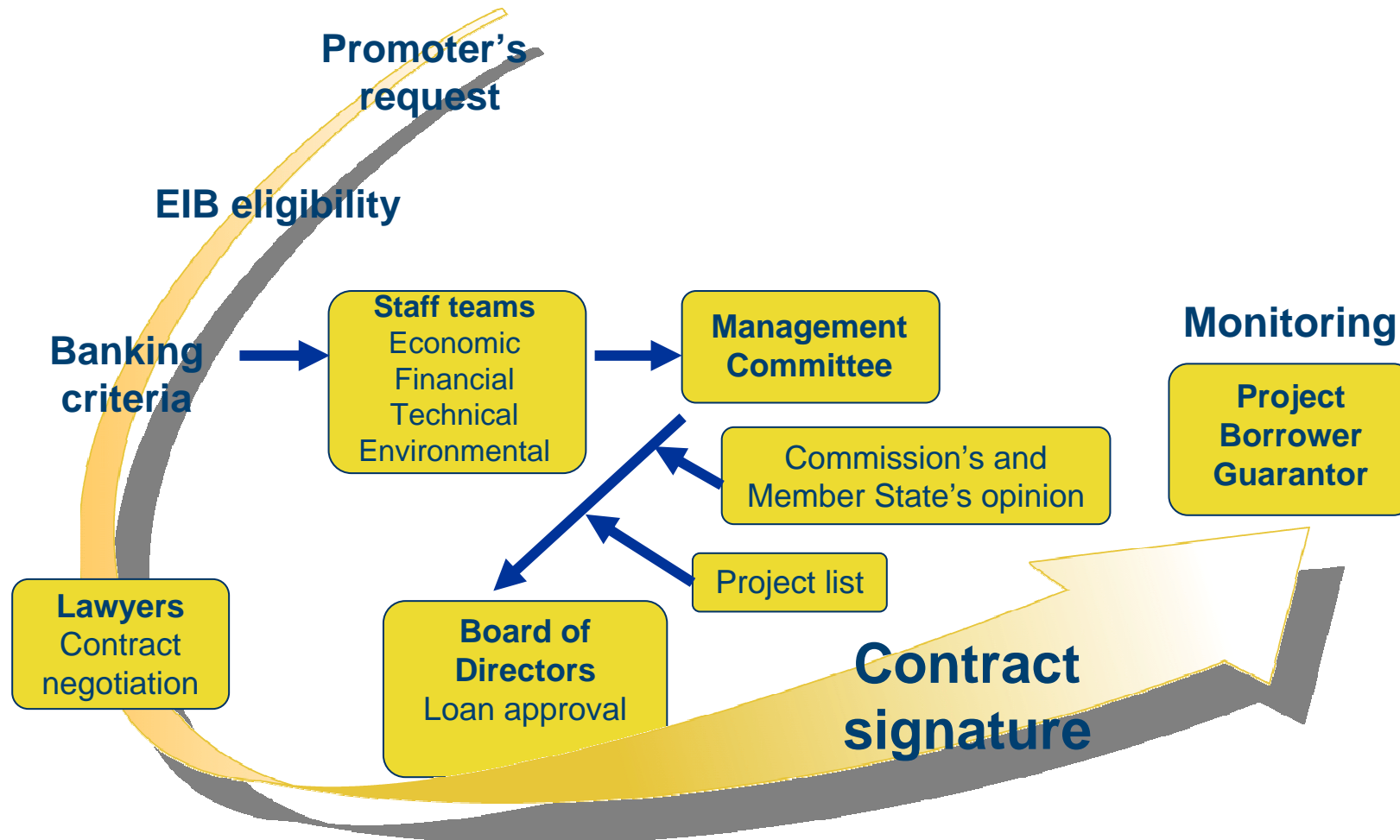


Projects

Local intermediary financial institutions



The Project Cycle at the EIB





ICT market characteristics

- Network externalities...
 - Utility increases the more people are connected
 - =the investment on one benefits others
 - Potentially enormous increasing returns to scale
- ... provide an incentive for R&D
 - Products and processes are changing quickly
 - In order to remain market leader
- Large companies remain large
 - New R&D can be financed out of cash-flow
 - They try to build in barriers to entry
 - Difficulties for SMEs to enter the market
 - Compatibility of their products with the mainstream technologies?
 - Investments seen as “risky” by financial institutions



Consequences...

- **Swiftly changing technologies**
 - Require the end-consumer to keep pace with the technological knowledge
 - Confusion about long-term viability of technological standards
 - Mini disk versus MP3 player, economic life of software and hardware
 - Require continuous hands-on practice
 - Result in an “investment” cost: learning and gathering information
 - Results in “economic rents” generated by some due to on lack of basic skills / information of others
- **Alternative “base” technologies seem to remain in place**
 - E-mail versus standard letter, phone call, fax
 - Fixed phone versus mobile phone
 - On-line tax declarations versus standard tax forms
- **Some end-consumers**
 - may not be willing to invest effort in learning
 - Structural, long-term issue – a digital divide?
 - Maybe also a generational phenomenon?
 - may not be able to understand or access technologies
 - Supply side issue
 - Human capital issue



Role for public policy?

- External effects → Yes!
- At five levels
 - Education
 - Avoiding burdensome economic rent generation
 - Maintaining a base-line standard technology for those who opt not to be part of the “digital world”
 - Standard setting
 - Open source, common network technologies, ...
 - And supporting associated R&D
 - To allow market access for contestants
 - Facilitating the legal framework
 - Acceptance of the digital signature
 - Online banking rules (eliminating “fee creaming” business...)
- Grant element important in development phase for SMEs
- loans useful for deployment phase



5 Lending priorities

- Regional development;
- Environmental protection and sustainable development;
- Preparation of Accession Countries;
- Support for EU development aid and cooperation policy
- **Implementation of i2i – the innovation 2010 initiative**



i2010i investment initiative

- Reflects the long-term nature of the Lisbon and Barcelona objectives
- Compromises an indicative lending envelope of:
 - 20 billion Euro
- Over the period June 2003 – December 2006
- Projects are eligible throughout the Union
- Higher risk intake is being considered by the EIB (non-rated companies, risk-sharing, ...)
 - RSFF (in cooperation with the Commission)
 - Period 2007-2013



i2010i investment initiative

- Human capital formation and e-skills;
- R&(T)D and its dissemination;
 - Private sector R&(T)D
 - Poles of attractions, Science parks, ...
- The audiovisual sector
- Information technology networks and access to it;
- ICT hardware and content;
- Equipping SMEs with information technologies



What qualifies as project cost?

Traditionally

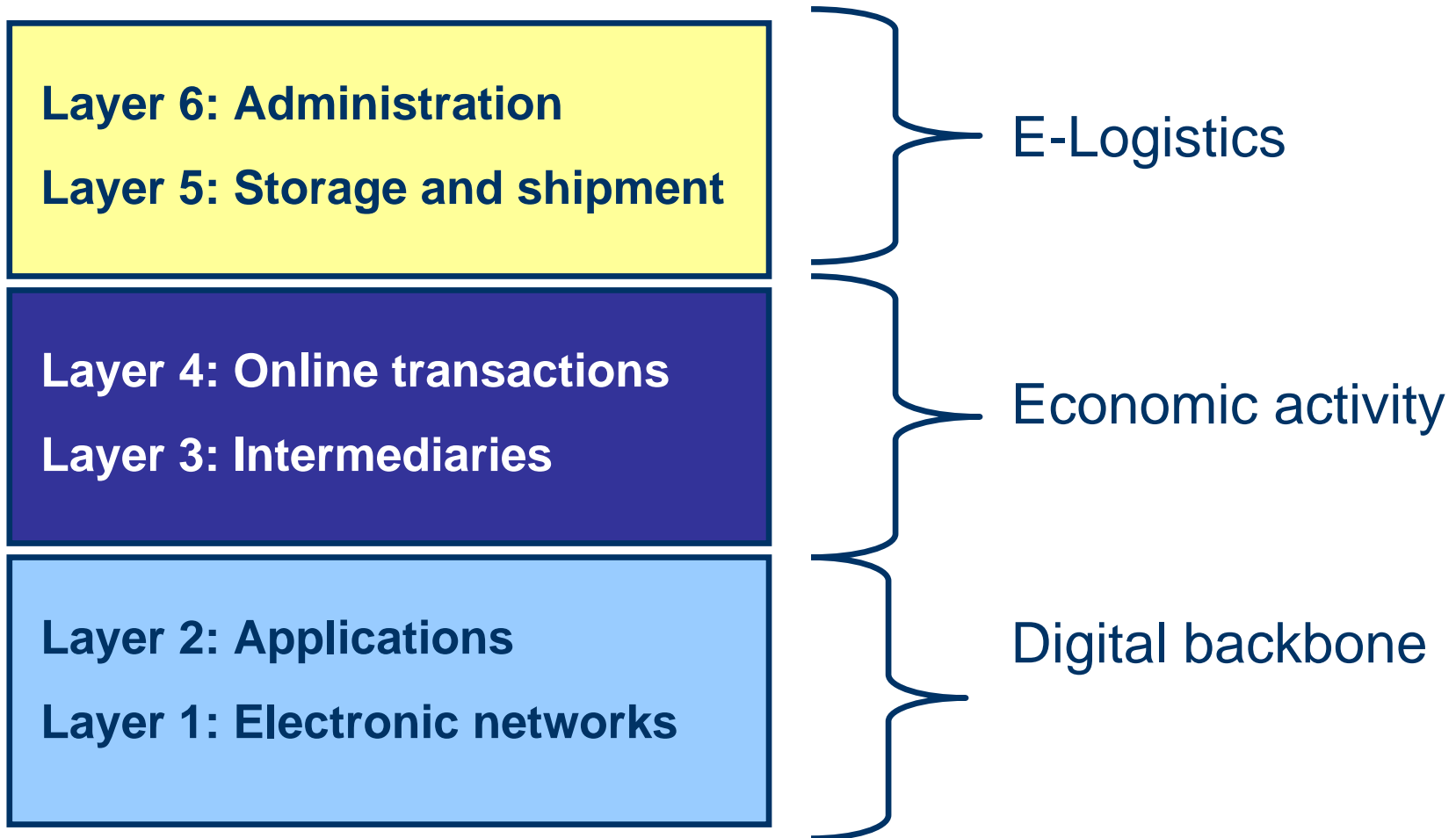
- Expenses for new **tangible assets**
 - machinery and equipment
 - lab equipment
 - site preparation
 - Large infrastructure works, ...
 - EXCEPT: pure land, pure (speculative) real estate projects, ...

i2010i

- Also expenses for new **intangible assets**, including salaries, for
 - R&(T)D,
 - software development,
 - training for e-skills, ...
 - EXCEPT: goodwill (incl. trademark value)



ICT-type projects may deal with





Access to i2010i funding

- Private promoters
- Public promoters
 - Local authorities
 - Regional governments
 - Central governments
- For projects covered by one - or a combination of - the six layers
- Investments requirements for a period up to 4 years can be considered within one project
- Combination with other EU or national funds /programs is possible
- Financing is suitable for e.g. EU wide deployment phase of pilot projects, provided a sound business plan is in place



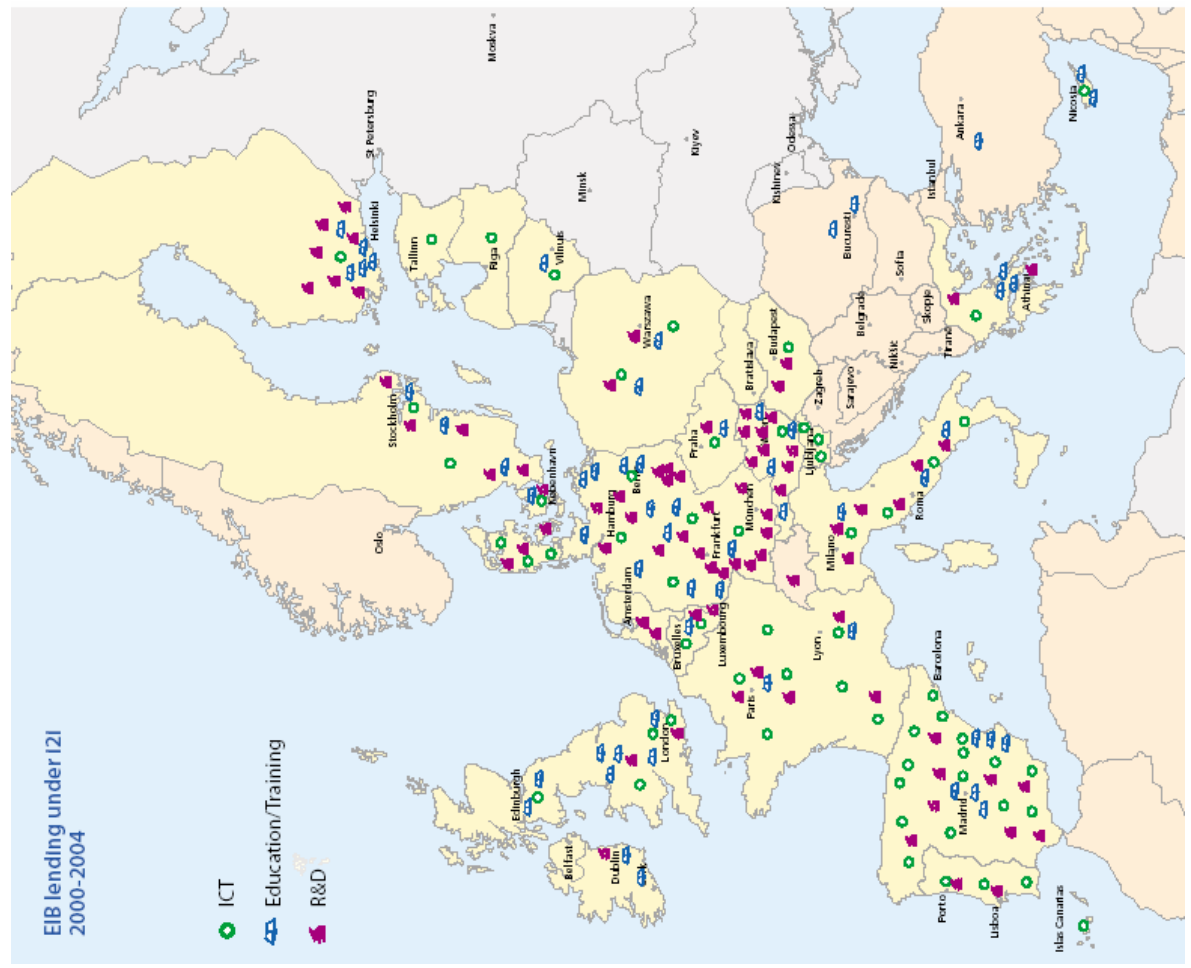
EIB experience

- **ICT projects:**
 - Market dominance of a few big incumbent companies
 - Development often financed out of cash-flow
 - When not:
 - project size often too small sized for EIB direct intervention
 - exception: infrastructure works
 - SMEs not fully ready for / informed about leverage of debt / equity financing? Family structure – still too much focus on ownership?
- **Suggestions:**
 - Pooled leasing operations (equipment, further development of sales and lease back of intellectual property)
 - Dedicated Global / Midcap Loans



EIB lending under IZI
2000-2004

- ICT
- Education/Training
- R&D





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e-INCLUSIION

ICT for an Inclusive Society - **RIGA** 11-13 June 2006

