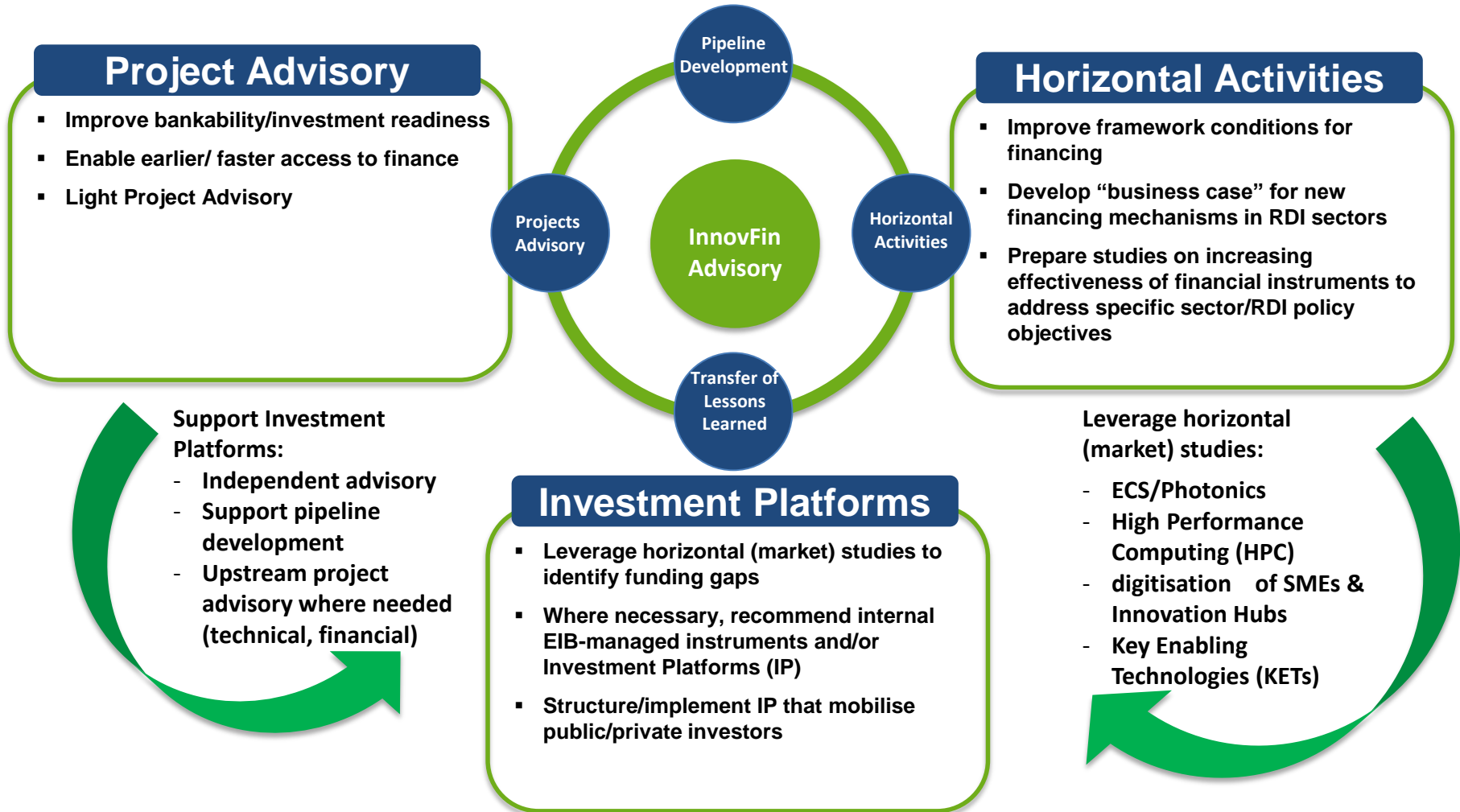


## Digital Innovation Hubs 2nd Working Group meeting

Brussels  
February 21, 2018

# Innovation Finance Advisory (IFA) – What do we do?



# IFA's portfolio of Horizontal Activities

Logos: European Union, European Investment Bank, European Commission, EUROPEAN INVESTMENT FUND.

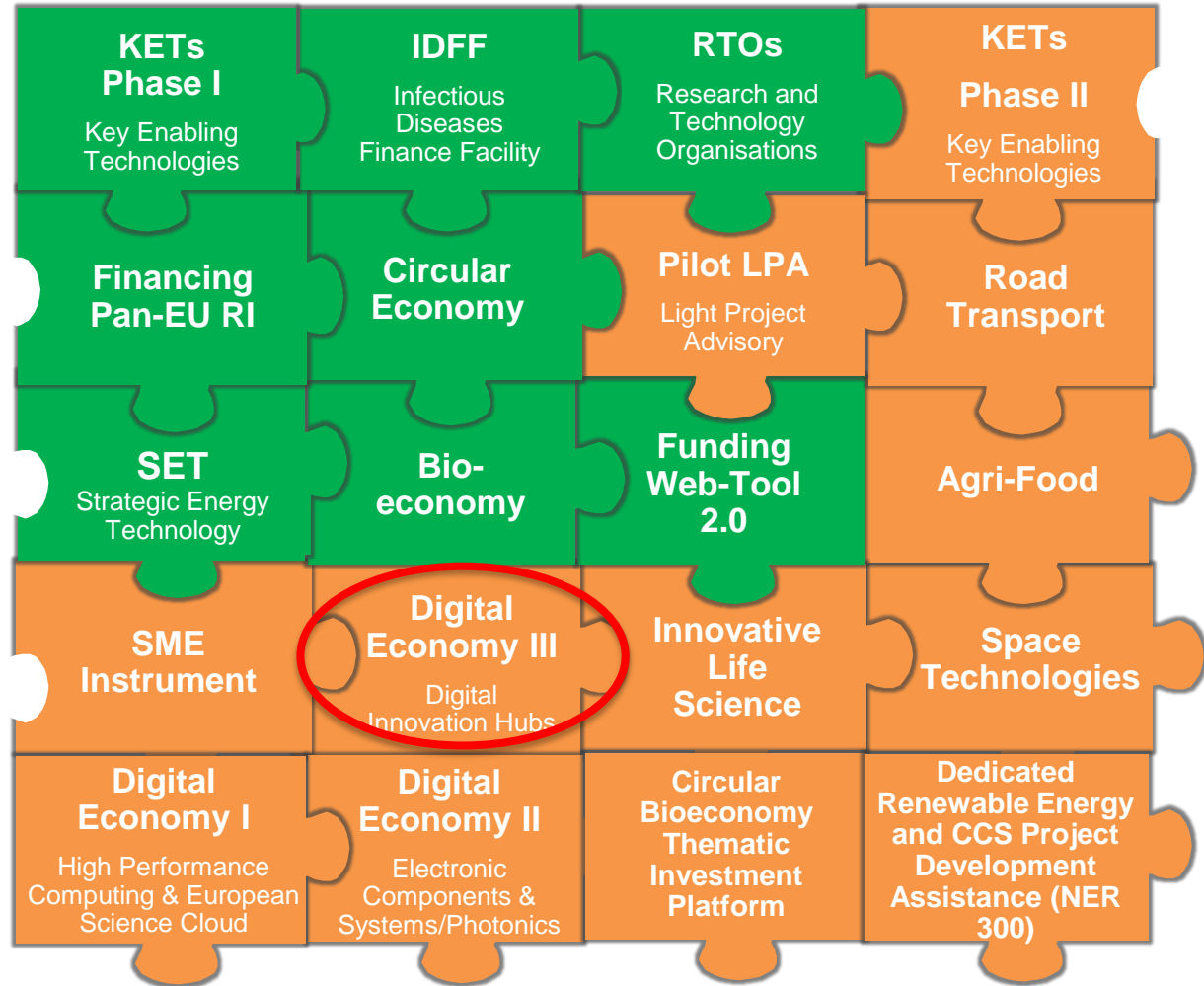
6 simple steps to funding for innovation

Access-to-finance conditions for KETs companies

Access to finance for Research and Technology Organisations (RTOs) and their academic and industrial partners

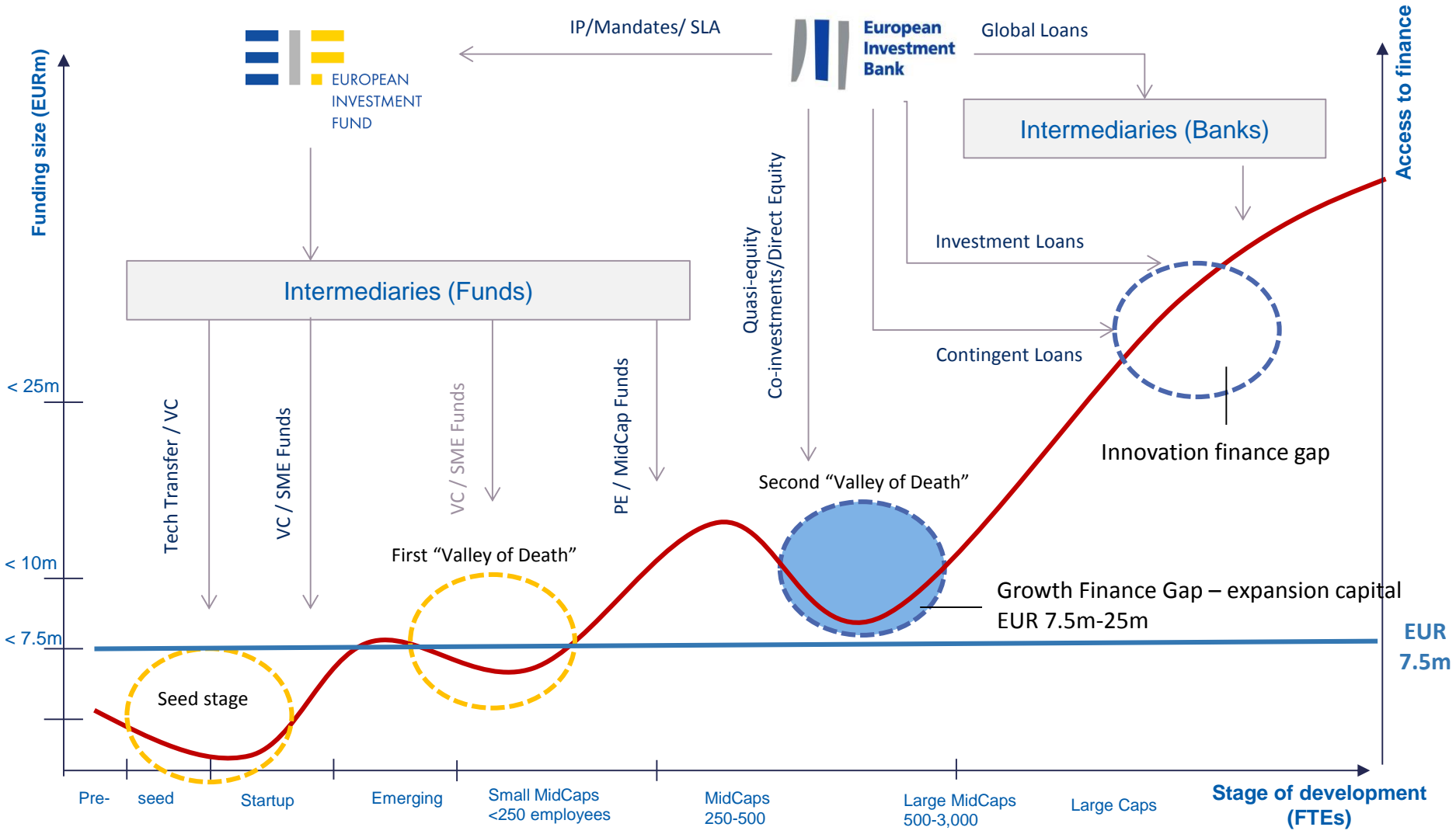
Assessment of access-to-finance conditions for projects supporting Circular Economy

InnovFin Infectious Diseases



Approved/ Ongoing    Completed

# EIB Group Product Offering



## Digitisation of SMEs- A big challenge- reaching the shoe makers

- ✓ Digitisation -the adoption of digital technologies- by industry and SMEs across all sectors is critical for Europe to remain competitive in a global marketplace.
- ✓ The digitisation of companies in Europe varies significantly by geography, sector and type and size of company. While 54% of large companies are highly digitised, only 17% of SMEs have successfully integrated digital technologies into their businesses.
- ✓ Private investors (venture capitalist) focus primarily on financing high-tech start-ups with high growth potentials (unicorns) and not on SMEs in traditional sectors (i.e. retail) that aim to digitise their companies
- ✓ A key challenge for the digitisation of SMEs is a Knowledge Gap: SMEs often lack the awareness about the benefits of digitisation and the knowledge about how to adopt digital technologies into their businesses.
- ✓ Existing Funding Gap- there does not exist any financial instrument at the EU-level that is specifically dedicated to the digitisation of SMEs.
- ✓ Successful digitisation programs focus on providing an integrated set of products and services to SMEs including: (i) awareness raising activities; (ii) digital literacy programs; (iii) knowledge transfer; (iv) advisory services and (v) investments in digital technologies
- ✓ To promote the digitisation of SMEs it is required to support both the supply and demand side (“Push and Pull approach”).

## Access-to-Finance for digitisation of SMEs Study

### The objective of the Study:

- Provide an overview about the current access-to-finance conditions, trends and challenges related to the financing of programs supporting the Digitisation of SMEs in key sectors of the European economy
  - Analyse access-to finance conditions for the financing of Digitisation programs, in particular for SMEs and the development of Digital Innovation Hubs
  - Identify principle national and European programs that support the Digitisation of SMEs in Europe and provide recommendations on how European programs can complement and strengthen existing national programs
  - Provide a set of policy relevant inputs and recommendations on how to set up financial instruments (such as digitisation fund) at EU level with possible co-financing with national or regional schemes/contributors (the concept of EFSI platforms)
  - Explore if there are collaborative funding models (involving public and private investors) that can improve financing conditions of DIHs
- Close collaboration with EC (DG Connect and DGRTD)

## Digital Economy 3: Scope of work



**We are looking for relevant cases**

 Proposed Activities

# Case Study: Inner City Urban Regeneration in Dublin

- 9 buildings **72,000** sq. ft.
- **90** companies
- **725** people working



**THE DIGITAL HUB**

- **Diversity** of tech & digital sectors
- **€2.8 m** in commercial revenue
- **57:43** Irish to FDI companies

**Double the office space in next five years**

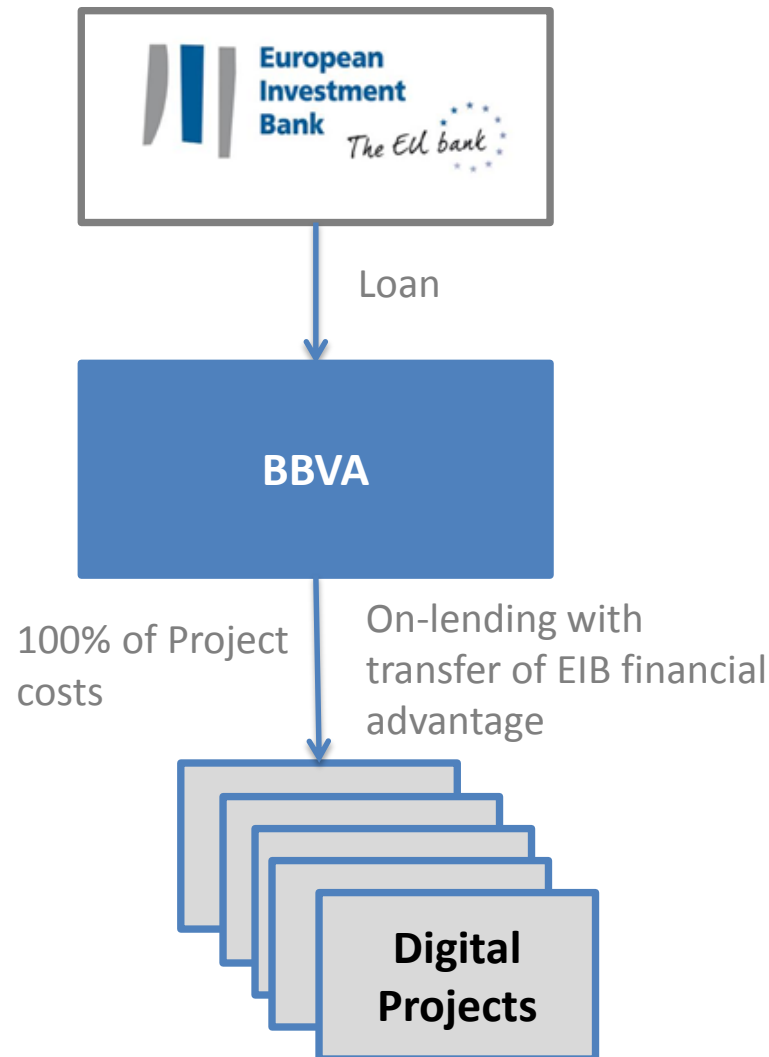


Future Creators



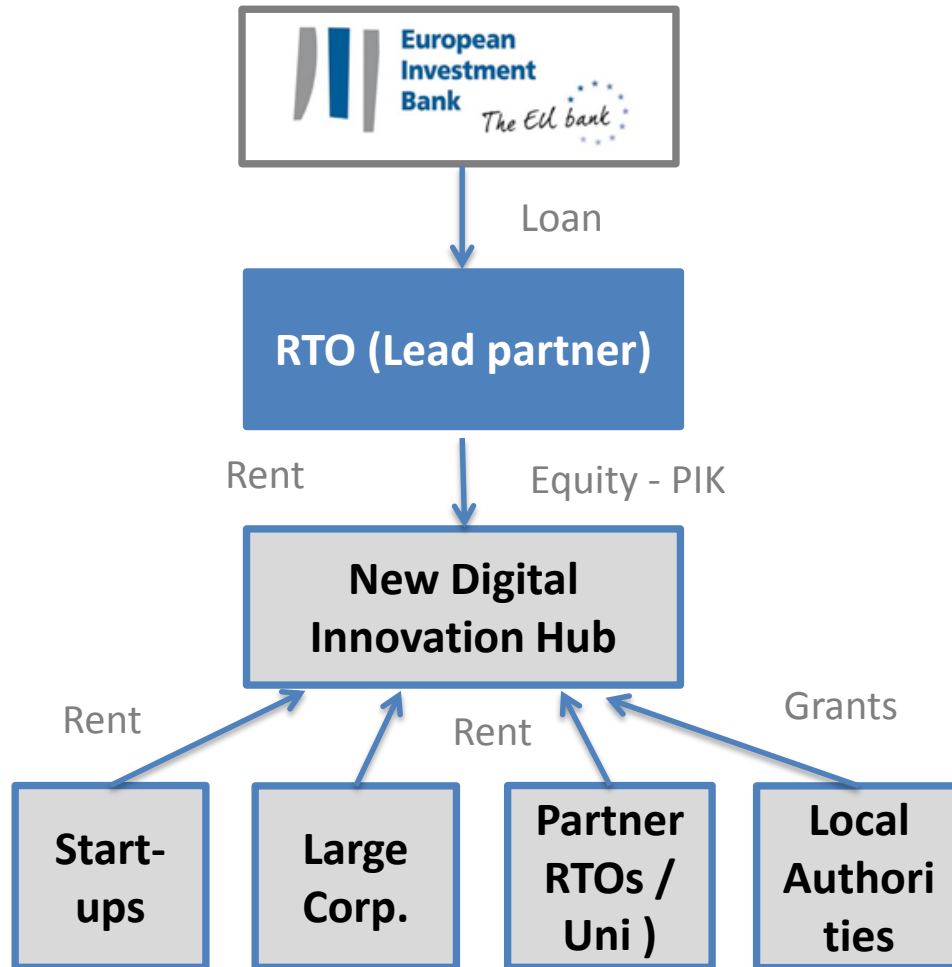


## How to finance digitisation? – A practical example (1/2) –



- In November 2017, EIB announced a EUR 150MM loan to BBVA to finance SME investments related to Innovation and Digitisation
- This is the first EIB operation in Spain that is entirely dedicated to promoting and financing innovation and digitisation in SMEs, including funding for initiatives that enable them to digitise their operations
- SMEs and Mid-Caps (up to 3,000 employees) can obtain a loan up to 100% of the projects costs (up to 25MM) to fund investments in the latest technologies and modernise their processes and equipment, improving data management, web portals, business marketing, etc
- The companies that access this credit line will have the opportunity to benefit from the EIB's favourable conditions, both in terms of maturity and interest rates

## How to finance digitisation? – A practical example (2/2) –



- IFA was involved in advising a large RTO and its partners including research institutions and universities in setting up a new Digital Innovation Hub
- New DIH project involves the construction of three new buildings (extending the existing RTO campus) to bring together major research centres, universities, high-tech incubators, high growth start-ups and industry and develop digital innovation projects in the following strategy areas: (i) Cybersecurity, (ii) Intelligence Artificial, (iii) Cyber Physics Systems and (iv) new manufacturing technologies
- Key elements: 1) clear business model based on renting space with clear anchor tenants, 3) strong support from well established RTO, and local authorities, 3) clear link to private sector and industry

## What does make a project bankable?

The following elements should be consider to make a project bankable (or in other words, to become potentially financeable by private investors):

- ✓ A clear legal and governance structure. This includes the management team, shareholders and any other relevant stakeholders (such as key commercial partners);
- ✓ A robust business model. This should include unique selling point and streams of revenues, nature of revenues (long term contracts or not, recurring clients), potential demand and key competitors, potential profitability;
- ✓ A sustainable capital structure. This should include major investment needs and funding sources (including equity, debt, and grants);
- ✓ A well-developed business plan. This should include: 1) product and value proposition, 2) Business model, organization & processes, 3) market and competitor analysis, 4) management team, 5) opportunities & risks, and 6) financial projections (covering evolution of revenue, profitability, and cash flow generation)

**IFA Advisory services can help projects to improve bankability**

## Key Questions for discussion

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1. What are the principal characteristics of the local, regional or national innovation ecosystem?
2. Does there exist a market assessment for the products and services offered by the DIH? What is the current demand for the products and service offered by the DIH?
3. Can DIHs develop a revenue generating business model to attract repayable capital and reduce dependence from grants?
4. Has the DIH programme explored collaborative funding models (involving public and private investors) that can improve financing conditions of DIHs?
5. How to better integrate the DIHs services with financial products (beyond public grants)? Partnership with lenders/banks? Direct lending from DIHs?
6. What is the potential role of DIHs in supporting SME to improve the access to finance of SMEs?
7. Where is the funding gap? Is in the adoption of digital technologies (such as ERP, e-commerce website, digital marketing, robot technologies, etc.) by SMEs in traditional sectors (such as construction, agriculture, etc.) or is in the development of new and innovative digital business models, digital products, digital services or digital processes by SMEs?

## EIB Team

**Shiva Dustdar**

Head of Innovation Finance Advisory  
Advisory Services  
Phone: (+352) 4379 87316  
eMail: s.dustdar@eib.org

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



**Bjorn-Soren Gigler**

Senior Advisor, Innovation Finance Advisory  
Advisory Services

Phone: (+352) 4379 82275  
eMail: b.gigler@eib.org

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



**Alberto Casorati**

Advisor, Innovation Finance Advisory  
Advisory Services

Phone: (+352) 4379 83111  
eMail: a.casorati@eib.org

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



**Arnold Verbeek**

Senior Advisor, Innovation Finance Advisory  
Advisory Services

Phone: (+352) 4379 82029  
eMail: a.verbeek@eib.org

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

