



EU Funding

Loans and Guarantees



Business Support on Your Doorstep

Enterprise Europe Network London

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This factsheet aims to provide a concise yet detailed introduction to the availability of loans and guarantees offered by the European Union. The EU does this through two financial intermediary institutions, and this factsheet identifies what is available and explains in detail which kind of projects are typically eligible for funding of this type.

The European Investment Bank (EIB) and the European Investment Fund (EIF) are the two EU institutions providing loans and guarantees. The EIB is both an EU institution and a bank, and it operates on a non-profit-making basis. The EIF is a Public Private Partnership. Its tripartite shareholding includes the EIB and a number of European banks and financial institutions. The EIF always acts on a commercial basis.

European Investment Bank (EIB)

The EIB functions within the context of the EU's structural and cohesion policies. As a result, the bank concentrates on financing the following areas in particular:

- Basic infrastructure within underprivileged areas
- Innovative firms, particularly SMEs
- Transport and telecommunications infrastructure
- Environmental protection
- Health and educational initiatives

The mission of the EIB is to further the objectives of the EU by providing long-term finance for specific capital projects in keeping with banking practice. The EIB provides individual loans, global loans and venture capital. Individuals, companies and local authorities can benefit from this financial support. In 2006 the EIB financed €45 billion worth of projects, of which 87% took place within EU Member States. As a rule, the EIB lends up to 50% of the costs of an investment project.

Loans

Typical clients for EIB loans are public and private sector bodies and enterprises. To be eligible for a loan, projects must demonstrate sufficiently developed evidence of economic, financial, technical and environmental planning. The EIB finances two types of loans:

Individual Loans

Granted to projects in which the total investment costs exceeds €25 million. Adequate security, provided for example by a bank or other financial institution, is required. Fixed or convertible interest rates are offered, while commitment fees are not normally provided. Although its financial accounts are held in Euros, the EIB can lend in several different currencies including UK Sterling, US Dollar and those of EU Candidate countries. Repayment is normally conducted on an annual or twice-yearly basis.

Intermediated Loans

These are lines of credit or indirect loans permitting the financing of projects with a total investment cost of less than €25 million. 50% of the total cost of any project may be financed. Funds are granted to intermediary financial institutions in the country of the project, which then pass on the EIB funds to local authorities and SMEs. To qualify as an SME, the enterprise must have less than 250 employees and an annual turnover of under €50 million. Applicants are requested to contact the national financial intermediaries directly.

To apply for a loan, a detailed description of the project's capital investment and prospective financing arrangements should be sent to the EIB's Operations Directorate. The initial

enquiry can be made either by letter, email, fax or telephone. Sufficient information should be provided so that the EIB can assess the project's business plan and suitability for its lending procedures. More information on the documentation to complete when applying for a loan can be seen at www.eib.org/projects/cycle/applying_loan/index.htm.

Guarantees

Within EU countries, the EIB can provide two types of guarantees for senior and subordinated debt; a standard guarantee or a debt service guarantee. These can offer higher value-added and lower capital charges, while providing a zero risk weighting to the guaranteed obligation.

Specialist guarantees are also available for 'Trans-European Network' (TEN) transport projects, in order to guarantee revenue risks in the immediate period after a project's completion, and also for financing projects in African, Caribbean and Pacific countries. More information can be seen at www.eib.org/products/guarantees/index.htm.

Outside the EU, the bank finances investment in Central and Eastern Europe, in the Mediterranean countries, in the African, Caribbean and Pacific States, in Asia and Latin America.

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European Investment Fund (EIF) and the SME Guarantee Facility (SMEGF)

The EIF is an institution that supports the creation, growth and development of SMEs. The EIF does not finance SMEs directly, but always acts through financial intermediaries, and it intervenes through:

- Venture capital, i.e. the EIF supports venture capital funds financing innovative SMEs
- Guarantee instruments, primarily portfolio guarantees, which facilitate access to debt finance for SMEs through intermediaries including banks, financial institutions and mutual guarantee funds.

Such intermediaries are able to obtain an EIF portfolio guarantee within the context of the European Commission's SME Guarantee Facility (SMEGF). The SMEGF, funded by the Commission and operated by the EIF, consists of four sections:

Loan Guarantees

Targeting SMEs with growth potential, these guarantees cover portfolios of specifically mid to long-term debt finance.

Micro-Credit Guarantees

These cover portfolios of micro-credits to encourage financial institutions to provide financing to micro-enterprises, particularly business start-ups.

Equity Guarantees

Cover portfolios of investments in SMEs in the start-up phases and mezzanine financing investments, to help SMEs improve their financial structure and achieve business transfers.

Securitisation

Guarantees to support securitisation transactions so that financial institutions may mobilise additional debt financing for SMEs.

More detailed information about all these Guarantees, including the guidelines for eligibility and guidance on the application process, can be found at

www.eif.org/portfolio/ecport/index.htm

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In addition, the SMEGF is one part of the European Commission's wider Competitiveness and Innovation Framework Programme (CIP). The programme, in operation from 2007-13, is designed to encourage and boost the competitiveness of SMEs within the EU. To accomplish this, it aims particularly to support innovation initiatives and provide better access to finance for small firms.

Further detailed information on the CIP can be accessed at

http://ec.europa.eu/cip/index_en.htm

The Euro Info Centre at the London Chamber of Commerce and Industry, soon to be relaunched as the 'European Enterprise Network' from February 2008, is the regional contact point for information and advice on all aspects of the CIP programme.



This factsheet was produced by the Enterprise Europe Network London team at London Chamber of Commerce. The Enterprise Europe Network London brings together GLE, London Chamber of Commerce and London Technology Network. The Enterprise Europe Network London is funded by the European Commission and the London Development Agency.

We provide practical, hands-on support and information for London's small and medium businesses seeking funding, hoping to expand their business into Europe, or wishing to develop (technology) partnerships with other European businesses. For more information please go to:
www.een-london.co.uk

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