

Introduction

The European Investment Fund (EIF) is the European financial institution which promotes the creation and development of Small and Medium-sized Enterprises (SMEs) by guaranteeing loans to SMEs and financing the **venture capital funds** that invest in them. SMEs are very important to the European Union, both socially and economically, as they represent 99% of all businesses in the EU and employ approximately 65 million people. They also have a reputation for innovation. However, such innovative research carries a high risk and a lot of projects will not make money. It is therefore often difficult for them to attract investment, which is why the EIF plays such an important role.

History

The EIF was established in 1994 to promote the development of SMEs. Following the conclusion of the Lisbon European Council in March 2000, which called for increased support to assist SMEs, it was decided that the EIF should work more closely with the European Investment Bank (EIB). The EIB Group was established and the EIF became the EIB group's venture capital financing arm. The European Investment Bank is the chief shareholder in the EIF, holding 66% of its capital. The Commission holds 25% and the remaining 9% is owned by other banks and financial institutions.

How does the EIF work?

The EIF's main aim is to provide financial support to SMEs in order to promote innovation, research and development, entrepreneurship, growth and job creation. These are vital to the Europe 2020 Strategy, under which EU member states are committed to create jobs and an inclusive society, and encourage 'green' economic growth. To do this, the EIF concentrates its investments in new companies, especially those focused on technology and life sciences. The EIF does not actually invest directly in businesses, or even provide them with loans. Instead, it invests money in venture capital funds that then invest directly in businesses. The EIF never invests more than 25% in a single **fund**. Due to its holdings in many different funds, the EIF is sometimes known as a **fund of funds**.

The EIF also provides **guarantees** to banks, which provide medium- and long-term loans to SMEs. This work is important as there is a large degree of risk in providing loans to SMEs, who are far more often unable to repay their loans than established businesses.

Facts and figures

- ❖ The EIF has over €20.7 billion invested in 351 venture capital funds, 193 guarantee operations and 6 microfinance operations.
- ❖ The latest EIF annual report estimates its 2011 net profit will be around €10 million for 2011.
- ❖ The EIF has a solid financial profile with a debt-free balance sheet and AAA credit rating.

Arguments

For

- ❖ The free market promotes innovation and job creation far better than government intervention; the work of the EIF helps stimulate this process.
- ❖ The EIF's support for SMEs is important to attract other private investment to this area, especially in times when the market conditions are uncertain.
- ❖ Through its support for SMEs, the EIF plays an important role in making European industry more competitive.

Against

- ❖ Despite the EIF's support for the Europe 2020 Strategy, the EU is still not on course to meet these ambitious objectives.

"The UK supported [the EIF] and is one of the main beneficiaries of its financing activities."

Melanie Johnson MP, Economic Secretary to HM Treasury, 1999-2001

"The member states have validated the importance of EIF as a unique public-private... platform that meets the Community objectives, notably in the field of financing of innovation and entrepreneurship."

Francis Carpenter, EIF Chief Executive, 2005

Technical Terms

- ❖ **Venture capital:** Money invested in a project, especially a new or expanding business, where there is a large degree of risk.
- ❖ **Fund:** An investment scheme where the money of investors is pooled and managed together. This money is then used to make a common investment.
- ❖ **Fund of funds:** A fund that specialises in buying shares in other funds rather than in individual investments.
- ❖ **Guarantee:** An insurance given to a lender by a third party that it will pay any debt owed by a company that is unable to repay a loan.
- ❖ **Europe 2020 Strategy:** Underpins all EU policy regarding the Single Market. It particularly aims to create jobs and an inclusive society.

Links

- ❖ <http://www.eif.org/index.htm>
- ❖ http://europa.eu/institutions/financial/eif/index_en.htm