

Capital increase of the European Investment Fund (EIF)

2014/0034(COD) - 06/02/2014 - Legislative proposal

PURPOSE: to enable the purchase of 450 additional shares in the European Investment Fund in the context of a capital increase of the EIF.

PROPOSED ACT: Decision of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: the European Investment Fund (EIF) was founded in 1994 to stimulate sustained and balanced growth within the Community. Its statutory goal to support EU policies has been reflected in the exceptional growth of both equity investments and guarantees during the recent crisis. Following the capital increase of the EIF in 2007, the subscribed capital amounts to EUR 3 billion divided into 3 000 shares each with a nominal value of EUR 1 million. The paid-in capital of the EIF is currently EUR 600 million (i.e. 20 % of subscribed capital).

Consequently, the Union, represented by the Commission, is currently subscribed to in total 900 shares of the Fund for a nominal value of EUR 900 million, of which EUR 180 million are paid-in.

As of October 2013, the EIF is owned by the EIB (62.1 %), **the European Union (30 %)** and 24 public and private financial institutions (7.9 %).

Recalling that restoring normal lending to the economy, in particular to SMEs, remains a priority, the European Council of December 2013 called on the Commission and the EIB to **further enhance the capacity of the Fund through an increase in its capital** with a view to reaching final agreement by May 2014.

The current size of Fund's own funds does not allow for a substantial increase in the Fund's activity, as the guarantee and venture capital operations of the Fund may not exceed the ceilings set by the Statutes of the Fund or by the General Meeting of the Fund. Furthermore, the credit enhancement capacity of the Fund is limited by the size of its available own funds.

Accordingly, on 26 November 2013, **the EIF Board of Directors approved the increase in the EIF subscribed capital by up to EUR 1,500 million, of which 20 % will be paid-in.** This would imply the **subscription of 450 additional shares by the EU.**

CONTENT: the draft decision provides that in addition to its current shareholding in the EIF, **the Union shall subscribe for up to 450 shares each of a nominal value of EUR 1 million in the Fund.** The subscription of shares and the annual payments shall be carried out in accordance with the terms and conditions that shall be approved by the General Meeting of the Fund. In addition:

- the Union shall purchase the new shares in the Fund over a **four-year period starting in 2014;**

- during 2014 to 2017, the **dividends received** for the participation of the Union in the Fund shall be considered as external assigned revenue, in accordance with Regulation No 966/2012 on the financial rules applicable to the general budget of the Union, to cover part of the cost of subscription;
- a total amount of up to **EUR 170 million** for the whole period shall be available within the general budget of the European Union to cover the remaining cost, making use of appropriations already programmed within Heading 1a of the Multi-annual Financial Framework 2014-2020 in order to leave unchanged the total expenditure allocated. The budgetary commitment may be broken down into annual instalments over four years in accordance with Regulation No 966/2012.

BUDGETARY IMPLICATIONS: the resources needed for the purchase of 450 shares are estimated at approximately **EUR 175 million**.

The Commission proposes that the **dividends which will be paid by the EIF during the years 2014-2017 will be used to cover part of the cost of the new shares**. Assuming the 2013 level of the dividend pay-out ratio of 20 % to remain constant for the next four years, the dividends to be received during this period are estimated at around EUR 11.5 million. However, it needs to be stressed that the EIF uses a dividend pay-out ratio of 33% as a working assumption for their calculations in the document proposing EIF's capital increase to its Board of Directors. If this level of dividends was assumed, the purchase of 450 shares would require approx. EUR 172 million and the estimated dividends received during 2014-2017 would reach approx. EUR 19 million. The dividends are decided annually by the General Meeting of the EIF.

Consequently, **at this stage both the share issue price and the level of dividends cannot be calculated exactly for the whole period of subscription**. In any case, the price to be paid by the EU for its part of the increase is not expected to exceed the sum of indicative budget appropriation for EUR 170 million plus the dividends received during 2014-2017. The Commission proposes to make use of appropriations already programmed for financial instruments under **COSME and Horizon 2020 programmes** to enhance access to financing for SMEs. Since both the [COSME Regulation](#) and the [Horizon 2020 Regulation](#) aim to assist SMEs, it is proposed to use part of the appropriations available for COSME and Horizon 2020 for the proposed EIF capital increase. The necessary adjustment to the 2014 budget will be proposed separately in a draft amending budget.