

Capital increase of the European Investment Fund (EIF)

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In accordance with Decision No 562/2014/EU, this interim report verifies the extent to which the objective of the increase in the funding from the European Investment Fund (EIF) of measures complementary to those taken by the Member States in favour of businesses, particularly small and medium-sized enterprises (SMEs), was reached between 2014 and the third quarter of 2016.

The EIF was established in 1994 by the European Investment Bank (EIB), the European Union (EU), represented by the Commission, and several public and private financial institutions. Its mission is to support European SMEs by facilitating their access to finance.

Increase in capital: the EIF's capital increased to EUR 4.5 billion in 2014, following the second capital increase (1 500 new shares were issued). The main objectives of the capital increase were to:

- develop SME loan capital markets to diversify the liquidity sources of banks and leasing companies that support SMEs;
- improve SMEs' access to finance;
- support the EIF's growth as a core investor in the venture capital and growth capital markets;
- strengthen the role of the EIF in the fields of microfinance and social impact investment;
- allow risk sharing in the EIF's mandates through co-investment;
- support the EIF's "AAA" rating by injecting new capital and by demonstrating the strengthening of its strategic importance.

According to Decision No 562/2014/EU, the European Union may subscribe **up to 450 new shares for the period 2014-2017**, using budget appropriations the maximum sum of which amounts to EUR 178 million. The Commission subscribed 332 shares at a total cost of EUR 133 479 829.08 (i.e. an average price of EUR 402 047.68 per unit).

The EIB subscribed 923 shares to which it was entitled. 15 financial institutions fully subscribed their respective capital increase entitlements and four more subscribed more than 50% of their entitlement, representing a total of 193 new shares.

118 new shares remain authorised but not issued, all reserved by the Commission. Of the budget appropriations of EUR 178 million initially earmarked for the acquisition of EU shares, EUR 44.5 million remain. The EIF has provisionally fixed the sale and purchase share price in 2017 at approximately EUR 436 000.

The remaining budget allows the EU to subscribe to 102 other shares at this price. As a result, the Union will have subscribed, not 450, but 434 new shares, as a result of the higher than expected increase in the share price over the reference period, and will hold 1 334 shares (29.6% of the authorised capital) at the end of the capital increase exercise. Its participation will therefore be diluted (it was previously 30%).

EIF achievements for the period 2014-2016: the report notes that as of 30 September 2016, the EIF had increased the volume of its activity by 40% on average per year compared to 2013. It entered into 607 transactions for an investment volume of EUR 16.9 billion. Of these, 370 relied on its capital base. They mobilised EUR 5.8 billion of the EIF's own resources, of which over EUR 4 billion was invested alongside resources managed by the Fund under various mandates.

The large capitalisation resulting from the capital increase contributed decisively to the successful deployment of the [European Strategic Investment Fund](#) (EFSI). It enabled the EIF to pre-finance the first operations and to deploy the InnovFin system more rapidly and capital investments under the EFSI component of the CPR mandate (in which the EIF co-invests systematically 5%).

In conclusion, the Commission considers that, although it has not yet been fully completed, due in particular to the EU's pending decision on the 118 remaining shares, the capital increase has already led to **an increase in the funding available to SMEs and mid-size enterprises**.

The capital increase also created **additional risk-taking capacity**, which increased the volume and the speed of the implementation of capital investments in SMEs, thanks to which the EIF capital had a considerable multiplier effect.

The capital increase also **boosted the EIF's own risk activity in credit enhancement operations**, notably with respect to guarantees and securitisation, which enabled the mobilisation of private financing and the improvement of SMEs' access to finance.

However, the budget made available will probably not be sufficient to subscribe fully the remaining 118 shares reserved for the EU, which will lead to a **slight dilution in its shareholding**. For the EU, the dilution of its participation will result in a slight decrease in its share of future dividends.

The Commission considers that the **EIF still has sufficient scope** to pursue new activities in the coming years and it is too early to forecast its capital requirements beyond 2018. However, a further mobilisation of the EIF's own resources is expected once the EFSI has been adopted.