European Investment Fund: increasing the nominal capital

2006/0203(CNS) - 24/10/2006 - Legislative proposal

PURPOSE: to increase the subscribed capital of the European Investment Fund (EIF).

PROPOSED ACT: Council Decision.

CONTENT: The European Investment Fund was created in 1994. Community participation in the Fund is based on Council Decision 1994/375/EC. The Fund plays an important role in addressing, in a flexible way persistent and well-identified market gaps that limit SMEs' access to finance, thus hindering their potential growth in all stages: creation, expansion and development. The Fund will exhaust its own resources by mid-2007 and will be unable to continue its own resources operations. In the absence of a capital increase, the Fund would have to gradually scale down all new operations funded by its own resources. Therefore, following an exhaustive examination of the outlook and alternatives by the Fund's Board of Directors, the Board proposes to increase the subscribed capital by 50% in nominal terms.

Article 3 of the Council Decision 1994/375/EC specifies that the position of the Community on a possible capital increase in the capital of the Fund and on its participation in that increase shall be decided unanimously by the Council, acting on proposal from the Commission and after consulting the European Parliament. Consequently, the purpose of this proposal is to approve the 50% increase in the nominal capital of the Fund and Community participation in it. Following the adoption of the proposed Decision, the General Meeting of the Fund would authorise the Fund to increase its capital by 50% in nominal terms.

The capital increase, the first since the inception of the Fund in 1994, is fundamental to achieving the Fund's objectives. In the short- to medium-term, it would increase the Fund's potential for cooperation with the Commission, with the EIB and with the financial shareholders, as well as with new or existing non-shareholder mandators requiring co-investment by the Fund. No additional request for increased capital would be made during the forthcoming Financial Framework period 2007-2013. The Fund will use its own resources for venture capital and guarantee operations to increase financing available for SMEs and growth-enhancing investments by SMEs in innovation and R&D.

The subscribed capital of the Fund will be increased by 50% in nominal terms, of which 20% will be paid-in. The intention is to issue 1000 new shares, which would mean, in nominal terms, an increase of the total subscribed share capital from EUR 2 billion to EUR 3 billion and, maintaining the current paid-in ratio of 20%, an increase from EUR 400 million to EUR 600 million of the paid-in capital. The capital increase of the Fund was endorsed within the framework of the EIB Group's contribution to the growth and jobs initiative which was welcomed by the ECOFIN of 14 March 2006 and European Council of 23-24 March 2006.

Budgetary implication: the Community will subscribe to up to 300 new shares of the EIF. The annual payments of the shares will be done over the four-year period 2007-2010. The indicative budget appropriation for the four-year period would amount to around EUR 100 million, i.e. EUR 25 million per year. The intention is to maintain the Community shareholding in the Fund at the level of 30% of the capital of the Fund by 2010. Due to the variable share issue price the Commission does not have the possibility to determine in advance the exact overall and annual budgetary commitments and payments. In order to maintain the shareholding at 30% by 2010 and to face any price uncertainties, the Commission proposes that the dividends which will be paid by the Fund during the years 2007- 2010 will be used each

year to cover part of the cost of the new shares. In any case, the maximum Community liability will not exceed the budget allocation of EUR 100 million and the dividends received during this period, estimated at around EUR 20 million.

An evaluation of the Fund's activities will be carried out by the Commission by 31 July 2012.

For more details concerning the financial implications of this measure, please refer to the financial statement.