EIB LENDING PRIORITIES ASSOCIATED WITH A CAPITAL INCREASE

A joint European Commission and European Investment Bank report to the European Council

Context and Principles for EIB intervention

When the financial crisis struck the EU in the second half of 2008, at the request of the ECOFIN Council, the EIB contributed to the EU economic recovery plan with a significant but temporary increase in its financing activity in 2009 and 2010. For the EIB to continue to play a countercyclical role in support of long-term growth, it is necessary to strengthen its capital and financial flexibility. It is proposed that the capital of the EIB be increased by EUR 10bn, which should allow the EIB to provide up to EUR 60bn of additional financing in the next few years. From shareholders' perspective a decision to increase the capital of the EIB should be seen from a "value for money" perspective. In other words what does the EIB offer for the 10bn of capital support provided by its shareholders? Answering this question is the purpose of this note.

Before heading into the discussion of where and how additional lending would be targeted it is important to reaffirm that the increased activity should not compromise the EIB's fundamental AAA-based business model of financing longer-term growth-enhancing capital supporting Europe 2020 Strategy. The heavy reliance of the EIB for attractive funding on the capital markets would be put at risk if sound investment approach and sound banking are compromised. Hence, it is essential that all projects entering the Bank's portfolio are of high quality in terms of economic viability, policy support and credit risk profile. While EIB has a countercyclical role to play and is ready to do all it can to support growth and jobs at this difficult moment, the EIB cannot be seen as and should not become a crisis-management tool, nor a bailing-out instrument. By maintaining access to attractively priced long-term financing for robust projects, the EIB will contribute to the effective implementation of structural reforms and fiscal consolidation at Member States level.

EIB will maintain a sectoral approach to its operations in line with Europe 2020 objectives, but given the widely different economic and financial conditions throughout the European Union, the EIB will develop in cooperation with Member States strategies that are properly tuned to regional and local circumstances. This is essential to ensure the maximum growth and job impact of EIB intervention.

While the EIB has different valuable opportunities to expand its financing activity, available means will remain limited. It is therefore important for the EIB to develop its catalytic role and foster cooperation with other providers of finance (national promotional institutions and sovereign wealth funds, among others). Pooling resources with other financial partners will enlarge the means available to support investment in the real economy in the European Union.

An EIB Growth and Employment Facility

The capital increase would target four focal areas for additional EIB action and would provide up to EUR 60 billion of additional financing covering all Member States including support to less developed regions in accordance with Article 309 of the Treaty. Within the overall lending objective to boost growth and jobs, the EIB would respond to the requirements of each of the focal areas so as to obtain the largest impacts on the EU economy. The table below summarizes the indicative EIB financing volumes that are considered. The EIB Growth and Employment Facility would be additional to the current EIB lending plans of about EUR 50bn per year.

	€ billion	Additional EIB loans	Additional investments
		over 3-4 years	over 3-4 years
1	EU Innovation and skills initiative	10-15	up to 40
2	EU SME Access to finance initiative	10-15	up to 40
3	EU Resource efficiency initiative	15-20	up to 50
4	EU Strategic infrastructure initiative	10-15	up to 50
	Total	up to 60	up to 180

The **EU Innovation and Skills Initiative** would target high technology industries, including the areas of key enabling technologies, life sciences (pharmaceutical, biotechnology and medical technology), clean vehicles, green energy equipment as well as communications and semiconductors. Investment in research and innovation is essential for maintaining and expanding job opportunities and the competitiveness of the European Union. At a time of high and rising unemployment, especially among younger people, support for training and education to facilitate return to employment and for educational and training facilities to improve Europe's human capital would also be targeted.

At a time when the European banking sector is under severe difficulties, firms most reliant on banks are more and more at risk. Transitory liquidity difficulties can quickly translate into broader problems, putting a larger number of workers out of work and destroying a valuable capital stock. A permanent reduction of the growth potential of the European economy would result. In order to support the employment potential of European enterprises, including though their international development, the **EU SME Access to Finance Initiative** would aim to maintain access to finance for solvent SMEs and Mid-Caps, including via a widening of counterparts for EIB lending and an expansion of EIF support.

The **EU Resource Efficiency Initiative** would target the environment, e.g. water and waste-management, agro-industries and bio-based products, climate change and renewable energies, especially innovative wind power, as well as the infrastructure and equipment required to connect new generation capacities to the transmission grid. In addition, the initiative would also support financing for energy efficiency improvements (renovation of the existing capital base) and adaptation of innovation to reduce energy and resource consumption (“smart” meters and grids).

The **EU Strategic Infrastructure Initiative** would target the development and expansion of modern broadband networks, for both comprehensive coverage as well as high-speed access. In addition the initiative would also focus on the missing links in cross-border transport systems and improvement of inter-modal transport networks, two sectors that have particularly suffered from the financial crisis. It will also focus on energy transmission infrastructure with cross-border impact, which are essential to improve Europe’s security of supply and enable Europe to meet its 2020 energy and climate change targets. These and other international links are all critical for the long-term improvement of the growth potential and competitiveness of Europe.

In addition, lack of finance is only one potential barrier to investment in many places in the European Union. Poor administrative and project management capacity often delay investment implementation. Tackling these constraints offers potentially large pay-offs in terms of jobs. EIB is ready to expand further its provision of **technical and financial advice**, an efficient means to help project delivery and speed up disbursements and real investment. Technical and financial advice increases the absorption capacity of Structural Funds in the Member States and supports a faster and more effective use of Structural Funds, boosting jobs and growth.

Cooperation with EU budget

In recent years the Commission and the EIB have developed a number of joint financial instruments where EIB Group financing is blended with risk-sharing EU budgetary resources. Joint financial instruments are either supported by the Member States within Structural Funds co-financed programmes or by central EU budgetary resources. This could be developed further, already under the current Multiannual Financial Framework (MFF), supporting the financing capacity of the EIB and/or the EIF.

The development of additional joint risk sharing instruments funded by the centrally managed EU budget is constrained by the limited amount of available (unspent) EU resources in the current MFF, while they will benefit from increased focus in the next MFF. Additional **risk sharing instruments supported through Structural Funds co-financed programmes** could leverage EIB lending and allow EIB support higher risk – higher value added activities, notably in countries encountering difficulties.