



Service d'assistance budgétaire

European Investment Bank (EIB): Activities, mechanisms and legal aspects

BUDGETARY AFFAIRS

EUROPEAN PARLIAMENT



Directorate General Internal Policies of the Union

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BUDGETARY SUPPORT SERVICE**

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NOTE

IPOL/D/BSS/NT/2006_002

01/03/2006

EN

This paper is published in the following languages:
- Original: EN

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Manuscript completed in March 2006.

Copies can be obtained through:
E-mail: ip-bugetarysupport@europarl.eu.int
Site intranet: <http://www.ipolnet.ep.parl.union.eu/ipolnet/cms/pid/1517>

Brussels, European Parliament, 2006.

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European Investment Bank (EIB): Activities, mechanisms and legal aspects

The main task of the European Investment Bank (EIB) is to contribute towards the integration, balanced development and economic and social cohesion within the Member States. It raises on the markets substantial volumes of funds which it directs on the most favourable terms towards financing capital projects according with the objectives of the Union.

The EIB and the Lisbon Strategy

In October 2003, the European Council¹ explicitly requested that the EIB instruments should be used to support the Lisbon strategy:

*"the European Council, invites the Commission, the EIB and the relevant formations of the Council to establish a "quick-start programme" identifying a list of projects in an enlarged Union based on transparent criteria explore how best to increase the involvement of the private sector in financing projects, **including the use of the EIB's Structured Finance Facility, develop better coordination of procedures between EIB financing, Structural Funds, the TENs budget line and the Sixth Framework Programme"***

The EIB has developed a programme geared to contribute to the Lisbon Strategy, known as the Innovation 2010 Initiative or i2i. This programme is designed mainly for supporting research and development projects, human capital, information and communications technologies.

The European Council of December 2003 endorsed the European Action for Growth and welcomed the work carried out by the EIB and the Commission in the implementation of the Union's Lisbon agenda to improve competitiveness, employment and the enlarged Union's growth potential. The growth initiative covered specially two broad areas - the trans-European network infrastructure (TENs) including transport, telecommunications and energy and the Innovation and R&D including environmental technology. The Action was based on close collaboration between the Member States, the Council, the Commission and the EIB, whereby the cornerstones were:

- the mobilisation of private resources to finance qualifying projects;

¹ European Council 16-17. October 2003

- the part-financing of projects from national budgets, in particular by optimizing the use of existing public resources, a contribution from the EU and the EIB;
- enhanced coordination between all relevant sources of financing.

The European Council invited the EIB to implement the financial instruments aiming at leveraging private capital. The Commission and the EIB will provide a mid-term evaluation of the Action for Growth by the end of 2007².

During the 2004 Spring European Council³, the Council welcomed the Environmental Technologies Action Plan and called for its rapid implementation,

"inviting the Commission and the EIB, which should include the EIF, to explore the mobilization of the range of financial instruments to promote such technologies".

Scope of the EIB's Activities

Regional development - 71% of the Bank's lending in the EU (EUR 28 billion) went to investment in regions lagging behind in their economic development⁴.

The Innovation 2010 Initiative (i2i) - EIB, as a major player in implementing the Lisbon agenda, has advanced loans for investment under i2i worth EUR 23.3 billion and provided EUR 2.3 billion in venture capital⁵.

Environment - worldwide individual loans amounted to EUR 10.9 billion, of which EUR 10.4 billion in the EU-25 (representing 36% of all its individual loans to project safeguarding and enhancing the environment).

Trans-European Networks - increased support - EIB has become the leading source of bank finance for these major networks (61 % of the Bank's lending for TENs)⁶.

² This evaluation will be done on the basis of (i) effects on growth; (ii) impact on the internal market and cohesion in the enlarged EU; (iii) mobilisation of private sector capital, (iv) acceleration of the implementation of TENs and innovation and R&D projects including environment projects; (v) progress in reducing regulatory barriers; (vi) the impact on the environment and employment.

³ European Council 25-26 March 2004

⁴ Source for all the information: EIB Annual Report 2004. Projects addressing the problems in regions where GDP per capita is less than 75% of the EU average absorbed 47 % of individual loans. Lending in need of socio-economic restructuring accounted for 36%. Whenever possible, the Bank calculates an economic rate of return - or, in the private sector, a financial rate of return - for the investment, that it is considering financing. If this cannot be done, it makes a qualitative judgment, taking all relevant factors into account.

⁵ The EIB, together with the EIF and the Commission, is developing a toolbox of financial engineering instruments. These could be introduced into the planned support programmes for the new budgetary programming period 2007-2013

⁶ The Bank is able to enhance a project's financial environment by offering pre-finance and repayment terms tailored to the project cycle.

Small and Medium-sized Enterprises (SMEs) the EIB provides finance through global loans (credit lines to intermediary banks or financial institutions which on-lend the funds to the SMEs, usually with fewer than 250 employees.

Enhanced Cooperation Projects

JASPERS - Joint Assistance in Supporting Projects in European Regions

- the aims:
 - 1) assist the Member States in the complex task of preparing large quality projects so that they can be approved more quickly for EU support by the services of the Commission.
 - 2) to support the successful implementation of cohesion policy in the programming period 2007-2013 by greatly increasing the resources available for project preparation
- staff: an organisational separation between JASPERS and the EIB operational staff. JASPERS has a target staff of 54 technical and financial specialists plus 10 support staff

JEREMIE - Joint European Resources for Micro to Medium Enterprises

- additional aims:
 - contribution to better co-ordination at national and regional level
 - technical assistance enhancing the absorption of scarce public resources under EU programmes
- Evaluation of the gaps - to identify gaps between the demand for financial engineering products in support of SMEs and micro-credit and the existing supply capacity of the local specialised financial intermediaries for such products.
- the beneficiary countries can allocate part of the structural funds for this programme in favour of SMEs and micro-enterprises (case by case basis) up to 5% of the structural funds (guess by the Commission)
- leverage effect of between 2 and 50 i.e. each euro of budget would produce between 2 and 50 euros of financial products that would in turn be rolled over

URBAN DEVELOPMENT AND SOCIAL HOUSING (less developed)

- a partnership between EIB, the European Commission and the Council for Europe Development Bank
- grants for investment in urban infrastructure, support for SMEs and investment in training and social actions, with long-term loans for integrated investments in urban renewal - including in social housing
- "social housing" - the bank will consider as social housing those operations that are recognised in the legislation of the Member States or falling within specific categories that will be jointly established by the Banks (some flexibility in the definition is needed)
- "sustainable communities" - the principles of sustainable communities, requiring an integrated view of urban operations ,will be applied to ensure

project quality. Only technically and environmentally efficient social housing projects that are part of an urban development plan will be supported

Other financial mechanisms

Three instruments are being developed

- **TENs guarantee**: This loan guarantee instrument would enhance the financial viability of projects without exposing the Union to excessive credit risk as the project covered would be spread across the EU and of different size. The cross border debts are the most important, especially for financing huge and complex projects.
- **SFF (Structured Finance Facility)**: The EIB reserve allocation would allow an overall financing volume of up to €4 or 5 billion (a substantial part of which might be committed by the end of 2006), depending on the composition of the SFF portfolio.
Risk-Sharing Finance Facility (RSFF) The RSFF budget would be derived from 2 budgetary lines (line Cooperation, with the exception of Socio-economic research and from the line Research Infrastructures). The diversity of risk is very important in order to lower the margin of risk.
- **SMEs and micro-enterprises**: €1 billion, mandate from the Commission to EIF under the CIP (Competitiveness and Innovation Programme), for venture capital and guarantees.
 - Technical Transfer Accelerator: mandate of the Commission to EIF for bridging the gap between university research and start ups of new businesses.

Legal and financial limits of EIB support

The shareholders of the EIB are the 25 Member States of the European Union. Each Member State's share in the Bank's capital is calculated in accordance with its economic weight within the EU (expressed in GDP) at the time of its accession⁷.

The Board of Governors consists of Ministers designated by each of the 25 Member States, usually the Finance Ministers. It appoints the members of the Board of Directors, the Management Committee and the Audit Committee. The Board of Directors⁸ has sole power to take decision in respect of loans, guarantees and borrowings.

Otherwise (except the issue mentioned below on capital increase), the Statute can be modified solely in accordance with the procedure provided in Art. 48 of the Treaty on European Union and in Art. 266 of the Treaty establishing the European Communities as amended by the Nice Treaty. Any modification of the EIB Statute requires prior

⁷ For the 10 new countries, the portion of subscribed capital to be paid (5%) will be so in eight instalments.

⁸ Appointed for a renewable period of five years. According the statute, "*the Board of Governors may, acting unanimously, decide to increase the subscribed capital*" (Art. 4 (3) of the EIB's Statute)

ratification by all the Member states in accordance with their respective constitutional requirements.

The Board of Governors may decide to increase the capital. They do so every 5 years regularly and in case of enlargements. The Governors' first priority is to make profits which allow a "self-financed" increase of capital. Those reserves (profits) that the EIB must cumulate to finance the capital increase cannot be used for financing other activities. These are financial (and not legal) limits to what can be done under the current scheme.

Overview of the role of the Commission in the three institutions.

	EIB	EBRD	EIF
Status of the Commission	- one seat on the Board of Directors, out of 35 - one observer seat in the Governing Council	- one seat on the Governing Council, out of 62. - one seat on the Board of Directors, out of 23-	- two seats on the Board of Directors, out of 6.
Special role of the Commission	- is not a shareholder. - according to the Treaty, has to give a formal opinion on EIB draft loans. - unanimity of MS is needed to overturn a negative opinion of the Commission	- has only 3% of the capital of the bank, but rather good coordination with member states allow a much bigger role	- has 30% of the shares (EIB has 62% and private banks have 8%)