

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## THE EUROPEAN INVESTMENT FUND

(EIF)

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PROPOSAL FOR AN  
ADDITION TO THE PROTOCOL ON THE  
STATUTE OF THE EUROPEAN INVESTMENT BANK

empowering the Board of Governors of the EIB  
to establish the European Investment Fund

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PROPOSAL FOR A COUNCIL DECISION ON  
COMMUNITY MEMBERSHIP OF THE  
EUROPEAN INVESTMENT FUND

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(PRESENTED BY THE COMMISSION)

# THE EUROPEAN INVESTMENT FUND (EIF)

## Explanatory Memorandum

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### A. INTRODUCTION

In the context of promoting economic recovery in Europe, a proposal to set up a European Investment Fund (EIF) was endorsed by the European Council in Edinburgh on 11 and 12 December, who invited the Council and the EIB to give urgent and sympathetic consideration to the establishment as quickly as possible of the Fund.

The discussions on the Fund were originally initiated by the Commission representatives in the Bank's Board of Directors and reflected the concern - also highlighted in COM(92) 2000 - that the Bank should be able to contribute fully to the pursuit of the Community's objectives by assuming and managing more specific risks without jeopardizing its credit standing and mainstream lending. A Working Party of Board Members (principally representatives of Ministries of Finance) was mandated to conduct a detailed examination of the modalities and to work out specific proposals.

### B. DESCRIPTION OF THE EIF

The Fund is a tripartite organization in which the Community, the EIB and other financial institutions will participate.

The main objectives of the Fund will be to contribute to the strengthening of the internal market and the furthering of economic and social cohesion. Major infrastructure projects in the framework of the transeuropean networks (TENs), as well as small and medium-sized enterprises (SMEs), especially in Community assisted areas, constitute the main targets of support of the EIF. Other projects, for example in the areas of environmental protection and energy production, may become eligible later after decision of the Fund's ruling bodies.

The Fund's operations will predominantly take the form of financial guarantees, while the provision of equity will constitute a secondary activity and be developed at a later stage. Loan guarantees are, besides feasibility studies and interest subsidies, one of the three ways set out in the Union Treaty (Title XII, Art. 129C) in which the Community should concentrate its financial interventions in favour of TEN projects. The targeting of SMEs, especially in Community assisted areas, on the other hand, corresponds to the objectives of both Title XIII (Industry) and Title XIV (Economic and Social Cohesion) of the new Treaty. The operations of the Fund will be co-ordinated, where necessary, with other forms of Community intervention.

The EIF is intended to direct the main part of its activities towards projects that should operate wholly or partially on a self-financing or commercial basis. The existence of the Fund will thus facilitate private infrastructure financing by providing a complement or alternative to recourse to government guarantees for infrastructure financing. The viability criterion will also be an essential element in its approach to SMEs.

The EIF itself will operate on a self-sustaining basis and therefore seek an acceptable return on invested capital by charging its services in line with market practices. As a separate legal entity, its accounts will be totally distinct from those of the EIB, although it will be created by decision of the Bank's Board of Governors. It will also be managed on a day-to-day basis by the EIB under mandate.

Supervision and direction of the Fund's policy and activities will take place at the level of its General Meeting, Supervisory Board and Financial Committee. The contributions from the Community budget will be subject to the provisions of Article 24 of the Financial Regulation and to the normal control of the Court of Auditors.

#### C. CAPITAL REQUIREMENTS

The initial subscribed capital amounts to ECU 2 billion. According to initial estimates based on the prudential ratios suggested for the EIF, this would cover between 5 and 10 billion ECUs of guarantees. The Community budget will provide 30% of the initial capital, the EIB 40% and other financial institutions the remaining 30%.

Only 20% of subscribed capital will be paid-in; as far as the Community's share in the capital is concerned, this amounts to four annual instalments of 30 MECU each, or 120 MECU in total.

The other 80% of the Community's capital share (480 MECU) will take the form of uncalled subscribed capital. This remaining capital can only be called by the Fund as and when required to meet its liabilities, and not as a way to permit an expansion of its operations. In addition, great care has been taken to ensure that the likelihood of this happening is minimal. The Fund's Statute will include a number of specific ceilings and prudential rules to this effect, limiting total exposure and ensuring effective risk diversification as all shareholders have every interest in the Fund's financial success.

As largest shareholder of the Fund, the EIB will finance its share out of its annual surpluses. Share subscriptions by financial institutions will probably be phased over several years as a large number of them are concerned. The broad concept has already been presented to a large number of institutions and many have shown a receptive attitude to a potential shareholding in the Fund.

#### D. BANKING SOLVENCY RATIO DIRECTIVE

The Commission will take the necessary steps to have the EIF classed as a 'multilateral development bank' under the Solvency Ratio Directive for Credit Institutions<sup>(1)</sup>.

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(1) Council Directive 89/647 of 18 December 1989 (O.J. L386 of 30.12.89, p. 14) as amended by Commission Directive 91/31 of 19 December 1990 (O.J. L17 of 23.01.91, p. 20).

**E. COMMISSION PROPOSALS**

1. Since the Board of Governors of the EIB is currently not empowered to establish a Fund, an addition to the Protocol on the Statute of the European Investment Bank is required to this effect. This will entail an article 236 procedure. The Commission therefore invites :
  - the Council, after consulting the European Parliament, to deliver an opinion in favour of calling a conference of representatives of the Governments of Member States on the basis of the proposed addition to the Protocol on the EIB attached to this memorandum;
  - the President of the Council to convene the conference for the purpose of determining the amendment by common accord.
2. The Commission also asks the Council, after consulting the Parliament, to adopt the decision in annex on the Community's membership of the Fund.

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PROPOSAL FOR AN  
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HIS MAJESTY THE KING OF THE BELGIANS,  
HER MAJESTY THE QUEEN OF DENMARK,  
THE PRESIDENT OF THE FEDERAL REPUBLIC OF GERMANY,  
THE PRESIDENT OF THE HELLENIC REPUBLIC,  
HIS MAJESTY THE KING OF SPAIN,  
THE PRESIDENT OF THE FRENCH REPUBLIC,  
THE PRESIDENT OF IRELAND,  
THE PRESIDENT OF THE ITALIAN REPUBLIC,  
HIS ROYAL HIGHNESS THE GRAND DUKE OF LUXEMBOURG,  
HER MAJESTY THE QUEEN OF THE NETHERLANDS,  
THE PRESIDENT OF THE PORTUGUESE REPUBLIC,  
HER MAJESTY THE QUEEN OF THE UNITED KINGDOM OF GREAT BRITAIN  
AND NORTHERN IRELAND,

RECALLING the objective defined by the Treaty,

DESIRING to contribute to this objective and especially to the  
strengthening of the internal market and to economic and social  
cohesion,

DETERMINED to provide for the necessary financial instruments to this  
end,

HAVING REGARD to the conclusions of the Presidency of the European  
Council in Edinburgh that urgent and sympathetic consideration should  
be given to the establishment as quickly as possible of a European  
Investment Fund, within the context of promoting economic recovery in  
Europe,

AFFIRMING the benefits of close co-operation between the Community, the  
European Investment Bank and other undertakings in the Member States  
with an interest in the objectives of the Fund,

HAVE DECIDED to empower the Board of Governors of the European  
Investment Bank to establish the European Investment Fund and to this  
end have designated as their plenipotentiaries :

...  
...

WHO, having exchanged their full powers, found in good and due form,  
have agreed as follows :

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ARTICLE A

The Protocol on the Statute of the European Investment Bank, attached to the Treaty establishing the European Economic Community shall be completed by the addition of the following article :

"Article 30

1. The Board of Governors of the European Investment Bank may, acting unanimously, decide to create the European Investment Fund, with legal personality and financial autonomy, and of which the Bank will be a founding member.
2. The Board is empowered to establish the Statute of the Fund and thus to define its objectives, structure, capital, membership, financial resources, means of intervention, auditing arrangements, as well as the relationship between the ruling bodies of the Bank and those of the Fund.  
  
The Protocol on the Privileges and Immunities of the European Communities, as well as the arrangements for and the content of amendments to the texts establishing it, shall apply to the Fund.
3. Notwithstanding the provisions of Article 20.2, the Bank shall be entitled to contribute to the subscribed capital of the Fund up to the amount determined by the Board, following unanimous decision thereto.
4. The European Economic Community, represented by the Commission, may become a member of the Fund and contribute to its subscribed capital. Other undertakings with an interest in the objectives of the Fund shall be invited to become members."

ARTICLE B

1. This addition to the Protocol on the Statute of the European Investment Bank shall be ratified by the High Contracting Parties in accordance with their respective constitutional requirements. The instruments of ratification shall be deposited with the government of the Italian Republic.
2. This addition shall enter into force following the deposit of the instrument of ratification by the last signatory State to take this step.

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ARTICLE C

This addition to the Protocol on the Statute of the European Investment Bank, drawn up in a single original in the Danish, Dutch, English, French, German, Greek, Irish, Italian, Portuguese and Spanish languages, the texts in each of these languages being equally authentic, shall be deposited in the archives of the government of the Italian Republic, which will transmit a certified copy to each of the governments of the other signatory States.

IN WITNESS WHEREOF the undersigned Plenipotentiaries have signed this addition.

Done at ..... on ..... 1993

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PROPOSAL FOR A COUNCIL DECISION ON  
COMMUNITY MEMBERSHIP OF THE EUROPEAN INVESTMENT FUND

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**THE COUNCIL OF THE EUROPEAN COMMUNITIES**

Having regard to the Treaty instituting the European Economic Community and in particular Article 235 thereof;

Having regard to the proposal by the Commission<sup>(1)</sup> ;

Having regard to the opinion of Parliament<sup>(2)</sup> ;

Whereas the European Council in Edinburgh invited the Council and the European Investment Bank to give urgent and sympathetic consideration to the establishment as quickly as possible of a European Investment Fund (EIF);

Whereas the EIF should constitute a cost-effective and efficient means whereby the Community, together with the Bank and other financial institutions, can provide a significant contribution to the accelerated completion of large infrastructure projects of Community interest and can facilitate investment by small and medium-sized enterprises (SMEs), especially in Community assisted areas;

Whereas investments in large infrastructure projects of Community interest and in particular those belonging to transeuropean networks are essential to the reinforcement of economic and social cohesion and to the proper functioning of the internal market, and whereas some of these investments might involve projects of mutual interest with third countries ;

Whereas investment support for SMEs, especially in Community assisted areas, is an essential factor in the reinforcement of economic and social cohesion;

Whereas the EIF will foster investment in both areas;

Whereas a speedy implementation of the EIF will stimulate sustained and balanced growth within the Community;

Whereas Article 30 of the Statute of the EIB empowers the Bank's Board of Governors to create the EIF and whereas the Board has decided to create the EIF<sup>(3)</sup>;

Whereas the Community may become a member of the EIF;

Whereas appropriate co-ordination shall be assured between the operations of the Fund and other Community financial and budgetary instruments;

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(1)  
(2)  
(3)



Whereas in order to meet the objectives of the Fund, it would be appropriate to consider it as a multilateral development bank for the purposes of Council Directive 89/647 as amended by Commission Directive 91/31;

Whereas Article 24 of the Financial Regulation shall apply to the contributions from the Community budget and the Commission shall furnish all the information necessary to the Court of Auditors for the examination of the accounts of all Community revenue and expenditure stemming from its membership of the EIF; and whereas the specific provisions concerning the audit of the EIF itself are contained in the Statute of the Fund;

HAS DECIDED AS FOLLOWS :

Sole Article

The European Economic Community, represented by the Commission, becomes a member of the European Investment Fund and hereby approves the Statute of the Fund, as annexed to the present Decision.

Done .....

ANNEX

EIF STATUTE

(Document still at draft stage; will be included as soon as available).

## FINANCIAL STATEMENT

### SECTION 1 : FINANCIAL IMPLICATIONS

1. Title of operation

European Investment Fund (EIF)

2. Budget heading involved

Section III (Commission), Part B (Operating appropriations),

Article B2-400 and Article B5-730 for the paid-in part of subscribed capital.

Article B5-731 for the callable part of subscribed capital.

These lines are to be created by SAB, as are the corresponding chapters and titles.

3. Legal basis

To be created by the proposed decision, on the basis of Article 235 of the Treaty.

4. Description of operation

4.1 Specific objectives of operation : the European Council of 11, 12 December in Edinburgh approved the creation of the European Investment Fund (EIF). The Community (30% of capital), the European Investment Bank (40%) and financial institutions (30%) will be the members of the EIF.

4.2 The duration of the Community's involvement in the Fund is undefined and will in principle cover the whole life of the Fund. The Community's budgetary contribution to the paid-in capital of the Fund is spread out over 4 years (cf. point 7.1).

4.3 Target population : the EIF specifically aims to support the creation of transeuropean networks throughout the Community and the financing needs of small and medium-sized enterprises (SMEs), especially in Community assisted areas.

5. Classification of expenditure

5.1 Non-compulsory expenditure.

5.2 Differentiated appropriations.

5.3 Type of revenue involved : as a shareholder of the EIF, the Community will be entitled to receive dividend payments if and when the Fund's General Meeting decides to make dividends available.

6. Type of expenditure or revenue

- the Community's contribution will take the form of a 30% participation in the subscribed capital of the Fund.

- the Community will receive dividend payments in proportion to its capital share.

## 7. Financial impact on appropriations for operations

### 7.1 Method of calculating total cost

- The total subscribed capital of the EIF amounts to 2 billion ECU, of which the Community holds 30% (600 million ECU). 20% of this amount (120 million ECU) will be paid-in in 4 equal annual instalments of 30 million ECU from 1993 onwards.
- A token entry is proposed for the callable part of the Community's capital, given that the amount and timing of any call on this budget line cannot be calculated in advance and furthermore it is highly unlikely that this budget entry will be called on at any moment (similar treatment to that for the callable capital of EBRD).

### 7.2 Indicative schedule of appropriations

- the paid-in part of the Community's share in the subscribed capital will be paid to the EIF in four equal annual instalments of 30 million ECUs from 1993 onwards i.e. 120 million ECUs in total.
- The callable part shall be subject to call only as and when required by the Fund to meet its liabilities.

### 7.3 Financing

In 1993, the 30 MECU contribution to the paid-in capital could be financed as follows:

- 14 MECU under Article B2-400, corresponding to the available margin under category 2;
- 16 MECU under Article B5-730, to be deducted from resources allocated to transeuropean networks (under category 3) in the 1993 budget.

The choice of budgetary lines for 1993 is without prejudice to the decisions to be taken on which lines should finance the capital contributions in subsequent years; these decisions will be taken in the framework of the annual budgetary procedure, taking account of the characteristics of the projects financed.

## 8. Anti-fraud measures

Not applicable.

## SECTION 2 : ADMINISTRATIVE EXPENDITURE

The proposed operation will not involve any increase in the number of Commission staff or administrative expenditure

### SECTION 3 : ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

#### 1. Objectives and coherence with financial programming

The quantified objectives are to be defined by the ruling bodies of the EIF, once the Fund is established. The Fund is expected to extend guarantees up to 5-10 billion ECUs in total.

#### 2. Grounds for the operation

The proposed operation is a cost-effective one and constitutes an efficient use of budget resources for the following reasons :

- a. The capital of the EIF will not only be provided by the Community, but also by the EIB as well as by other financial institutions.
- b. The EIF will facilitate access to private capital for investments of considerable importance to the Community, notably through the extension of loan guarantees.
- c. The Fund will generate a substantial leverage effect. It is estimated that the Fund, whose total subscribed capital will amount to 2 billion ECUs, will be able to extend guarantees up to 5 - 10 billion ECUs; in total this could support up to 20 billion ECUs of projects.
- d. Compared to loan guarantees directly extended by the Community budget (e.g. in favour of transeuropean network projects), the Fund provides a much better protection for the Community budget should a call be made upon those guarantees.

#### 3. Monitoring and evaluation of the operation

The EIF will operate on a commercial basis. It will generate income from its activities as it will charge premiums and fees which are commensurate with the level of risk taken on by the Fund. The performance of the Fund will be measured by several indicators :

- the overall demand for its services;
- the volume of its activities;
- the volume of investments generated by the Fund's interventions;
- its financial performance in terms of yearly net income;
- etc.

## IMPACT ASSESSMENT FORM

### THE IMPACT OF THE PROPOSAL ON BUSINESS with special reference to small and medium-sized enterprises (SMEs)

Title of proposal : European Investment Fund (EIF)

#### The proposal

1. From a subsidiarity point of view, the EIF's activities are to be carried out at a Community level for the following reasons :
  - a. The target sectors (transeuropean networks - TENs - and small and medium-sized enterprises - SMEs -, especially in Community assisted areas) are of direct Community interest.
  - b. The Fund will be organically linked to the EIB, the Community's largest financial instrument after the Community budget.
  - c. The pooling at a Community level of large financial guarantees extended on a commercial basis greatly improves diversification and hence lowers premium levels.

#### The impact on business

2.
  - a. The establishment of TENs (in the transport, telecommunications and energy transport sector) will be beneficial to Community business in general and will facilitate cross-border activities.
  - b. Besides its support for networks, the EIF will also address the financing needs of SMEs, especially in Community assisted areas, through the extension of guarantees and of equity through financial intermediaries.
3. No specific action is requested from business.
4. The economic effects of the proposal are substantial :
  - a. Employment :
    - the implementation of TENs will generate a very substantial investment effort (public works, high-tech and research, etc.) and will therefore result in the creation of an important number of jobs, both for the execution of the investment programmes and for the operation and maintenance of the networks.
    - financing support for SMEs, especially in Community assisted areas, will help these firms to prosper and develop.
  - b. Investment :  
considerable effect (cf. 4.a), concentrated in sectors with a high economic potential (e.g. high-speed trains, telecommunications networks, etc.) as well as in regions which are catching up with the Community average.

c. Competitive position :  
will be improved through the provision of high quality services  
in the transport, telecommunications and energy fields.

5. The financing needs of SMEs, especially in Community assisted areas, are specifically taken into account by the current proposal.

Consultation

6. The current proposal has been widely discussed with a large number of financial institutions, some of which are likely to become shareholders of the EIF.

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# DOCUMENTS

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