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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the participation of the European Union in the capital increase of the European Investment Fund

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

The European Investment Fund (EIF) was founded in 1994 to "stimulate sustained and balanced growth within the Community". Article 2 of the EIF Statutes commits the EIF to support EU policy objectives. The current activities of the EIF cover on the one hand investments in venture capital and lower mid-market funds as well as mezzanine funds to improve the availability of risk capital for high-growth and innovative SMEs. On the other hand, it provides guarantees and credit enhancement through securitisation to improve the lending capacity of financial intermediaries and thus the availability and terms of debt for beneficiary SMEs. The EIF operates using either its own funds or by managing mandates[1] on behalf of the EIB, the Commission or national and regional governments.

The EIF's statutory goal to support EU policies has been reflected in the exceptional growth of both equity investments and guarantees during the recent crisis. It is expected that this effort will result in a total of EUR 1.5bn of commitments in private equity funds leveraging EUR 6.4bn in 2013. In terms of guarantees, the EIF expects to commit in 2013 EUR 1.9bn, catalysing EUR 7.5bn in loans to SMEs[2].

Following the capital increase of the EIF in 2007, the subscribed capital amounts to EUR 3 billion divided into 3 000 shares each with a nominal value of EUR 1 million. The paid-in capital of the EIF is currently EUR 600 million (i.e. 20 % of subscribed capital). As of October 2013, the EIF is owned by the EIB (62.1 %), the European Union (30 %) and 24 public and private financial institutions (7.9 %).

The European Council of June 2012 requested to develop the action of the EIF, particularly as regards its venture capital activity, in liaison with existing national structures. In June 2013, the European Council called for an increase in the credit enhancement capacity of the EIF. The call was made in the context of the "New Investment Plan for Europe", which places particular emphasis on SME finance, a core activity of the EIF. In October, the European Council requested all efforts to continue to restore normal lending to the economy and facilitate financing of investment, particularly with respect to SMEs.

In response to the conclusions of the European Council, the EIF has identified a number of financing solutions for further supporting SMEs and for ensuring the highest impact of its funds. Two principal delivery channels are proposed for their implementation:

- Facilitating the supply of debt finance to SMEs through credit enhancement operations, including the SME Initiative; and
- Creating additional investment capacity for private equity, mezzanine and venture and growth capital.

EIF own resources will be key to support these activities as well as to ensure alignment of interest with other mandates, including EU mandates such as Horizon 2020 and COSME, through co-investment.

As a result of these initiatives, the EIF is expected to double its overall guarantee and venture capital exposure over the coming years. Each of EIF's business lines involves different risks,

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1 The term 'mandate' is used in this explanatory memorandum to encompass the activities of the EIF other than operations using only its own funds. The mandates include EU programmes the management of which has been delegated to the EIF.

2 The figures are based on EIF's internal assumption.

which are reflected by a certain level of economic capital allocation needing to be set aside. For risk management considerations, the sum of the capital allocation should not exceed EIF own funds. Given the growth plans described above, the current buffer is expected to decrease rapidly. As a consequence, an increase in EIF's available capital is required in order to meet statutory capital requirements and to maintain its AAA credit rating, which is crucial for the EIF credit enhancement activity.

Initially, the EIF had presented two alternatives for enhancing its capacity:

- Scenario 1: Increase of paid-in portion from 20% to 40%
- Scenario 2: Increase of subscribed capital with paid-in portion of 20%

Whereas under scenario 1, all existing shareholders would be obliged to participate or sell their shares in the EIF as differing paid-in ratios per share would not be possible, scenario 2 leaves the choice to existing shareholders whether to subscribe or not to new shares, proportionally to their current stake in EIF's capital.

In September 2013, the options for the increase in the EIF's capital were informally discussed by EIF management with all EIF financial institution shareholders who provided positive feedback on the capital increase as such. However, the notion that shareholders would be obliged to participate or lose their entire shareholding was not considered acceptable. In addition, there was a broad consensus about the importance of maintaining the EIF's tripartite ownership structure. EIF thus retained only scenario 2 in its final proposal.

On 26 November 2013, the EIF Board of Directors approved, as to its rationale, the increase in the EIF subscribed capital by up to EUR 1,500 million, of which 20 % will be paid-in. This would imply the subscription of 450 additional shares by the EU. The technical modalities and process will be submitted to the Board of Directors in due course. In line with the Statutes of the EIF, a capital increase has to be approved by the General Meeting of the EIF where the Commission has a blocking minority for this decision.[3]

In December 2013, the EIB Board of Directors approved the EIF capital increase and authorised the submission to the EIB Board of Governors.

The December European Council also called on the Commission and the EIB to further enhance the capacity of the EIF through an increase in its capital with a view to reaching final agreement by May 2014.

The capital increase should be complemented by a new EIB Risk Enhancement Mandate (EREM), amounting to up to EUR 2.3 billion for the period 2014-2016. Thanks to (i) the increased capacity created by the capital increase and (ii) the new EIB's mandate, the EIF expects to deploy annually between EUR 2 billion and EUR 3 billion for credit enhancement transactions (catalysing between EUR 11 billion and EUR 20 billion of SME lending per annum) starting in 2014 and reaching a peak in 2015. Moreover, additional private equity commitments of EUR 400 million will be deployed.

In the context of the capital increase, a reinforcement of the current public-private shareholding structure will be sought through a full participation from the financial institution shareholders. It is also an opportunity for broadening the EIF shareholder base by attracting more like-minded, national/regional promotional institutions, in line with the Commission sponsored external evaluation and the spirit of June 2012 European Council conclusions.

[3] According to EIF's Statutes, the authorised capital of the EIF may be increased by decision of General Meeting of the EIF acting with a majority of 85% votes cast. Consequently, the Commission could block a decision of the General Meeting as it holds 30% of the EIF shares.

Considering the need to respond to the conclusions of the European Council in a timely manner and given the urgency to support the EU policy goals in the field of growth and job creation in the post-crisis environment, the capacity created by EIF's capital increase is sought to be enhanced already in 2014. A conclusion of the ordinary legislative procedure would be necessary to enable the EU to support the capital increase in the EIF's General Meeting in spring 2014. Otherwise, a delay to 2015 would occur.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

As required by Council Decision 2007/247/EC[4] approving the EU participation in the previous capital increase of the EIF, the Commission carried out in 2012 an external evaluation of the EIF own resources activity. This evaluation took into account the views of various stakeholders, ranging from representatives from Member States, the EIB, the financial institutions to the Commission. Furthermore, the evaluators consulted financial institutions shareholders, private equity/venture capital fund managers who had received investment from EIF's own resources, originators of securitisation transactions with EIF involvement as well as representatives of relevant industry bodies. This evaluation confirmed the added value of the EU shareholding on the following grounds:

- Through the EU shareholding, the European Commission is represented in the General Meeting of the EIF and in the EIF's Board of Directors (with two out of seven members) which gives the EU significant influence over the setting of the EIF's strategic and operational objectives. This helps to promote and anchor key EU policy objectives in the EIF's operations;
- The EU shareholding creates a framework for the promotion of EU policies in a working relationship with the EIB and other financial public and private shareholders. The joint Board activity with other shareholders, and the EIB in particular, supports greater organisational understanding and stronger working relationships between key stakeholders in the SME financing landscape;
- Credit rating stability: The joint shareholding partnership of the EIB and the EU in the EIF has provided the underpinning for the AAA/Aaa rating of the EIF. A strong credit rating is crucial for EIF's financing instruments to be effective.

While EIF own resources activity generates considerable added value in the financial markets, reflecting the EIF's market orientated approach to delivery of policy impacts, the evaluation also identified a number of areas in which the policy impact of EIF own resources activity could be enhanced. Following the conclusions of the evaluation, the Commission has prepared a follow-up action plan which was presented to the Council and the Parliament in November 2012 and is currently being implemented. The main conclusions of the evaluation and the appropriate actions taken as requested by the Commission are the following:

- There is a need to reinforce the clarity of EU policy objectives to be achieved by the EIF. In this context, the desired balance of financial and policy returns as well as the desired level of dividend distribution should be reviewed. At the Commission's request, the EIF has prepared a report to the Board on the value added framework of the EIF as well as a review of the ex-post impact assessment which were finalized in April 2013. As a consequence, an ex-post impact assessment report will be introduced collecting data on

[4] Council Decision 2007/247/EC of 19 April 2007 on the Community participation in the capital increase of the European Investment Fund (OJ L 107, 25.4.2007, p. 5).

the real impact of individual transactions on SMEs. Furthermore, the Commission requested a reassessment of the EIF's dividend policy. In 2013, a decision was taken by the Annual General Meeting of the EIF to depart from the standard 40% dividend pay-out ratio (from the net profit) and to distribute 20% of the net profit as dividends. The decision will be reviewed again in the 2014 Annual General Meeting.

- Given the distinctive and demonstrable value of each shareholder group in contributing to the full added value of the EIF, efforts should be made to fully maintain the tripartite structure of the EIF. The shareholding by financial institutions should at a minimum be maintained and, ideally, expanded. In response to this conclusion, the Commission requested the EIF management to make an effort in order to engage more like-minded institutions as new financial institution shareholders. The management of the EIF has also been asked to report regularly to the Board about the activities undertaken by the EIF to attract new financial institution shareholders.
- Due to the limited added value of systematic co-investment only with the Risk Capital Mandate awarded to the EIF by the EIB, the EIF will be requested to regularly co-invest with other mandates, including EU mandates like Horizon 2020 and COSME, to ensure better alignment of interest between the Commission and the EIF.

Given the availability of a recent external evaluation and in accordance with the proportionality principle and past practice, the Commission proposes not to develop a formal impact assessment.

3. LEGAL ELEMENTS OF THE PROPOSAL

Council Decision 94/375/EC of 6 June 1994 on Community membership of the European Investment Fund[5] contains a specific provision on capital increases in Article 3. However, this provision is deemed excluded as legal basis for a new decision on an EIF capital increase in view of the development of the case-law of the European Court of Justice regarding so-called "secondary legal bases". Instead, a legal base in primary law should be proposed.

In light of the objectives and activities of the EIF, as set out in its Statutes and decisions taken by its governing bodies in accordance with the Statutes, and in light of the primary aim pursued with the capital increase, which is to

– respond to the call of the European Council to increase the credit enhancement capacity of the EIF, in particular in favour of SMEs, and

– create additional capacity for equity investment in support of SMEs and innovation research and technological development of undertakings in the Member States,

thus promoting action in support of the Union's industry, Article 173(3) TFEU is considered as the appropriate legal basis for the proposed capital increase.

4. BUDGETARY IMPLICATION

Considering the proposed increase in subscribed capital by up to EUR 1.5 billion, the Commission will need to purchase up to 450 new shares.

The table below summarises how the EU share in EIF's capital will evolve following the proposed capital increase. It shows the capital of the EIF subscribed by the EU divided into the paid-in and callable part before and following the current capital increase.

[5] OJ L 173, 7.7.1994, p. 12.

EU share in EIF's capital (EUR million)

Paid-in capital			Callable capital			Total subscribed capital after increase
Existing (before 2014)	Proposed increase	Total	Existing (before 2014)	Proposed increase	Total	
180	90	270	720	360	1,080	1,350

The EU subscription to the new shares in the EIF would be made over a four year period starting in 2014. The resources needed for the purchase of 450 shares are estimated at approx. EUR 175 million. This estimate is based on EIF's projections for the development of EIF's share price during the subscription period 2014-2017. The share issue price will be based on an agreed formula, the Repurchase Share Price Undertaking (RSPU). It includes the paid-in part of the equity as well as various reserves (e.g. statutory reserve, retained earnings) and the profit of the financial year, minus the dividends paid out. The changes in the reserves are difficult to estimate given that one of the reserves reflects changes in market valuations of private equity investments made by the EIF and value changes related to EIF's treasury. The actual share price in each subscription period will be based on the audited financial statements of the previous year.

The Commission proposes that the dividends which will be paid by the EIF during the years 2014-2017 will be used to cover part of the cost of the new shares. Assuming the 2013 level of the dividend pay-out ratio of 20 % to remain constant for the next four years, the dividends to be received during this period are estimated at around EUR 11.5 million. However, it needs to be stressed that the EIF uses a dividend pay-out ratio of 33% as a working assumption for their calculations in the document proposing EIF's capital increase to its Board of Directors. If this level of dividends was assumed, the purchase of 450 shares would require approx. EUR 172 million and the estimated dividends received during 2014-2017 would reach approx. EUR 19 million. The dividends are decided annually by the General Meeting of the EIF.

Consequently, at this stage both the share issue price and the level of dividends cannot be calculated exactly for the whole period of subscription. In any case, the price to be paid by the EU for its part of the increase is not expected to exceed the sum of indicative budget appropriation for EUR 170 million plus the dividends received during 2014-2017. The Commission proposes to make use of appropriations already programmed for financial instruments under COSME and Horizon 2020 programmes to enhance access to financing for SMEs.

Like the EIF, the COSME Regulation pursues the goal of improving access to finance, particularly for SMEs, promoting entrepreneurship and entrepreneurial culture. In the Horizon 2020 Regulation, financial instruments are referred to as the main source of funding for activities close to market that are supported under the programme and EIF will play an important role in the implementation of such financial instruments. Therefore, it is proposed to use part of the appropriations available for COSME and Horizon 2020 for the proposed EIF capital increase. The necessary adjustment to the 2014 budget will be proposed separately in a draft amending budget.

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 173(3) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee,

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) Pursuant to Council Decision 94/375/EC of 6 June 1994 on Community membership of the European Investment Fund[1], the European Investment Fund (the Fund) was founded in 1994 to "stimulate sustained and balanced growth within the Community".

(2) Following an increase of the Fund's subscribed capital in 2007, the authorised capital of the Fund is EUR 3 billion, divided into 3 000 shares of EUR 1 million each with a ratio of 20 % paid-in. The Union, represented by the Commission, participated in the previous increase of the Fund's subscribed capital in accordance with Council Decision 2007/247/EC of 19 April 2007 on the Community participation in the capital increase of the European Investment Fund[2].

(3) Consequently, the Union, represented by the Commission, is currently subscribed to in total 900 shares of the Fund for a nominal value of EUR 900 million, of which EUR 180 million are paid-in.

(4) The European Council of 28-29 June 2012 adopted the "Compact for Growth and Jobs" to stimulate smart, sustainable, inclusive, resource efficient and job-creating growth. In this context, the European Council in its conclusions emphasized, among the further urgent actions needed at Union level to boost growth and jobs, enhance the financing of the economy and make Europe more competitive as a location for production and investment, that the action of the Fund should be developed, particularly as regards its venture activity, in liaison with existing national structures such as national promotional banks and institutions.

(5) In order to further promote investment and access to credit, the European Council of 28-29 June 2013 launched a "New Investment Plan for Europe" to support small and medium-sized enterprises (SMEs) and boost the financing of the economy. In this

[1] OJ L 173, 7.7.1994, p. 12.
[2] OJ L 107, 25.4.2007, p. 5.

context, the European Council in its conclusions asked the Commission and the EIB to implement an increase in Fund's credit enhancement capacity as a matter of priority.

(6) Recalling that restoring normal lending to the economy, in particular to SMEs, remains a priority, the European Council of December 2013 called on the Commission and the EIB to further enhance the capacity of the Fund through an increase in its capital with a view to reaching final agreement by May 2014.

(7) The current size of Fund's own funds does not allow for a substantial increase in the Fund's activity, in response to the call of the European Council, as the guarantee and venture capital operations of the Fund may not exceed the ceilings set by Article 26 of the Statutes of the Fund or by the General Meeting of the Fund. Furthermore, the credit enhancement capacity of the Fund is limited by the size of its available own funds.

(8) The Fund's Board of Directors has therefore on 26 November 2013 given its approval as to its rationale the increase in the Fund's subscribed capital by up to EUR 1,500 million, allowing for the necessary increase of the own funds. The technical modalities and detailed procedure for the increase will be submitted to the Board of Directors in due course requesting authorisation to submit a proposal to the 2014 General Meeting of the Fund for approval.

(9) New shares should be subscribed by the Fund’s shareholders at their discretion over a four-year period, starting in 2014 and ending in 2017. The price of the new shares should be set annually and be based on the net asset value formula agreed between the Fund's shareholders.

(10) The annual dividends to be received during the years 2014 to 2017 for the participation of the Union in the Fund should be considered as external assigned revenue and be used to cover part of the cost of the capital increase. This should increase the amount of budgetary funds available for the capital increase, thus supporting the objective of maintaining the relative shareholding of the Union in the Fund at its current level (30 %).

(11) It is appropriate for the Union to participate in the capital increase of the Fund in order to achieve the Union's objectives of encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly SMEs, and of fostering better exploitation of the industrial potential of its policies of innovation, research and technological development, as articulated in the conclusions of the European Council of June 2012, June 2013 and December 2013 and detailed in the "Compact for Growth and Jobs" and "New Investment Plan for Europe".

(12) In order to allow the Union representative in the EIF General Meeting to vote on the capital increase as soon as possible, the Decision should enter into force on the day following that of its publication.

HAVE ADOPTED THIS DECISION:

Article 1

In addition to its current shareholding in the European Investment Fund (the Fund), the Union shall subscribe for up to 450 shares each of a nominal value of EUR 1 million in the Fund. The subscription of shares and the annual payments shall be carried out in accordance with the terms and conditions that shall be approved by the General Meeting of the Fund.

Article 2

The Union shall purchase the new shares in the Fund over a four-year period starting in 2014. During 2014 to 2017, the dividends received for the participation of the Union in the Fund shall be considered as external assigned revenue, in accordance with Article 21(4) of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union[3], to cover part of the cost of subscription.

In addition, a total amount of up to EUR 170 million for the whole period shall be available within the general budget of the European Union to cover the remaining cost, making use of appropriations already programmed within Heading 1a of the Multi-annual Financial Framework 2014-2020 in order to leave unchanged the total expenditure allocated. The budgetary commitment may be broken down into annual instalments over four years in accordance with Article 85(4) of Regulation (EU, Euratom) No 966/2012.

Article 3

This Decision shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the European Parliament *The President*	*For the Council* *The President*

[3] OJ L 298, 26.10.2012, p. 1.

LEGISLATIVE FINANCIAL STATEMENT

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Approving an increase in the capital of the European Investment Fund and the Union participation in the capital increase

1.2. Policy area(s) concerned in the ABM/ABB structure[1]

Title 01 - Economic and Financial Affairs

1.3. Nature of the proposal/initiative

☐ The proposal/initiative relates to **a new action**

☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action**[2]

☒ The proposal/initiative relates to **the extension of an existing action**

☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objective(s)

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

Objective "To actively co-operate with the EIB and the EIF in the realisation of EU policies."

Objective "To continue to engage closely with the EIB and the EIF in the shaping of financial instruments supporting Europe 2020 objectives for the next Multiannual Financial Framework."

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

Specific objective No
1. Objective "To promote the EU interest in the governing bodies of the EIB/EIF and strengthen the EU-EIB/EIF co-operation to ensure the alignment of EIB/EIF lending with EU policy priorities in particular within the EU"
ABM/ABB activity(ies) concerned
Title 01.04 Financial operations and instruments

1.4.3. Expected result(s) and impact

The increased capital will enable the EIF to respond appropriately to the conclusions of the European Council via two delivery means:

- The increased capital will facilitate supply of debt finance to SMEs (to be delivered by means of credit enhancement and guarantee operations).
- The increased capital will create additional investment capacity for private equity, mezzanine and venture and growth capital.

1 ABM: activity-based management – ABB: activity-based budgeting.
2 As referred to in Article 54(2)(a) or (b) of the Financial Regulation.

In addition, the capital increase will enable the EIF to co-invest own funds with Commission's mandates such as COSME and Horizon 2020 and thus ensure better alignment of interest between the Commission and the EIF, in accordance with the Financial Regulation. Finally, the participation in the current capital increase will ensure that the EU share in the capital of the EIF remains at least constant and is not diluted.

Credit enhancement and guarantee operations

Over the next programming period, the EIF is expected to significantly increase its credit enhancement activity, deploying annually between EUR 2.0 billion and 3.0 billion (to catalyse annually between EUR 11 billion to EUR 20 billion of SME lending) with a specific effort in 2015 and 2016. This additional credit enhancement activity requires an increase of EIF's own resources by EUR 400 million, complemented by an EIB mandate of up to EUR 2.3 billion for the years 2014-2016 The increase in activity should result in an increase of 50% in the number of SMEs covered by credit enhancement and guarantee operations by the EIF.

Private Equity operations

The additional capital will enhance EIF's focus on critical gaps in the seed, venture and growth capital markets. These key initiatives will provide support both to reasearch, development and innovation policy and to jobs, growth and social cohesion policy. In total, the additional commitments of EUR 400 million will need to be backed up by EUR 150-200 million of additional EIF own funds. The increase in activity should result in an increase of 50% in the number of SMEs benefitting from private equity operations by the EIF.

1.4.4. Indicators of results and impact

The attainment of objectives will be measured by the number of credit enhancement transactions, by the catalytic effect achieved, by the volume of debt made available to SMEs, the number of SMEs assisted as well as the geographical diversification. The results will be measured by the increase in the number of SMEs covered by credit enhancement and guarantee operations by the EIF.

With regard to venture capital operations, the impact will be measured by the number of transactions, the number of companies supported, the leverage (i.e. total amount co-invested) as well as the catalytic effect (i.e. co-invested amount directly attributable to EIF), the volume of disbursements to final beneficiaries as well as well as the geographical diversification. The results will be measured by the increase in the number of SMEs benefitting from private equity operations by the EIF.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

The EIF uses its own resources as capital allocation for its guarantee operations and as equity payments for its venture capital investments. The current size of EIF's own funds limits the EIF's ability to significantly increase the venture capital activity and the credit enhancement activity requested by the European Councils of June 2012, June 2013 and December 2013.

1.5.2. Added value of EU involvement

The additional capacity created by the EIF capital increase will enable the EIB Group to leverage an estimated additional EUR 45 billion in new loans and leases in the next 7 years. The capital increase would also enhance the EIF's potential for co-operation with its shareholders (the Commission, the EIB and the financial institutions) and third parties in the implementation of credit enhancement operations.

The additional investment capacity of the EIF will also be used for the European venture capital market, particularly in the area of start-up and seed finance. This will enhance EIF's contribution to the pursuit of the EU 2020 goal of smart, sustainable and job-creating growth, in particular to implementation of the following flagship initiatives addressing SME access to finance:

- "Innovation Union";
- "An industrial policy for the globalisation era";
- "An action plan to improve access to finance for SMEs".

Finally, the proposed capital increase would also be an opportunity to bolster the role of financial institutions in the EIF by increasing their shareholdings.

1.5.3. Lessons learned from similar experiences in the past

Council Decision 2007/247/EC called for an evaluation of the Fund’s own resources activity by 31 July 2012. This evaluation demonstrated the added value of EIF own resources activity in delivering European SME finance activity (risk capital and debt finance) including investment volumes achieved, development of innovative financial instruments, and the building of investment infrastructure and ecosystems based upon partnership and shared knowledge. As set out in the Explanatory Memorandum (section 2. Results of Consultation with Interested Parties and Impact Assessments), the evaluation concluded that a strong and valid case remains for an EU shareholding in the EIF.

Notwithstanding the observed added value, the evaluation identified a number of areas in which the policy impact of EIF own resources activity could be further enhanced. In response to the conclusions of the evaluation, the Commission has prepared a follow-up action plan in order to further improve the value added of the EU shareholding in the EIF. The action plan was presented to the Council and the Parliament in November 2012 and is currently being implemented.

1.5.4. Compatibility and possible synergy with other appropriate instruments

The Commission systematically promotes close cooperation and joint initiatives of the EIB Group. These efficient actions are increasingly necessary to sustain recovery in a fragile economic environment.

Furthermore, EIF's own resources complement the EU and EIB mandates (such as the financial instruments under COSME and Horizon 2020 and the EIB Risk Capital Resources Mandate). EIF's own resources will be required to leverage EU funds,.

1.6. Duration and financial impact

☐ Proposal/initiative of **limited duration**

– ☐ Proposal/initiative in effect from [DD/MM]YYYY to [DD/MM]YYYY

– ☒ Financial impact from 2014 to 2017

☐ Proposal/initiative of **unlimited duration**

– Implementation with a start-up period from [YYYY to YYYY],

– followed by full-scale operation.

1.7. Management mode(s) planned[3]

From the 2014 budget

X **Direct management** by the Commission

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

The EIF's Annual Report and the Annual Activity Report of the Audit Board will continue to be submitted to the Council and the European Parliament as foreseen in Council Decision 2007/247/EC.

The Board of Directors assesses the vast majority of EIF's individual operations and monitors the venture capital and guarantee portfolios. It also ensures that the Fund is managed in accordance with its Statutes and the specific guidelines adopted by the Board. The Commission has designated two directors and two alternates to the Board of Directors. Furthermore, a Tripartite Agreement between the EIF, the Court of Auditors and the Commission covers the arrangements for providing the Court with the documents and information relating to the EU participation in the capital of the EIF.

Finally, the EIF is rated by the three major rating agencies: Fitch, Moody's and Standard & Poor's.

2.2. Management and control system

2.2.1. Risk(s) identified

The nature of the risk related to the shareholding of the EU in the EIF does not change as a result of this proposal. Both the investment and risk management structures of the EIF remain the same. The risk management functions in accordance with best market practice, applicable standards, law, and Basel II requirements.

2.2.2. Information concerning the internal control system set up

The Risk Management and Monitoring function (RMM) of the EIF covers all EIF’s activities, monitors risk regularly on individual transactions as well as at the portfolio level, and assesses new and existing transactions.

The EIF's annual accounts are audited by external auditors under the mandate of EIF's Audit Board. These accounts are approved by the shareholders at the Annual General Meeting.

The internal audit, which is outsourced to the EIB, examines and evaluates the design and effectiveness of the internal control systems. The Audit Board meets regularly with the internal auditor and monitors the implementation of agreed actions points.

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3 Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

2.2.3. Estimate of the costs and benefits of the controls and assessment of the expected level of risk of error

The capital increase concerns a shareholding in an international financial institution. The Statutes of the EIF foresee regular controls by the internal and external auditors of the EIF.

2.3. Measures to prevent fraud and irregularities

The EIF has an independent Compliance & Operational Risk division ensuring that the highest standards of integrity are applied throughout all of the activities of the EIF in accordance with international best practice.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines in 2014

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
		Diff./non-diff. (1)	from EFTA countries[2]	from candidate countries[3]	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
1a	01.04.01.01 – European Investment Fund – Provision of paid-up shares of subscribed capital 01.04.01.02 – European Investment Fund – Callable portion of subscribed capital	Diff.	NO	NO	NO	NO
1a	02.02.02 - Improving access to finance for small and middle-sized enterprises (SMEs) in the form of equity and debt	Diff.	YES	NO	NO	NO
1a	08.02.02.02 - Enhancing access to risk finance for investing in research and innovation	Diff.	YES	NO	NO	NO

1 Diff. = Differentiated appropriations / Non-Diff. = Non-differentiated appropriations.
2 EFTA: European Free Trade Association.
3 Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

3.2. Estimated impact on expenditure

The proposal will not increase the total level of expenditure programmed under heading 1a of the Multiannual Financial Framework 2014-2020, as appropriations planned for financial instruments under COSME and Horizon 2020 programmes will be used for the EIF capital increase.

Sources of financing for the EIF capital increase:		2014	2015	2016	2017
Budget line 020202 Improving access to finance for small and middle-sized enterprises (SMEs) in the form of equity and debt	Commitments	21.250	21.250	21.250	21.250
	Payments	21.250	21.250	21.250	21.250
Budget line 08020202 Enhancing access to risk finance for investing in research and innovation	Commitments	21.250	21.250	21.250	21.250
	Payments	21.250	21.250	21.250	21.250

3.2.1. Summary of estimated impact on expenditure

EUR million (to three decimal places)

Heading of multiannual financial framework	01 04	Financial operations and instruments

DG: <…….>			Year **2014**	Year **2015**	Year **2016**	Year **2017**	Year 2018-2020	**TOTAL**

• Operational appropriations										
Number of budget line: 01040101	Commitments	(1)	42.500	42.500	42.500	42.500	0	0	**0**	**170.000***
	Payments	(2)	42.500	42.500	42.500	42.500 +++++ +++	0	0	**0**	**170.000***
Number of budget line: 01040102	Commitments	(1a)	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	**p.m.**	
	Payments	(2a)	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	**p.m.**	
Appropriations of an administrative nature financed from the envelope of specific programmes[1]										
Number of budget line:		(3)								
TOTAL appropriations for DG <….>	Commitments	=1a +1b+1c +3	42.500	42.500	42.500	42.500	0	0	**0**	**170.000**
	Payments	=2a+2b +2c+3	42.500	42.500	42.500	42.500	0	0	**0**	**170.000**

• TOTAL operational appropriations	Commitments	(4)	42.500	42.500	42.500	42.500				**170.000**

[1] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former "BA" lines), indirect research, direct research.

	Payments	(5)	42.500	42.500	42.500	42.500				**170.000**
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)								
TOTAL appropriations for HEADING 1a of the multiannual financial framework	Commitments	=4+ 6	42.500	42.500	42.500	42.500				**170.000**
	Payments	=5+ 6	42.500	42.500	42.500	42.500				**170.000**

Heading of multiannual financial framework	**5**	" Administrative expenditure "

EUR million (to three decimal places)

		Year **2014**	Year **2015**	Year **2012**	Year **2017**	Year **2018-2020**			**TOTAL**
DG: <…….>									
• Human resources		0.262	0.262	0.262	0.262	0.262	0.262	**0.262**	**1.834**
• Other administrative expenditure						0.200*			**0.200***
TOTAL DG <…….>	Appropriations	0.262	0.262	0.262	0.262	0.462	0.262	**0.462**	**2.034**

* for evaluation by external consultants

TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.262	0.262	0.262	0.262	0.462	0.262	**0.462**	**2.034**

EUR million (to three decimal places)

		Year **2014**[2]	Year **2015**	Year **2016**	Year **2017**	Year **2018-2020**			**TOTAL**
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	42.762	42.762	42.762	42.762	0.462	0.262	**0.462**	**172.034**
	Payments	42.762	42.762	42.762	42.762	0.462	0.262	**0.462**	**172.034**

2 Year N is the year in which implementation of the proposal/initiative starts.

3.2.2. Estimated impact on operational appropriations

– ☐ The proposal/initiative does not require the use of operational appropriations

– X The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ⇩			Year **2014**		Year **2015**		Year **2016**		Year **2017**		Year 2018-2020						**TOTAL**	
	OUTPUTS																	
	Type[1]	Average cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No total	Total cost
SPECIFIC OBJECTIVE No 1[2] ... To promote the EU interest in the governing bodies of the EIB/EIF and strengthen the EU-EIB/EIF co-operation to ensure the alignment of EIB/EIF lending with EU policy priorities in particular within the EU																		
- Output				42.500		42.500		42.500		42.500		0		0		0		170.000
Subtotal for specific objective No 1																		
TOTAL COST				42.500		42.500		42.500		42.500		0		0		0		170.000

[1] Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

[2] As described in point 1.4.2. 'Specific objective(s)…'

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

– ☐ The proposal/initiative does not require the use of appropriations of an administrative nature

– X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year **2014**[1]	Year **2015**	Year **2016**	Year **2017**	Year **2018-2020**			**TOTAL**
HEADING 5 of the multiannual financial framework								
Human resources	0.262	0.262	0.262	0.262	0.262	0.262	**0.262**	**1.834**
Other administrative expenditure					0.200			**0.200**
Subtotal HEADING 5 of the multiannual financial framework	0.262	0.262	0.262	0.262	0.462	0.262	**0.462**	**2.034**
Outside HEADING 5[2] of the multiannual financial framework								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 5 of the multiannual financial framework	0.262	0.262	0.262	0.262	0.462	0.262	**0.462**	**2.034**
TOTAL	**0.262**	**0.262**	**0.262**	**0.262**	**0.462**	**0.262**	**0.462**	**2.034**

The human resources appropriations required will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

1 Year N is the year in which implementation of the proposal/initiative starts.

2 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former "BA" lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

– ☐ The proposal/initiative does not require the use of human resources.

– X The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

	Year **2014**	Year **2015**	Year **2016**	Year **2017**	Year **2018-2020**		
• **Establishment plan posts (officials and temporary staff)**							
XX 01 01 01 (Headquarters and Commission's Representation Offices)	2	2	2	2	2	2	2
XX 01 01 02 (Delegations)							
XX 01 05 01 (Indirect research)							
10 01 05 01 (Direct research)							
• **External staff (in Full Time Equivalent unit: FTE)**[1]							
XX 01 02 01 (CA, SNE, INT from the "global envelope")							
XX 01 02 02 (CA, LA, SNE, INT and JED in the delegations)							
XX 01 04 yy[2] - at Headquarters							
- Delegations							
XX 01 05 02 (CA, SNE, INT - Indirect research)							
10 01 05 02 (CA, INT, SNE - Direct research)							
Other budget lines (specify)							
TOTAL	**2**	**2**	**2**	**2**	**2**	**2**	**2**

01.04 is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	The main tasks arising from the proposal are the following: - Preparation of the legislative proposal, - Follow up of the legislative procedure with European Parliament and Council, - Relations and communications with the EIF, notably for the preparation of Commission's position regarding proposals submitted to the EIF Board of Directors and reporting, - Preparation of Commission's position regarding proposals submitted to the EIF Board of Directors, - Preparation of reporting required by the legislation.

1 CA= Contract Staff; LA = Local Staff; SNE= Seconded National Expert; INT = agency staff; JED= Junior Experts in Delegations).

2 Sub-ceiling for external staff covered by operational appropriations (former "BA" lines).

External staff	

3.2.4. *Compatibility with the current multiannual financial framework*

– ☐ Proposal/initiative is compatible the current multiannual financial framework.

– X Proposal/initiative will entail reprogramming of the relevant heading in the multiannual financial framework.

The Commission proposes to make use of appropriations already programmed for financial instruments under COSME and Horizon 2020 programmes to enhance access to financing for SMEs.. The budget lines concerned are 02 02 02 “Improving access to finance for small and middle-sized enterprises (SMEs) in the form of equity and debt” and 08 02 02 02 “Enhancing access to risk finance for investing in research and innovation” respectively. The receving budget line concerned under 01 Title is 01 04 01 01 "European Investment Fund – Provision of paid-up shares of subscribed capital". As mentioned above, the corresponding amounts required are EUR 170.000.000 over the MFF 2014-2020.

☐ Proposal/initiative requires application of the flexibility instrument or revision of the multiannual financial framework[1].

3.2.5. *Third-party contributions*

– The proposal/initiative does not provide for co-financing by third parties.

Estimated impact on revenue

– ☐ Proposal/initiative has no financial impact on revenue.

– X Proposal/initiative has the following financial impact:

– ☐ on own resources

– X on miscellaneous revenue

EUR million (to three decimal places)

Budget revenue line:	Appropriations available for the current financial year	Impact of the proposal/initiative[2]						
		Year **2014**	Year **2015**	Year **2016**	Year **2017**	Year **2018-2020**		
Article 850		2.477	2.078	3.112	3.800	p.m	p.m	p.m

This article is intended to record any dividends paid by the European Investment Fund in respect of this contribution.

According to Article 24 of its Statutes, EIF targets appropriate returns for its shareholders. Following the decision of the General Meeting of the EIF, the EIF distributes dividends from the annual net profit to its shareholders. With regard to the EU shareholding, these dividends are returned to the EU budget (line 850 : dividends paid by the EIF).

Currently, EIF's income mainly consists of treasury income, management fees and income from its own resources guarantee operationsDue to the difficulty to provide definitive figures on future net income and the subsequent dividends, which have an impact on share issue price, the Commission proposes to assign the revenues from dividends to expenditure budget

[1] See points 19 and 24 of the Interinstitutional Agreement (for the period 2007-2013).

[2] As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 25% for collection costs.

line 01 04 01 01. The revenues will be assigned solely for the period of the capital increase. The above figures are provided on an estimated basis and assume that the current level of the dividend pay-out ratio of 20 % will remain constant for the next four years. However, the dividends are annually decided by the General Meeting of EIF.