Opinion of the European Economic and Social Committee on the 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

COM(2014) 66 final — 2014/0034 (COD)

(2014/C 226/11)

Rapporteur-General: **Michael Smyth**

On 18 February and on 24 February 2014 respectively, the Council and the European Parliament decided to consult the European Economic and Social Committee, under Article 173(3) of the Treaty on the Functioning of the European Union, on the

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

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On 25 February 2014 the Committee Bureau instructed the Section for the Single Market, Production and Consumption to prepare the Committee's work on the subject.

Given the urgent nature of the work, the European Economic and Social Committee appointed Mr Smyth as rapporteur-general at its 497th plenary session, held on 25 and 26 March 2014 (meeting of 25 March 2014), and adopted the following opinion by 133 votes to one with three abstentions.

1. **Introduction**

1.1 The EESC supports the move to recapitalise the European Investment Fund (EIF) to allow it to expand its roles as provider of risk capital to high growth and innovative small and medium sized enterprises (SMEs).

1.2 The decision to increase the EIF's subscribed capital by up to EUR 1,5 billion represents a significant boost to EIF investment potential in the context of the economic crisis and the stagnation of the European economy, it is right to pose the question as to whether even this increase is too small?

1.3 Recent surveys and data on SME finance and bank lending show that access to finance (both investment and working capital) is the most pressing problem facing SMEs. The growth in bank lending to business has fallen in each of the last three months. While the EIF remit is specific to innovation business and high growth, is there not a case for an even larger recapitalisation of the Fund to enable it to do even more?

1.4 The EESC restates its call for the EIF to be substantially recapitalised to fulfil the role originally envisaged for it — namely as a European venture capital fund and a special remit to finance high-tech start-ups.

1.5 The EESC proposes that 20 % of net profit be paid out in dividends and used to cover part of the costs of the capital increase. The EESC supports the endeavour to balance the financial and political yields of the EIF and to enlist suitable financial institutions in increasing its subscribed capital.

2. **The proposal**

2.1 The European Investment Fund (EIF) fulfils two main roles:

— venture capital provision to improve the supply of risk capital for rapidly growing and innovative small and medium sized enterprises (SMEs);

— provision of guarantees and other risk-sharing initiatives to enhance the lending capacity of financial institutions to SMEs.

2.2 The Fund utilises its own funds and it also manages a number of EU programmes, such as Horizon 2020 and COSME, over the coming years. The EIF expects to double its guarantee and venture capital risk exposure and so an increase in the Fund's capital is essential. At present the EIF is majority owned by the European Investment Bank (EIB) (62,1 %). The other shareholders are the European Union (30 %) and 24 public and private financial institutions (7,9 %).

2.3 The proposal is to increase the Funds subscribed capital from EUR 3 billion to EUR 4,5 billion, of which 20 % will be paid in. This capital increase will increase the EIF's capacity for credit enhancement activity and stimulate between EUR 11 billion and EUR 20 billion of lending to SMEs in 2014 and 2015.

3. **Comments on the proposal**

3.1 On the face of it, the re-capitalisation of the EIF is an unambiguously positive development. Data from the ECB show that total lending to business fell in each of the last three months to January 2014. The most recent survey of bank lending showed that access to finance was the single most pressing problem faced by euro area SMEs, although the geographical distribution was variable. The main factors affecting SMEs need for external financing were working capital and fixed investment needs. The EIF recapitalisation will address some of this problem but the scale of need is huge.

3.2 The EESC welcomes the recapitalisation of the EIF. It notes that the December European Council called upon the Commission and the EIB to further expand the capital of the EIF and awaits the outcome of this proposal. The Committee has raised concerns about the role of the EIF in previous opinions and now re-iterated them ([1]).

3.3 Increasing the capital of the EIF will help to achieve the goal of creating enough capital investment capacity to support the innovation, research and technological development of all the Member States' companies. In order to meet this goal with minimal budget expenditure, the EESC recommends that the 2014 EIF annual meeting take a decision to pay 20 % of net profit in dividends. The EESC thinks that it will be helpful if annual dividends to be applied in the years 2014 to 2017 for the Union's participation in the fund were considered external assigned revenue and used to cover part of the costs for the capital increase. The EESC supports the endeavour to balance the financial and political yields of the EIF and to fully maintain its tripartite structure. In this connection, it calls for more similarly minded financial institutions to be accepted as new shareholders.

3.4 When originally designed in 1993 it was recommended that the EIF should support businesses not only by equity guarantees and loans but also by establishing a European venture capital fund of up to EUR 60 billion. The aim was to compensate for the lack of private venture capital in Europe relative to North America and to reduce reliance on fixed interest borrowing which penalises new and early stage ventures. When the EIF was founded in 1994, the venture capital role was somewhat downplayed and the loan guarantee role dominated.

3.5 The EESC believes that the EIF should have a stronger venture capital remit as originally envisaged.

Brussels, 25 March 2014

The President
of the European Economic and Social Committee
Henri MALOSSE

([1]) OJ C 143, 22.5.2012, p. 10.