

# Introduction

This final report pursuant to Article 4 of Decision No 562/2014/EU[[1]](#footnote-2) assesses how the increase in the capital of the European Investment Fund (EIF) capital has reached the objective of increasing the EIF support of actions which complement Member States' actions in favour of enterprises, particularly small and medium-sized enterprises (SMEs). It follows the interim report of 19 December 2016[[2]](#footnote-3), which found that the capital increase, which at that point has not yet been completely finalised, had already led to increased financing made available to SMEs and mid-caps.

**1.1 The EIF**

**a) Capital structure and increases**

The EIF was established in 1994[[3]](#footnote-4) by the European Investment Bank (EIB), the European Community, now the European Union (EU), represented by the European Commission (the Commission), and public and private financial institutions with an authorised capital of ECU (now EUR) 2 bn paid-in at 20%. In 2007 the authorised capital was increased to EUR 3 bn. The Commission used the EIF dividends received from 2007 to 2010 for payment and covered the remainder from the EU budget, which allowed the EU's 30% shareholding to be maintained.

A second capital increase approved by the EIF shareholders General Meeting on 27 May 2014 brought the EIF’s authorised capital to EUR 4.5bn. A Commission proposal to use the EU's dividends for the subscription of new shares was not retained, but up to EUR 178 mn were set aside in the EU budget for the period 2014-2017 for the subscription of up to 450 new shares. Due to an increase in the value of the shares, this amount only sufficed to subscribe 437 additional shares for the EU[[4]](#footnote-5), resulting in a slight dilution of its share of the EIF. Currently, the EIB holds 2 642 (58.7%), the EU 1 337 (29.7%), and the 32 financial institutions a total of 521 (11.6%) of the EIF’s shares.

The main objectives of the 2014 capital increase were to:

1. Develop the SME loan capital markets with the aim of diversifying the source of liquidity for SME banks and leasing companies;
2. Improve SMEs' access to finance by responding to the European Council request to increase the unique credit enhancement capacity of the EIF;
3. Support the growth of the EIF as a cornerstone investor in the venture and growth capital market;
4. Enhance the EIF's role in microfinance and social impact investment, enabling breakthrough equity participations in new social enterprises and financial institutions;
5. Enable risk-sharing in the EIF mandates through co-investment;
6. Support the EIF's AAA rating by injecting new capital and by demonstrating its increased policy importance.

**b) Operational activities**

The EIF is the risk capital arm of the EIB Group, supporting the financing of Europe's SMEs. It designs, develops and deploys venture and growth capital, guarantees and microfinance instruments that target SMEs and mid-caps, to give an incentive for further investments in Europe and increase the leverage effect of EU budgetary resources and Member States' contributions, in cooperation with the Commission. In doing so, it relies on market-based financial instruments (securitisation, diversified debt funds, etc.). It fosters EU objectives to support innovation, research and development, entrepreneurship, growth and employment and inclusive finance by addressing those financial products to financial intermediaries.

The EIF is active in the EU Member States, candidate and potential candidate countries, and in the European Free Trade Association countries. It currently manages more than 122 mandates on behalf of notably the Commission and the EIB. They comprise equity investments and guarantees or, to a limited extent, funded instruments. The EIF also manages mandates from Member States and authorities managing resources under the European Structural and Investment Funds (ESIF), funds of funds, corporates and private and public institutions, and co-invests its own resources in equity and debt business activities.

**c) Capital requirements and expected level of creditworthiness**

The EIF’s business lines involve different risks, reflected in a certain level of economic capital allocation that needs to be set aside. The ceiling for commitments from own resources under guarantee operations is three times the amount of subscribed capital. On 8 March 2017, under the delegation given by the General Meeting, the EIF’s Board of Directors increased the ceiling for equity participation operations with EIF’s own resources from 50% to 70% own funds. The EIF's risk and capital management has helped maintain its AAA-stable credit rating, recently reconfirmed by the main credit rating agencies, who notably highlighted the 2014 capital increase. The breadth of the EIF's products and their geographical and sectorial scope underpin a moderate and sustainable risk exposure.

**2. EIF 2014-2018 Achievements Underpinned by the Capital Increase**

**2.1 Overview as of the Second Quarter of 2018[[5]](#footnote-6)**

By 30 June 2018, the EIF had increased its volume of activity on average by more than 30% per year[[6]](#footnote-7) compared to 2013. The EIF entered into 1,120 transactions with an investment volume of EUR 44 bn. Out of them, 771 transactions relied on the EIF's capital base. They involved EUR 12.1 bn of the EIF's own resources, of which more than EUR 10 bn were invested alongside mandate resources managed by the EIF. EIF’s activity is expected to leverage EUR 154 bn of financing at the level of SMEs and mid‑caps.

The resulting strong capitalisation was a determining factor for the EIF’s successful deployment of the European Fund for Strategic Investment (EFSI) and underpins the increase of EFSI (EFSI 2.0) decided in late 2017. The EIF drew on its own resources, mobilising up to EUR 500 mn, to advance the deployment of EFSI before the adoption of the EFSI 2.0 legislation. Under EFSI 2.0, the EFSI guarantee has been increased to a total of EUR 26 bn (and the expected mobilised investment from EUR 315 bn to EUR 500 bn) while the investment period was extended until 2020. It will thus be necessary for the EIF to mobilise significant own resources alongside EFSI between 2018 and 2020.

**2.2 Equity (Venture and Growth Capital)**

The additional risk-taking capacity resulting from the capital increase has allowed the EIF to expand the outreach of its equity investments, both in terms of volumes invested and speed of deployment. During the period 2014-2018, EIF’s equity activity has leveraged more than EUR 64 bn of financing at the level of final recipients.

**a) EFSI/RCR operations underpinned by increased capital**

The EIB Risk Capital Resources (RCR) enabled the EIF to pursue its equity strategy in the venture capital and growth segments for over 18 years and allowed increased investments through hybrid debt-equity financing. The EIF co-invests its own resources alongside mandate resources. In July 2015, the EIB increased the RCR by EUR 2.5 bn (reaching EUR 9.5 bn) under the EFSI SME window for private equity and technology transfer investments in SMEs and mid-caps. At the end of 2015, EFSI-specific commitments amounted to EUR 1.4 bn in 45 funds. The resulting financing reached EUR 8.1 bn and is expected to result in EUR 14.6 bn of mobilised investment at the level of final recipients (a leverage ratio of nearly 1:11).

The Mezzanine Co-Investment Facility (MCIF) within the RCR mandate is a EUR 101 mn hybrid debt-equity facility. It enabled the EIF to co-invest in target companies alongside mezzanine funds. By June 2018, commitments under MCIF totalled EUR 98 mn (of which EUR 5 mn of the EIF's own resources), promoting a broader utilisation of co-investment solutions and addressing clearly identified fundraising shortfalls. In the period January 2014 - June 2018, the EIF committed into underlying funds EUR 9.9 bn under the RCR, including EUR 437 mn of its own resources.

**b) EFSI SMEW Equity Product**

In July 2016 the EIF, the EIB and the Commission launched the EFSI SMEW Equity Product, whose overall investment capacity of EUR 2 071 mn targets equity investments across a wide spectrum of financing needs and delivery modalities (co‑investments, technology transfer, funds-of-funds, social impact, etc.). It has two sub-windows, the growth/expansion sub-window and early stage investments sub-window. A collaborative platform enables national promotional banks and institutions to match the total budget for investment under the EFSI SMEW Equity Product. In the period July 2016 - June 2018, the EIF committed EUR 1 bn under the EFSI SMEW Equity Product, including EUR 177 mn of its own resources.

**c) EIF risk-sharing under EU mandates - the single EU equity financial instrument**

In the Single EU Equity Financial Instrument, EU budgetary resources are deployed alongside the EIF's own resources. It includes the COSME Equity Facility for Growth (COSME EFG) and the Horizon 2020 InnovFin SME Venture Capital instrument (InnovFin Equity), the latter also covering a pilot initiative for business angels.

Under COSME EFG the EIF invests in funds that provide equity and mezzanine finance to expansion and growth-stage SMEs with high growth potential, particularly those operating cross border. By June 2018, 13 investments under the EFG facility had been signed, resulting in EUR 160 mn of aggregate commitments, of which EUR 8 mn from the EIF's own resources.

Through InnovFin Equity, the EIF targets investments in technology transfer, business angels, venture capital funds and fund-of-funds that provide equity for early stage companies in pre-seed, seed and start-up phases that may not yet have generated revenues. It leverages almost EUR 3 bn for enterprises in Member States and countries associated with the Horizon 2020 programme.

Under EFSI, a structured financial product was created for early stage investments (sub‑window 2). This product combines EUR 458 mn of the EU’s InnovFin Equity facility with a EUR 270 mn commitment benefitting from the EFSI EU Guarantee and a EUR 290 mn commitment under the EIF's own resources (the aggregation of all such resources being referred to as IFE Facility for Early Stage). By June 2018, the EIF committed a total amount of EUR 539 mn to 29 equity funds, including EUR 153 mn of the EIF's own resources.

**d) EIF risk-sharing under a combination of EU mandates and the EFSI Equity product**

In 2016, the EIF launched the Pan-European Venture Capital Fund(s)-of-Funds (VC FoF) to invest in private‑sector led, market‑driven pan-European venture capital fund-of-funds, using EIF’s own resources with the COSME Equity Facility for Growth, the EFSI SMEW Equity Product Sub-windows 1 and 2, also known as the IFE Facility for Early Stage (as a combination of the Horizon 2020 InnovFin Equity facility, EFSI Equity Instrument and EIF’s own resources). The EIF targets investments in eligible VC FoF for the aggregate amount of EUR 410 mn, of which EUR 67.5m of EIF own resources. As of October 2018, 2 agreements with VC FoF managers had been signed and negotiations were ongoing with 4 others.

**e) Development of social impact investment: Social Impact Accelerator (SIA)**

SIA is an EIF initiative launched in 2013 as part of the EIB Group’s impact investment strategy, responding to the EU policy of establishing a sustainable funding market for social entrepreneurship in Europe. SIA is a fund-of-funds that seeks to create a portfolio of equity investments in social impact funds. It promotes social inclusion, provides alternative sources of employment for marginalised social groups, contributes to growth and ensures the availability of a broad range of financing options, including debt or hybrid debt/equity instruments.

SIA benefits from EUR 180 mn financing under the EREM Social Impact Finance Instrument, an EIB mandate. The total commitments to SIA reached EUR 243 mn at its final closure in July 2015, through additional investments from RCR (EUR 48 mn), the EIF’s own resources (EUR 11.5 mn) and other four investors (EUR 1 mn each): the Bulgarian Development Bank, the Finnish Innovation Fund Sitra, Crédit Coopératif and DB Impact Investment Fund I (Deutsche Bank).

**f) Regional outreach**

The EIF has expanded its regional equity outreach. It manages now 42 regional funds-of-funds with aggregate commitments of EUR 6.3 bn. In 2016, the EIF and its regional partners set up two funds-of-funds, mainly targeting Estonia (EUR 60 mn) and Sweden (SEK 582 mn - approx. EUR 60.5 mn) combining ESIF and EFSI SMEW resources. During 2016, the EIF and its regional partners set up a fund‑of‑fund in Greece (EUR 260 mn) with RCR and ESIF resources (expected leverage EUR 326 Mn), as well as other funds‑of‑funds in the Netherlands (EUR 200 mn), in Germany (EUR 400 mn) and in Turkey (EUR 200 mn). In 2017, EIF and its regional partners set up eight funds-of-funds, mainly targeting Romania (EUR 84 mn), the Czech Republic (EUR 50 mn), Italy (EUR 41 mn), Finland (EUR 30 mn) and Central Europe (EUR 106 mn).

EIF has initiated a number of co-investment programmes, such as the Scottish-European Growth Co-Investment Programme in which the EIF and [Scottish Enterprise](https://www.scottish-enterprise.com/services/attract-investment/scottish-european-growth-co-investment-programme/scottish-european-growth-co-investment-programme-overview) have contributed a financial allocation of GBP 50 mn each or the Dutch Growth Co-Investment Programme in which the EIF and Netherlands Investment Agency have contributed a financial allocation of EUR 50 mn.

The EIF also expanded its activities under the European Angels Fund (EAF) initiative launched in 2012. Under EAF, the EIF coinvests with business angels and other non-institutional investors in innovative companies in the seed, early or growth stage. The EAF now covers Austria, Germany, Ireland, the Netherlands, Spain, Denmark and Finland. At the end of June 2018, the EAF initiative had a volume of EUR 392 mn, of which at least EUR 38 mn to be committed under the EIF's own resources.

**g) AMUF**

In 2017, the EIF launched the Asset Management Umbrella Fund (AMUF) which currently consists in three compartments: European Growth Capital, European Technology Venture Capital and European Life Sciences Venture Capital.

AMUF increases the amount of risk capital available for the investment activity in Europe, crowding in new institutional investors for European private equity and venture capital markets. The EIF has undertaken to invest about 2.5% of the total capital committed by the other investors. At the end of June 2018, three investors have committed in total EUR 345 mn. The fundraising subscription period expires in 2019 with a maximum fund target size of EUR 2 bn, of which the EIF is expected to commit up to EUR 50 mn of own resources.

**2.3. Debt (Guarantees, Securitisation and Microfinance)**

Alongside new mandates deployed in 2014-2018 relying exclusively on mandate resources, an important number of debt-focused mandates were launched with EIF co-investments and/or risk-sharing. In addition, the EIF has boosted its own-risk activity in credit enhancement operations. The leveraged volume of SME loans given by the financial institutions participating in EIF’s debt products during the period 2014-2018 is estimated to reach EUR 85 bn.

**a) EIB risk enhancement mandate (EREM)**

The EREM was signed between the EIB and the EIF in March 2014 to support the impaired financing of European businesses through additional guarantees, debt and equity instruments. A total of up to EUR 6 bn was earmarked, of which EUR 4 bn from the EIB and up to EUR 2 bn from the EIF. EREM’s investment period will be completed at the end of 2018. The EREM's products/windows reinforced existing activities or strengthened alternative financing tools to respond to new market needs:

• **ABS Credit Enhancement (EREM ABS CE)** increased capacity in mezzanine tranches of asset-backed securitisations, freeing up resources for originators to lend to SMEs and small mid-caps. Its activity has signed more than EUR 855 mn of which EUR 291 mn of EIF own resources. The leveraged volume of additional SME lending undertaken by the originators is estimated to reach EUR 5 bn;

• **EREM Cooperative Banks & Smaller Institutions** broadened the EIB Group's range of intermediaries, in particular small cooperative banks and other smaller institutions particularly focused on smaller SMEs and start-ups. In turn, originators were expected to use the freed up resources for lending to SMEs. The EIF concluded 16 loan transactions, totalling EUR 153 mn, of which 7.7 mn of EIF own resources;

• **EREM Loan Funds** – a new segment that the EIF tapped into to widen the availability of loan financing for SMEs and small mid-caps beyond traditional bank channels. Almost EUR 57 mn of the EIF's own resources have been signed in 26 transactions, for an aggregate invested volume of EUR 1 135 mn.

• **EREM-SME Initiative** requires the EIF to participate with its own resources alongside the financing made available by the EIB. Up to EUR 159 mn of the EIF's own resources have been signed in 67 transactions, for an aggregate signed volume of EUR 4.3 bn.

**b) EIF capital contributions to the InnovFin SME Guarantee Facility (SMEG)**

Since 2014, the EIF has offered uncapped guarantees or counter-guarantees to financial intermediaries, allowing them to provide debt financing on favourable terms to innovative SMEs and small mid-caps in Member States and Associated Countries.

From 2014 to June 2018, EUR 1.8 bn from the EU budget and EUR 7.2 bn of EIF exposure were signed, thereby making approximately EUR 18 bn of debt finance available for innovative companies and mobilising around EUR 26 bn in investments. The EIF concluded 177 guarantee transactions, totalling EUR 9 bn, of which 139 transactions were backed by EFSI for EUR 7.6 bn in total signatures. In the context of EFSI 2.0 and the EFSI SME window, a top-up of the InnovFin SMEG facility by approximately EUR 220 mn is envisaged. EIF resources of up to EUR 1,760 mn will be combined with the EFSI 2.0 and an EU budget contribution so as to cover a total guarantee volume of up to EUR 2,200 mn over the period 2017-2022.

**c) EIF support to the SME initiative**

The SME Initiative of the Commission and the EIB group stimulates SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions. ESIF provide the major part of EU funds which include a contribution from EU level instruments (COSME and/or Horizon 2020), with co-funding from EIB and EIF own resources. The EIF offers selected financial intermediaries an uncapped portfolio guarantee instrument or a securitisation instrument. The ensuing loss protection and potential capital relief allows financial intermediaries to provide SME loans, leasing and/or guarantees at favourable terms. The SME Initiative covers Spain, Bulgaria, Finland, Malta, Italy and Romania. Approximately EUR 1.2 bn of ESIF resources have been entrusted to the EIF, coupled with an expected commitment of up to EUR 4.1 bn from the EIB and EUR 215 mn from the EIF's own resources.

**d) EIF support to the Agri Italy Platform**

The AGRI Italy Platform set up by EIF in cooperation with the Italian regions of Calabria, Campania, Emilia Romagna, Piemonte, Puglia, Veneto, Umbria and Tuscany is a new generation of a multiregional debt financial instrument aiming to provide better access to finance for final recipients in the agricultural and agro-industrial sectors. The EIF participates with its own resources alongside the financing made available by the Italian regions. A total of up to EUR 64 mn from EIF is currently earmarked for the Agri Italy Platform.

**e) Increased EIF own resources SME securitisation activities**

With securitisation transactions, EIF seeks to provide credit enhancement which allows originators to diversify their funding sources and achieve economic and regulatory capital relief through credit risk transfer, thus enabling them to undertake further SME lending. Since 2014, the EIF's efforts to help the revival of SME securitisation have resulted in more than EUR 15 bn of signed guarantees. Geographical coverage has expanded to 11 countries. The leveraged volume of additional SME lending undertaken by the originators is estimated to reach EUR 28 bn. In total, the EIF’s SME securitisation activity has mobilised more than EUR 3 bn of EIF own resources in the same period.

The EIF's EREM ABS CEsupported mezzanine tranches of SME/small mid-caps based securitisation transactions, including both synthetic and true sale transactions. The EIF used EUR 391 mn of its own resources to purchase more senior tranches under a product of direct investments in SME asset-backed securitisations and covered bonds transactions.

**3. Key EIF activity looking forward**

**3.1 Additional future activities**

The EIF continually seeks to cover new identified market gaps in the financing of European SMEs and mid-caps.

1. **Additional equity activities**
2. ***Top-up of EFSI SMEW equity product***

Given the successful deployment of the EFSI SMEW equity product, a top-up of the EFSI SMEW equity product by EUR 1.37 bn, including EUR 1 bn for the Sub-window 1 and EUR 0.37 bn for the IFE Facility for Early Stage, is foreseen, with the EIF investing up to 155 mn of its own resources into this product.

1. ***Top-up of RCR under the EFSI SMEW***

In addition to the EFSI SMEW equity product top-up, RCR will benefit from a top-up of EUR 1 579 mn to expand the EFSI SMEW, of which almost EUR 79 mn being EIF’s own resources.

**b) Additional debt activities**

***Funded instruments for microfinance (EaSI)***

Under the EU Programme for Employment and Social Innovation (EaSI), the Commission and the EIB Group plan to supplement the guarantee mandate with a facility for offering senior and subordinated loans to microfinance and social entrepreneurship institutions that will in turn extend financing to micro‑enterprises and social enterprises. The EIF's own resources of up to EUR 28.5 mn are to be mobilised alongside EIB and EaSI resources for an expected aggregate volume of EUR 200 mn.

**3.2 Impact on the EIF’s capital consumption**

**a) Capital consumption**

***i) Equity***

The EIF's own resources commitments in the area of equity participations are capped. As of June 2018; there are EUR 1.4 bn available. The overall private equity net commitments of EUR 1.1 bn mn utilised 78% of the ceiling.

***ii) Guarantees***

As of the end of September 2013, the EIF's exposure from own risk guarantee operations was EUR 2.9 bn, resulting in a EUR 6.1 bn headroom for such transactions. The increased guarantee business volume between 2014 and the end of June 2018 more than doubled the EIF's exposure to EUR 8 bn against the ceiling of EUR13.5 bn.

**b) Optimisation of capital use**

The higher than anticipated increase in business volumes was made possible through a higher allocation of EIF capital. The EIF is actively managing its capital to accommodate the further expected growth until 2020. Different measures are put in place to reduce consumption of the EIF’s capital, including a more active portfolio management, in particular in the equity area.

**c) Future capital needs**

The EIF estimates that by the end of 2020, the capital allocated to it will have been fully used and that a continuation and expansion of its contribution to the pursuit of EU policy objectives over the next MFF would require an further increase of its capital. It estimates that a capital increase of EUR 3~3.5 bn would be necessary if it were to deliver on targets of some EUR 100 bn of investment in Europe over the next MFF. Such investmerns could mobilise more than EUR 1 trillion of investment in the real economy over the same period.

**4. Conclusion**

The 2014 capital increase made significantly more financing available to SMEs and mid-caps. The capital increase created additional risk-taking capacity, allowing a higher volume and speed of deployment of equity investment into SMEs, whereby the EIF's capital was substantially leveraged. The increase boosted the EIF's own-risk activity in credit enhancement operations, in particular for guarantees and securitisation, mobilising private financing and increasing access to finance for SMEs. The EU’s participation of EUR 178 mn in the 2014 capital increase was essential to strengthen the EIF and to put it into a position to achieve tangible results for Europe’s SMEs.

Not the least, it enabled the EIF to achieve remarkable success with the SME Window of EFSI in terms of additional volumes of financing to SMEs, which contributed signifincantly to EFSI overshooting by EUR 20 bn its initial target of EUR 315 bn investment mobilised by mid 2018.

It is expected that the EIF will outperform the initial expectations leading to the 2014 capital increase. By the end of June 2018, EIF had thus committed almost 30% more resources (EUR 44 bn), than anticipated in 2014 (EUR 34 bn) for the benefit of more than 547 000 SMEs and other final recipients, while sustaining more than 4 mn jobs. By end-2020, another EUR 26 bn are expected to be committed, raising the overall commitments to EUR 70 bn over 7 years and leveraging simultaneously EUR 250 to 300 bn of financing in the real economy. This means the initial expectations in 2014 (EUR 175 bn) will be exceeded by more that 40%.

The EIF is expected to continue to play a significant role in the financing of enterprises, in particular in critical areas of the European economy (research and innovation, SMEs, microfinance, etc.) throughout the period covered by the 2021-2027 MFF. The EIF estimates that a strengthening of the EIF’s capital base with EUR 3-3.5 bn would be necessary, starting in 2021. There are however several uncertainties related to any capital increase. The EIF's capital requirements will have to be reassessed in light of the financial products to be rolled out by the EIF in the implementation of InvestEU and possible blending operations in the 2021-2027 multiannual financial framework.

1. Decision No 562/2014/EU of the European Parliament and of the Council of 15 May 2014 on the participation of the European Union in the capital increase of the European Investment Fund (OJ L 156, 24.5.2014, p. 1). [↑](#footnote-ref-2)
2. Report from the Commission to the European Parliament and the Council. Interim Report on the participation of the European Union in the capital increase of the European Investment Fund and the pertinent increase of the European Investment Fund's support of actions in favour of enterprises, particularly small and medium sized enterprises pursuant to Article 4 of Decision No 562/2014/EU of the European Parliament and the Council of 15 May 2014 on the participation of the European Union in the capital increase of the European Investment Fund, COM/2016/0795 final. [↑](#footnote-ref-3)
3. Council Decision 94/375/EC of 6 June 1994 on Community membership of the European Investment Fund (OJ L 173, 7.7.1994, p. 12). [↑](#footnote-ref-4)
4. The 437 new shares were purchased for EUR 177 895 462.23 (average price per share of EUR 408,199.52). [↑](#footnote-ref-5)
5. Latest available data reported by the EIF. [↑](#footnote-ref-6)
6. CAGR (Compounded Annual Growth Rate) based on 2017 year end volume. [↑](#footnote-ref-7)