



Increasing lending to the economy: implementing the EIB capital increase and joint Commission-EIB initiatives

Joint Commission-EIB report
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EXECUTIVE SUMMARY

Following the capital increase agreed by the European Council in 2012, the European Investment Bank (EIB) has significantly boosted its activity with a counter-cyclical impact on the European economy.

Although the ultimate impact of EIB activity can only be assessed a few years from now, significant results are already visible. Substantial increases in signatures and new lending initiatives, and a strengthened emphasis on SMEs and vulnerable countries will generate increased investment and employment where it is most needed. It is essential to continue our joint efforts to ensure that the available resources are effectively channelled to the real economy. To this end, the European Commission and the EIB are closely cooperating to develop new joint initiatives to support SMEs. Blending EU funds and EIB resources strengthens the impact of EIB lending where it is most needed.

Context

Following the decision of the European Council in 2012, the capital increase is beginning to demonstrate its effectiveness as a powerful mechanism to enhance the countercyclical investment activity of the EIB, contributing to restore lending to the economy in support of growth and employment. The favourable lending conditions that the EIB can offer in all EU Member States (owing to its status as prime issuer in the capital markets) provide an essential support to offset market fragmentation in Europe with a particular focus on the most vulnerable countries.

Under the umbrella of the Growth and Employment Facility, up to EUR 60 bn will be added to the lending activity of the EIB in the EU in the period 2013-2015 representing a 49% increase compared to lending that was planned for the EU before the capital increase. The additional volume hinges on continued significant access to capital markets, relying on the sustained ability to cater to both EU and non-EU investors.

The EIB's additional activity is expected to unlock around EUR 180 bn of additional investments across the EU. The additional lending will support viable projects in all Member States with a particular focus on (i) Innovation and skills, (ii) SME access to finance; (iii) Resource efficiency; and (iv) Strategic infrastructures.

The combined effect of the EIB increased lending capacity, the specialised activities of the European Investment Funds (EIF) and the joint Commission-EIB financial instruments – including new initiatives under the next Multiannual Financial Framework (MFF) – represents an important contribution to growth and employment for the years to come.

The results of EIB activities in the first half of 2013

In the first five months of 2013, one can clearly see how the capital increase is unleashing additional lending capacity of the Bank. Across all Member States, signatures in the EU have increased on average by 66% (including special efforts in programme countries) compared to the corresponding period in 2012. Increased volumes are complemented with additional products. For example, in Greece the new Trade Finance facility (signed at the beginning of June) is expected to mobilise up to EUR 1.5 bn of resources and the first operations underpinned by the Greece Guarantee Fund were signed in January 2013.

The reinforced capital base has allowed the EIB to adapt its risk tolerance, which is expected to further evolve with economic conditions. Own risk operations with higher risk in the EU - Special Activities - are targeted to increase to EUR 7.8 bn in 2013, of which EUR 5.5 bn on the EIB balance sheet (compared to EUR 1.5 bn in 2012).

The increase in lending activity in the EU has been particularly focused on support to SMEs as the main driver of European growth and employment: the initial target of EUR 13.6 bn in lending to SMEs for 2013 is currently being revised up to EUR 15.9 bn compared to EUR 10.7 bn in 2012. Together with the EIF more than EUR 19.1 bn in SMEs lending is expected to be signed in the EU.

The impact on new employment and the preservation of existing jobs is significant: the EIB expects that its lending to infrastructure, resource efficiency and knowledge economy projects in 2013 alone will directly generate employment for around half a million people. In addition, SMEs and mid-caps benefitting from EIB and EIF financing sustain employment for an estimated 2 million people every year.

Joint Commission – EIB initiatives

The Commission and the EIB have closely cooperated to develop and implement risk-sharing instruments which leverage resources from the EU budget with EIB lending. The Project Bond Initiative is one of the most visible examples with already 9 projects approved in 6 countries. Similar instruments have been deployed in cooperation with the EIF in support of SMEs and mid-sized businesses.

The use of financial instruments is expected to increase during the next MFF under programmes such as the Connecting Europe Facility, COSME, Horizon 2020, as well as under European Structural and Investment Funds (ESIF). All the above has been initiated during the last year and, whereas the initial signs of improvement are already visible, a more significant impact for the economy can be expected in the next years.

What can be done to further enhance impact?

The EIB initiative “Skills and Jobs – Investing in Youth” will provide SMEs with better access to finance related to investments in training, job-related skills and on-the-job-training. Coupled with the frontloading of the Commission Youth Employment Initiative and an acceleration of investments in young people through the European Social Fund, this is expected to further foster youth employment in Europe.

The Commission and the EIB are exploring joint risk-sharing mechanisms under the new Multiannual Financial Framework (MFF) which would allow Member States to voluntarily earmark part of the Structural Funds for this purpose. In particular, a joint-instrument blending EU funds available under COSME and Horizon 2020 and EUR 10 bn of ESIF dedicated resources in cooperation with EIB/EIF is proposed in view of generating additional lending to SMEs. Three options have been proposed by the Commission which could, in the

period 2014-2020, leverage up to EUR 100 bn depending on the scale of participation by Member States, the adjustments made in the draft European Structural and Investment Funds legislation and on the timing and the response of the financial markets.

The EIB and EIF together with the Commission and the European Central Bank (ECB) are analysing the best ways of enhancing funding to SMEs, revitalising the securitisation market as a channel to mobilise more resources and redistribute risks across the economy in a sustainable way.

Joint Commission-EIB report to the European Council

Increasing lending to the economy: implementing the EIB capital increase and joint Commission-EIB initiatives

1. Introduction

In June 2012 the European Council launched a Compact for Growth and Jobs comprising a range of policies aimed at stimulating smart, sustainable, inclusive, resource-efficient and job-creating growth.

Given the concurrent need to get lending flowing to the economy, one of the measures agreed in the Compact by the European Council was to increase the EIB's capital by EUR 10bn. This capital increase is designed to strengthen the EIB's capital base and thus increase its lending for 2013-2015 by up to EUR 60bn, and thereby unlock up to EUR 180bn in additional investment. This increased lending capacity shall be spread across the whole European Union, including in the most vulnerable countries.

As part of this important effort to increase the funding of the economy, synergies between the EIB and the EIF have been enhanced with the latter reinforcing the development of its activity in liaison with public financial institutions in Member States, in particular to promote venture capital and assist in the re-launch of the securitisation market in Europe.

At the same time the EIB and the Commission have been asked to develop new instruments to leverage the EIB's support for growth and jobs across Europe.

In June 2013 the European Council will assess the implementation of the Compact with a particular emphasis on measures aimed at job creation and boosting the financing of the economy to enable fast-acting growth measures. The Commission and the EIB were invited to report on how the Compact, including the EIB capital increase, would be used.

2. Economic and financial environment

While significant advances have been achieved in terms of crisis resolution and institutional strengthening in Europe, economic conditions remain challenging. The easing of financial market stress has not fully fed through to the real economy. Investments in the EU have been contracting for the past seven quarters with an accelerated fall at the end of 2012. At the same time, the need to ensure debt sustainability limits the room for national counter-cyclical policies in highly-indebted Member States. Labour market conditions in the EU and the euro area have continued to worsen since the end of 2012, on the back of weak economic activity and labour market adjustments.

Credit markets remain fragmented and actual credit volumes to non-financial corporations have contracted over recent years in many Member States, with significant cross-country differences. Lending spreads seem to relate not only to the credit quality of the borrower but also to geographical location, suggesting a wide divergence in financing conditions for companies in the Single Market. In parallel to the cross-country divergence in bank lending rates, the spreads between interest rates on small compared to large enterprises have also increased since end-2011.

The Compact for Growth and Jobs is an important response to the challenges facing the EU. The EIB capital increase and an enhanced recourse to joint Commission-EIB risk sharing instruments, coupled with synergies between EIB and EIF specialized activities, are key elements for its success.

With the launch of the Growth and Employment Facility (GEF), EIB has further strengthened its commitment to monitor the employment and growth impact of the projects it finances. The EIB will also regularly report to its Board on the outcome of these projects.

The EIB continues to focus its financing on projects with high economic rates of return, which ensure that individual investment projects contribute strongly to economic growth.

The wider impact on the EU economy, through the indirect effects of investments, will be much greater and is expected to be the strongest in those Member States that currently face very high levels of unemployment.

Examples of projects

Innovation & Skills

- A Spanish world-leader in renewable energy technologies, notably in thermo-solar power, benefits from an innovative credit risk sharing scheme jointly set up by the Commission and the EIB. The EIB financing allows the company to continue the development of the next generation of equipment to improve the capacity to store the captured energy and its conversion into electricity. The project will directly employ about 750 R&D staff in Spain and involve a large number of suppliers throughout the EU.
- In Ireland, the EIB supports a project covering a total of 49 schools that will increase school places and improve education facilities across the country. This project will directly benefit more than 30.000 pupils and improve learning facilities where most needed. Buildings will comply with the highest energy-efficiency standards. The project will generate labour demand for about 2,400 person-years, which will benefit mostly smaller construction companies. This investment in education is essential to respond to the demographic challenges of Ireland and to provide children with those skills necessary for an evolving economic environment.
- In France, the EIB has funded a major automotive manufacturer to invest in electric vehicle technology that will reduce the impact that travel has on the environment. EIB finance will support R&D and help develop a new generation of efficient and affordable electric and hybrid-electric vehicles. The new vehicle platform will feature a simpler and significantly less expensive powertrain (engine and gearbox) as well as a light-weight body. The investment will generate direct demand for about 3,200 person-years of highly skilled engineers and scientists.
- The EIB is backing the construction of new teaching and research buildings, as well as the refurbishment and upgrading of research and teaching facilities of ten universities outside the greater Helsinki area, which hosts around 100 000 students. This project seeks to revolutionise teaching by designing new premises that best support learning, studying and the creation of new knowledge. The various projects aimed at modernising the existing facilities will also help to improve usability as well as bringing savings on running costs. Estimated CO2 emission savings as a result of the upgrades are in the order of 10%.
- EIB is providing support to a leading integrated Italian energy group with activities in the chemicals sector, to support the conversion of an old and loss-making

petrochemical site located in Sardinia into a modern green chemistry production plans and R&D site. The project would help preserving 676 jobs in a region characterised by high unemployment rates and progressive de-industrialisation while producing also other positive externalities. It is a flagship project based on the deployment of innovative process and product technologies, including Key Enabling Technologies (KETs). The project will strengthen the competitiveness of a European mid-cap promoter, contributing to safeguarding employment opportunities in Europe and to enhancing Europe's position as a major technology provider.

Access to Finance for SMEs and Mid-Caps

- A cooperation agreement between the EIB and BPI France (Banque Publique d' Investissement) leverages the combined forces of national and European support for SMEs, channelled through an extensive local French network close to the customers.
- The Bank's first ever trade finance facility was developed that will increase liquidity, restore trade flows and reduce Greek SMEs financing costs in the import-export sector. This short-term lending instrument will support a volume of transactions of the order of EUR 1.5 billion per year at a time when trade has a significant role to play in economic recovery for Greece.
- In Portugal an agreement between EIB and Millennium bcp was reached to support the economic development of small and medium-sized business in Portugal. This will have a positive impact on economic activity and job creation in the country as it will provide financing for smaller projects in the areas of industry, tourism, services, including research and innovation, energy and environmental protection.
- The EIF increased its EIB-funded risk capital resources mandate with EUR 1 billion that particularly focuses on higher risk mezzanine financing as part of the joint EIB-EIF actions to tackle financing constraints for new innovation and growth plans of European mid-sized businesses.
- In Italy, the European Investment Fund (EIF) has signed two transactions with Banco Popolare and Cassa di Risparmio di Cento which will make available up to EUR 160 million of loans to innovative SMEs. These operations were concluded under the Risk-Sharing Instrument (RSI) initiative, a joint pilot guarantee scheme of the EIF, EIB and the European Commission (DG Research & Innovation) which aims at encouraging banks to lend to SMEs and small mid-caps (with fewer than 500 employees) in need of investment financing and/or operating capital to support research, development and innovation activities.

Resource efficiency

- A credit facility to the promotional bank of Slovenia will co-finance energy efficiency and renewable energy projects. The small-scale investments carried out both by private and public sector promoters will have large economic benefits and generate significant local employment effects throughout the country. The EIB financing is crucial to fill the financing gap due to the scaling down of public grant funding.

- Support for a large wind farm with 80 turbines in the German part of the North Sea will have a total generating capacity of 288 MW. Off-shore wind farms are needed to help Germany meet its ambitious plans to boost green-electricity production.
- The Bank is providing support to the construction of the central section of Warsaw's new metro line, thereby promoting the development of sustainable public transport in one of the most congested cities in Europe. The support for the Warsaw metro will improve the quality of public transport service in terms of speed, comfort and reliability. The estimated reduction of CO2 emissions is some 42 000 tonnes per year. Besides the environmental benefits, this EIB-supported project will also trigger growth in jobs, as the planned increase in metro operations will require additional drivers, maintenance workers and office staff.
- The EIB is supporting the implementation of an integrated solid waste management system in Sofia, Bulgaria, including a sanitary landfill, a mechanical-biological treatment plant and bio-waste and green waste composting plants.

Strategic Infrastructure

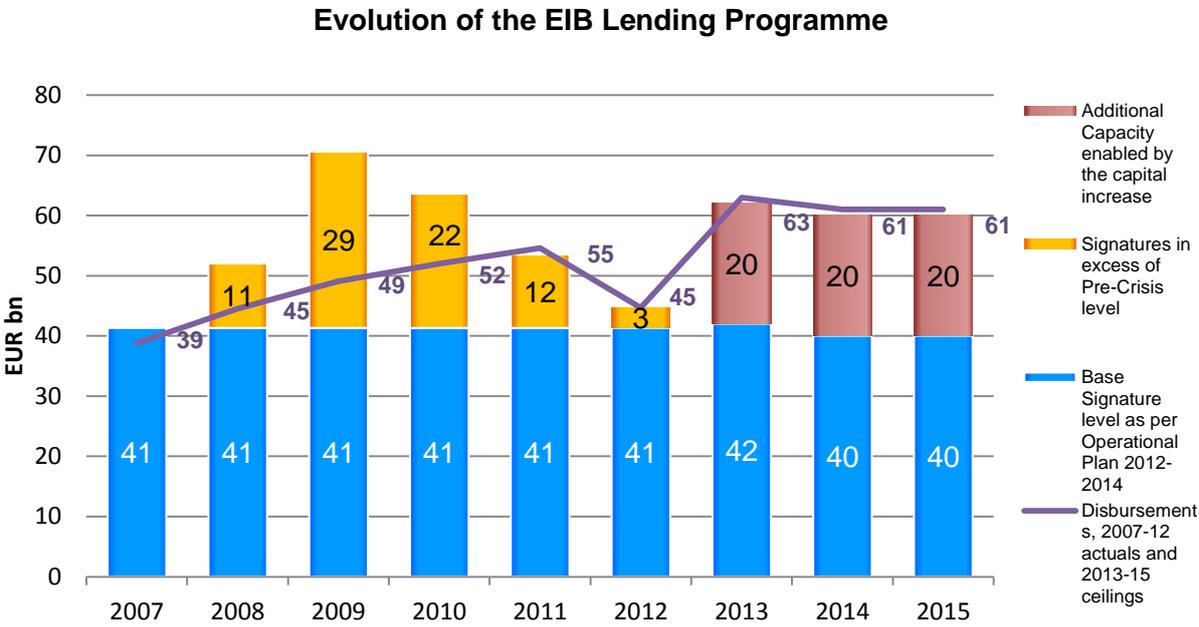
- EIB is financing the development of a new container terminal at the port of Savona (Italy) which is one of Europe's major port projects. The new terminal is aimed at large global shipping companies operating in the Mediterranean Sea and will facilitate European trade. It will result in the creation of about 2,400 person-years of employment during construction and will generate around 400 direct jobs during operation in Italy. It will also help facilitate European trade and logistic activities and in doing so reducing costs of production and distribution for the industry.
- EIB finance for investment in new rolling stock for the London Overground will support 1,300 person-years of employment in existing manufacturing facilities. It will significantly improve the quality of public transport, reduce congestion in the greater London region and thereby facilitate accessibility for the benefit of the wider economy.
- Financial backing of Lithuania's vital rail transport corridors will allow the acquisition of 590 new freight wagons and nine new passenger trains. Passenger numbers have been growing steadily, to reach 4.8 million in 2012, and the nine new passenger trains can support this trend of using public transport. The 590 new freight wagons will mainly be used for cross border railway traffic between Lithuania and its neighbouring countries to the East, and will be quieter and lighter than the outgoing equipment. In 2012, a total of 49.5 million tonnes of freight was carried on Lithuania's rail network.

3. Implementation of the EIB capital increase and joint EU-EIB risk sharing instruments

3.1 Implementation of the EIB capital increase

By the end of 2012, EU Member States had unanimously approved the capital increase at the EIB's Board of Governors. The capital injected significantly improved the EIB risk ratios,¹ contributing to the strengthening of the EIB's credit standing and status as prime issuer on the capital markets. This is essential for the EIB to be able to continue providing financial value added to its shareholders' economies.

From an operational side, the capital increase allowed for increased lending targets in the EU of EUR 62bn (+/-10%) in 2013 and overall lending targets for 2013-2015 of EUR 182bn.



All additional lending is targeted at the EU, with up to EUR 60bn or 49% expansion in the lending targets in the EU over the three year period 2013-2015 compared to the pre-capital increase business plan. A similar enhanced lending programme was achieved at the onset of the economic and financial crisis. Based on average co-financing rates, this additional lending will support total investments in the range of EUR 180bn.

The EIB is working closely with the Commission, and Member States to implement the capital increase in the priority areas which reflect Europe 2020 objectives and country-specific recommendations of the European Semester. Under the umbrella of the Growth and Employment Facility (GEF), the additional lending enabled by the capital increase is supporting viable projects within all Member States with a particular focus on (i) Innovation and skills; (ii) SME access to finance; (iii) Resource efficiency; and (iv) Strategic infrastructure. In order to adequately address the increasingly diverse economic environments in individual EU countries, tailored funding strategies are designed to target

¹ As a result of the capital increase, the EIB's capital adequacy ratio increased from 23.1% end of 2012 to 28.0% at end March 2013, and the leverage ratio improved from 976% to 821% in the same period

regions and sectors where financial constraints are the most severe and where investment can be unlocked rapidly.

By developing and offering targeted financial products (including guarantees, venture capital and microfinance), the EIF enhances crucial access to finance for SMEs across the EU and fosters employment, growth and competitiveness through entrepreneurship, innovation, research and development.

EIB's lending is distributed across the different policy areas in the following table, which also provides indicative² signature figures for the coming three years.

Indicative EIB lending inside the EU by policy areas (figures in EUR bn)

Public Policy Objectives (Inside EU)	2012 Achieved	Orientations			2013- 2015 Average
		2013	2014	2015	
Support to SMEs	10.7	13.6	13.3	13.3	13.4
Knowledge Economy	8.9	11.1	10.6	10.6	10.7
Transport (TENs, sustainability)	9.3	12.5	11.8	11.8	12.0
Energy (TENs, renewable and efficiency)	7.2	12.5	12.5	12.5	12.5
Urban and health	2.3	2.9	2.7	2.7	2.8
Environment and non-transversal* climate and convergence	6.1	9.5	9.1	9.1	9.3
Total (inside EU)	44.7	62.0	60.0	60.0	60.7

* Projects that are not eligible under any of the main COP objectives, but can be accepted purely eligibility criteria under either Convergence or Climate action

As of 31 May 2013, year-to-date loan commitments signed by the EIB totalled EUR 13.8bn, (66% higher than on 31 May 2012). The EIB expects annual lending targets to be substantially met.

The following table shows the evolution of EIB signatures in those Member States which are currently receiving financial assistance and who have agreed a macro-economic adjustment programme with the Commission. Despite the difficult financial and economic context, the EIB maintained a sustained level of activity in programme countries. In 2013, it is expected that more than EUR 3.5 bn will be invested in programme countries out of an overall EU target of EUR 62bn.

EIB signatures in programme countries (in EUR m, own resources)

	2011	2012	2013 expected
Greece	860	550	1500
Ireland	475	505	650
Portugal	1970	871	1200
Cyprus	180	398	200

² Figures in the table for 2013-2015 are purely indicative, as they have been derived from available forecasts for EIB operations in Europe (including Candidate and Potential Candidate Countries) by applying a proportional reduction, based on the expected ratio of (i) lending in the EU to (ii) total lending in Europe

Over the first half of 2013, the aggregate level of disbursements to programme and ex programme countries³ materially increased with respect to the corresponding period of 2012 (from EUR 1.4 bn to EUR 1.9 bn) for a total increase of approximately 36%.

The EIB has undertaken a series of measures since the 2012 proposals concerning the capital increase in order to facilitate as much as possible the achievement of the new lending targets in the difficult economic environment.

- The EIB has implemented a package of measures to adapt its risk tolerance and pricing to the changed environment and to continue operating in all Member States. In addition, the EIB is reprioritising its lending, giving greater weight to those projects that heavily impact employment.
- The EIB has stepped up its support for SMEs and Mid-caps through numerous measures.
 - o It has increased its lending volumes to SMEs in the EU considerably. In 2012 signatures for SMEs increased to reach EUR 10.7bn. The 2013 target for signatures for SMEs is EUR 13.6 bn. The current forecast is even higher at around EUR 15.9bn (which would represent an increase of about 49% on 2012). Including EIF activities and third-party funds, the total amount of this year's funding to support SMEs and mid-caps is expected to be around EUR 19.1 bn.
 - o It is developing new security structures and products and is launching new initiatives. For example, it developed and concluded in May 2013 a EUR 500m trade finance facility for the first time to support a trade volume of EUR 1.5bn per year in Greece and is studying similar facilities in other countries where funds are not available from other sources on reasonable terms.
 - o In responding to the gap left by the withdrawal of institutional investors, the Risk Capital Mandate was reinforced and established as an open ended, EUR 7bn revolving fund managed by the EIF on behalf of the EIB.
 - o Following the European Council conclusions on the Compact, the EIF is strengthening partnerships with national institutions to deliver a variety of equity and debt solutions through a wide range of financial partners across the EU.
- In the EU, the EIB has increased its lending target for Special Activities⁴ in 2013 to EUR 7.8bn, EUR 5.5bn of which will be on the EIB's balance sheet.

3.2 Joint EIB-EU risk sharing instruments

The Commission and the EIB have worked together closely on blended risk-sharing instruments leveraging the EU budget with the EIB lending capacity to finance further Special Activities in EU priority areas. Such instruments are particularly effective in vulnerable and programme countries or high-risk sectors such as research and development (where promoters face difficulty in finding alternative long-term sources of financing). The Risk Sharing Finance Facility (RSFF), the Loan Guarantee for TEN-Transport (LGTT) and the Risk Sharing Instrument (RSI) managed by the EIF fall into this category.

In November 2012, the Commission and the EIB launched the Project Bond initiative to support the role of capital markets in financing long-term infrastructure investments. Under this innovative instrument, the EIB Board of Directors has already approved nine TEN-T and TEN-E projects in six different Member States. This includes motorway projects in SK, DE,

³ In addition to Cyprus, Greece, Ireland, Portugal this includes Hungary, Latvia, Romania

⁴ Special Activities are operations embedding a credit risk higher than under EIB standard internal provisions

BE and UK), grid connections to offshore wind farms in DE and UK and gas storage facilities in ES and IT. The first financial closures of these projects are expected in the second half of 2013.

The endorsement of the Commission proposal to modify the structural funds regulations and the subsequent re-programming exercise, led to the creation of a new scheme to support SMEs in Greece (in addition to the trade finance facility described above). Under this scheme, unutilised Structural Funds were used to set up a Guarantee Fund dedicated to EIB lending to SMEs, structured on a portfolio first-loss basis. The first operations underpinned by the Fund were signed in early 2013. A complementary proposal regarding certain financial management provisions for Programme Countries has also been issued by the Commission.

The deployment of joint risk-sharing instruments is expected to grow during the next MFF under programmes such as the Connecting Europe Facility, Horizon 2020, as well as under the European Structural and Investment Funds (ESIF).

4. The way forward

4.1 SME Initiatives

The Commission and the EIB are also working with the ECB to develop an EU strategy to alleviate the financing constraints for SMEs. The discussions focus on options for reviving the structured credit markets to support SME lending in particular (but not limited to) the more vulnerable Member States.

Collaboration is directed at covering two dimensions (i) sufficient funding for the banking sector directed specifically to SME lending and (ii) credit enhancement of existing or new SME loan pools so as to reduce distorted credit margins and attract institutional investors in large SME loan pools alleviating important supply constraints for investments.

Beyond analysing a possible short-term asset driven EIB-ECB initiative, the Commission and the EIB are exploring a joint risk-sharing mechanism to be developed under the new MFF by blending EU budget resources (COSME, Horizon 2020) and ESIF resources with the lending capacity of the EIB, EIF and national promotional banks. Joining forces in this way would achieve the economies of scale provided by EU-wide arrangements and create greater leverage for all participating Member States. The instruments would be designed to provide assurance that the amount of funds contributed by a particular Member State from its ESIF programmes would generate loans to a value of several times the amount through lending to SMEs in that Member State for the benefit of the respective programme areas.

The key to unlocking the leverage effects for such Joint Instruments is the widest possible participation by Member States. While participation through contributions from ESIF programmes would necessarily be voluntary, all Member States would be strongly encouraged to contribute to the Joint Instruments from their ESIF allocations, in the knowledge that their contributions would support increased lending to SMEs on their territory, while increasing the leverage effects for all.

The Commission has developed three broad options for Joint Instruments⁵. Given the need to create critical mass around a core EU Joint Instrument that would leverage the EU-EIB resources and potentially link to ECB decisions, the options below are presented as alternatives. Any such Joint instrument would of course co-exist with multiple initiatives supported by ESIF at regional or national level and would not exclude the creation of

⁵ See the annex for a more detailed description

additional parallel Joint Instruments in other EU policy areas as currently envisaged by the draft Common Provisions Regulation for the ESIF.

The indicative scale of €10 bn⁶ proposed is a fraction of the total EUR 400 bn ESIF budget and a relatively small percentage of the total of ESIF resources that Member States and regions plan to attribute to SME support measures. A more detailed assessment of the impact of the proposed instruments would be carried out before implementation. It is worth recalling that in 2007-2011 alone EUR 23 bn was used by Member States in operational programmes in direct support to SMEs and a further EUR 25 bn benefited SMEs indirectly. In the next MFF all Member States have declared their intention to increase their support through financial instruments particularly for SMEs.

Finally the implementation and absorption of the instrument will depend on developments in other policy areas which are being tackled in parallel. Financial regulation issues can have for example a particular impact on the development of a securitisation market in Europe and are addressed in the Commission Green Paper consultation that expires on 25 June.

1) Joint SME guarantee instrument combined with a Joint securitisation instrument for new loans

Under this instrument, funds would be pooled from COSME, Horizon 2020 and the ESIF funds and combined with the resources of the EIB and EIF to provide a combination of:

- a) guarantees for new SME lending by financial intermediaries to SMEs under a Joint Guarantee Instrument.
- b) guarantees for portfolios of new SME loans for the purposes of securitisation. Such portfolios would need to be built up by the banks in a specified time period (2-3 years) with a view to being securitised.

Under this option, which blends 75% of guarantees with 25% of securitisation, EUR 10 bn from ESIF and EUR 420 m from COSME & Horizon 2020 would be allocated to generate lending to SMEs of an estimated **EUR 55-58 bn (a leverage ratio of roughly 1:5)**, benefiting **580 000 SMEs**. This option does not require changes in the draft Common Procedures Regulation (CPR).

2) Joint securitisation instrument allowing for securitisation of both new and existing SME loan portfolios

Under such a joint securitisation instrument, public funds (ESIF, COSME, Horizon 2020, EIF, EIB, national promotional banks) would be combined for the securitisation of portfolios of SME loans. There would be requirements for the financial intermediary to finance new loans to SMEs proportional to the amount covered by the Joint Instrument. The securitisation of portfolios of existing loans would increase the impact and immediacy of this instrument compared with option 1.

Under this option, EUR 10 bn from the ESIF and EUR 420 m from COSME & Horizon 2020 would be allocated to generate lending to SMEs of an estimated **EUR 65 bn (a leverage ratio of roughly 1:6)**, benefiting around **650 000 SMEs**. In this case, a limited change to the draft CPR would be necessary to extend eligibility of SMEs loans to include existing loans and review eligibility of working capital, thereby facilitating the development of the instrument and its distribution.

⁶ Additional to the other proposed blending facilities (PBI, RSFF, RSI, etc.)

3) Joint securitisation instrument allowing for securitisation of new and existing SME loan portfolios and risk pooling

This Option would be similar to Option 2 but would include the possibility to pool risks and would extend eligibility criteria to include existing SMEs loans and review eligibility of working capital, while ensuring that the on-lending intermediary would generate new loans to SMEs to a value several times higher than the amount set aside by that Member State for the benefit of the respective programme areas. The pooling of risks allows for a better portfolio diversification resulting in much higher leverage than under the previous options. Moreover, it allows providing immediate capital relief and liquidity to banks which facilitates the swift provision of new loans to SMEs.

Under this option, EUR 10 bn from the ESIF and EUR 420 m from COSME & Horizon 2020 would be allocated to generate lending to SMEs for an estimated amount of **EUR 100 bn (a leverage ratio of roughly 1:10)**, benefiting around **1 000 000 SMEs**. This option would require the same changes to the draft CPR as in Option 2.

The EIB will work with the Commission in the development of the proposed instrument and in the necessary work to prepare the required changes with its market and business experience. The leverage will depend on the final choices made by Member States and on the take up by private sector financial institutions.

4.2 Youth employment

Following the Commission's Youth Employment Package of December 2012, the European Council agreed on 7-8 February to create a Youth Employment Initiative with a budget of EUR 6bn for the period 2014-20. The initiative would particularly support young people between 15 and 24 not in education, employment or training in the Union's regions with youth unemployment rates in 2012 above 25% by integrating them into the labour market. Other initiatives have also been announced by several Member States.

The Youth Employment Initiative complements other Commission instruments in the education and social field and which have a significant potential on reducing youth unemployment. In particular, new financial instruments are proposed under the next MFF in relation to student loans (guarantees for student loans under 'Erasmus +'), microfinance (guarantees, microcredit and equity through institutions that invest or lend to entrepreneurs, especially those furthest from the labour market) and social enterprise development.

In view of the forthcoming European Council, the Commission issued on 19 June 2013 a Communication on Youth Employment setting out the immediate priorities for combating youth unemployment, including an agreement on the next MFF and the accompanying programmes, the frontloading of the Youth Employment Initiative and the implementation of the relevant Country-Specific Recommendations and the Youth Guarantee at national level.

Jointly with the Commission and Member States, the EIB proposes to complement the Commission's and Member States' efforts with a dedicated "Skills and Jobs - Investing for Youth" programme to help counteract high and rising youth unemployment. The programme underlines the Bank's commitment to utilize its increased resources and target them towards the EU's political priorities. The EIB's programme has two components:

- (i) "Jobs for Youth" - providing SMEs with better access to finance; and
- (ii) "Investments in Skills" - providing lending to projects investing in the skills of young people, including investments in education infrastructure, training, student loans and mobility.

In the context of Jobs for Youth, the EIB is exploring - together with partner banks - options to further increase its lending to SMEs – the main employer of young people – in order to support employment. The investments targeted under "Investing in Skills" include the EIB's established financing of investments in schools and universities as well as a broad range of training schemes, notably programmes that scale up and improve the quality of vocational training in Europe. The focus on job-related skills from secondary to tertiary education is seen as having the biggest impact on improving the employability of young people and offers the best protection against unemployment. The supported measures also comprise the support of mobility schemes for students and employees across the EU.

Beyond supporting the Commission with a fast implementation of the Youth Employment Initiative, the EIB, with its own resources, will focus on helping Member States to accelerate their national and regional programmes that tackle youth unemployment.

While these initiatives are expected to further focus EIB investments on areas with high impact on youth employment and vocational training, an enhanced availability of EU resources for blended instruments in this field may allow for a more targeted and stronger impact of EIB lending.

4.3. Achieving a stronger impact

Member States, the Commission and EIB are considering further measures to enable the EIB to continue playing a significant role in those markets and sectors where credit is scarce and where funds are not available from other sources on reasonable terms. Such measures would need to enable the EIB to significantly expand its operations in support of SMEs and in vulnerable and programme countries, where the EIB's lending should be further developed.

Among possible additional measures, the EIB is considering the reinforcement of the EIF to support new initiatives to be carried out on behalf of the EIB taking advantage of the specialised experience of the EIF. A special mandate between the EIB and EIF has been reached to mobilise lending by means of an ABS instrument worth EUR 4.5 bn in the period 2013-2015. An extension of the Trade Finance Facility, under implementation in Greece, to other countries is also being analysed.

Should the overall EU economic conditions improve together with the financial stability of the euro area, the EIB could analyse ways to further engage in high value added activities where EIB support is most needed, within the limits of a sound financial management approach.

In addition, the EIB is looking at further means to strengthen its lending and advisory activities to help project delivery, speed up disbursements and real investment as well as increase Member States capacity to absorb EU resources.

Finally, the Commission and the EIB will continue to cooperate and network with other European, national or regional public investment institutions, and banks, as well as the private sector, with a view to maximising the synergies and capacity which are necessary for implementing and leveraging with additional resources lending and credit enhancement operations initiated and co-financed by the Commission and the EIB.

5. Conclusion

The Compact for Growth and Jobs is one of the key elements of the EU response to the crisis. As an integral part of the Compact, the EIB capital increase enables the EIB to significantly contribute to supporting sustainable growth and employment in the face of very serious economic challenges.

The development of joint financial instruments by the Commission, EIB and Member States aims at leveraging private sector and capital market investment in SMEs and infrastructure, thereby reducing reliance on sovereign (backed) financing of such priority investments.

The fragmentation of credit markets and the high dispersion of interest rates across Member States for bank lending to corporates undermine the resilience of banks and financial systems, and reduce the availability and increase the cost of capital for companies and consumers. This thus constitutes a major impediment to growth and employment. As one of the few institutions issuing debt on a European level at AAA financing conditions, the EIB can help to alleviate the problems of fragmentation in EU financial markets. The targeted provision of long-term financing to banks with the aim of supporting access to finance of SMEs fills an important gap that cannot be addressed through central banks and alleviates important supply constraints for investments.

Bringing forward economically and financially viable infrastructure projects can have a significant countercyclical effect and is instrumental in creating employment during the construction phase, especially in segments of the workforce that are hardest hit by the crisis. At the same time, infrastructure that is aimed at improving market access helps boost exports.

The EIB will continue to use its catalytic capacity to attract resources from capital markets to respond to long-term financing requirements in Europe. At the same time, it will reinforce its cooperation with public investment banks in Member States, as this will allow the EIB to extend the reach of its activity, in the light of the greater distribution networks and additional risk-taking capacity warranted by national public banks. Those efforts will be in line with and complement the Commission's work to sustain long term investment in Europe, as highlighted in the Commission's Green Paper on the long term financing of the European economy of 25 March 2013.

To ensure that EIB interventions will be effective, it is important that enabling conditions continue to improve on the EU and national levels. Structural reforms can help address the root causes of internal and external imbalances and boost the employment effect of EIB investments.

Given the widely different economic and financial conditions throughout the EU, the EIB is developing, in close cooperation with Member States, result-driven investment strategies that are properly tuned to national, regional and local growth priorities, taking into due account the horizontal priorities of the Commission's Annual Growth Survey and the European Semester of economic governance.

The months and years ahead will certainly be challenging. The Commission and the EIB remain highly committed to exploring new paths to help the Union revive growth and employment.

Alternative options on the joint SMEs initiative

1) Joint SME guarantee instrument combined with a Joint securitisation instrument for new loans

Under this instrument, funds would be pooled from COSME, Horizon 2020 and the ESIF funds and combined with the resources of the EIB and EIF to provide a combination of:

- a) guarantees for new SME lending by financial intermediaries to SMEs under a Joint Guarantee Instrument. This instrument would provide guarantees to banks which in turn will lend to SMEs. Banks will benefit from partial capital relief for new loans through uncapped portfolio guarantees. Nevertheless banks would keep at least 20% of the risks, to ensure alignment of interest.
- b) guarantees for portfolios of new SME loans for the purposes of securitisation. Such portfolios would need to be built up by the banks in a specified time period (2-3 years) with a view to being securitised. The capital relief and the additional liquidity would materialise in the future once the portfolios are fully created and securitised.

It is worth noting that these two instruments will be operated in parallel and not cumulatively to avoid double funding by ESIF. The proposed allocation is 75/25% to smoothen budget consumption

Leverage (2014-2020)	EUR10 bn from European Structural and Investment Funds (ESIF) + EUR 420 m from COSME & Horizon 2020 => EUR 55- 58 bn in SME lending supported, benefiting 580 000 SMEs (a leverage ratio of roughly 1:5)
Advantages	<ul style="list-style-type: none"> – Provides incentives for new SME lending through partial capital relief for new portfolios of SME lending – Can be delivered without significant modifications to the draft Common Provisions Regulation for the ESIF. – Member States' ESIF funds would be used exclusively to provide loans for and to meet losses incurred with respect to SMEs in their territory in corresponding programmes. – The combination of 2 instruments would help SMEs and help revitalise the SME backed securitisation market in around 3 years' time.
Disadvantages	<ul style="list-style-type: none"> – Any securitisation can only take place in the 2-3 years after new SME loan portfolios have been built up. – For both instruments banks would need to mobilise their own capital upfront to make loans to SMEs. In the current phase of deleveraging and cleaning up of bank balance sheets to prepare for SSM and Banking Union this limits the speed at which new portfolios could be built up.

	<ul style="list-style-type: none"> – No role for private/ institutional investors in the next 2-3 years, hence high reliance on public funds. – Technically complex to operate under shared management with respect to allocation by category of region. – No risk pooling limits portfolio diversification and hence leverage effect.
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2) Joint securitisation instrument allowing for securitisation of both new and existing SME loan portfolios

Under such a joint securitisation instrument, public funds (ESIF, COSME, Horizon 2020, EIF, EIB, national promotional banks) would be combined for the securitisation of portfolios of SME loans. This means that loans to SMEs would be bundled and guaranteed to provide capital relief to the intermediary in the case of unfunded securitisation. In case the tranches are sold on to institutional investors (funded securitisation), they will also generate immediate liquidity for banks to use to create new loans for SMEs. There would be requirements for the financial intermediary to finance new loans to SMEs proportional to the amount covered by the joint instrument. The securitisation of portfolios of existing loans would increase the impact and immediacy of this instrument compared with option 1.

Leverage (2014-20)	<ul style="list-style-type: none"> – EUR 10 bn from ESIF + EUR 420 m from COSME & Horizon 2020 => EUR 65 bn in SME lending supported, benefiting 650 000 SMEs (a ratio of roughly 1:6)
Advantages	<ul style="list-style-type: none"> – Partner banks would not need to mobilise new capital to make new loans. This would accelerate the creation of new SME loans. – Attracts private money from institutional investors purchasing securitised assets. This in turn reduces the demands on public money, which would be freed up for other uses. It will also make European SMEs less reliant on banks for their financing – Member States' ESIF funds would be used to deliver new loans for SMEs and to meet losses incurred with respect to SME loans on their territory. – Would help revive the commercial securitisation market, which would open up new non-bank sources of finance for SMEs that currently depend almost entirely on bank financing.
Disadvantages	<ul style="list-style-type: none"> – Securitisation of existing SME loan portfolios would require modification of draft Common Provisions Regulation. – Complex structure to set up and – as for Option 1 – shared management structure adds to technical complexity. – No risk pooling limits portfolio diversification and hence leverage effect.

3) Joint securitisation instrument allowing for securitisation of new and existing SME loan portfolios and risk pooling

This option would have all the advantages and requirements of Option 2 but add the possibility to pool risks , while ensuring that the on-lending intermediary would generate new loans to SMEs to a value several times higher than the amount set aside by that Member State for the benefit of the respective programme.

Leverage (2014-20)	<ul style="list-style-type: none"> - EUR 10 bn from ESIF + EUR 420 m from COSME & Horizon 2020 => EUR 100 bn in SME lending supported, benefiting 1 000 000 SMEs (roughly 1:10)
Advantages	<ul style="list-style-type: none"> - Partner banks would not need to mobilise new capital to make new loans. This would accelerate the creation of new SME loans. - Attracts private money from institutional investors purchasing securitised assets. This in turn reduces the demands on public money, which would be freed up for other uses. - Pooling of risks allows for greater portfolio diversification and leverage effects. - Centrally managed structure offers economies of scale in terms of fees and costs and less complexity than shared management structure. - Member States' ESIF funds will achieve a minimum leverage at least as in option 2 but will benefit from even higher lending volumes in their regions due to the pooling of risk at EU level
Disadvantages	<ul style="list-style-type: none"> - The use of ESIF funds for guarantees for securitisation of existing SME loan portfolios involving other Member States would require additional modification of the draft Common Provisions Regulation. - The achievement of the potential of the instrument will depend upon a widespread participation by Member States.

