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Informal ECOFIN, September 7-8 2018

Lunch: The European Investment Bank: Achievements and future challenges

PRESIDENCY ISSUES NOTE

I. Introduction

The 60th anniversary is a good opportunity to praise the EU's vehicle for investment. During the crisis, the EIB scaled up its lending to unprecedented volumes helping to overcome credit constraints of both banks and firms. Since then, on average the EIB continued to run significantly higher than pre-crisis volumes leading to a balance sheet of around EUR 550bn end 2017. This has been partly due to the EIB's most recent achievement - the implementation of EFSI: After 3 years, the EIB Group helped mobilising EUR 335bn in new investment, thereby exceeding the initial goal by more than EUR 20bn. The implementation of EFSI made the EIB also embark on profound change – engaging with new customers, with smaller projects and increasing its risk profile.

For every institution, an anniversary is also a good opportunity to put aside day-to-day business and discuss more strategic issues. Before the summer and against the background of Brexit, the Board of Directors discussed a wide range of topics and approved a package including the replacement of the British share of the EIB's capital, elements on governance and volume to be implemented in the near future, subject to agreement of Governors. With that shareholders demonstrate their strong commitment to the EIB and ensure its relevance also for the future.

In our view, some questions merit further consideration and guidance from Ministers. These include the delivery of European value added in terms of financial value added, the organisational set-up of equity business within the EIB Group and the supervisory framework applicable to the EIB.

II. European value added: Financial value added

According to the Treaties the EIB's mission inside the EU is "*to contribute to the balanced and steady development of the internal market in the interest of the*

Union" (Article 309 TFEU). It shall finance projects to support convergence as well as projects in the common interest of several Member States and projects fostering modernisation - under the precondition that projects "*cannot be entirely financed by the various means available in the individual Member States*" – which would avoid crowding-out and ensure additionality. The Bank's statute specifies this last criterion as "*to the extent that funds are not available from other sources on reasonable terms"* (Article 16).

In practice, the EIB assesses its value added to a project according to 3 aggregated pillars: 1) its contribution to EU policy, 2) its quality and soundness and 3) the extent of EIB's technical and financial value added over other ways of finance. The financial value added of the EIB potentially consists of an interest rate advantage, advantageous maturities, a catalytic effect and advice for financial structuring of the project. Results show that the EIB typically outperforms self-defined targets on pillar 1 and 2; when it comes to the financial value added, however, targets are regularly not met (ref. COP performance indicator results).

The financial value added is dependent on a wide set of factors. Not least the Great Recession has shown that conditions governing access to finance are key: depth of financial sector including the availability of financial instruments, market interest rates, lenders' attitude to risk, business environment etc. These factors are regularly specific to sectors, countries or regions.

III. Issues for Discussion (1)

1) **In the development of the project pipeline, should financial value added play a more prominent and decisive role than today?**
2) **Do you think that regional and/ or country strategies taking into account the EIB's products could be a helpful forward-looking element in developing the project pipeline?**
3) **How could the EIB ensure having buffers for scaling up its lending in times when private/ other public means are drying up?**

IV. EIB's organisational set-up: Comparative advantage and expertise

In light of the changes in the EIB's business mix, the organisation of equity business has been addressed recently - with a view of further optimisation of performance.

In 2000 the EIB Group decided to sharpen the profile of its entities through transferring practically all SME related equity business to the EIF, relying on the EIF's expertise and comparative advantage. At the request of Member States and especially with EFSI, during the last years the EIB scaled up its equity business. As a result, today the EIB and the EIF both provide equity products, sometimes leading to confusion of shareholders and market participants. Moreover, equity business is highly capital-intensive. Against this background, shareholders agreed in July to review the structure of equity operations in the EIB Group.

V. EIB's supervisory framework: Way forward

The EIB is not externally supervised. Instead, the Audit Committee annually verifies if the Bank's activities conform to best banking practices in a report. In July, the Board of Directors approved changes to the Audit Committee in order to enhance its supervisory competences and asked the Management Committee together with the Audit Committee to come up with proposals to strengthen the supervisory framework applicable to the EIB. Against the background of the specifics of the EIB Group, its size and increased complexity some Member States called for external supervision with a prominent role of the SSM.

VI. Issues for Discussion (2)

1) **Should the EIB Group's equity business be organised according to comparative advantage of group entities and minimisation of capital consumption? Could ring-fencing of the equity business within the EIF be an option?**

2) **Do you share the view that the EIB should be externally supervised? If yes, should a tailor-made approach including the SSM be found?**

3) **Do you think the questions above merit a follow up with Ministers? Are there any other elements that should be incorporated in the discussion? Should Ministers be able to keep track of the implementation of the reforms agreed upon in July?**