Luxembourg, 30 September 2003

European Investment Bank

The Growth Initiative: further report to ECOFIN
Cover note

1. The ECOFIN Council will find attached a further report of the EIB on a possible contribution of the Bank to the Growth Initiative. It follows the submission of a first Memorandum at the ECOFIN meeting of 11 July. On this occasion the Council requested clarification of a number of points for further assessment by the EFC. In this respect the attached document elaborates and complements proposals presented in the Memorandum. This report was submitted to and approved by the Board of Directors of the Bank in its meeting of 16 September, including thus a positive feedback of various representatives from concerned Ministries of the Member States. According to the procedures defined by ECOFIN, it has then been transmitted to the Economic and Financial Committee of 26 September. This "in time to allow the EFC to assess this report and to prepare the Council discussion on this issue at its meeting on 7 October 2003, so as to report to the October European Council meeting". The attached document has been prepared in consultation with the Commission.

2. Since the preparation of this interim report and its transmission to the EIB Board of Directors and to the EFC, various developments have taken place. While confirming the overall relevance of the approach already proposed by the Bank, they justify to re-assert or make more precise a number of points from its own perspective.

3. The Commission itself has now prepared an Interim Report to the European Council on "An initiative for growth for the European Union" (Communication of the Commission) for presentation at the ECOFIN of 7 October. The Bank was consulted during the elaboration of this report and confirms its agreement on the general thrust of this report and the proposed measures and calendar. In terms of scope, while confirming the importance of TEN-T, this report is also consistent with various proposals more recently made by a number of Member States concerning the Lisbon objectives and corresponding investments (see for instance the conclusions of the French-German Council of 18 September). This composition of the Growth Initiative as proposed by the Commission corresponds well to the approach presented by the Bank in its own proposals.

4. Concerning the TEN-T part of the Growth Initiative, the July ECOFIN Conclusions stressed that the assessment asked from the Commission and the Bank had to take into account the important work achieved by the High Level Group chaired by Mr Van Miert. It is clear to EIB that a necessary condition for a successful implementation of this ambitious programme contributing to the Growth Initiative itself is a proper prioritisation of the projects identified by the HLG given the different time delays associated with these projects, their individual and overall requirements in public finance and support (from EU and

national sources), their limited and variable attractiveness for the private sector. In this respect, the Bank has suggested the establishment of a "**quick start programme**" identifying a portfolio of projects where a concentration of resources available in the short run could produce an immediate acceleration effect. Without an approach of this type there is the risk that the follow up of the HLG conclusions and the speedily implementation of the Growth Initiative may become largely disconnected in terms of time frame and the contents of the TEN-T part of this Initiative would have to be revised. EIB wishes to re-emphasise the need for concerted and coherent action by all parties in this field, most notably the Member State Authorities, as well as EIB. Concerted action requires a realistic programme focused on those objectives and projects most capable of being achieved or being accelerated within the short term so that the Growth Initiative will build confidence that steady progress on these issues is being made and is being demonstrated.

5. As expressed in the attached document, EIB shares the broad endorsement given by the Van Miert Group Report, and taken up in the Commission report, about the potential to the further development of **PPPs** throughout the EU and Accession countries as an additional instrument for improving/increasing private sector participation, in appropriate circumstances, in the development of TENs. PPPs are not, however, a miracle solution. The fundamentals of financial viability for the private sector remain as important as the economic viability for the public sector. EIB, nevertheless, is satisfied, given its experience and track record over the last decade in supporting the development of many major PPP projects throughout the Union (see Annex 1), that PPPs are a very useful instrument in appropriate circumstances.

6. EIB is aware of the potential for **securitisation** of infrastructure projects (see Annex 2). The creation of the EURO market as well as the changes in the banking and insurance sectors are now opening up to an increasing degree the possibilities for promoters and institutions to draw financial support from different categories of investors in larger amounts throughout the Union in a more efficient manner. However, current expectations are that the utilisation of securitisation will develop more slowly than its potential could suggest until such time as there is a deep market of Investment grade projects capable of being securitised, Investment Grade criterion remains a key to market access.

This process could achieve its potential more quickly if those Member State institutions who are interested were to set out their proposed programmes of securitisation, and the framework under which they will be developed, to the financial markets so as to give a clearer signal as to how the securitisation of infrastructure is to evolve. The Bank is ready to cooperate closely with Public Authorities and Financial Institutions, in order to develop a wider and deeper market for securitisation over time and in order to maximise the leverage effect of its funding.

7. As far as EIB is concerned, the proposed lending figures (50 bn for TENs and another 40 bn under i2i, notably for RDI) are consistent with the Bank's multi-annual planning, the decisions taken by its Governors concerning capital increase (no increase before 2008) and the existing gearing ratio rules. A major increase in lending for TENs or RDI beyond the above figures could breach such scenario unless redeployment at the expense of other lending priorities takes place. However, a significant additional headroom would be provided by the **statutory revision** proposed to the IGC and which envisages to add reserves to

subscribed capital in the denominator of the **gearing definition**, all while excluding funds allocated to equity participations or dedicated reserves. If such revision would come into force, it is estimated that it would provide **an additional headroom of up to EUR 70 bn of lending before 2008**, without anticipating the next capital increase. Part of this additional headroom could then be allocated to the Growth Initiative.

Moreover, **concerning specific support via SFF or venture capital**, it is estimated that **one billion** could be allocated to such purpose. This is compatible with the objective of maintaining the ability of the Bank to self-finance (in terms of paid in) the next capital increase.

8. Co-financing with the Commission can be an important catalytic element to leverage EU grants with EIB loans, and also to enhance the Union's visibility. But it must be kept in mind that EIB loans cannot replace the need for public support through grants in the case of projects with a low financial profitability. Increasing co-financing [as well as complementary financing] with EU grants may raise questions about procedural possibilities or redeployment of existing budgetary resources in the short run. In the longer run, however, it raises also questions of **available resources within the EU budget**. This necessarily begs the question of the role attributed to the support to TENs and RDI in the framework of the post 2006 financial perspectives.