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REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

ON THE MID-TERM REVIEW OF THE EXTERNAL MANDATE OF THE EIB

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1. INTRODUCTION

The activities of the European Investment Bank (EIB) outside the EU represent about 10% of the EIB's total activities. In 2009, projects signed outside the EU amounted to EUR 8.8 bn out of an overall EIB financing of EUR 79.1 bn.

The majority of EIB external financing operations benefits from an EU budgetary guarantee covering risks of a sovereign or political nature. This guarantee is provided in the means of a mandate (the so called 'external mandate') that takes the form of a decision by the Parliament and Council. Most recently, the EU guarantee was renewed by Decision No 633/2009/EC of the European Parliament and of the Council of 13 July 2009[1] (the 'Decision'). The external mandate for 2007-2013 currently covers 64 countries and/or territories in Pre-Accession, Neighbourhood, Asian and Latin American countries as well as the Republic of South Africa.

In contrast, EIB activity in ACP countries is covered by the separate ACP-EU Partnership Agreement (the 'Cotonou agreement'), funded by the European Development Fund (EDF)[2].

In addition to EIB lending under the external mandate, and to that covered by the Cotonou Agreement, the EIB may lend in third countries at its own risk for investment-grade operations on the basis of Article 16 of its Statute.

Article 9 of the Decision requires the Commission to present a mid-term report on its application accompanied by a proposal for its amendment, drawing *inter alia* on an external evaluation. The present Communication (the 'Report') and the attached Staff Working Document (SWD) - together hereinafter referred to as the 'evaluation' - draw on an external evaluation supervised and managed by a Steering Committee of Wise Persons (SCWP), on an evaluation carried out by an external consultancy (COWI), and on specific evaluations carried out by the evaluation department of the EIB. The evaluation presents and assesses EIB financing activity under the current mandate until the end of 2009. The SWD also includes a detailed presentation of EIB external financing activity in 2009. The whole package therefore constitutes the mid-term report foreseen in Article 9 of the Decision as well as the 2009 annual reporting foreseen in Article 6 of the Decision. The findings of the Report form the basis for the accompanying legislative proposal for amendment of the Decision.

2. RELEVANCE AND PERFORMANCE OF EIB OPERATIONS BY REGIONS

The evaluation found that EIB operations under mandate carried out between 2000 and 2009 were in line with EU external policies, whilst recognising that the latter were defined broadly leaving ample scope for the EIB to intervene in most sectors of investment activity. The evaluation found that a strategic prioritisation of objectives would have better helped target key EU policy objectives. Therefore, it suggests establishing a clearer link between EU policy objectives and their operational implementation by the EIB.

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[1] Decision granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community (OJ L 190, 22.7.2009, p. 10).

[2] In addition, the EIB makes an own resources facility available for lending in ACP countries, covered by a guarantee from the Member States.

Furthermore, the evaluation concluded that the current system of fixing regional objectives in the recitals of the mandate decision is relatively rigid as it does not take into account evolving EU policies, priorities and changing circumstances. At the same time, the existing system carries the risk that the EIB pursues too many different objectives, limiting the scope for the EIB to provide value added in its areas of comparative advantage.

The following table presents the amounts signed by the EIB under EU guarantee, broken down by regions. At the end of 2009, after 3 years of the 7-year mandate, or 43% of elapsed time, overall 46% of the total ceiling for the mandate had been signed. However, there are significant regional differences: the utilisation of the mandate has been particularly high in Pre-Accession countries and in Asia; has been in line with average for the Southern Neighbourhood and Latin America; and low in the Eastern Neighbourhood and Russia. Given good progress to date in implementation of the mandate, and frontloading of EIB financing in response to the crisis which is likely to continue through 2010, it is possible that the EIB will reach some regional ceilings before the end of the mandate period, notably in the Pre-Accession and the Asia and Latin America (ALA) regions.

Table 1 - Level of commitment under the 2007-2013 mandate at end 2009

	Financing ceiling for 2007-2013 (€ mn)	Net signatures at 31.12.2009 (€ mn)	Net signatures at 31.12.2009 (% of ceiling)
Pre-Accession	8,700	5,262	60
Southern Neighbourhood	8,700	3,860	44
Eastern Neighbourhood & Russia	3,700	403	11
Asia	1,000	616	62
Latin America	2,800	1,305	47
South Africa	900	483	54
Total	**25,800**	**11,929**	**46**

The SWD contains a detailed analysis of the distribution of EIB financing under mandate by sector, overall and per region, as well as disbursement rates.

2.1. Pre-Accession countries

The scope of the mandate for Pre-Accession countries is the widest of the regional mandates, as the EIB may support the broad priorities of the Accession and European Partnership agreements, and of the Stabilisation and Association Agreements.

EIB financing in current Pre-accession countries grew substantially over the period 2000-2009, both under Community guarantee and at the own risk of the Bank, in particular due to the strongly increased activity in Turkey (from an average EUR 500 mn/year during the early years of the 2000-2007 period to more than EUR 2.5 bn/year in 2008 and 2009). In 2009, the total EIB lending in Pre-Accession countries reached EUR 4.3 bn, of which EUR 2.9bn under EU guarantee.

The main area of activity has been the transport sector with 50% of total lending volume under the previous mandate and 39% so far under the current one. This is followed by global loans, mostly for SMEs, which grew from 22% to 30% between the two mandates. The significant increase of activity in the SME sector over the last few years has been determined by the need to support the financial sector in Central and Eastern Europe in order to finance the real economy during the financial crisis. These efforts also led the EIB to closely cooperate with the EBRD and the World Bank Group under a Joint IFI Action Plan. In 2008 and 2009, global loans for SME financing amounting to EUR 3.8bn were signed in pre-accession countries corresponding to 49% of total EIB operations. Correspondingly, the level of annual disbursements doubled the one achieved in 2007.

The evaluation found that the EIB has provided significant support to Pre-Accession countries in the context of the enlargement process by financing relevant projects and promoting EU policies. Nevertheless, the share of lending for environmental infrastructure has been low (respectively 4% and 2% of lending volume under the two mandates) and should be significantly enhanced, in line with the priority attached to this sector under the *acquis communautaire* and the high investments required to meet the obligations deriving from it. Projects in environmental infrastructure had a particularly low disbursement rate because of their inherent complexity and administrative burden, which make it necessary to reinforce the resources dedicated by the EIB to project preparation and supervision in this sector, including through technical assistance. Finally, the evaluation found that the EIB could have helped promoters to develop projects in several cases if it had available more staff and technical assistance means, but specifically stopped short of suggesting that the EIB be involved in more general institution building which in any case is not in its remit.

2.2. Neighbourhood Countries

2.2.1. Mediterranean Neighbourhood

In the Mediterranean region, particularly following the introduction of FEMIP[3], the focus of the EIB was to promote the development of the private sector and an enabling environment, including investment in economic infrastructure in transport, energy, environment and telecommunications. After the introduction of FEMIP in 2002 and its reinforcement in 2006, EIB activity has been increasingly recognised as a valuable component of Euro-Med policy and the Union for the Mediterranean. Annual lending increased from an average EUR 773mn/year in 2000-2002 to EUR 1.378mn/year in 2007-2009. While EIB lending reached the overall ceiling under the previous mandate and while lending rates under the current mandate are in line with expectations, so far the implementation of the own risk Mediterranean Partnership Facilities has been slower. Under these own risk facilities a total EUR 2bn[4] has been made available by the EIB Board of Governors for 2007-2013, of which only 14% was committed at the end of 2009.

The FEMIP framework, which involves a close combination of EIB lending with grant resources made available under the EU budget for technical assistance and risk capital, along with close involvement of partner countries in the strategic planning of EIB activities, means that there is strong political anchoring of EIB activity within EU priorities.

3 Facility for Euro-Mediterranean Partnership.

4 As regards the 2000-2006 period, EUR 1 bn was made available under the Mediterranean Partnership Facility I, of which EUR 0.63 bn was committed.

Under the current mandate, private sector lending represented 35% of total signatures compared to 23% under the previous mandate. The increase has been driven by global loans for SMEs (which accounted for 16% of total lending under the new mandate), by private industrial investments (10%) and by the promotion of private sector involvement through Public-Private-Partnerships (PPPs) in environmental and other infrastructure projects 9%. Moreover, during the last three years the EIB has progressed with the implementation of the Special FEMIP Envelope, under which the EIB finances higher risk private sector operations in the Mediterranean countries. EIB lending activity in Mediterranean countries was usefully complemented by private equity investments, which averaged EUR 44 mn per year over the last five years. Notwithstanding this progress, more should be done to support local private sector development, which is a key priority for Mediterranean countries, as well as to support flagship projects under the Union for the Mediterranean initiative.

In May 2008 the Commission made a legislative proposal to modify Article 23 of the ENPI regulation[5] which if adopted would allow use of reflows from past operations under the FEMIP allowing it to increase its support to the private sector in the Mediterranean countries. The proposal has been adopted by the European Parliament while the Council has delayed its examination.

2.2.2. Eastern Neighbourhood and Russia

The first mandate for Russia[6] and the second mandate for Russia, Ukraine and Moldova were partly signed by the EIB (85% of the available EUR 100 mn and 46% of the available EUR 500 mn respectively). Under the subsequent and current mandate, only 11% of the available amount of EUR 3.7 bn was signed as at the end of 2009. Three new operations were signed during the 1st quarter 2010 bringing total utilisation to EUR 748 mn or 20% of the available amount. In terms of disbursements, the amount signed under the first mandate was fully disbursed, while one third of the amount signed under the second mandate had been disbursed at the end of 2009. Under the current mandate, 29% of the amount signed had been disbursed at the end of 2009.

The reasons for this slow uptake can be attributed to several factors, in particular the narrow sectoral focus of the mandates, the political and economic environment of the partner countries which have been severely hit by the crisis, the limited investments by project promoters in the region in sectors targeted by the mandate[7] and the time required to establish working arrangements for co-financing with the EBRD. Several investments were also delayed by the poor project preparation and limited implementation capacity of promoters in the region. In addition, several projects in the transport sector in Russia were put on hold due to EU-Russia disputes over road and freight charges and trans-Siberian over-flight rights.

The relatively inflexible nature of the Memorandum of Understanding (MoU) governing cooperation between the Commission, the EIB and the EBRD and the limited EIB staff resources have reduced the effectiveness of the EIB intervention in this region. The

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5 Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighborhood and Partnership Instrument.

6 Northern Dimension Environmental Partnership.

7 According to the Decision, in the Eastern Neighbourhood and Russia the EIB should focus on transport, energy, telecommunications and environmental infrastructure. Only recently financing of SMEs became eligible in the Eastern Partner countries.

Commission, the EIB and the EBRD are currently revising the above MoU to enhance their cooperation.

2.3. Asia and Latin America (ALA)

The Decision expressly requests a re-examination of the objectives of the ALA mandate, which were broadened under the current mandate to include not only support to EU presence through Foreign Direct Investment (FDI) and transfer of technology and know-how, but also environmental sustainability, including climate change, and energy security. Moreover, the EIB was requested to progressively align its activity with the EU cooperation strategy and extend its financing to more countries, including less prosperous ones.

In terms of volume, the EIB committed the full amount available under the previous mandate for ALA countries and has already committed more than 50% of the ceiling under the current one. In Latin America, most of the loans (93%) under the current mandate were in the telecommunications and productive sectors to support EU presence. In parallel, a few loans in support of environmental sustainability, notably in the field of renewable energy, have been signed by the EIB (7%). In Asia, most of the loans were for renewable energy and mitigating measures following a natural disaster (76%) with the remainder dedicated to FDI. The EIB has also concluded two major operations at its own risk: a EUR 500 mn framework loan to support climate change related projects in China and a loan for hydropower projects in Panama. The shift of EIB intervention towards higher value-added operations in support of environmental sustainability is to be considered satisfactory for Asia but should be improved for Latin America. Disbursement rates in the regions are the highest (80% of amounts committed under the previous mandate) reflecting also the relatively high share of private sector projects which are often disbursed quicker than for instance large public sector infrastructure projects.

The evaluation found that the small size of the ALA mandate, as well as the very limited EIB operational staff and lack of concessional resources, make it too demanding for the EIB to reach the many objectives set in the ALA mandate. For example, it is difficult for the EIB to target less prosperous countries, in particular those facing strict debt concessionality requirements. In addition, it was found that there is no reason to maintain the objective of support to EU presence, in particular support to FDI, as an objective in itself, given the possibility for the EIB to finance this type of activity at its own risk and given the limited value added of this type of activity compared to other priorities supported by the EIB under the mandate, such as support to climate change mitigation and adaptation and resource efficiency.

2.4. South Africa

In South Africa, the EIB fully signed the amount available under the previous mandate and has already committed 54% of the amount available under the current mandate. The focus of EIB activity has been public infrastructure projects (in affordable social housing and related urban infrastructure) and global loans in favour of SMEs. The lending activity has been usefully complemented by the advisory role played by the EIB in risk capital funds set up by the Commission.

EIB operations in South Africa were particularly effective in the public sector, with its significant investment needs in the areas of economic and social infrastructure. Private sector operations were most effective when carried out in cooperation with local financial intermediaries. The EIB could also contribute to regional integration by exploiting possible synergies with the activity under the Cotonou Agreement.

3. VALUE ADDED OF EIB OPERATIONS AND EU GUARANTEE

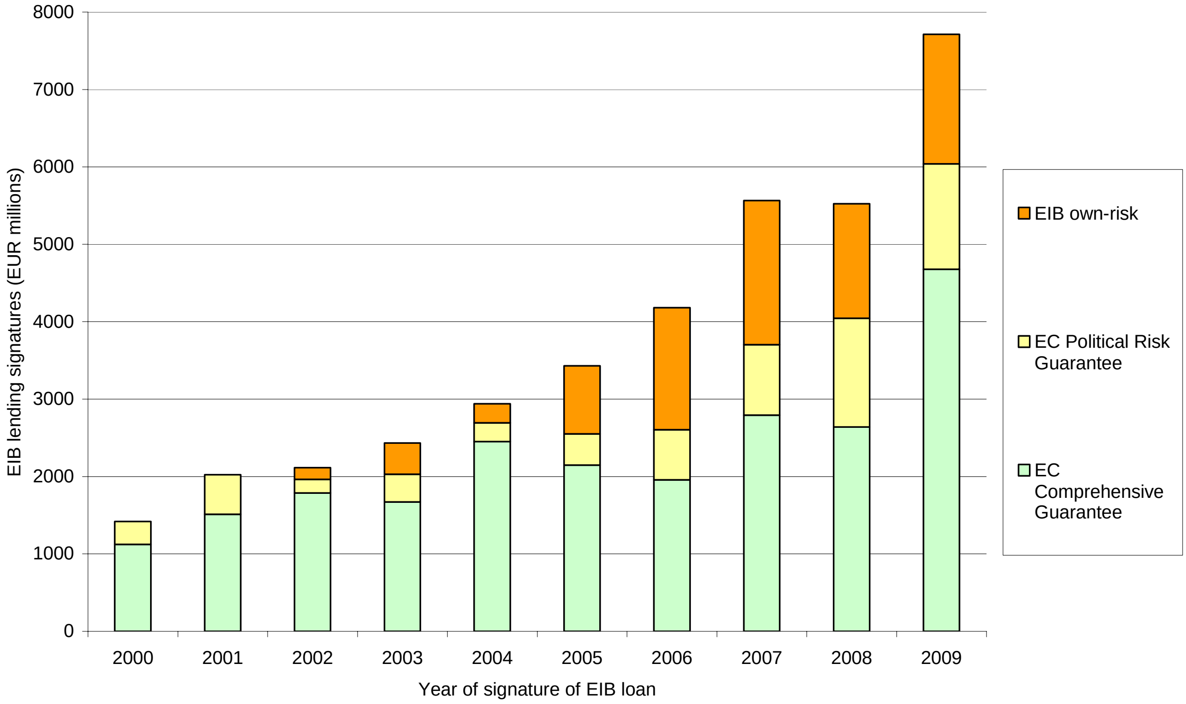
3.1. Financial value-added

The EIB provides financial value-added mainly through offering large lending amounts with longer maturities and grace periods at attractive conditions which are not available in the market. The additionality was found by the evaluation to be particularly high in public sector operations, notably for infrastructure investments. In the private sector, the longer maturities of EIB loans make them additional particularly in countries with less developed financial markets. The financial value added for shorter maturity loans in the private sector was found to be of a more catalytic nature, in the respect that it helps to attract co-financiers. The additionality of EIB guaranteed lending was rather limited for lending in support to EU FDI, where funding from commercial banks is more easily available under normal circumstances.

The Community guarantee was the key instrument enabling the EIB to be involved in a wide range of countries and borrowers, both by allowing the EIB to intervene in higher risk countries and operations and by making financial conditions more attractive to borrowers. Given this fact, the Commission and the EIB should review the limits set in the guarantee agreement for sub-sovereign risk operations which were found to effectively restrict access to loans by smaller municipalities, particularly in some countries, such as South Africa.

The EIB was requested under the Decision to increase its operations outside the EU without recourse to EU guarantee. For Pre-Accession, Mediterranean and Eastern Neighbourhood countries including Russia, the EIB has established substantial cross-sectoral own risk facilities. In addition, a EUR 3 bn own risk Facility for Energy Sustainability and Security of Supply was also established, addressing *inter alia* climate change related issues. However, EIB own risk lending is limited to investment-grade countries and to investment-grade structures in sub-investment grade countries (e.g. Turkey), including EU FDI operations. Over the last 3 years, the EIB has increased its own risk external operations, although these have mainly focused on Pre-Accession countries (driven by high absorption capacity in Turkey and Croatia) and China.

Table 2 – Evolution of EIB lending activity by type of guarantee over 2000-2009



The evaluation found that investment needs in the regions covered by the EIB mandate are so significant that guaranteed lending, limited by an increasingly constrained EU budget, needs to be topped up by a significant amount of EIB own risk lending, particularly for investment grade countries and operations. By reinforcing EIB own risk-taking capacity in external operations, the EIB can provide clear value-added by using its own balance sheet, whilst focusing EIB operations under EU guarantee in countries and for operations that have more difficulties in obtaining finance from the capital markets.

More value added could be also be obtained by taking advantage of the opportunity to provide guarantees under the mandate (the mandate has included this possibility since 2007 but no guarantee operations have yet been signed by the EIB under the mandate), in line with what the EIB is already doing in ACP countries, in particular with a view to providing guarantees to financial intermediaries to alleviate capital constraints. Moreover, the EIB Evaluation Department concluded that the value-added of EIB operations would increase if the EIB were to play an increased role in financial sector development as well as in local currency financing. The latter, however, requires the presence of a local bill and bond market or a swap market.

3.2. Non-financial value added

Beyond the significant financial contribution provided to borrowers, the EIB contributes positively through its appraisal process, which is based on compliance with EU standards (notably environment and procurement) and the technical and economic expertise of the EIB project staff. The value added was higher when the EIB contributed to project preparation via technical assistance or raised project standards through contractual conditionality. Some weaknesses were found in the monitoring phase, notably as regards the follow up of contractual undertakings and the monitoring of operations through financial intermediaries.

The evaluation concluded that there is potential for more value added, in particular by devoting more resources to technical assistance for project preparation and implementation, as well as to closer monitoring of projects. In addition, following the entry into force of the Decision in July 2009, the EIB is requested to enhance its activity in support of the EU's development policy objectives. This is a challenging task as the EIB business model is not geared towards resource intensive activities like development finance. This would require *inter alia* a reinforcement of the EIB capacity to appraise social and development aspects of projects, including human rights and conflict-related risks, and to actively promote local consultation with local presence. Finally, the EIB should define performance indicators covering development policy objectives.

4. COOPERATION WITH THE COMMISSION AND WITH IFIS/EBFIS

4.1. Cooperation with the Commission

The evaluation shows that while cooperation between the EIB and the Commission was very limited before 2000, it has gradually intensified over the period 2000-2009. This cooperation takes place at different levels, from policy dialogue to joint programmes and collaboration at field level including through the involvement of EC delegations. The terms of this cooperation are set out in a Memorandum of Understanding recently concluded between the two institutions. However, it is found that there are opportunities to improve cooperation by better articulating the activities of the two institutions and by ensuring more coherence and greater integration in the programming and implementation phase.

One example of cooperation between the Commission and the EIB has been FEMIP, which involves a closer dialogue in the framework of the FEMIP Steering Committee and Ministerial meetings as well as joint programmes for risk capital and technical assistance. The Commission has also recently established a number of financial mechanisms under the IPA, ENPI and DCI, for combining budgetary grants and loans from the EIB, the EBRD and other European multilateral and bilateral finance institutions. These mechanisms are proving to be a valuable means to increase aid effectiveness, promote cooperation and leverage resources to the benefit of partner countries, although there is scope to improve their consistency.

Finally, the evaluation found that more systematic upstream dialogue including on key strategic documents must be ensured. The EIB should be more closely involved by the EU institutions – the Commission and the newly formed European External Action Service - in policy definition and in the development of country and sector strategies, which in turn should feed into the strategies concerning EIB activity. At project level, the Article 19 consultation procedure, which is designed to ensure EIB project compliance with EU policies before EIB final approval, should be reinforced by the Bank providing more extensive information on the contribution of the operation to EU policy objectives.

4.2. Cooperation with IFIs/EBFIs

The Decision specifically envisages that EIB operations be increasingly carried out in cooperation with International Financial Institutions (IFIs) or European Bilateral Financial Institutions (EBFIs). A specific requirement was set for cooperation with the EBRD (and the Commission) in the Eastern Neighbourhood region, in Russia and in Central Asia.

The evaluation shows that the amount of co-financing by the EIB and IFIs/EBFIs increased strongly in recent years to reach 60% of total EIB financing under mandate in 2009. During the period under the review, the EIB has gradually established a series of MoUs (bilateral and multilateral) with the main IFIs/EBFIs in the different regions of operation. Some of the MoUs entered into force during the current mandate: the one with the Commission and the EBRD in the Eastern Neighbourhood, Russia and Central Asia; the NIF Framework Arrangement; and the mutual reliance agreement with KfW and AFD for the Mediterranean region and Africa. These MoUs represent strengthened commitments to cooperation of an operational nature. Increased co-financing and collaboration have increased the possibility for coherent project and sector conditionality among IFIs, as requested by the Decision.

As regards the type of operational cooperation, the evaluation found that a move away from parallel co-financing in favour of joint financing can, in certain cases, be both in the interest of borrowers and also improve the efficiency of the financing support provided by the IFIs. In this context, the EIB should continue to promote, as it is currently done also in the key EU financial mechanisms under IPA, ENPI and DCI, the concept of mutual reliance between the EIB and the other IFIs/EBFIs. This would reduce duplication of efforts for the co-financiers and facilitate the development, implementation and monitoring of projects by promoters by reducing their administrative burden. These arrangements should continue promoting EU good practices, such as those on environment and procurement, while taking into account and enhancing the use of local systems in line with the principles and objectives of the Paris Declaration for aid effectiveness and of the Accra Agenda for Action.

5. CONCLUSION

The EIB external mandate underpinned by the EU guarantee has proven to be an effective means to serve EU external policies by financing relevant projects in partner countries. At the same time, a broadening and increasingly ambitious EU external agenda points to the need for increased policy coherence and an enhanced support of partner countries, for instance in their fight against climate change and resource efficiency, which has become an overarching EU priority.

Policy coherence can be improved by ensuring a better alignment of the scope of the mandate with the comparative advantages and existing means of the EIB and enhancing policy guidance to ensure a strengthened role in support of EU policies.

On implementation, the evaluation concludes that the EIB has carried out its operations in an efficient manner, but effectiveness could be improved by reinforcing its capacity to support promoters throughout the life of a project. Increased support for project promoters assumes greater relevance given the new emphasis put by the Parliament and Council on the need to foster social and economic development impact. The achievement of this objective would require the EIB to reinforce the human resources available for its external activities and would require an increase in the availability of complementary grant funding.

Drawing upon the present Communication and the findings of the SCWP report and the external evaluation, the Commission is putting forward a legislative proposal, which aims at enhancing the compliance with EU policy objectives and increasing the value added of EIB external operations for the second half of the 2007-2013 period covered by the Decision.