

Report and recommendations of the Steering Committee of 'wise persons' (9 February 2010)

Caption: On the basis of a decision by the European Council, a committee of 'wise persons', chaired by Michel Camdessus, was set up in 2008 to carry out a thorough assessment and examination of European Investment Bank operations outside the European Union (EU) since 2006 that are covered by an EU budget guarantee. This report, signed on 9 February 2010 and published on 24 February 2010, provides recommendations to improve the Bank's interventions outside the EU.

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**European Investment Bank's
external mandate 2007-2013
Mid-Term Review**

**Report and recommendations of
the Steering Committee of “wise persons”**

February 2010

Letter from the Chair of the Steering Committee of “wise persons” to the European Parliament, the Council of the EU, the European Commission and the European Investment Bank.

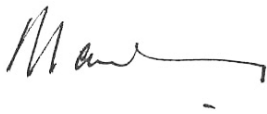
On behalf of the Steering Committee of “wise persons”, who was established on the basis of the request by the European Parliament and the Council of the EU to supervise the independent evaluation of EIB’s financing activities outside the EU in the framework of the related Mid-Term Review, I have the pleasure to transmit you the final report of the Steering Committee, which reflects the consensus views of the group.

The report contains the main recommendations of the Steering Committee, which are the product of our 18-month work based on the findings of the evaluation, and which we believe would contribute to the improvement of the effectiveness and efficiency of EIB external activity, as well as to the reinforcement and visibility of coordinated EU action and visibility in partner countries.

Several recent developments have taken place which are relevant for EIB activities outside the EU, most notably the European Parliament report on the EIB collaboration with EBRD and other IFIs, the new decision by the European Parliament and the Council on the EIB external mandate calling for EIB to support EU development cooperation objectives, the recent entry into force of the EU Lisbon Treaty and the associated provisions related to EU external action, and, last but not least, the economic and financial crisis and associated challenges. For these reasons, although this was not our core task, we have felt the need to provide also our suggestions to EU policy-makers for the medium-term development of EIB activities outside the EU, outlining the opportunity for closer integration of the EU financing activities between the EIB and the Commission, as well as the EBRD. We believe that a more in depth analysis of these options should be carried out, so that an informed decision can be made, allowing the EU to dispose in the medium-term of a major instrument to serve its policies, to face the future challenges, and to play an effective, efficient and visible role in its financing action outside the EU.

I would like to sincerely thank my colleagues in the committee for their extremely valuable and constructive contributions and for putting so generously their enormous experience and “wisdom” at the disposal of this comprehensive review. I would also like to thank all the senior members of the Commission, the EIB, the European Parliament, Civil Society Organisations and NGOs, senior representatives of government and private sector of Beneficiary countries, the top management of EBRD, World Bank, AFD and KfW, whom we had the pleasure to hear and discuss with. Finally, I would like to express gratitude to the EIB evaluation department for its support and its in-depth reports, to the external experts for their evaluation, and, last but not least, to the joint EIB-Commission Secretariat (in particular Alessandro Carano and Giorgio Chiarion-Casoni) for its support throughout our work.

Yours sincerely,



Michel Camdessus

Signatures of members of the Steering Committee of “wise persons”

Luxembourg, 9 February 2010



Michel Camdessus (chair)



Luis Martí Espluga (vice-chair)



Kemal Dervis



Norbert Kloppenburg



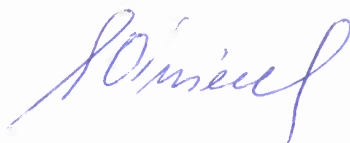
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Introduction

Decision of the European Parliament and the Council No 633/2009/EC of 13 July 2009 on the EIB external mandate 2007-2013 foresees that a mid-term review of this mandate be carried out, drawing on an independent external evaluation of the EIB external operations. The primary objective of the review is to provide the basis for the decision of the European Parliament and the Council as to whether and to what extent to release any optional mandate to top up the guarantee foreseen in the above Decision for the period following 2010, whether to make other amendments to the mandate and how to ensure maximum added value and efficiency in EIB's operations.

On the basis of the above Decision, the independent external evaluation was supervised by a Steering Committee of "wise persons" appointed by the EIB Board of Governors and composed of the following members (see profiles in annex 2): *Mr Michel Camdessus (chair), Mr Kemal Dervis, Mr Norbert Kloppenburg, Ms Manana Kochladze, Mr Richard Manning, Mr Luis Martí Espluga (vice-chair), Mr Sauli Niinisto, Ms Ewa Osniecka-Tamecka, Mr Mario Sarcinelli, Mr Jean-Louis Biancarelli (EIB representative), Mr David McGlue (Commission representative).*

The present report presents the conclusions and recommendations of the Steering Committee of "wise persons". In accordance with the terms of reference included in annex 1 of the above Decision, the scope of the evaluation includes the EIB previous mandates (from 2000 to 2006) and the first years of the 2007-2013 mandate, up to end 2009. The geographic scope of the EIB external mandate and of this report includes: Pre-Accession countries (12 Member States until they joined the EU in 2004 and 2007, Western Balkans and Turkey); Southern Neighbourhood; Eastern Neighbourhood and Russia; Asia; Latin America and Republic of South Africa. The list of countries currently covered by the EIB external mandate is provided in Annex 1 to the Decision¹. The report covers the EIB operations under the external mandate with the Community guarantee, external operations at EIB own-risk as well as risk capital and technical assistance activities managed by the EIB.

The Steering Committee has worked from October 2008 until February 2010, with the support of the independent external experts contracted by the Commission (COWI A/S)² and supported by a Reference Group including representatives of Commission and EIB services, as well as by the EIB's evaluation department. Moreover, the Steering Committee organised hearing sessions with the Commission and EIB's Senior Management as well as with representatives of the Civil Society, European Parliament, International and European bilateral Financial Institutions (IFIs and EBFIs) and think tanks. Individual members of the Steering Committee have visited a sample of beneficiary countries that benefited from EIB financing support (Poland as a former candidate country, Morocco, Turkey, Senegal, Russia). Finally, the Steering Committee has drawn extensively on the background material provided by the EIB and by the Commission.

The report is organised in two parts:

- part I includes the Steering Committee's recommendations on the basis of the findings of the evaluation, focusing on: the EIB external mandate; the EIB value-added, means, and business model; the collaboration with the Commission and the cooperation with other IFIs and European bilateral financing institutions.
- part II includes the Steering Committee's suggestions for the medium-term way forward for EU policy-makers to consider.

¹ Africa, Caribbean and Pacific (ACP) and Overseas Countries and Territories (OCT) countries are not part of the scope of EIB external mandate and of the present evaluation. A separate evaluation is currently being carried out by an external consultant on EIB activities in ACP countries. However, the present report refers in certain cases to EIB action in ACP countries when considering more generally the role of EIB outside the EU.

² The report of COWI A/S is published separately and available in the Commission website.

Executive summary

1. The role of the EIB outside the EU

In addition to its core activity within the EU, the EIB has been increasingly active in support of EU external policies since 1963 covering most of the regions of the world. The role of the EIB outside the EU is to support EU external policies (including enlargement, neighbourhood and development cooperation policies) through its financing operations, in support of the economic, social and environmental sustainable development of the partner countries.

In the period under review from 2000 to 2009, the EIB has financed investments in: transport, energy, urban infrastructure including water, ICT sectors. Its support to the private sector has benefited notably SMEs and EU foreign direct investment. The cumulative level of EIB lending signatures in the regions covered by the current external mandate (Pre-Accession³, Neighbourhood and partner countries, Asia, Latin America and South Africa), both under the mandate and at EIB own-risk, as well as in ACP/OCT countries⁴, was equal to EUR 42.4bn over the period under review (2000-2009), of which EUR 8.8bn in 2009 alone.

2. Recommendations of the Steering Committee based on the findings of the evaluation

On the basis of the evaluation of EIB activities from 2000 until 2009, provided by external experts and by EIB's evaluation department, as well as our extensive hearings with EU policymakers and stakeholders, our own visits to beneficiary countries and our own reflections, we came to the following main conclusions:

- The EIB is a powerful instrument to serve the EU external policies and related objectives, which has served the EU well so far. Several measures outlined in this report could allow the EIB to contribute even more forcefully to the efforts of the EU in response to the significant current and future challenges.
- The human and financial resources of the EIB should be adequately aligned with the requirements of its mission in order to meet more effectively the objectives, while preserving its current lean business model.
- Development-oriented finance by the EIB requires adequate access to EU budgetary funds through the joint "EU platform for external cooperation and development".
- The value-added of EIB financing activities outside the EU could be improved also by enhancing the collaboration between the Commission, the EIB and other IFIs and European bilateral financing institutions.

The evaluations point to a number of positive aspects of the present mandate and its delivery. At the same time, they highlight some areas where the contribution of the EIB to EU external policies could be enhanced. We recommend the adoption of the following main recommendations within the current structural framework.

2.1 EIB mandate outside the EU

We recommend establishing a streamlined EIB mandate with high-level EU objectives for all regions, for the purpose of enhancing the coherence of the EIB external activities, focusing on sectors of EIB comparative advantage in support of EU policies, whilst leaving room to meet the beneficiaries' requirements and flexibility of operational intervention.

The EIB should focus on financing sustainable public and private investments, in support of EU policies in all eligible countries outside the EU, with specific emphasis on global and regional public goods⁵ in:

³ Excluding the countries that joined the EU in 2004 and 2007.

⁴ ACP/OCT countries which are not part of the EIB external mandate and are covered by the ACP-EU Partnership agreement.

⁵ The definition includes merit goods, too.

- climate-change mitigation and adaptation;
- economic infrastructure (environment/water, energy, transport, ICT), including energy security;
- local private sector development, including in particular support to SMEs;
- other objectives exceptionally identified by the EU for the region or country concerned.

Particular emphasis should be given to projects fostering regional cooperation.

Within this framework the Council and the EP would continue to decide on regional ceilings and the priority objectives for specific regions.

The link between the general mandate objectives and their operational implementation by the EIB should be strengthened and made more explicit and structured, by means of operational guidelines to be developed by the Commission together with the EIB, on the basis of the priority objectives defined by the European Parliament and the Council for the specific regions. The EIB will define corresponding financing strategies and their operational implementation.

The future mandates should include provisions allowing for updates and adaptations to significant changes in circumstances.

Enhancing EIB contribution to EU development cooperation objectives

The EIB can contribute to EU development cooperation objectives with different actions at sector and project level, in particular by focusing on certain areas linked to development aspects, such as climate change, economic infrastructure and local private sector development, as well as via reinforced project due diligence and follow up notably on social aspects including human rights and conflict-related risks.

There may be opportunities for EIB financing in social sectors, such as health and education, in external regions, but initially at least these are likely to be exceptions, and the EIB may be asked to progressively increase its activity in these sectors in the medium term, where there is clear justification and provided it has the appropriate means.

In order for the EIB to support more effectively EU development cooperation objectives, some changes to its means and organisation would be necessary. Therefore, we recommend strengthening the EIB capability to support these objectives in a progressive way: in the short term, implementing the recommendations provided in chapter 2 of this report; in the medium-term, more substantial changes to the EIB structure should be considered (ref. part II).

Releasing the optional mandate of EUR 2bn

As foreseen in the current Parliament and Council decision, the largest share of EIB financing activity should continue to be focused primarily on Pre-Accession and Neighbourhood regions, on the basis of EU proximity and interest, and the possibility for EIB to provide a visible and relevant impact. No specific changes to the regional ceilings agreed for 2007-13 are proposed.

We believe that there is a good case for releasing the optional mandate of EUR 2bn for 2011-2013 in ways that would reflect the recommendations of our Report. We therefore recommend that it should be released for EIB financing activities in support of the fight against climate change, including adaptation, as follows:

- across all regions covered by external lending mandate with no specific regional breakdown;
- in close cooperation with the Commission and in combination with EU budget grants, where possible and appropriate;
- applying reinforced due diligence procedures at project level.

2.2 EIB value-added, means, and business model

The main strengths of EIB interventions outside the EU are its ability to mobilise finance on very advantageous terms, its role in giving projects an EU label and an IFI label, and its lean business model which complements a significant financial capacity and a technical expertise for the assessment of viable investments, leveraging on the EIB's core experience within the EU.

The external mandate provides for a Community guarantee for a substantial share of the EIB activities outside the EU. We concluded that the Community Guarantee instrument had high value-added and leverage. We therefore recommend maintaining and optimising it both for the rest of the current mandate and for the following ones after 2014. At the same time, the EIB should also be encouraged to pursue own-risk activities. In this context, we recommend studying for future mandates the principle of graduation of countries from eligibility to the Community guarantee to EIB own-risk lending, taking into account the need to preserve the credit standing of the EIB. In addition, the range of financial instruments should be expanded to include guarantees, more technical assistance, concessional finance (in particular to support development objectives) and equity, provided that the EIB is able to access the necessary sources of grant funds.

The independent evaluation found that tight staff resources limit the full effectiveness of EIB external operations, particularly in the light of the generally weaker institutional environment in which external lending takes place, which reinforces the need for due diligence and for effective monitoring. It is important that the EIB should sustain its commendable efforts to control costs. At the same time, however, EIB staff resources should be reinforced, in order to enhance the effectiveness of its operations and its capability to meet the mandate objectives. This should be done after proper analysis of the justifications and of the possible synergies with the Commission and other financial institutions. Project monitoring and when needed local presence should be strengthened, in order to improve the quality of EIB investments and the value-added to final beneficiaries.

In summary, level of ambition, mandate requirements and EIB means must be aligned.

2.3 Collaboration between the EIB and the Commission and between the EIB and other IFIs and European bilateral financing institutions (EBFIs)

The Commission and the EIB have been developing an increasingly close cooperation over the period under review, although there is still scope for further improvement. We believe that these efforts should be pursued along the following lines.

The Commission and the EIB should cooperate early enough in the EIB lending process to strengthen the link with EU policies, to ensure EIB projects' compliance with relevant EU policies, and to maximise opportunities for project co-financing by blending grants and loans. Both parties should make renewed efforts to ensure that this cooperation proceeds effectively.

A comprehensive and simultaneous review of the existing blending mechanisms should be carried out by end 2010 by the Commission in close collaboration with the EIB and Member States, with the view to propose improvements and streamlining.

The Commission and the EIB, in close collaboration with the Member States, should establish an "EU platform for external cooperation and development", i.e. a coordination mechanism for blending of grants and loans, building on principles of mutual reliance between financing institutions and open to participation of the EBRD, CEB and European bilateral financing institutions and with appropriate beneficiary involvement. This platform should foster EU coherence, effectiveness, efficiency, and visibility in external financing, leveraging respective strengths of the participating institutions.

The EIB, the Commission and Member States to this effect are encouraged to pursue the current activities in streamlining existing facilities and pooling of grant resources in the framework of EU blending mechanisms.

The EIB should pursue its close cooperation with other IFIs and EBFIs in the delivery of EU objectives while fulfilling its external mandate. Nevertheless, IFI cooperation and co-financing should not become an end in itself, whereas the effectiveness and efficiency of project delivery should be the main common goal.

For co-financed projects, the EU shareholders should continue to promote the concept of “mutual reliance” between EIB and other IFIs and EBFIs, in the short term based on the mutual recognition of working methodologies and procedures, and in the medium term based on harmonisation of standards. At operational level, the EIB and other IFIs and EBFIs should cooperate wherever justified with joint co-financing.

With respect to EBRD, in the short term, better mutual understanding between the two Banks, transparency of pipelines, and a clearer and rational division of labour should be implemented.

Better cooperation between the EIB and EBRD would clearly be beneficial to both parties. But there are limits to what can be achieved without institutional changes, as the respective shareholders and management should recognise. In the medium-term, such changes should be considered by the common EU shareholders.

The EU Member States, and the EC where applicable, are encouraged to coordinate and align their positions as shareholders in the Boards of various IFIs, in the interest of the common EU policies and objectives.

2.4. Consolidate EIB activities outside the EU

In view of the growing volume, complexity and importance of EIB external financing activity, and to enhance the impact, effectiveness, efficiency and visibility of all EIB activities outside the EU, we recommend that these activities be consolidated in an EIB entity, with a specific governance and organization dedicated to operations outside the EU, allowing a much more focused management of external operations. The Commission should take appropriate participation in the governance. The entity could take the form of an EIB subsidiary, following a detailed feasibility study to be swiftly launched by the EIB.

During the time until the possible start of activity of the EIB subsidiary, the EIB governing bodies could immediately decide to establish an in-house EIB organisational structure drawing on the experience of the ACP-Investment Facility and Femip.

3. Suggestions to address the challenges of the years ahead

Since we started our work in October 2008 and during the course of our evaluation, various developments have taken place:

- The global financial and economic crisis has dramatically increased the need for financial support of the EU partner countries, while putting under pressure the budgets of several EU Member States. It can be expected that the EU will have to simultaneously experience lower economic growth and ageing population, compared particularly to emerging economies. As a consequence, it can be expected that the post-crisis framework will expose the EU to the challenge of having to *do more with less*.
- The European Parliament voted in March 2009 a report on the 2007 annual activities of the EIB and of the EBRD, recalling the importance of strengthening synergies and avoiding overlaps between the EU's external assistance instruments, ensuring a coherent approach and better visibility of the EU action and to ensure a maximum contribution for the beneficiary countries.
- The European Parliament and the Council, in the new decision on EIB external mandate of July 2009, introduced the explicit request for EIB operations to support the EU development cooperation policies and related objectives.

- The EU Lisbon Treaty entered into force on Dec. 1st 2009, and the EU is as a consequence in the process of equipping itself to play a stronger and more coherent role in external policies, starting with the diplomatic services. This calls for the need to enhance simultaneously the EU action – its efficiency and its credibility – also in the field of partner countries’ financing.

These developments led the Steering Committee to recognize the pertinence of providing the policymakers with our suggestions for the medium-term development of EIB external activity.

The opportunity should be explored to further leverage the strong EIB capacity to raise funds in global capital markets, in order to meet the market’s demand for high-quality and secure investments. At the same time, the strength of the financial basis of the EIB should allow it to take more risks in a prudent manner and with appropriate safeguards (e.g. under supervision), possibly increase its lending volume and provide the corresponding benefits to its counterparts.

Depending on the role and the ambition that the Council and the European Parliament would assign to EU’s external financing actions, various options can be envisaged. Among the many options, the Steering Committee explored two alternatives for the further development of EIB’s activities outside the EU, without excluding other possible models. These options should be seen as part of an evolutionary process, in continuity with the recommendations provided in part I, and most notably build on: (i) the creation of an “EIB entity” consolidating EIB activities outside the EU, and (ii) the “EU platform for development cooperation”.

The two options explored by the Steering Committee are:

- The creation of a “European Agency for external financing”, integrating the external financing activities of the EIB and the investment-related ones of the Commission in support of EU policies in all countries outside the EU. We suggest that the Commission and the EIB undertake a feasibility study to explore this scenario more in detail.
- The creation of a major European financing body, integrating the relevant means of the Commission, the EIB and the EBRD, thereby forming a “European Bank for Cooperation and Development”.

Various specific options can be derived from these models, and we recommend that EU policymakers establish in due time an independent Working Group to explore these options more in detail for the future and provide appropriate recommendations to policy-makers, on the basis of the feasibility study to be commissioned soon for the Agency option, and after discussions with the non-European EBRD shareholders for the outlined European Bank for Cooperation and Development.

The Steering Committee is of the view that whatever the option which could be finally adopted, the EU and its Member States have at their disposal several remarkable instruments which, provided they are adequately reorganized and their synergy enhanced, could contribute to the international strategies of the Union in a significant way.

PART I. RECOMMENDATIONS OF THE STEERING COMMITTEE ON THE BASIS OF THE FINDINGS OF THE EVALUATION

The evaluation of the EIB's external financing activities has been based on the assessments and reports provided by external experts, by the EIB's evaluation department, as well as the hearings of the Steering Committee with relevant stakeholders, the country visits and various documents (see references). These contributions enabled the Steering Committee to draw conclusions on the relevance, performance and value-added of EIB operations, as well as EIB cooperation with the Commission, other IFIs and European bilateral financial institutions (EBFIs), and to identify opportunities for improvement of EIB's external activities.

The evaluations point to a number of positive aspects of the present mandate and its delivery. At the same time, it highlights some areas where the contribution of the EIB to EU external policies could be enhanced. On this basis, the Steering Committee has formulated its recommendations for the improvement of the EIB external activities involving the adaptation of EIB's external mandate in the "short-term", i.e. during the period 2011-2013.

These recommendations are included in this part I which is organised in the following chapters:

- Chapter 1 includes an outline of the EIB role outside the EU, some key data on EIB external activity and the recommendations of the Steering Committee with respect to amendments to the EIB external mandate, and with respect to the release of the optional mandate of EUR 2bn. These recommendations are mainly based on the findings of the evaluation on the relevance of EIB operations against their specific regional objectives as originally set within the specific mandates and the pertinent Community external policies, and consistency with these policies.
- Chapter 2 includes the recommendations of the Steering Committee with respect to how to ensure maximum value-added and efficiency in the EIB external operations, by improving EIB means, business model and governance. These recommendations are mainly based on the findings of the evaluation on the performance (effectiveness, efficiency and sustainability) of EIB operations, as well as the specific EIB contribution and added value.
- Chapter 3 includes the recommendations of the Steering Committee with respect to collaboration with the Commission, and cooperation with other IFIs and European bilateral financing institutions. These recommendations are mainly based on the assessment of the cooperation and coherence of actions between EIB and the Commission, as well as of the cooperation and synergies between EIB and international and bilateral financing institutions and agencies.
- Chapter 4 includes the recommendations of the Steering Committee with respect to the consolidation of the EIB activities outside the EU in an EIB entity.
- Chapter 5 summarises the main conclusions of part I.

1 EIB external mandate

1.1 The role of the EIB

The European Investment Bank, as the bank of the European Union created by the Treaty of Rome in 1958, has the core mission to support the balanced and steady development of the EU Member States. The EIB is the only International Financial Institution (IFI) fully owned by the EU Member States.

In addition to its core activity within the EU, the EIB has been progressively and increasingly active in support of EU external policies since 1963 covering most of the regions of the world.

The role of the EIB outside the EU is to support EU external policies (including enlargement, neighbourhood and development cooperation policies) through its financing operations, in support of the economic, social and environmental sustainable development of the partner countries, and their partnership with the EU. The EIB also has the potential to develop its lending in support of global and regional public goods.

The EIB operates on a non-profit-making basis, as specified by the Treaty on the functioning of the EU⁶. The EIB applies sound banking practices in its operations and benefits from a first-class status as a borrower and lender. In line with its Statute and decisions of its governing bodies, it is required to finance investment projects which are sustainable from an economic, financial, technical, social and environment perspective.

In particular, in the period under review from 2000 to 2009, the EIB has financed investments, including in: transport, energy, urban infrastructure including water, ICT sectors. Its support to private sector has benefited notably SMEs and EU foreign direct investment.

The EIB is different from the Multilateral Development Banks (MDBs) in a number of ways:

- (i) it operates both in all EU countries and in developing countries;
- (ii) it does not have a pure development mission, but as regards its external activities it works under mandate of the Parliament and Council and/or its Board of Governors;
- (iii) it operates in support of EU external policies and promotes EU standards;
- (iv) it operates outside the EU under a mandate from the EU which provides for a Community guarantee for a significant part of the EIB activity;
- (v) it is primarily focused on investment / project financing with limited involvement in upstream work (e.g. country and sector strategies, policy support) which is led by Commission in the EU institutional framework;
- (vi) the beneficiary countries outside the EU are not shareholders of the Bank and the existing EIB institutional setup does not cater for beneficiary countries' ownership;
- (vii) its access to concessional funds in support of its operations notably in developing countries is small in relation to its own resources for lending (except in ACP); the availability of such funding is organised differently by region, rather than through a single process;
- (viii) in its external operations it has much lower staff resources per unit of financing compared to other MDBs.

⁶ Art. 309.

1.2 Key data on EIB external activity

Although around 90% of EIB's lending activity takes place within the EU, in absolute terms, the EIB has already been a major player for many years outside the EU, in particular in Pre-Accession and Southern Neighbourhood regions, as well as in ACP countries where it operates under the ACP-EU Cotonou partnership agreement.

The EIB operates in the regions covered by the external mandate (Pre-Accession, Neighbourhood and partner countries, Asia, Latin America, South Africa) either under the external mandate which provides for a Community guarantee, or at own-risk.

The Community guarantee provided by the external mandate can take the form of a comprehensive guarantee (for sovereign or sub-sovereign⁷ sector operations), or of a political-risk guarantee (for non-sovereign operations). This essentially amounts to a cover by the EU budget of country / sovereign risks that the EIB is not currently equipped to take on its own balance sheet except for investment-grade operations.

The cumulative level of EIB net lending signatures in the regions covered by the current external mandate (Pre-Accession⁸, Neighbourhood and partner countries, Asia, Latin America and South Africa), both under the mandate and at EIB own-risk, was equal to EUR 37.3bn over the period under review (2000-2009), of which EUR 7.7bn in 2009 alone, showing a steadily increasing trend (see chart 2 in annex 3).

In addition, in ACP/OCT countries, which are not part of the EIB external mandate and are covered by the ACP-EU Partnership agreement, the EIB cumulative net lending volume in the period 2000-2009 was equal to EUR 5.1 bn.

The amount of EIB lending signatures, less amounts cancelled, under the current mandate for 2007-2013, with the Community guarantee, in the different regions, is presented in table 1. The table shows the amount at the end 2009, after 3y out of 7y, or 43 % of elapsed time.

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

	External mandate with Community guarantee		
	Lending ceiling for 2007-2013	EIB net lending signatures at 31 Dec. 2009	% commitment at 31 Dec. 2009
Pre-Accession	€ 8,700m	€ 5,262m	60%
Southern Neighbourhood	€ 8,700m	€ 3,860m	44%
Eastern Neighbourhood & Russia	€ 3,700m	€ 403m	11%
Asia	€ 1,000m	€ 616m	62%
Latin America	€ 2,800m	€ 1,305m	47%
South Africa	€ 900m	€ 483m	54%
Total	€ 25,800m	€ 11,853m	46%

With respect to the regional lending ceilings established by the external mandate, the level of net signatures for EIB financing operations is above the expected 43% level after 3 years in total, and in all regions except the Eastern Neighbourhood and Russia. The level of commitment is relatively higher in Pre-Accession (mainly driven by Turkey), Asia and South Africa. Chart 1 in annex 3 shows that the trend is similar, taking into account the stock of projects approved by the EIB Board and pending signature at end 2009.

⁷ Where such operations have an appropriate EIB credit risk assessment as defined in the Guarantee Agreement between the Commission and the EIB.

⁸ Excluding the countries that joined the EU in 2004 and 2007.

In parallel to the lending under mandate with Community guarantee, the EIB has established facilities for lending at own-risk (for investment grade countries or operations in sub-investment grade countries where appropriate security is provided), notably in the PreAccession region, in the Mediterranean and across all countries for energy sustainability and security of supply. More recently, the EIB has established a facility for Eastern Partners⁹ of € 1.5bn for 2010-2013 period.

Table 2. Level of commitment of EIB own-risk facilities at end 2009.

	Lending at EIB own-risk		
	Lending ceiling for 2007-2013	EIB net lending signatures at 31 Dec. 2009 ¹⁰	% commitment at 31 Dec. 2009
Pre-Accession Facility	€ 6,200m ¹¹	€ 3,993m	64%
Mediterranean Partnership Facility II	€ 2,000m	€ 274m	14%
Energy sustainability and security of supply	€ 3,000m	€ 641m	21%
Total	€ 11,200m	€ 4,908m	44%

It can be observed that the EIB has indeed increased lending at its own-risk in the countries covered by the current mandate, in line with the mandate decision (recital 3) which encouraged the EIB to increase its operations outside the EU without recourse to the Community guarantee, although this increase is primarily observed in Pre-Accession region (driven by high absorption capacity in Turkey, and Croatia) and significantly less in the Mediterranean region (see chart 3 in annex 3). Lending at EIB own-risk in other regions has so far taken place in China (as one of the main investment-grade countries in the ALA region) and for relatively large amounts (about half of the total EIB lending to Asia in 2000-2009).

In terms of geographic distribution, charts 4 and 5 and Table 2 in annex 3 show that the EIB activity in the regions covered by the mandate is mainly taking place in middle-income countries, with only 1.4% in low-income countries (mainly in Asia). Including ACP, the percentage of EIB activity in low-income countries rises to 10%. Chart 6 shows the distribution of average EIB loan per capita vs average GDP per capita in each region.

As shown in chart 7 in annex 3 on the sectoral distribution of EIB lending signatures provided both under the mandates and under own-risk during the period 2000-2009, EIB lending for investments in economic infrastructure sectors (transport, energy, environmental infrastructure, ICT) accounted for about 60% of the total lending, lending for SMEs through financial intermediaries for about 25%, lending for manufacturing sectors for about 8%, and lending for social and housing sectors for the remaining 7%.

Disbursements

The average disbursement rate for the EIB operations signed in the period 2000-2007 has been 75% measured at end June 2009. The pattern for disbursements is twofold:

⁹ Covering the same countries as the EU Eastern Partnership initiative, i.e. Armenia, Azerbaijan, Georgia, Belarus (not eligible for EIB financing), Moldova and Ukraine, as well as Russia.

¹⁰ Since the entry into force of the Community Guarantee cover for the 2007-2013 mandate period, i.e. from 17/04/2007 onwards.

¹¹ Total amount authorized for 2000-2010 is EUR 19,500m, of which EUR 6,200m available for the 2007-2010 period in the current PreAccession countries. The facility may be replenished for the 2011-2013 period.

- For private sector operations the disbursement rate is normally higher, as observed under EIB own-risk facilities and in ALA region. Lower level of disbursements in Mediterranean and China at EIB own-risk is linked to operations signed recently.
- Disbursement rates are lower for public sector operations where difficulties are mainly due to weak institutional promoters in implementing infrastructure projects, which are often complex in nature, combined with limited EIB resources for technical assistance and monitoring support, thus increasing the risk of implementation delays. This is especially the case in Western Balkans. Across all regions, it is noticed that some operations take a long time until completion, either because of an initial long delay for the preparation of the project, or because of slow implementation progress.

1.3 Improving the EIB external mandate

1.3.1 Streamlining the mandate requirements

The EIB external mandates for the period 2000-2006 were rather general, while the current mandate covering the period 2007-2013 contains more specific requirements for EIB operations, both at general level and for different regions.

At general level, the EIB financing operations should be consistent with and support the EU external policies including specific regional objectives. As of 2007, the protection of the environment and energy security of the Member States is part of EIB financing objectives in all eligible regions. The new decision adopted by the EP and the Council in July 2009 has introduced a recital indicating that EIB financing operations should also contribute to the EU “development cooperation” objectives (see § 1.4).

In each region, the mandate specifies the areas on which the EIB should focus its activity. These requirements are relatively broad for all regions, except for Eastern Neighbourhood & Russia and, to a lesser extent, for Asia and Latin America.

The evaluation found that the EIB mandate requirements per each region are multiple and diverse, without a clear rationale with respect to EU policies or to the needs of the beneficiary countries (see details in annex 4). Moreover, they do not always take into account the EIB specific capabilities and core competences, and what the EIB can feasibly reach with the means at its disposal.

The EIB is recognized to have an established expertise and to have developed its core competences through its global activities in particular by:

- support to the development of economic infrastructure (transport, energy, environment, ICT);
- support to the development of SMEs, through the intermediation of the financial sector;
- support to the private industry sectors, notably EU companies investing outside the EU;
- support to climate change mitigation projects (in particular renewable energy).

The Steering Committee recommends enhancing the coherence of the mandates and streamlining the EIB mandate across regions, and expanding the scope for using the EIB comparative advantages. Accordingly, the EIB should focus on sectors of comparative advantage and where it can provide clear value-added in support of EU policies.

A broader and more open mandate with general policy orientations is recommended across all regions, which leaves room to meet the beneficiaries’ requirements and flexibility of operational intervention by the EIB. This is generally the case of other development banks and IFIs, since it respects the capital allocation function of banks and financial intermediaries.

The streamlining of the mandates should be combined with enhanced provisions for their implementation at the operational level, with a view to ensuring a better integration of EU policy priorities. This will entail closer cooperation with the Commission (ref. § 1.3.2).

The alternative to have mandate requirements more focused, more targeted and more prescriptive, is not recommended as it may entail limited flexibility and constraints on EIB financing in support of EU external policies (ref. experience with Eastern Neighbourhood & Russia mandate).

Therefore, it is recommended that a single mandate with high-level objectives be established for all eligible regions, for the rest of this mandate (2011-2013) and for the next mandates (as of 2014), along the following lines.

The EIB should focus on financing sustainable public and private investments, in support of EU policies in all eligible countries outside the EU, with specific emphasis on global and regional public goods, in:

- *climate-change mitigation and adaptation;*
- *economic infrastructure (environment / water, energy, transport, ICT), including energy security;*
- *local private sector development, including in particular support to SMEs;*
- *other objectives exceptionally identified by the EU for the region or country concerned.*

Particular emphasis should be given to projects fostering regional cooperation.

Within this framework the Council and the EP would continue to decide on regional ceilings and the priority objectives for specific regions.

A discussion on the development cooperation objectives including health and education is provided in § 1.4.

It is recommended that, across all eligible regions, the EU foreign direct investment (FDI) be financed by the EIB under its own-risk whenever possible, or with the political-risk Community Guarantee provided that the related investments contribute to the above high-level mandate objectives.

1.3.2 Strengthening link with EU policies and providing guidance for EIB mandate implementation

The evaluation found that the EIB has generally supported with its operations the EU external action. Taking into account the assessments conducted by the external experts and the EIB evaluation department, it can be said that EIB operations are generally well aligned and consistent with EU policies and related objectives, as outlined in the relevant EU decisions.

It should be noted that EU external policies and related objectives are differentiated by region, are relatively broad and cover some areas outside the scope of the possible EIB lending activity. From the general EU policies and policy objectives decided by the Council and the EP, two currently parallel and relatively independent processes lead to the development of:

- EU operational objectives and related programmes with instruments for delivery of EU budgetary funds implemented by the Commission;
- EIB financing operations, mostly consisting of lending activities and in some cases risk capital and technical assistance support. The EIB financing operations should be complementary to EU

operational policies, programmes and instruments. When available, the combination of EIB financing with EU budgetary resources enhances the coherence of overall EU external action.

In combination with the streamlining of the mandate across regions, the link between the general and broad mandate objectives and their operational implementation by the EIB should be strengthened and made more explicit and structured, considering that the EU policies are relatively broad as they cover a much wider scope than the one that EIB can support with its financing instruments.

As EU policies and instruments are regionally focused, this operational link should be regionally differentiated and be developed for all sectors of possible EIB activity, via appropriate “operational guidelines” developed by the Commission together with the EIB, with the latter being responsible to define specific EIB financing strategies and their operational implementation.

In this way, the link between EU policies and EIB operations would include:

- i. EU policies including EU policy objectives, as decided by the Council and the European Parliament, relevant for the EIB activity.
- ii. Operational guidelines for each region, and within the sectors of EIB intervention, developed by the Commission together with the EIB, and presented to the Council and the European Parliament in the context of the annual reporting. These guidelines should also present all opportunities for combining EIB financing with EU budget financing.
- iii. EIB financing strategies and their operational implementation, leading to EIB project identification process and lending process. These strategies should be aligned with the operational guidelines and cover all eligible regions and sectors of EIB activity and be explicitly approved by the EIB governing bodies.

An appropriate staff and organisational setup is required within the EIB to adequately satisfy the above recommendation.

1.3.3 Allowing for updating the mandate

The EIB mandate objectives and requirements are in principle fixed for the 7y financial period, currently 2007-2013, with the exception of the mid-term review opportunity.

Nevertheless, the experience shows that the foreign policies and strategies of the EU evolve during the 7y financial period. In addition, the financial and economic situation of the regions concerned and the specific country priorities evolve as well (e.g. financial crisis of 2008-2009).

The recommendations in § 1.3.1 and § 1.3.2 would enable more flexibility in the amended mandate for 2011-2013 whilst preserving the key role of the Parliament and Council in defining EU priorities. It is recommended to build also in the future mandates (as of 2014) the necessary provisions allowing for updates and adaptations to significant changes in circumstances, for example on the basis of the annual reporting process and of the mandate’s mid-term review.

1.4 Enhancing EIB contribution to EU development cooperation objectives

In terms of contribution to EU development cooperation objectives, a clarification should be made between possible EIB contribution to:

- i. the Millennium Development Goals, including poverty reduction,
- ii. the objective of developing and consolidating democracy and the rule of law; the general objective of respecting human rights and fundamental freedoms, and,
- iii. economic and social development of the developing countries, which is achievable also through economic growth. Growth is an indispensable, even if indirect, support to the other development objectives (i and ii).

The EIB has so far been contributing indirectly to the EU development cooperation objectives under (iii) above, through its financing of activities in support of economic infrastructure, private sector development and environmental sustainability, which contribute to the economic growth of eligible partner countries outside the EU. A large part of eligible countries are developing countries according to the OECD list of ODA recipients, including mostly middle income countries but also a few least developed or lower income countries¹².

The European Consensus on Development adopted by the EU Institutions in 2006 provides a common vision guiding the action of the EU, both at Member States and at Community level, in development cooperation. Setting out the European Community Development Policy to guide the implementation of this vision, the Consensus refers to the increasingly important role of the EIB¹³.

Until recently, the EIB had not been requested to directly contribute to (i) and (ii). Following the judgement of the Court of Justice on a case brought forward by the European Parliament, the legal basis for the EIB external mandate has been modified to also include EU development cooperation¹⁴, on top of EU economic, technical and financial cooperation with third countries¹⁵.

The revised decision adopted by the Parliament and Council in July 2009 explicitly foresees (Recital 8) that the EIB contribute to the EU development cooperation objectives through its financing operations. In relation to developing countries¹⁶ in particular, EIB financing operations should foster the sustainable economic and social development of these countries, and more particularly the most disadvantaged amongst them; their smooth and gradual integration into the world economy; the campaign against poverty; the general objective of developing and consolidating democracy and the rule of law; the general objective of respecting human rights and fundamental freedoms; as well as compliance with objectives approved by the EU in the context of the UN and other competent international organisations.

It should be noted that in the new EU Lisbon Treaty, art. 208¹⁷ on development cooperation, focuses on the objective of reduction and, in the longer term, eradication of poverty, as well as compliance with the commitments approved by the EU in the context of the UN and other competent international organisations.

¹² For reference, within the geographic scope covered by the external mandate, which excludes ACP:

- the countries currently classified as “Least Developed Countries” under the UN Millennium Development Goals framework and the OECD list of ODA recipients include only 5 countries in Asia (Bangladesh, Laos, Maldives, Nepal, Yemen (countries eligible for EIB financing), as well as Afghanistan, Bhutan, Cambodia (countries currently not eligible for EIB financing);

- the countries currently classified as “other Low Income Countries” according to OECD list of ODA recipients include 5 countries in Asia and Central Asia (Kyrgyz Republic, Pakistan, Tajikistan, Uzbekistan and Vietnam); while all the other EIB eligible countries are considered middle-income countries.

¹³ § 119. *In order to guarantee a maximum impact for the beneficiary countries, there should be a strengthening of the synergies between the programmes supported by the European Investment Bank (EIB) and other financial institutions and those financed by the Community. The EIB is playing an increasingly important role in the implementation of Community aid, through investments in private and public enterprises in developing countries.*

¹⁴ Based on art. 177 and 179 of the Treaty establishing the European Community, replaced by art. 208 and 209 of the Treaty on the functioning of the European Union, entered into force on 1st Dec. 2009.

¹⁵ Based on art. 181a of the Treaty establishing the European Community, replaced by art. 211 of the Treaty on the functioning of the European Union, entered into force on 1st Dec. 2009.

¹⁶ Refer to the EU Court of Justice judgement of 6 November 2008, where it is stated that the generally used definition of ‘developing countries’ is that used by OECD DAC, in absence of an EU official definition.

¹⁷ “1. *Union policy in the field of development cooperation shall be conducted within the framework of the principles and objectives of the Union's external action. The Union's development cooperation policy and that of the Member States complement and reinforce each other.*

Union development cooperation policy shall have as its primary objective the reduction and, in the long term, the eradication of poverty. The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.

2. The Union and the Member States shall comply with the commitments and take account of the objectives they have approved in the context of the United Nations and other competent international organisations.”

The Steering Committee notes that a strategic issue is the link between development impact and the resource intensity of appraising and monitoring projects in developing countries as well as supporting technical assistance to overcome institutional constraints. Moreover, it notes that the EIB finances viable investment projects mainly with non-concessional loans, and that its contribution to the EU development cooperation objectives has had to reflect the limitation that this imposes.

The Steering Committee recognizes that the EIB should increase its development focus provided that it has the appropriate means including staff and grant resources as well as the appropriate governance, and implements the changes in close coordination with the Commission. Given the necessary changes required to the EIB *modus operandi*, while preserving the advantages of the current EIB model, the Steering Committee suggests that the EIB progressively increases its development role in two phases: short-term (2010-2013) and medium-term (as of 2014).

In the short term, the EIB can contribute to the general development cooperation objectives at different levels of intervention (country, sector, project levels), while recognising that there are structural limits to EIB possibilities within the current setup. We recommend the following improvements at each level:

- Country level: The Council and the European Parliament should continue to determine the list of countries in which the EIB is allowed to operate under mandate, on proposals from the European Commission. In determining the list, the European Institutions should pay particular attention to the promotion of democracy and the rule of law, as well as respect for human rights and fundamental freedoms. The same considerations should apply to EIB operations outside the mandate at own risk.

In the EU institutional framework, the ongoing policy dialogue with the beneficiary countries, including that on the above issues, is led by the Commission, with limited or no involvement of the EIB.

- Sector level: the changes to the mandate that we recommend should enable the EIB to enhance its financing support of climate change mitigation and adaptation (ref. recommendation on the use of EUR 2bn optional mandate), as well as of economic infrastructure (including environmental infrastructure and water/waste water sectors) and support to local private sector development (including financial sector and SMEs). If well designed and implemented, these activities are proven to be important to support the overall sustainable development of beneficiary countries. As highlighted in the report of the external experts, there is an important need for the EIB to be more involved in “sector strategies” which are insufficiently developed at the moment and require close coordination with the Commission.

There may be opportunities for EIB financing in social sectors, such as health and education, in external regions, but initially at least these are likely to be exceptions, and the EIB may be asked to progressively increase its activity in these sectors in the medium term, where there is clear justification and provided it has the appropriate means.

- Project level: The EIB should further develop an approach more focused on quality and tangible delivery of EU objectives and less on the volume of financing. The EIB should continue to only finance projects that satisfy the agreed international environment and social standards, including those on human rights, and require the application of the EU standards wherever possible. For this purpose, as pointed out by the reports of EIB evaluation and external experts, as well as with discussions with civil society organisations, the EIB should reinforce the due diligence on social aspects (including respect of human rights) in its project cycle work, both via

ex-ante analysis and especially via monitoring during project implementation and at project completion.

In particular, the project due diligence process should be strengthened through adequate staff expertise in sustainable development, human rights, social/gender issues, use of “pro-development” project indicators. Further, in politically unstable regions or countries with a potential civil conflict, project finance methodology should include conflict assessment and related tools, to be integrated in the environmental and social assessment process. The EIB should be sensitive to risks of conflict, and ensure that it does not support projects that are likely to exacerbate conflicts, as stated in its Environmental and Social principles and standards.

Clear compliance with EU / agreed international standards¹⁸ on environment and social aspects, and national legislation, should be a systematic condition to access EIB financing. Adequate contractual provisions and safeguards should be strengthened, *inter alia* to establish clear development outcomes/benchmarks, and to enable intervening with the borrower and the promoter in case of divergence from the required social standards throughout the entire EIB project cycle.

The Steering Committee recognizes the EIB efforts to improve the transparency, accountability and public participation with respect to its lending activity. More extensive and systematic access to project information, and greater involvement of project beneficiaries and local civil society that could be impacted by EIB financed investments should be ensured. The EIB should reflect on how to facilitate this process, via suitable arrangements that are most appropriate in its context of activity, in cooperation with the EC delegations and via enhanced use of EIB local offices.

In order for the EIB to support more effectively EU development cooperation objectives, changes to the EIB means and organisation would be necessary. We recommend strengthening the EIB capability to support these objectives in a progressive way: in the short term, implementing the recommendations provided in chapter 2 of this report, including specific governance to focus *inter alia* on development aspects, examining opportunities for closer interaction and synergies with the Commission including access to concessional funds, selective increase in staff resources, strengthened project monitoring and local presence.

In the medium-term, the EIB could be requested to diversify its financing towards low-income developing countries, but adequate concessional finance and staff resources would be necessary for this purpose. More structural institutional changes should be considered, enabling the implementation of a business model that would strengthen the development impact of its external lending, and adapted to take account of the EU policy framework, as suggested in part II of this report.

1.5 Releasing the optional mandate of EUR 2 billion

There is a good case to continue focusing the largest level of EIB financing activity primarily to Pre-Accession and Neighbourhood regions on the basis of EU proximity and interest, and the possibility for EIB to provide value-added and have a visible and relevant impact. The regional ceilings of EIB financing operations should remain, and indicate the maximum level of EIB activity that can be reached by EIB benefiting from the Community Guarantee in each region over the financial period concerned (in this case 2007-2013). No specific changes to these regional lending ceilings are considered.

¹⁸ Only for sectors where the EU standards do not exist, or are not developed.

All partner countries will need significant additional funding to mitigate and adapt to climate change. A financing gap to reach the Millennium Development Goals remains in many of the low income countries. Macroeconomic absorption concerns do not play a significant role in any of the regions due to the specific nature of EIB investments. Effective due diligence and monitoring can also pre-empt individual absorptive capacity constraints. However, institutional constraints persist generally in many partner countries. The volume of EIB financial support – like the total of all IFIs and EBFIs – is dwarfed by private investments in all regions outside the EU. Hence, crowding out of private flows is not a concern on the macro level.

Taking into consideration the key EU strategic policy priorities and the macro-economic outlook for the coming years including budget constraints and predicted financing needs in the countries covered by the mandate, the Steering Committee is of the opinion that the optional mandate of EUR 2bn for the period 2011-2013 should be released for EIB financing activities in support of the fight against climate change, including adaptation¹⁹, as follows:

- across all regions covered by external lending mandate with no specific regional breakdown;
- in close cooperation with the Commission, and in combination with EU budget grants where possible and appropriate;
- applying the reinforced project level due diligence procedures outlined above.

The optional mandate of EUR 2bn will not have any impact on the existing distribution of regional ceilings for the previously approved mandate of EUR 25.8bn as per Decision No 633/2009/EC.

This application of the optional mandate would thus complement the EIB own-risk “facility for energy sustainability and security of supply” established for the period 2007-2013 for up to EUR 3bn, which also allows financing of climate change mitigation projects (geographic coverage of this facility includes South and East Neighbourhood, Asia, Latin America, South Africa as well as ACP, subject to such operations being rated investment-grade).

The optional mandate of EUR 2bn would bring the total ceiling for EIB financing operations covered by the Community Guarantee to EUR 27.8bn.

We believe that this recommendation for the use of the optional mandate of EUR 2bn would have an exemplary value, as:

- it would focus EIB financing activity on global and regional public goods such as the fight against climate change with a strong development emphasis;
- it would provide for no regional breakdown, thereby leaving to the EIB to play its allocative efficiency function;
- it would be the first illustration of a new reinforced way of close cooperation between EIB and the Commission in support of key EU external policies, through jointly developed strategies and a loan-grant blending mechanism.

¹⁹ This activity would be carried out in the framework of UNFCCC.

Key recommendations on EIB external mandate

Improving the EIB external mandate

- We recommend establishing a streamlined EIB mandate with high-level EU objectives for all regions, for the purpose of enhancing the coherence of the EIB external activities, focusing on sectors of EIB comparative advantage in support of EU policies, whilst leaving room to meet the beneficiaries' requirements and flexibility of operational intervention, along the following lines:

The EIB should focus on financing sustainable public and private investments, in support of EU policies in all eligible countries outside the EU, with specific emphasis on global and regional public goods, in:

- climate-change mitigation and adaptation;
 - economic infrastructure (environment / water, energy, transport, ICT), including energy security;
 - local private sector development, including in particular support to SMEs;
 - other objectives exceptionally identified by the EU for the region or country concerned.
- Particular emphasis should be given to projects fostering regional cooperation.

Within this framework the Council and the EP would continue to decide on regional ceilings and the priority objectives for specific regions.

- The link between the general mandate objectives and their operational implementation by the EIB should be strengthened and made more explicit and structured, by means of operational guidelines to be developed by the Commission together with the EIB, on the basis of the priority objectives defined by the European Parliament and the Council in the specific regions. The EIB will define corresponding financing strategies and their operational implementation.
- The future mandates should include the necessary provisions allowing for updates and adaptations to significant changes in circumstances.

Enhancing EIB contribution to EU development cooperation objectives

- The EIB can contribute to EU development cooperation objectives with different actions at sector and project level, in particular by focusing on certain areas linked to development aspects, such as climate change, economic infrastructure and local private sector development, as well as via reinforced project due diligence and follow up notably on social aspects including human rights and conflict-related risks.
- There may be opportunities for EIB financing in social sectors, such as health and education, in external regions, but initially at least these are likely to be exceptions, and the EIB may be asked to progressively increase its activity in these sectors in the medium term, where there is clear justification and provided it has the appropriate means.
- In order for the EIB to support more effectively EU development cooperation objectives, some changes to the EIB means and organisation would be necessary. Therefore, we recommend strengthening the EIB capability to support these objectives in a progressive way: in the short term, implementing the recommendations provided in chapter 2 of this report; in the medium-term, more substantial changes to the EIB structure should be considered (ref. part II).

Releasing the optional mandate of EUR 2bn

- As foreseen in the current Parliament and Council decision, the largest share of EIB financing activity should continue to be focused primarily on Pre-Accession and Neighbourhood regions, on the basis of EU proximity and interest, and the possibility for EIB to provide a visible and relevant impact. No specific changes to the regional ceilings agreed for 2007-13 are proposed.

- *The optional mandate of EUR 2bn for 2011-2013 should be released for EIB financing activities in support of the fight against climate change, including adaptation, as follows:*
 - *across all regions covered by external lending mandate with no specific regional breakdown;*
 - *in close cooperation with the Commission and in combination with EU budget grants, where possible and appropriate;*
 - *applying reinforced due diligence procedures at project level.*

2 EIB business model, means and value-added

The Steering Committee notes that the current business model of the EIB is mainly based on the following features:

- EU Member States as shareholders. The Commission and the beneficiary countries outside the EU are not shareholders, although the Commission is represented on the EIB Board and has a special institutional relationship with the Bank by virtue of Art 19 of the EIB Statute.
- AAA-rating and related status of first-class borrower, allowing it to borrow on capital markets at the best conditions.
- A high degree of leverage: each EUR 1 of paid-in capital from the Member States leverages up to EUR 50 of EIB lending, given that (i) paid-in capital is equal to only 5% of the subscribed capital, and gearing ratio is equal to 250% between net outstanding assets and the subscribed capital and reserves, less equity participations.
- Strong focus and emphasis on activities inside the EU which account for about 90% of EIB financing activity.
- Project-focused institution with main emphasis on lending activity.
- Non profit organisation with a statutory requirement to cover administrative costs.
- Transfer to the clients of financial benefits obtained from borrowing and from low administrative costs.

In addition to these overall EIB features, the following specificities apply to EIB activities outside the EU:

- Community guarantee to cover the country risks of part of the EIB activity outside the EU (through the EU budget under the external mandate, and by the Member States for ACP countries), with very high leverage effect.
- Ad-hoc access to grants for blending with EIB loans.
- Reliance on the Commission and other EU Institutions for policy definition, policy dialogue, macroeconomic issues, and country strategies outside the EU.

As confirmed by the evaluations, the activity outside the EU has developed in a significant way primarily in middle-income countries, with limited use of technical assistance and concessional finance instruments, limited staff resources particularly for upstream work and for project monitoring, as well as limited local presence compared to the level and complexity of financing activities outside the EU.

Due to both statutory and historical reasons, all the features of EIB business model, with the exception of the AAA-rating, are rather different from those of other MDBs and EBFIs operating outside EU. According to the hearings and country visits of the Steering Committee, the above characteristics result in a key EIB comparative advantage as its lean and efficient set-up allows the EIB to efficiently finance e.g. large scale infrastructure projects. On the other hand, the evaluation found that the reinforcement of resources dedicated to the project appraisal, monitoring and local presence would increase the effectiveness of the mandate.

The financial intermediary function of the EIB as a bank should be primarily to ensure allocative efficiency, achieved when resources are allocated in a way that allows the maximum possible net benefit from their use. This is different from pure cost efficiency, and represents the very contribution that a bank makes to the growth and social progress processes.

In general, the evaluation found that the EIB provides in most cases a substantial contribution to the operations in financial terms. Its non-financial contribution was significant in fewer cases and was limited by constraints such as staff resources and availability of technical assistance funds. The participation of the EIB in the financing of a project, being limited to a maximum 50% of the project cost necessarily requires complementary sources of finance and at the same time provides both an “EU label” and an “IFI label”, that often is critical for a project to proceed, has a positive catalytic effect and reinforces the quality and soundness of an operation.

The EIB evaluation reports show a generally good or satisfactory rating on EIB operations, although they also point at certain areas of improvement, including enhanced monitoring requirements.

2.1 EIB financial value-added and means

Within the framework of the mandate requirements and broad EU policies, EIB interventions are geared to respond to public and private sector financing needs, within the possible type of instruments that the EIB can offer. Country needs and priorities, and the adequacy of the type of financing offered by the EIB in its sectors of intervention are important factors to consider in this respect.

The EIB finances maximum 50% of the investment cost and this makes co-financing with other sources of finance a key feature of all EIB operations. Other sources of funds include the borrower’s own funds, public or private sector fund providers or other IFIs. The catalytic effect of EIB financing is found valuable by borrowers.

Both the external and the EIB evaluators perceive the EIB as adding financial value by providing relatively large lending amounts with long tenors and attractive conditions, particularly in infrastructure sectors. The funds provided by the EIB in public sector operations have on the whole been found additional to those available in the market, through longer maturity and grace periods. In the private sector, the longer tenors of EIB loans make the funds additional particularly in countries with less-developed financial systems. For the shorter maturity loans in the private sector and for lending in support to FDI, the financial value added is more limited.

2.1.1 Maintaining and optimising the Community Guarantee instrument

The EIB external mandate provides for a Community guarantee for EIB operations carried out in the eligible countries under the mandate. The amount covered by the Community Guarantee is equal to 65% of the net outstanding disbursements²⁰ in the current mandate²¹. The types of EIB operations eligible for the Community guarantee cover, as well as other provisions and procedures, are defined in the Guarantee Agreement entered into between the Commission and the EIB.

²⁰ In the previous mandate 2000-2006, it was equal to 65% of the net commitments.

²¹ The amount covered by the Community guarantee is accounted as a contingent liability in the EC budget. It should be noted that at the same time, the financial crisis has led to an increase in the EC Balance of Payment facility (to € 50bn) whose exposure is also accounted as a contingent liability in the EC balance sheet. The combined exposure is expected to peak around 2014.

The Community Guarantee enables the Bank to be involved in a wider range of countries and of borrowers within them than would otherwise be the case, both because it enables the Bank to intervene in higher risk countries and operations, and because it can make the financial conditions more attractive to borrowers. This is particularly valid for sub-investment grade sovereign operations under the comprehensive Guarantee, and for sub-investment grade private sector operations under the political risk Guarantee. In such cases, the Guarantee adds significant value to what would be possible without it.

Thanks to the Community Guarantee, the EIB can maintain the gearing ratio of 250% without a negative impact on its AAA-rating.

The Community Guarantee has provided a very high financial leverage compared to the budget resources allocated as provisions in the EC Guarantee Fund, which are equal to 9% of the net outstanding disbursed amounts. Given that the Guarantee has been very rarely called and funds have always been recovered in full, the net actual cost for the EU budget has so far been negligible. The appropriateness of the provisioning rate of 9% has been studied in a parallel evaluation on the related EC Guarantee Fund, and has not been examined by the Steering Committee. The Community Guarantee is a form of concessional support for EIB borrowers, although the leverage is significantly higher than direct grant support due to the low failure rate as well as a possible reutilisation of provisioned budget funds in case the guarantee is not called or funds are recovered, as it has been the case so far.

Given the high value-added and leverage of the instrument, the Steering Committee recommends maintaining and optimising the Community Guarantee both for the rest of the current mandate until 2013 and for the following ones after 2014. The following actions can be envisaged to optimise the use of the EU budgetary resources in support of EIB financing operations:

- i. Improve and streamline the mandate requirements, as per recommendations in chapter 1.
- ii. Lending for sub-sovereign operations: The current limits of EUR 2bn overall and EUR 400m per each country for sub-sovereign lending, which are defined in the Guarantee Agreement between the Commission and the EIB, represent a constraint on EIB operations in this important sector and should be reviewed, taking into account the needs and the potential budgetary impact of an increased sub-sovereign exposure.
- iii. In a medium-term perspective, invite the EIB to broaden the geographical scope of its lending under the Community Guarantee, possibly towards higher risk countries than those present in the current portfolio.
- iv. Request the EIB to further increase its own-risk lending, after having assessed possible implications (provisioning, use of capital, rating, etc.), particularly for local private sector development and for sub-sovereign borrowers.

There is a general perception that the EIB is cautious in its risk-taking policies. It should be considered that this is part of the whole institutional setup and the business model, mainly driven by the need to preserve the status of the Bank as first-class borrower, which allows passing favourable financing conditions to the clients of EIB financing, and by the statutory requirement to ensure full cost coverage. The EIB is different from Multilateral Development Banks and its policies and procedures are mainly designed for its core business which is within the EU.

It should also be considered that a strict banking attitude is part of the value-added of IFI activity, supporting the financial education of beneficiary countries. The cautiousness of EIB adds to the quality of the "EU label" it provides.

Nevertheless, the Bank has recently increased lending at its own-risk mainly in Pre-Accession region and has allowed for increased risk-taking through provisioning in its balance sheet for losses on

projects where acceptable external risk cover cannot be obtained on reasonable terms (notably in the Mediterranean region through the so called Special Femip Envelope).

The Steering Committee encourages the EIB to take more risk, but more concessional funds and resources would be needed if the Bank were to expand operations in less credit-worthy countries or in sectors where the financial return is low or non-existent even if the economic or development case may be strong.

The Steering Committee recommends consideration of introducing the principle of graduation of EIB eligible countries of operation from Community guarantee to EIB own-risk.

The principle of graduation implies that eligible countries could evolve from receiving EIB support under the comprehensive guarantee, to receiving EIB support under EIB own-risk. The reverse graduation process should also be possible. The application of the principle of graduation by country and by sector should be studied more in detail by the Commission and the EIB in view of the next 2014-2020 mandate.

However, it shall be noted that the current prudent risk management of the Bank would limit the extent of financing that can be provided at own risk, and in any case the related risk would have to be covered either by EIB provisioning or by other appropriate guarantees.

Under the current EIB business model, the EIB own-risk lending is limited to investment-grade countries and to investment-grade structures in sub-investment grade countries (e.g. Turkey).

If the EIB were asked to assume a higher risk on its balance sheet, within the current setup and business model, the EIB would likely further concentrate its own-risk activity in more developed countries and in the private sector. As a consequence, the Community guarantee operations would be more focused on the less developed countries and more risky operations (cf. IDA countries), with possible budgetary implications.

The reform presently introduced in the financial supervision in Europe provides the EIB with an opportunity to strengthen its own system of financial supervision. This task is presently in the hands of the Audit Committee, but in view of the facts that in several fields the EIB is exposed to risks similar to those of the ordinary commercial banks, a change in its "status" is being considered to oblige it to "respect the best banking practices" under the control of its Audit Committee. It would be important that -to face this responsibility- this Committee could rely on professional banking supervision. This could be realized by suggesting that the European System of Financial Supervision (ESFS) participate in the EIB supervision, particularly through supervision "*sur place*" at the request of the management or of the Audit Committee of the EIB.

More fundamental changes to the risk approach of the Bank should be considered in a medium-term perspective, but these are linked to its entire business model and its institutional setup (see part II).

2.1.2 Expanding the range of EIB financial instruments and use of concessional funds

The evaluation found that the effectiveness of the EIB operations is significantly enhanced when technical assistance funds have been provided. It also found that the EIB has been particularly effective in meeting the mandate objectives in the Mediterranean where it operates with a full range of financial instruments (lending with and without the Community Guarantee including use of internal provisioning for riskier operations, risk capital, technical assistance, interest rate subsidies). In other regions covered by the external mandate the range of instruments available to the EIB is more constrained or altogether lacking. The ability of the Bank to finance operations in developing countries or in cases when there is a gap between economic and financial profitability, is limited by the availability of concessional funds.

EIB should maintain its successful, traditional project lending instruments and adapt them if deemed necessary according to the recipients needs, for:

- Technical assistance (based on grant resources) applied at project investment level, to enhance the capacity of beneficiaries, to support project preparation and implementation including monitoring (ref. new Statute²² under EU Lisbon Treaty).
The possibility should be examined by the Commission and the EIB to develop a “Jaspers”²³ type of technical assistance, advice and support to beneficiary countries inter alia in terms of compliance with environmental and social standards, at the early stage of project preparation.
- Equity and venture capital to support the objective of development of local private sector and financial systems. It should be noted that the EIB can make equity investments, on the basis of the new Statute under EU Lisbon Treaty, but there are implications for its balance sheet in using its own funds as opposed to funds provided from budgetary sources.
- Concessional instruments (investment co-financing, interest-rate subsidies, risk taking and guarantee provisioning schemes) through blending of grant and loan products.
These are especially necessary if the EIB is requested (as per recommendations in chapter 1) to support global and regional public goods such as fight against climate change, increase its development cooperation activities and possibly be involved in social sectors, but also for support to EU standards in particular in lower-income countries.
These instruments should be actively promoted in co-financing operations with other IFIs and EBFIs and according to the criteria that have been elaborated in the Council framework on loan and grant blending mechanisms, and by the related expert working group on the additionality of grants in the context of blending mechanisms.

So far, the EIB has financed technical assistance activities and other concessional finance through the EU blending mechanisms, the EU budget and Member States’ funds. The Steering Committee invites the EIB to consider all possible sources of grants including: EU budget, Member States’ voluntary contributions, and EIB own resources from income and loss account.

It is noted that the EIB is also presently active in utilizing part of its net income to cover risks related to specific activities inside the EU, for instance via risk-sharing or guarantee instruments (where the EIB provisioning is matched by equal EC provisioning from EU budget), and has recently started to

²² Art. 18 §7. “As a complement to its lending activity, the Bank may provide technical assistance services in accordance with the terms and conditions laid down by the Board of Governors, acting by a qualified majority and in compliance with this Statute.”

²³ “Joint Assistance to Support Projects in European Regions”, in support of the EU cohesion policy.

fund limited technical assistance activities outside the EU (e.g. Western Balkans Investment Framework).

To ensure that the EIB can adequately fulfil its revised mandate outside the EU, we encourage the EIB to pursue the use of part of its net income for these purposes, notably to finance technical assistance in support of project preparation and project implementation, and exploring the potential for risk-sharing or guarantee schemes, while preserving its financial integrity and its statutory requirements.

The Steering Committee notes that loan guarantees are eligible already under the current mandate but the EIB has not yet concluded any guarantee operation so far. Therefore the EIB is invited to take the necessary steps to explore the potential for this financing instrument in the eligible countries.

Trade finance due to its specificity would remain excluded from EIB instruments.

The total amounts available for EIB lending and from the EU budget for the external regions for the period 2007-2013 are provided in Table 1 in annex 3.

2.2 EIB qualitative contribution and resources

An important aspect of the EIB's qualitative contribution appreciated by promoters and by beneficiary countries is the technical and economic expertise of EIB project staff, mainly developed via operational experience in EU countries, and transferred to operations in partner countries. The economic, financial, technical and environmental quality and soundness of EIB projects is assessed by EIB own project staff, with assistance of consultants in limited cases. This assessment is important as the EIB finances investments that are viable in the long term.

One of the distinctive features of the EIB is that it promotes the application of EU policies and standards outside the EU, notably on procurement and environment.

This is particularly important in the Pre-Accession region, where the adoption of the EU *acquis* and the convergence towards EU standards are important criteria for accession.

The EIB policies for environmental and social aspects and the EIB procurement guidelines have been developed on the basis of EU policies and in line with international best practices of other IFIs. However, as noted above (§ 1.4), the consultation process with local civil society and the due diligence on social aspects on specific projects are currently limited.

In terms of EIB contribution across the project cycle, it is found higher in the project appraisal phase, when EIB resources are most involved to leverage up project standards including via systematic appraisal missions and conditionality. Appropriate conditions are important means to structure and implement investment projects and can provide additional value added to the operations, if appropriately enforced.

The evaluators found some weaknesses in the monitoring phase of EIB projects. It was highlighted that the EIB contribution is most valuable in procurement follow-up, although monitoring of contractual undertakings and monitoring of operations via financial intermediaries is constrained by limited EIB staff resources and local presence.

Thanks to its experience and expertise, in several cases the Bank has provided important additional contributions beyond the pure financial aspects. Nevertheless, the ability of the EIB to provide this value-added is limited due to staff constraints and availability of technical assistance funds which is lacking particularly in certain regions. In cases where technical assistance funds were available to support promoters in project definition, preparation and implementation, notably in Mediterranean region, the performance of EIB operations has substantially improved.

2.2.1 Strengthening project monitoring and local presence

On the basis of the clear findings of the EIB evaluations and of the external experts, it is recommended to strengthen the monitoring of projects during implementation, as well as at completion.

Leverage with borrowers and stakeholders should be used to obtain timely and relevant information on the progress of projects. Disbursements should be closely linked to achievement of project implementation milestones.

The EIB has developed experience in financing SMEs by local financial intermediaries particularly in Pre-Accession and Mediterranean regions, as well as in South Africa. In this sector, the EIB assesses the capacity of financial intermediaries to allocate the EIB financing to eligible SMEs for eligible projects.

There is relatively little information on the quality of the sub-projects financed and consequently the final beneficiaries' performance, which is linked to the absence of a requirement for financial intermediaries to send ex-post results on individual operations

Monitoring of global loans or loans for SMEs, should be improved, to ensure that financial intermediaries properly implement the EIB requirements, to ensure accountability, transparency and environmental sustainability in the use of funds, and transfer of benefits to local SMEs. The definition of SMEs used in each external region should be clarified, taking into account of the structure of the local economies.

Indicators and benchmarks to better track the value-added and impact of EIB operations should be clearly defined for all regions and sectors, building on the existing Economic and Social Impact Assessment Framework and including the new development cooperation objectives enshrined in the mandate, and properly monitored throughout the project cycle until ex-post evaluation. In particular, this includes assessment and tracking of:

- i. the "consistency with and support to EU policy objectives" (which should now be taken to include development objectives), as well as with specific external mandate requirements;
- ii. the quality of projects, including via indicators to assess the actual economic and social impact on final beneficiaries, as well as environmental impact, and the actual delivery of expected project benefits;
- iii. the EIB financial and non-financial contribution, including via indicators to assess the EIB additionality compared to alternative sources of finance, and the synergies with EU budget funds.

Compliance / Redress mechanism

The Steering Committee recognizes the important role of the EU Ombudsman in external mandate execution, in order to improve access to independent compliance mechanisms for communities outside the EU. While this is already possible under the terms of an MoU between the EIB and the EU Ombudsman, it is recommended to strengthen the effectiveness of the EIB compliance and redress mechanism outside the EU, by giving it sufficient resources and power to make due diligence and checks on the ground in the event of complaints by the affected communities.

Local presence

With respect to local presence, it is noticed that the EIB has established 9 small external offices (5 in ACP, 3 in Mediterranean, 1 in Turkey) with about 27 staff in total, which have mainly a representative function. This local presence is much lower than that of MDBs and the main EBFIs (see Table 4 in annex 3) and is found to limit the effectiveness and impact of EIB operations. It is thus recommended to reinforce the role of local offices, exploiting possible synergies with the Commission's delegations, in order to enhance project monitoring and help overcoming project

bottlenecks, as well as to improve interaction with beneficiaries including supporting public participation in EIB due diligence process.

2.2.2 Reinforcing EIB staff resources

One of EIB's most important comparative advantages is its lean and efficient set up, which entails relatively limited administrative costs. Compared to other IFIs, the EIB present the highest ratio in terms of lending volume per staff member.

For reference, the EIB operational lending directorates include about 200 staff members dealing with direct banking activity in regions outside the EU (including about 80 staff members working on ACP). An additional estimated 100-150 support staff is involved in external financing activities (project appraisal/monitoring, legal, credit risk) or administrative and financial support.

EIB lending signatures outside the EU in 2009 amounted to EUR 8.8bn, an amount higher than the total activity of EBRD, and about 1/3 of the combined activity of IBRD and IFC over the period 2004-2008. Therefore, as shown in Table 4 in annex 3, it can be estimated that the EIB lends outside the EU more than EUR 40m per staff member (about EUR 25m including ACP), compared with about EUR 3-7m for a typical MDB, i.e. about 10 times more, given the different mandate and type of activity of the EIB.

The EIB transfers the financial benefits of its funding to the beneficiaries with relatively low margins to cover 100% of the administrative costs. The EIB has specific targets to ensure cost coverage of operations and build the necessary reserves to self-finance capital increases and support the expansion of the activity, on the basis of its statutory obligations.

Nevertheless, with reference to EIB activity in the regions covered by the external mandate, the evaluation found that the tight staff resources of the EIB reduce in certain circumstances the effectiveness of EIB operations taking into account the requests put on EIB, as well as expectations of the EU Institutions and civil society. In particular, the evaluation found that: (i) the translation of EU policies into EIB lending strategies and the economic and sector analysis of country needs are very limited; (ii) the EIB efforts to monitor project implementation, ensure local presence and follow-up on environmental and social aspects, appear still insufficient; (iii) the EIB ability to satisfy the mandate requirements on development aspects is only indirect. The project selection process is also influenced by limited resources, by a higher emphasis on relatively larger and relatively less complex operations.

Thus, the evaluation concludes that the capability of the EIB to properly contribute to EU external policies and serve EU interests is hampered by limited staff and limited local presence. A trade-off thus needs to be found between preserving the high level of efficiency of the EIB, and allowing it to dispose of the necessary resources to effectively meet the ambitious objectives of the external mandate.

In order to do so, we recommend that EIB makes a study to be submitted to its governing bodies on how to selectively strengthen staff resources with an appropriate expertise in order to effectively address the needs identified by the evaluations. Increases in staff resources should be duly justified, and duplication of work with other Institutions should be avoided. In particular, it should be considered whether actions can be taken to optimise synergies between EIB, the Commission, as well as other IFIs and EBFIs, taking into account the skills and expertise needed with respect to the specific financial and technical work required to fulfil the EIB mandate.

Level of ambition, mandate requirements and EIB means including staff resources must be aligned, and this should be fully part of the *modus operandi* of the EIB and its governing bodies.

Key recommendations on EIB business model, means and value-added

- *Level of ambition, mandate requirements and EIB means must be aligned.*
- *Given the high value-added and leverage of the Community Guarantee instrument, it is recommended to maintain and optimise it both for the rest of the current mandate and for the following ones after 2014.*
- *The current limits of EIB sub-sovereign lending under the Community Guarantee represent a constraint on EIB operations in this important sector and should be reviewed, taking into account the needs and the potential budgetary impact of an increased sub-sovereign exposure.*
- *The EIB should be encouraged to pursue own risk activities. In this context, we recommend studying for future mandates the principle of graduation of countries from eligibility to the Community guarantee to EIB own-risk lending. Taking into account the need to preserve the credit standing of the EIB, we encourage the EIB to expand its external lending activity and its capacity for risk taking, under an appropriate supervision scheme.*
- *The range of financial instruments should be expanded to include guarantees, more technical assistance, concessional finance (in particular to support development objectives) and equity, provided that the EIB is able to access the necessary sources of grant funds.*
- *The evaluation found that tight staff resources limit the full effectiveness of EIB operations. Therefore, while sustaining its commendable efforts to control costs, and in order to enhance the effectiveness of its operations and its capability to meet the mandate objectives, the EIB staff resources should be reinforced as necessary, after proper analysis of the justifications and of the possible synergies with the Commission and other financial institutions. Project monitoring and when needed local presence should be strengthened, in order to improve the quality of EIB investments and the value-added to final beneficiaries.*

3 Collaboration with the Commission and cooperation with other IFIs and European bilateral financing institutions

3.1 Collaboration between the EIB and the Commission

The evaluation shows that, while cooperation between the EIB and the Commission was very limited before 2000, it has made good progress over the period under review i.e. 2000-2009. There is scope for further improving the combined action of the two institutions to contribute to the common EU external objectives.

Opportunities for short-term improvement are represented by a better articulation of the activities of the EIB and the Commission and better integration upstream and downstream in the lending process in particular exploiting synergies at country/sub-regional level. These opportunities are described below, while medium-term possible options are outlined in part II.

3.1.1 Strengthening EC-EIB policy support and upstream programming

The EIB relies on the Commission for definition of strategy and policies at country level. The contribution of the EIB to this definition is ad-hoc and rather limited compared with the financial and technical expertise developed by the EIB through its interaction with borrowers and project promoters. Moreover, a specific gap also exists at sector level.

The Memorandum of Understanding between the Commission and the EIB established under the new mandate 2007-2013 has allowed the start of a closer cooperation and dialogue at strategy and policy level. The effort is still in progress: while a high degree of mutual understanding is observed at the political and top management level, a part of the staff in the two institutions does not always understand and value each other's role and potential contribution to the common EU objectives.

Femip is a good example of closer policy cooperation between the Commission and the EIB, as well as with EU Member States and partner countries. This takes place via the Femip Steering Committee, which deals with policy and strategic issues and includes participation of EU Member States and Mediterranean partner countries, and via the Femip Ministerial meetings which also include participation at ministerial level of EU Member States and partner countries.

Institutional cooperation between the EIB and the Commission should be reinforced at all levels, based on mutual understanding and clear expectations, outlined by respective governing bodies and management, and shared with all staff.

The EIB should be more involved in support to EU policy definition and in the development of country and sector strategies by the EC, in order to better plan and tailor its interventions in the framework of EU external action. Upstream consultation with beneficiaries and civil society should also be pursued in collaboration between the EIB and the Commission. In particular, the beneficiary countries should be more systematically involved in the process of prioritization for EIB sectors of activity, in close cooperation with the Commission.

The Commission and the EIB should cooperate early enough in the EIB lending process to strengthen the link with EU policies and provide guidance for EIB mandate implementation (see § 1.3.2), and to ensure EIB projects' compliance with relevant EU policies before the EIB appraisal phase is completed (e.g. in the context of the Article 19²⁴ consultation procedure). Both parties should make renewed efforts to ensure that this cooperation proceeds effectively.

²⁴ Ref. article 19 of the EIB Statute annexed to EU Lisbon Treaty (former article 21).

The current EC programming for allocation of EU budget in various external regions is geared to the delivery of grant assistance, and not well suited for the delivery of EIB lending support. On the other hand, EIB's programming and project identification is also constrained, e.g. by the terms of its finance (non-concessional) and by its lack of staff. However, opportunities exist for an enhanced coordination of these parallel processes in the short-term and possibly closer integration in the medium-term.

More structured arrangements at regional and/or country level should be established to facilitate the identification and prioritization of relevant projects, which should be consistent with EU policy objectives, and could be co-financed by EC and EIB (see next § 3.1.2). There is particular scope for this in sectors where both grant and loan funds are likely to be necessary, such as water/sanitation; climate change; elements of transport; and lending to small- and medium-scale private sector projects.

The EC-EIB Steering Committee – established under the EC-EIB MoU to strengthen the consistency of EIB operations with the policies of the Community – should facilitate the link between the general mandate requirements and EU policies, and the EIB operational implementation. Moreover, it should ensure that opportunities for operational synergies and joint programming are fully exploited.

3.1.2 Establishing an “EU platform for external cooperation and development”

In order to live up to the Paris and Accra Agenda and the EU Code of conduct on division of labour, it is essential to optimise EU and MS financing in support of EU external cooperation and development, in the context of existing instruments. For effective and efficient EU external cooperation and development financing, close cooperation must be fostered among the relevant institutions to avoid duplications and competition which can harm the development effectiveness and impact.

The Council recognized at end 2008 (see Dec-08 report in reference) the importance of loan and grant blending in the context of EU external assistance, and a working group established by the Council has recently completed its work to identify the positive and negative aspects of the use of grants in combination with loans, and parameters to assess the related value-added (see Dec-09 report in reference). This report supports the view that blending of grants and loans is an effective way to maximise political and financial leverage and support EU policy objectives outside the EU.

There is a multitude of instruments and facilities for the delivery of EU (and MS) grant resources for various external regions. Table 1 in annex 3 shows the level of EU grants available for each region for the period 2007-2013, equal to EUR 55.9bn, as well as the level of EIB lending available under mandate and under own-risk, equal to EUR 40.5bn.

In case of Mediterranean region, the joint bilateral instruments²⁵ set-up by the Commission and the EIB are found to promote closer collaboration and efficient use of EU and EIB resources, with clear synergy between the contributions of the two institutions. The external evaluation highlighted that budgetary funds used for Femip risk capital and technical assistance are used effectively to reach EU policy objectives and allowed a better definition and implementation of EIB-funded projects.

The recently created mechanisms for blending grants with loans, open to the EIB and other IFIs and EBFIs, such as the EU-Africa Infrastructure Trust Fund, the Neighbourhood Investment Facility and the Western Balkans Investment Framework, offer enhanced blending opportunities to leverage EC grants with EIB loans.

²⁵ The instruments include the Femip Risk Capital envelope, the Femip Support Fund for TA, and the Femip Trust Fund.

Notwithstanding their still relatively short life-span, these mechanisms appear as a valuable means to increase aid effectiveness and coherence, to optimise financing packages for beneficiaries and therefore enhance credibility and leverage resources, to improve the visibility of European external assistance and to promote cooperation between European aid actors. However, it can be observed that these mechanisms have been developed ad-hoc for specific purpose without a general approach or a comprehensive overview, resulting in the following situation:

- these blending mechanisms are regionally differentiated, and not all regions and sectors are currently covered;
- the governance structure and the decision-making provisions diverge;
- the possible involvement of beneficiaries in submission of grant requests and of European bilateral financing institutions in the blending mechanisms are different;
- the role that the Commission, the EIB, other IFIs and EBFIs play varies between the various mechanisms.

Against this backdrop, a comprehensive and simultaneous review of these mechanisms should be carried out by end 2010 by the Commission in close collaboration with the EIB and Member States, with the view to propose improvements and streamlining.

On the basis of this review, the Commission and the EIB, in close collaboration with the Member States, should develop an “EU platform for external cooperation and development”, providing a comprehensive coordination mechanism, based on an optimal model for blending of grants and loans and building on principles of mutual reliance between financing institutions, open to participation of the EBRD, CEB and European bilateral financing institutions and with appropriate beneficiary involvement (see scheme in figure 1). This model should foster EU coherence, effectiveness, efficiency, and visibility in external financing, leveraging respective strengths of the Commission, EIB, EBFIs and other European IFIs.

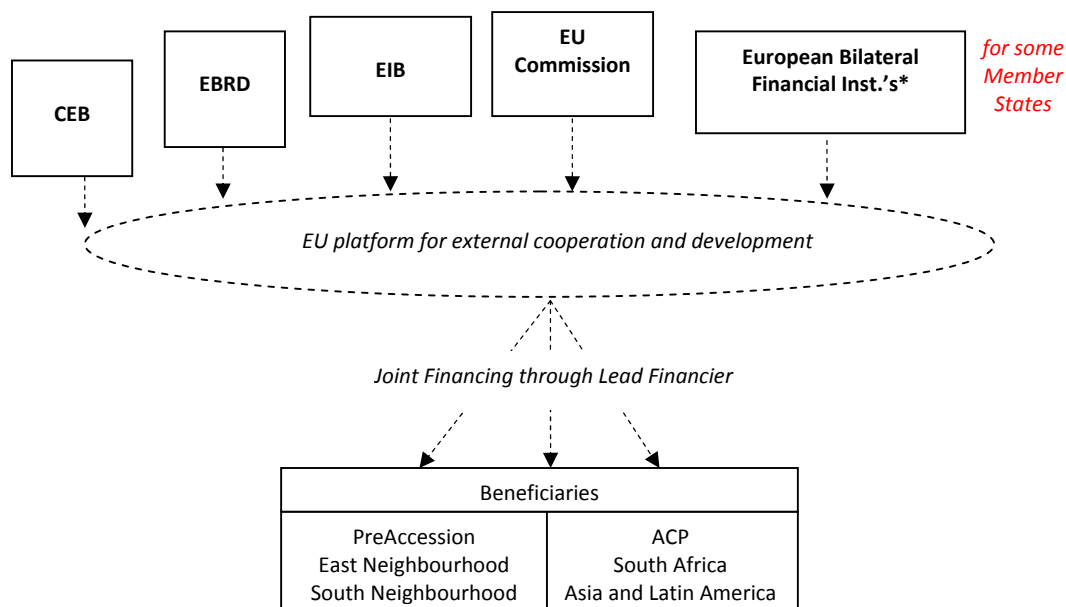


Figure 1. Scheme of the “EU platform for external cooperation and development”

*: EBFIs also include EDFIs, the European Development Finance Institutions, a group of 15 bilateral institutions which provide long-term finance for private sector enterprises in developing and reforming economies.

This model for EU blending mechanisms should ensure a coherent and more effective EU approach to blending mechanisms, coherent governance provisions and decision-making criteria and a clear definition of roles of participating institutions, Member States and beneficiaries. The principles developed in the Council framework on loan and grant blending mechanisms (see references) should be applied.

The aim should be to further enhance each player's comparative advantage and to coordinate/cooperate to a maximum degree possible among European financial institutions (multilateral and bilateral) in order to satisfy both the growing needs of partner countries as well as the commitments made by the EU and the Member States in the European Consensus on Development (including harmonisation and division of labour).

To this effect, the EIB, the Commission and Member States are encouraged to pursue the current activities by streamlining existing facilities and pooling of grant resources in the framework of EU blending mechanisms.

3.2 Cooperation and synergies between the EIB and other IFIs and European bilateral financing institutions

In comparison with other IFIs, the EIB is the main player in terms of lending volumes in the regions of Pre-Accession and Mediterranean, and a significant player in the ACP region and South Africa. On the other hand, the EIB has played a less prominent role in the Asia and Latin America regions as well as in Eastern Neighbourhood & Russia so far. The cumulative level of EIB financing in terms of signatures over 2004-2008 in the regions covered by the mandate (excluding ACP) has been equal to EUR 21.8bn, about 1/3 of the worldwide non-concessional lending of the World Bank Group (IBRD and IFC), as shown in chart 8 in annex 3. For reference cumulative lending volume of EBRD in the same period has been EUR 15bn in Pre-Accession region and Eastern Neighbourhood & Russia.

Given the significant needs and financing gaps in beneficiary countries outside the EU, as highlighted also by the recent financial crisis, there is more than ever a need for IFI cooperation and strong coordination, exploiting synergies and leveraging respective core competencies and comparative advantages, in the countries of common operation.

Nevertheless, IFI cooperation and co-financing should not become an end in itself, whereas the overall effectiveness and efficiency of project delivery should be the main common goal. In particular, cooperation between IFIs makes sense only if it proves beneficial to the borrowing countries, namely, if IFI cooperation does not involve them in a complex set of different negotiations/reporting obligations/coordination between IFIs.

We emphasise this point because we are aware that there is a prejudice among most stakeholders that IFI co-financing at project level is "positive". IFI coordination does have benefits but also costs that should be duly considered.

Against this background, EIB should continue its close cooperation with other IFIs and EBFIs in the delivery of EU objectives while fulfilling its mission and mandate outside the EU. Priority should be given to cooperation with EBRD and European bilateral financial institutions, such as AFD, KfW and other EBFIs, as well as other European-based IFIs, such as CEB and NIB, while not ignoring the value of cooperation also with financial institutions based elsewhere.

3.2.1 Project co-financing and mutual reliance

Co-financing of projects between EIB and other IFIs or EBFIs is found to be very significant in the regions covered by the mandate. More than half of the EIB lending under mandate has been co-financed with other IFIs or EBFIs in 2008 and in 2009 (see Table 3 in annex 3). Co-financing has always been a key feature of EIB operations, considering that the EIB finances only up to 50% of the investment cost, and that particularly public sector projects in external regions require pooling of funds from multiple sources.

IFIs' operational cooperation can take various forms:

- IFIs' coordination on respective complementary financing activities towards a common area of operation. IFI financing takes place in parallel and targets different investments with different types of instruments, relying on respective IFIs' comparative advantages and complementarities, similar to the recent Joint IFI Action Plan for financing of the banking sector and lending to the real economy in Central and Eastern Europe (Feb-09).
- Parallel co-financing (which currently is the predominant form of co-financing), where each IFI finances separate project components of the same investment, and negotiations with the borrower are held separately with each IFI following its own procedures on procurement, environment and social aspects, credit risk, disbursements, monitoring, etc. Parallel co-financing enables avoiding IFIs' competition for the whole project which some times is too large for one IFI, sharing the project risk among more than one IFI, but often making heavier the administrative burden on the borrower.
- Joint co-financing of the same project, for instance for projects with relatively larger external financing needs with application of "mutual reliance" wherever possible and identification of the "lead IFI". Joint co-financing should be pursued when it makes sense in the interest of the project beneficiaries (which is not always the case), while respecting each IFI's respective mandates and policies, and the free choice of the client on the sources of financing.

The Steering Committee considers that a move away from parallel co-financing in favour of joint financing would be in the interests of the borrowers and improve the efficiency of the financing support given by IFIs.

To identify opportunities for co-financing, an early exchange of information on project pipelines is necessary, especially to identify the opportunities for joint co-financing as upstream as possible in the lending process.

Fixed co-financing shares between IFIs should be ruled out in agreements and joint facilities, as they do not leave sufficient flexibility and limit the free choice of clients.

For co-financed projects, the EU shareholders should continue to promote the concept of "mutual reliance" between EIB and other IFIs and EBFIs, in a reciprocal way, to reduce duplication of efforts and costs for IFIs and beneficiaries. Mutual reliance is based on an agreement between Financial Institutions (FIs) to rely, whenever possible, on the project identification, due diligence (especially environmental and social due diligence, procurement, and disbursement procedures), monitoring and evaluation of and by the Lead Finance Institution. The co-financiers agree to use the lead FI's related documentation for their own decision-making process and to use a common language. This is obviously applied to projects which require co-financing of Financial Institutions (FIs).

The concept is already developing in a promising way with EBFIs, notably AFD and KfW, and should be rolled out with other IFIs wherever possible.

Mutual reliance agreements with other IFIs and EBFIs can be a way to leverage the differences in engagement intensities across regions, and rely on respective comparative advantages. Mutual reliance aims to support EU aid effectiveness in accordance with the European Code of conduct (complementarity, division of labour and efficient / effective European Development Cooperation and Development Finance). In the spirit of the Accra Agenda for Action mutual reliance aims at reducing administrative burden and transaction costs, especially on the partner side.

These mutual reliance arrangements should promote EU standards, e.g. in terms of procurement and environmental and social aspects, while taking into account the aid effectiveness objective of promoting the use of local systems. For mutual reliance to be applicable, the participating Financing Institutions are required to agree on the mutual recognition of standards and procedures already in the short term. This should be relatively easier between the EIB and the EBFIs, given application of common EU standards.

In the medium term, efforts should be continued to align and harmonise project-cycle procedures and standards (e.g. environment, procurement, monitoring). If this harmonisation process, for one reason or another (e.g., the different mission and mandates of the IFIs) is thought to be unviable, there is no alternative, but the mutual recognition of standards procedures within a preset time frame. Recalling the benefits of the European Single Act, the common EU shareholders should promote in each institution the relevant legal changes to this effect.

3.2.2 Cooperation with EBRD

The EBRD has a specific transition mandate and a business model based on local presence and higher risk-taking profile than the EIB.

The EIB and the EBRD have different mandates, partly different shareholders and different business models, as well as different internal organisational cultures. However, the common EU shareholders and the EC have an interest to ensure that the synergies between the two Institutions are maximised, also considering that over the last years their areas of operation and sectors of intervention have increasingly been overlapping outside the EU.

It is recalled that the European Parliament voted²⁶ in March 2009 the “Mitchell” report on the 2007 annual reports on the activities of the EIB and EBRD (see extracts in annex 6).

Cooperation between the EIB and the EBRD is differentiated by region:

- The tripartite MoU between EC, EIB and EBRD in the Eastern Neighbourhood, Russia and Central Asia is under revision to allow more flexibility and ownership from both Banks.
- The cooperation in Western Balkans has traditionally been very intense in the post-war period and is expected to evolve under the new Western Balkans Investment Framework.
- Cooperation in Turkey is in its early phases. The Accord between EC, EIB and EBRD is offering a flexible framework for cooperation, which recognizes the specific comparative advantages of the two Banks.

A new Mutual Understanding between EIB and EBRD is being developed to provide a framework for cooperation in all common countries of operation outside the EU.

In the short term, better mutual understanding between the two Banks and a clearer basis for cooperation should be established, reflecting the comparative advantages of both banks, in line with the recommendations of the EP. Upstream transparency on respective pipelines should be implemented with a view to maximise opportunities for co-financing in areas of common operation. Mutual reliance should be explored although there are difficult barriers to overcome, such as: the fact that EBRD is not bound to comply with EU policies and standards, the EBRD focus on the

²⁶ The results of the vote in the Plenary were 518 (+), 34 (-), 18 (0).

transition impact and related assessment, and the possible resistance of staff from the two institutions.

Better cooperation between the EIB and EBRD would clearly be beneficial to both parties. But there are limits to what can be achieved without institutional changes, as the respective shareholders and management should recognise. In the medium-term, such changes should be considered by the common EU shareholders (see part II).

3.2.3 Cooperation with other IFIs

The EIB President regularly attends the biannual meetings of the Heads of MDBs (and IMF) and the annual meeting of the Heads of MFIs (including the EC and multilateral financing institutions). The EIB actively participates in several networks of IFIs both on horizontal subjects (environment, evaluation, risk management, budget and planning, internal audit, etc.) and on operational cooperation by region.

The EIB has signed several Memoranda of Understanding (MoUs) with all the main IFIs in all external regions, in most cases involving the EC as well. These MoUs have proven to be useful agreements to establish a form of dialogue and cooperation, but their actual impact especially in operational terms is often limited.

- Cooperation with the World Bank Group is more limited than with EBRD or EBFIs although increasing in particular in ACP and Mediterranean as part of the response to the crisis and related response initiatives promoted by IFC. Several projects have been co-financed in the private sector between the EIB and IFC particularly in ACP region. The World Bank (IBRD) considers that there are more opportunities for cooperation with the EIB in the co-financing of large public sector infrastructure projects. Institutional dialogue is taking place in the framework of the Heads of MDBs meetings, in the framework of the Luxembourg process with EC and IMF for cooperation in the Mediterranean, and the recent crisis response initiatives.
- Cooperation with CEB is very good at institutional level, and both banks closely cooperate in the framework of Western Balkans Investment Framework. At operational level, the opportunities for co-financing are limited due to the specific nature of CEB mandate focusing on social sectors, which has limited overlap with the current EIB external mandate.
- Cooperation with ADB is intensifying on the basis of a bilateral MoU, and recently this materialized in an agreement for the delegation of procurement and disbursement tasks from the EIB to the ADB for a specific investment programme.
- Cooperation with IADB is relatively limited institutionally but quite regular at project level, and mainly based on a bilateral MoU covering Latin America and Pacific regions.
- Cooperation with AfDB is increasingly taking place in the framework of the EU-Africa Infrastructure Trust Fund, where the AfDB participates as observer at project financiers' level.

3.2.4 Cooperation with European bilateral financial institutions (EBFIs)

The EIB has a very close relationship and collaboration with European bilateral financing institutions (EBFIs), in particular AFD/KfW in the Mediterranean region (as well as in ACP). In these regions, the three Institutions have significant levels of interaction at institutional and operational level, and this leads to several opportunities for co-financing increasingly promoting the mutual reliance concept.

Although not strictly part of the scope of the mid-term review, the "European Financing Partnership" between the EIB and EDFIs for financing private sector projects in ACP is found to be

an excellent example of pooling of resources, delegated cooperation and full mutual reliance on the “lead IFI”. The contribution of the co-financing IFIs should always be visible and acknowledged.

The EIB and the EBFIs should be encouraged on a reciprocal basis to continue and further intensify their operational cooperation, via co-financing activities in the framework of the existing European Financing Facilities (e.g. EU-Africa Infrastructure Trust Fund, Neighbourhood Investment Facility, Western Balkans Investment Facility), as well as beyond.

Mutual reliance should be the guiding principle for EIB’s co-operation with EBFIs with the objective to delegate tasks related to project preparation/due diligence, implementation and monitoring to the largest possible extent to one of the participating financing institutions, assuming the role as Lead Financier. Mutually recognising and relying on the procedures and standards applied by the Lead Financier as well as the sharing of all relevant information between the Lead Financier and the participating financing partners are essential requirements that should be adhered to in mutual reliance (correspondingly to commercial club deals).

EIB’s co-operation with EBFIs should contribute to most effectively combine the different financing instruments and expertise (e.g. co-financing, risk taking, provision of guarantees, rendering of financial engineering and structuring skills).

The Commission should continue to enhance stronger cooperation between EIB and EBFIs. The combination of different financing instruments should follow the criteria elaborated in the “Expert Working Group on Blending”.

Mutual reliance in a mid-term perspective should be envisaged as a broader approach aiming both at including further EU actors and other IFIs as well as stimulating ideas on a feasible scenario for a common EU financing mechanism that further explores the potentials of innovative EU development finance (ref. “EU platform” in § 3.1.2).

3.2.5 Enhancing EU shareholders’ support for IFI cooperation

The EU Member States, and the EC where applicable, are encouraged to make more efforts to coordinate respective positions as shareholders in the Boards of various IFIs, and to ensure coherent and consistent instructions to their representatives in the interest of the common EU policies and objectives. Coordination between different functional areas should also be pursued, in particular for what concerns EIB activities outside the EU, between Finance, Foreign Affairs and Development functions of various shareholders.

The EU Member States, and the EC where applicable, could request their Executive Directors in the Boards of IFIs to report on progress on IFI cooperation. An annual informal meeting of all EU Executive Directors should be held, at the joint invitation of both the Commission and the EIB, at which issues of coherence could be the centre of discussions.

Key recommendations on EIB collaboration with the Commission, and cooperation with other IFIs and European bilateral financing institutions

- *The Commission and the EIB should continue to reinforce their collaboration. The Commission and the EIB should cooperate early enough in the EIB lending process to strengthen the link with EU policies, to ensure EIB projects' compliance with relevant EU policies, and to fully exploit opportunities for project co-financing by blending grants and loans. Both parties should make renewed efforts to ensure that this cooperation proceeds effectively.*
- *A comprehensive and simultaneous review of the existing blending mechanisms should be carried out by end 2010 by the Commission in close collaboration with the EIB and Member States, with the view to propose improvements and streamlining.*
- *The Commission and the EIB, in close collaboration with the Member States, should establish an "EU platform for external cooperation and development", i.e. a coordination mechanism for blending of grants and loans, building on principles of mutual reliance between financing institutions and open to participation of the EBRD, CEB and European bilateral financing institutions and with appropriate beneficiary involvement. This platform should foster EU coherence, effectiveness, efficiency, and visibility in external financing, leveraging respective strengths of the participating institutions.*
- *To this effect, the EIB, the Commission and Member States are encouraged to pursue the current activities by streamlining existing facilities and pooling of grant resources in the framework of EU blending mechanisms.*
- *The EIB should pursue its close cooperation with other IFIs and EBFIs in the delivery of EU objectives while fulfilling its external mandate. Nevertheless, IFI cooperation and co-financing should not become an end in itself, whereas the effectiveness and efficiency of project delivery should be the main common goal.*
- *For co-financed projects, the EU shareholders should continue to promote the concept of "mutual reliance" between EIB and other IFIs and EBFIs, in the short term based on the mutual recognition of working methodologies and procedures, and in the medium term based on harmonisation of standards. At operational level, the EIB and other IFIs and EBFIs should cooperate wherever justified through joint co-financing.*
- *These mutual reliance arrangements should promote EU standards, e.g. in terms of procurement and environmental and social aspects, while taking into account the aid effectiveness objective of promoting the use of local systems.*
- *With respect to EBRD, in the short term, better mutual understanding between the two Banks, transparency of pipelines, and a clearer and rational division of labour should be implemented. In the medium-term closer integration of the two Banks should be considered.*
- *The EU Member States, and the EC where applicable, are encouraged to coordinate and align their positions as shareholders in the Boards of various IFIs, in the interest of the common EU policies and objectives.*

4 Consolidate the EIB activities outside the EU

The EIB governing bodies, in particular the Management Committee and the Board of Directors, are appointed by the EU Member States and deal with all EIB activities, inside and outside the EU. The Commission is a member of the Board of Directors, but not a shareholder.

The current setup of the Bank is such that the operational staff (banking function) for activities outside Europe (Neighbourhood and partner countries, Asia and Latin America, ACP including South Africa) is organised in a specific directorate, while the operational staff dealing with Pre-Accession countries is part of the directorate for operations in the EU. The support functions, including project engineers and economists, legal staff, credit risk staff, are each part of a separate Bank's directorate which deals with both operations in the EU and outside the EU. Most of the resources are absorbed by the activity in the EU.

This operational setup resulting from the history of the Institution and which has served relatively well so far appears now less and less adapted to the growing volume, complexity and importance of its external operations. This should now be reviewed, so as to allow a more focused management of external operations and a change in the culture of the organisation including a closer collaboration with the Commission.

For this purpose, the Steering Committee is of the opinion that all the EIB financing activities outside the EU²⁷ should be consolidated in a dedicated **EIB entity** with appropriate participation of the Commission. This should provide a better framework than the current one by satisfying the following **criteria**:

- i. reinforce the contribution and visibility of EIB support to EU external action and to all EU policies, by establishing a specific organisation with a governance and structure adapted to the specificities of operations outside the EU, which are currently overshadowed by the much higher number and different focus of intra-EU operations; the creation of the EIB entity should allow the EIB Board of Directors to focus on strategies;
- ii. in order to strengthen policy support and upstream coordination with the Commission as well as combination of EIB financing with EU grants, the Commission should take appropriate participation in the governance of the EIB entity, e.g. at strategic and policy level, and through a Commission representative;
- iii. reinforce links and ownership process with beneficiaries, for example applying a policy framework for dialogue with beneficiary countries as currently done under Femip;
- iv. be fully accountable as a public institution, and focus on tangible benefits and positive impact for the final project beneficiaries; strengthen the consultation process with local civil society;
- v. provide a better instrument for blending of EIB financing with concessional finance in support of EU development objectives, and ensure an optimal interaction between the new entity, the Commission and other IFIs/EBFIs within the EU platform for blending (ref. chapter 3);
- vi. improve access to development expertise, both by providing a stronger focus for interaction with Member States' development institutions, and by facilitating the hiring and retention of people with experience of operations in weaker institutional environments;
- vii. develop and implement appropriate policies suitable to external activities;

This entity could take the form of an **EIB subsidiary**, the establishment of which will no longer need an inter-governmental agreement (as was the case for the creation of the European Investment

²⁷ EFTA countries could continue to be served by the EIB directorate for operations in the EU.

Fund) since the Lisbon Treaty has become effective, and can be decided by unanimity of EIB Governors (ref. art. 28 of EIB Statute). However, the feasibility of this needs to be established. Therefore, it is recommended that the EIB swiftly launches a detailed **feasibility study** on the costs, benefits, scope and implications to establish an **EIB subsidiary** focusing on EIB financing outside the EU, with definition of the appropriate modus operandi and governance²⁸.

- The creation of an EIB subsidiary should not require any additional capital from Member States.
- The global relationship with EU private clients of the EIB (large EU corporates, large EU financial institutions) should be managed in an optimised way within the EIB Group.

During the time until the possible start of activity of the EIB subsidiary, the EIB governing bodies could immediately decide to establish an in-house EIB organisational structure drawing on the experience of the ACP-Investment Facility and Femip, covering all EIB's external activities including Pre-Accession and in as much as needed the support functions dealing with the project cycle, but this should not delay the establishment of a subsidiary if shown to be feasible.

The creation of the EIB entity would entail only changes within the EIB in the short term, and, depending on the expectations of the Council and the EP, may not represent a sufficient means to adequately address all the challenges and requirements related to the EU development goals. On the other hand, the EIB entity together with the EU platform for blending would represent an important first step towards the development of a European system of external finance, and could be seen as a first stage towards the medium-term perspective (ref. part II), while being fully justified in its own right.

Key recommendation on consolidating the EIB activities outside the EU

- *In view of the growing volume, complexity and importance of EIB external financing activity, and to enhance the impact, effectiveness, efficiency and visibility of all EIB activities outside the EU, we recommend that these activities be consolidated in an "EIB entity", with a specific governance and organization dedicated to operations outside the EU, allowing a much more focused management of external operations. The Commission should take appropriate participation in the governance. The entity could take the form of an "EIB subsidiary", following a detailed feasibility study to be swiftly launched by the EIB.*
- *During the time until the possible start of activity of the EIB subsidiary, the EIB governing bodies could immediately decide to establish an in-house EIB organisational structure drawing on the experience of the ACP-Investment Facility and Femip.*

²⁸ Annex 5 outlines a few elements for the EIB subsidiary to be examined within the feasibility study.

5 Conclusions of part I

On the basis of the assessment of EIB activities from 2000 until 2009, provided by external experts and by EIB's evaluation department, as well as our extensive hearings with EU policymakers and stakeholders, our own visits to beneficiary countries, and our own reflections, we came to the following main conclusions:

- The EIB is a powerful instrument to serve the EU external policies and related objectives, which has served the EU well so far. Several measures outlined in this report could allow the EIB to contribute even more forcefully to the efforts of the EU in response to the significant current and future challenges.
- The human and financial resources of the EIB should be adequately aligned with the requirements of its mission in order to meet more effectively the objectives, while preserving its current lean business model.
- Development-oriented finance by the EIB requires adequate access to EU budgetary funds through the joint "EU platform for external cooperation and development".
- The value-added of EIB financing activities outside the EU could be improved also by enhancing the collaboration between the Commission, the EIB and other IFIs and European bilateral financing institutions.

Level of ambition, mandate requirements and EIB means must be aligned.

As a consequence, we recommend the EU policymakers and the EIB as appropriate to adopt the recommendations contained in this report, within the current structural framework. Effectively implemented by the EIB and the Commission as appropriate, they could add further effectiveness, efficiency, and value to the already significant track record of the EIB in its activity outside the EU.

We consider, however, that these improvements, valuable as they would be, still leave scope for further development in the context of the broader need to equip the European Union with the most appropriate instrument for development cooperation and for economic, financial and technical cooperation with third countries, to address the mounting and daunting challenges of the first years of the 21st century, which were made even more acute by the major changes brought about by the recent crisis. For this reason, we believe that it is our responsibility to provide the European Parliament, the Council, the Commission and the EIB not only with the above recommendations but also with our own suggestions about how the EIB might be positioned to help the Union to shape this new landscape. We are of the view that a major step forward could be realized by the reorganisation of the available financial instruments for cooperation and development of the Union to enhance the impact, effectiveness, efficiency and visibility of EU financial support to partner countries, as outlined in the following part II of this report.

PART II. SUGGESTIONS TO ADDRESS THE CHALLENGES OF THE YEARS AHEAD

This part II contains the reflections and suggestions of the Steering Committee on the possible options for the medium-term (i.e. with the horizon post-2013), as they could make necessary several complements to the recommended reforms included in part I. These suggestions are based on the assumption that the European Parliament and the Council will provide the EIB with a renewed mandate and will maintain the EU Guarantee in the next Financial Framework 2014-2020.

6 Outlook

Recent developments in the EU institutional and policy framework, as well as in the international economic and financial landscape, are likely to have a significant impact on EIB operations outside the EU in the coming years. These are essentially related to the new EU institutional framework, the global macroeconomic outlook, and in such a context the increasing importance of aid effectiveness.

6.1 EU institutional framework

With the entry into force of the EU Lisbon Treaty on 1st December 2009, the EU will be able to play a more active and coordinated role on the international scene. The EU will increase its high-level political ambition to be a stronger global player. The appointment of the EU High Representative for Foreign Affairs and the establishment of the European External Action Service will be key enabling elements to reinforce the EU diplomatic action.

6.2 Macroeconomic outlook

On a macroeconomic level, it can be observed that in the aftermath of the crisis, global imbalances are expected to increase in the coming years, as a result of the recent financial crisis. The OECD countries including most of the EU Member States are expected to have high levels of public debt and current account deficits, and sluggish economic growth. This will lead to further pressure to tighten budgets and may have impact also on the EU budget into the period of the next financial perspectives, calling for stronger need to use other financial instruments available to the EU, in particular EIB financing capacity, based on its significant ability to raise funds in international capital markets at attractive conditions and pass these benefits to its counterparts.

On the other hand, emerging countries such as China, Brazil, India are likely to have a more robust economic growth and some of them have high current account surpluses and accumulated reserves available for investments worldwide. The economic weight of the EU, relative to such countries, will be significantly lower in 2014-20 than in the period that we have been reviewing, and their market access will be good. This may imply relatively modest requirements for IFI-type finance post-2014.

On the other hand, in low and middle-income countries without high current account surpluses, we may expect continued demand for IFIs' financial support, not least in view of the need for infrastructure for their growing economies and adaptation to climate change, not all of which can be financed from market sources. Among this group, a significant number will still need highly-concessional assistance, but there will also be some graduation towards less-concessional borrowing. There is an increased need for risk-taking capacity of IFIs. Our assumption is that the EIB will be expected to play a key role in this respect, in close cooperation with the Commission, other IFIs and European bilateral financing institutions.

6.3 Aid effectiveness

In the developing countries, the importance of aid effectiveness will become even higher, and the EU as the largest donor worldwide, will be expected to lead actions to improve the delivery of financial assistance in the interest of the beneficiary countries and of EU policy objectives.

Despite numerous achievements, the European external assistance remains too fragmented and not yet fully in line with the European Consensus on Development and with Aid Effectiveness agenda. The question of the European external assistance architecture needs to be addressed.

It is recalled that the European Parliament voted²⁹ in March 2009 the report on the 2007 annual reports on the activities of the EIB and EBRD, expressing the opinion that any overlap of the European Union's external assistance instruments should be avoided and calling for very bold moves (see extracts in annex 6). The EP recalls the importance of strengthening synergies, ensuring a coherent approach and better visibility of the EU impact, in order to guarantee a maximum impact for the beneficiary countries, and considers that the EIB should play a predominant role regarding the promotion of the EU's environmental, social and development objectives among MDBs.

In addition, the European Parliament voted in January 2010 a resolution (see references) on the second revision of the ACP-EC Partnership Agreement (the "Cotonou Agreement"), considering that structural changes in the EIB's organisational and governance structure are necessary in order to ensure fulfilment of its development obligations inter alia in the context of the ongoing mid-term review and renewal of the EIB's external lending mandate.

7 Way forward

The above mentioned developments led us to reflect about the pertinence of our recommendations under this new framework and in the medium-term, i.e. as of 2014. Therefore, we saw it as appropriate to provide the policymakers with our suggestions for the medium-term development of EIB external activity. Under the increasingly difficult circumstances being faced by the global economy the expectations for a broader contribution of the EIB appear high, and therefore the changes which could have been satisfactory in earlier circumstances are likely not to be sufficient any more. The recommendations provided under part I of this report cover improvements that can be implemented in the next years and under current institutional framework, but these improvements still leave scope for further development.

On the above basis, the Steering Committee is of the view that further efforts to enhance the EU impact, effectiveness, efficiency and visibility of EU financial support to partner countries, would imply rationalising and streamlining the currently parallel financing efforts made by the EC, the EIB, other European IFIs, European bilateral financial institutions, and Member States, so as to address as effectively as possible the following key objectives:

- Ability to strongly support EU external action and development cooperation objectives, and contribute to EU policy objectives and visibility.
- Effective aid delivery to beneficiaries through appropriate instruments and expertise.
- Effective governance including appropriate role for the EC and Member States.
- Enhanced beneficiary ownership and involvement.
- Optimised leverage of EU budget and Member States capital resources with no added budgetary cost.
- Integrated action and synergies between the different actors, by a better use of their respective financial resources, available instruments and staff resources.

²⁹ The results of the vote in the Plenary were 518 (+), 34 (-), 18 (0).

The opportunity should be explored to further leverage the strong EIB capacity to raise funds in global capital markets, in order to meet the market's demand for high-quality and secure investments. At the same time, the strength of the financial basis of the EIB should allow it to take more risks in a prudent manner and with appropriate safeguards (e.g. under supervision as indicated in par. 2.1.1), possibly increase its lending volume and provide the corresponding benefits to its counterparts. It should be borne in mind however that the regulatory policies recommended by the G20 and under development by the Financial Stability Board point to a reduction of leverage and a strengthening of the capital base for all the banks.

7.1 Outline of medium-term options

As outlined by the evaluation, currently there are structural limits on the EIB ability to satisfy the above aspects within the existing institutional setup. The consolidation of the EIB activities outside the EU in an EIB entity as recommended in part I would of course be a first step to address the above aspects, but it would not be sufficient, and more structural changes should be considered. Depending on the role and the ambition that the Council and the European Parliament would assign to EU's external financing actions, various options can be envisaged. Among the many options, the Steering Committee explored two alternatives for the further development of EIB's activities outside the EU, without excluding other possible models. These options should be seen as part of an evolutionary process, in continuity with the recommendations provided in part I, and most notably build on: (i) the creation of an "EIB entity" consolidating EIB activities outside the EU, and (ii) the "EU platform for development cooperation".

The medium-term options could be operational as of 2014. This would require a well-considered process, ideally set in train during the present mid-term review. The first step would be to consider whether one or both options were worthy of further study. The second step would be to commission adequate feasibility studies of any option or options selected, in order to lay the grounds for the institutional changes to be decided.

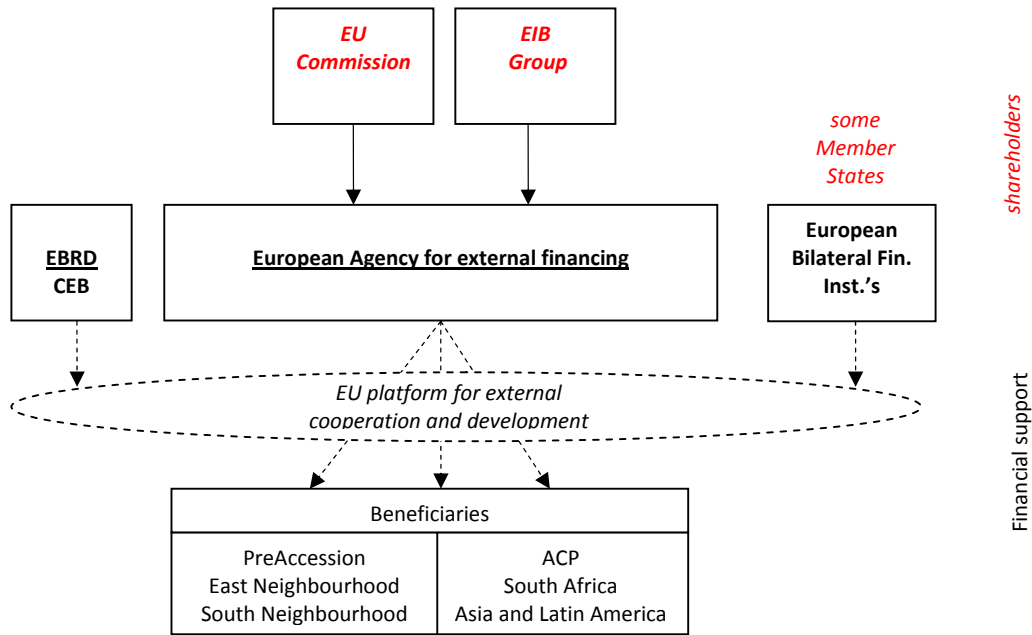
Option 1. A "European Agency for external financing"

This option would significantly enhance cooperation between the Commission and the EIB by integrating the external financing activities of the EIB and the external investment-related financing activities managed by the Commission³⁰, creating a "European agency for external financing", as outlined in the scheme in figure 2.

The Agency would build on the creation of the "EIB entity" recommended in part I, and reinforce the combination of the EU loan and grant financing activities within the "*EU platform for external cooperation and development*".

The Agency would operate under mandate from the EU with an EU guarantee as appropriate. Funding for on-lending would continue to be provided by the EIB Group, whereas grants would be provided by the EU budget and EDF (for ACP). The Agency would develop its regional and sector strategies in full alignment with EU policies and in full conformity with the guidelines adopted together with the EC.

³⁰ This is only a share of the overall external financing managed by the Commission.



Note: For the EU platform scheme, please see figure 1.

Figure 2. Scheme of the “European Agency for external financing”

The geographical scope should include Pre-Accession, Neighbourhood, ACP, Asia, Latin America, South Africa.

The governance of the Agency should properly reflect the respective responsibilities and roles of the Commission and the EIB and could be organised as follows:

- A Supervisory Board responsible for strategies and policies.
- An Investment Committee responsible for management and financing decisions.
- Regional committees for consultation with beneficiaries.

This option would provide net benefits from enhanced aid effectiveness and service to beneficiaries, and should not entail additional costs to shareholders and to the EU.

We suggest that the Commission and the EIB undertake a feasibility study to explore this scenario more in detail, under the supervision of an independent Working Group. For this purpose, we suggest the draft terms of reference provided in annex 7. The feasibility study should be carried out by an independent consultant jointly selected by the EIB and the Commission.

Option 2. A “European Bank for Cooperation and Development”

Evolutions in the international aid landscape and the scale of global challenges that need to be addressed could justify the creation of a major European external instrument bringing the external activities of the EIB under a common shareholding umbrella together with the external activities of the EC and the EBRD, and so creating a “European Bank for Cooperation and Development” (EBCD), as outlined in the scheme in figure 3. The geographical scope of this institution should be defined in due time.

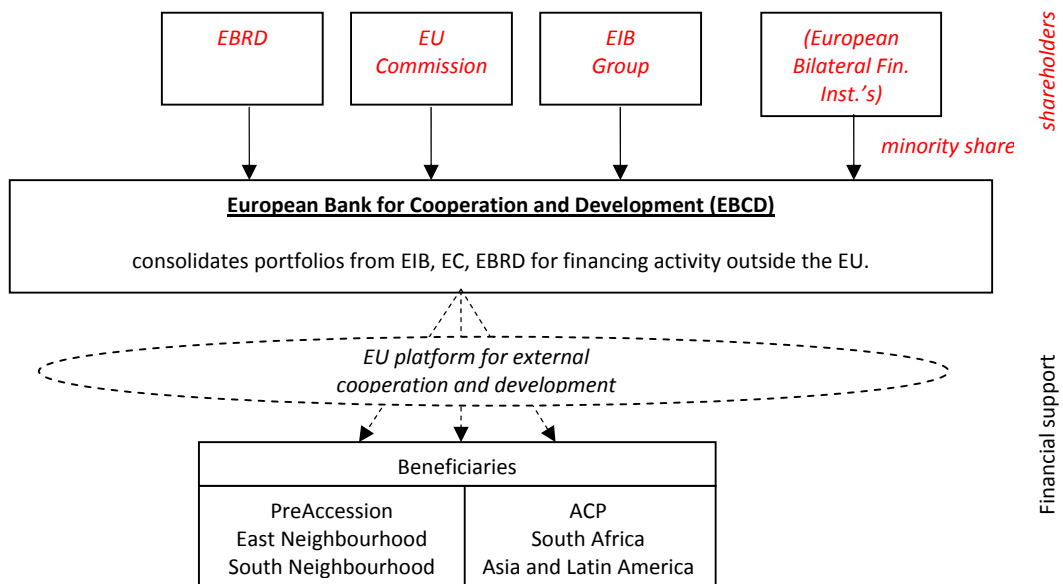
In this way, the current strengths of the Institutions could be pooled at the service of the common EU objectives:

- the EC as the key driver of EU policies, with solid expertise in programming and delivery of grant support at regional and country level and dialogue with beneficiary countries;
- the EIB as first-class borrower with a solid balance sheet and strong expertise in financing viable investments;
- the EBRD as highly reputable MDB with strong expertise in private sector financing in transition countries and extensive and locally-based staff;
- the EBFIs as Member States’ institutions with extensive technical and financial capacity, local staff presence, and knowledge of development and cooperation issues.

The creation of the EBCD would make it possible to provide partner and developing countries with consolidated volumes of financing that would enhance the effectiveness and impact of EU support.

The three Institutions, EC, EIB and EBRD would jointly participate in the EBCD. Close cooperation and coordination with EBFIs would continue to be ensured via the “EU platform for external cooperation and development” whose impact could be further enhanced by the creation of the EBCD. It could be considered if EBFIs could be offered a minority shareholding. Other European IFIs such as the CEB could also be invited to join the EBCD at appropriate stage.

The EBCD would operate under mandate from the EU as appropriate under its guarantee. It would dispose of significant combined expertise of its founding Institutions, a wide range of instruments (loans, grants, guarantees, technical assistance), strong local presence, and capacity to support the ambition of the EU external policies. In an increasingly competitive and fragmented landscape, the universality of instruments constitutes a decisive comparative advantage.



Note: For the EU platform scheme, please see figure 1.

Figure 3. Scheme of the “European Bank for Cooperation and Development”

As the creation of the European external bank is understood to be an ambitious and challenging task, it is unlikely to be occurring in a single step, therefore we would suggest to consider this as an evolution of the previous stages, namely the creation of the EIB subsidiary and/or the creation of the EU Agency. The possible rationalisation of shareholding with respect to EBRD could be

considered by the EU policy-makers and Member States, depending also on decisions of EBRD non-European shareholders, and after timely discussions with them.

As recently recommended by the European Parliament (see annex 6, § 29), we must mention the opportunity offered to the shareholders of the EIB to consider an increase of the EIB' ownership of the EBRD, for instance in the context of a next capital increase. A similar approach could be taken by the EU in order to preserve the *pari-passu* shareholding in the EBRD of the EU and the EIB.

7.2 Conclusions of part II

The opportunity should be explored to further leverage the strong EIB capacity to raise funds in global capital markets, in order to meet the market's demand for high-quality and secure investments. At the same time, the strength of the financial basis of the EIB should allow it to take more risks in a prudent manner and with appropriate safeguards (e.g. under supervision), possibly increase its lending volume and provide the corresponding benefits to its counterparts.

The European authorities could be surprised by our caution in advancing suggestions to address the challenges facing the EU in the international domain during the years following the present mandate. We have been of the view that the framework of our mandate did not allow us to elaborate further in this domain, whatever its critical importance. We think, nevertheless, that the two stylized options we have sketched out offer a clearer vision of possible later developments.

These options should be seen as part of an evolutionary process, in continuity with the recommendations provided in part I: (i) the creation of an "EIB entity" consolidating EIB activities outside the EU, and (ii) the "*EU platform for external cooperation and development*". These two innovations adopted during the present mandate would of course keep their "*raison d'être*" and would provide an appropriate basis for the two further and more far-reaching developments outlined in part II.

We believe that a more in depth analysis of these options should be carried out, and therefore we suggest to the EU policy-makers to establish an independent Working Group, composed of personalities independent from the Institutions concerned, charged with the task to explore the medium-term options more in detail including supervising the related feasibility studies, and provide appropriate recommendations to policy-makers.

On this basis, an informed decision should be made, allowing the EU to dispose in the medium-term of an appropriate instrument to serve its policies, to face the future challenges, and to play a visible, effective and efficient role in its financing action outside the EU. A strategic choice should be made on how to gradually move from the current system with minor adaptations, towards these more ambitious developments of the EU external financing operations.

The Steering Committee is of the view that whatever the option which could be finally adopted, the EU and its Member States have at their disposal several remarkable instruments which, provided they are adequately reorganized and their synergy enhanced, could contribute to the international strategies of their Union in a significant way.

Abbreviations

ACP	Africa, Caribbean and Pacific
AFD	Agence Française de Développement
ALA	Asia and Latin America
CEB	Council of Europe Development Bank
DAC	Development Assistance Committee (part of OECD)
DCI	Development Cooperation Instrument
DG	Directorate General
EBFIs	European Bilateral Financial Institutions owned by an EU Member State
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECFIN	Economic and Financial Affairs Directorate (European Commission)
EDFIs	European Development Finance Institutions
EDF	European Development Fund
EIB	European Investment Bank
ENPI	European Neighbourhood and Partnership Instrument
EP	European Parliament
EU	European Union
EV	EIB evaluation department
FDI	Foreign Direct Investment
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation (part of the World Bank group)
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
JASPERS	Joint Assistance to Support Projects in European Regions
KfW	Kreditanstalt für Wiederaufbau
MDB	Multilateral Development Bank
MFI	Multilateral Financing Institution
MoU	Memorandum of Understanding
MS	EU Member States
NDEP	Northern Dimension Environmental Partnership
OCT	Overseas Countries and Territories
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
SMEs	Small and medium-sized enterprises
TA	Technical Assistance
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

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Annex 1. Terms of reference of the Mid-Term Review

DECISION No 633/2009/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 July 2009 granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community

...

ANNEX II

Mid-term review and terms of reference for the evaluation of the EIB's external mandate

Mid-term review

A substantive mid-term review of EIB external financing will be conducted by 2010. This review will draw on an independent external evaluation, which will also be transmitted to the European Parliament and the Council. The review will provide the basis for the decision of the European Parliament and the Council as to whether and to what extent to release any optional mandate to top up the guarantee foreseen in this Decision, for the period following 2010, as to whether to make other amendments to the mandate, and as to how to ensure maximum added value and efficiency in the EIB's operations. The Commission will present the mid-term review to the European Parliament and to the Council by 30 April 2010, as the basis for any proposal for the amendment of the mandate.

The framework of the evaluation

It will include:

- (a) an evaluation of the EIB's external financing activities. Parts of the evaluation will be conducted in cooperation with the EIB's and the Commission's evaluation departments;
- (b) an assessment of the wider impact of the EIB's external lending on interaction with other international financial institutions and other sources of finance.

The evaluation will be supervised and managed by a steering committee comprising several 'wise persons' appointed by the EIB Board of Governors, an EIB representative and a Commission representative. The steering committee will be chaired by one such 'wise person'.

The steering committee will be supported by the EIB's and the Commission's evaluation departments and by external experts. These external experts will be selected through a tender process managed by the Commission. The steering committee will be consulted on the terms of reference and on the criteria for the selection of the external experts. The costs of external experts will then be borne by the Commission and will be covered by the budget line dedicated to the provisioning of the Guarantee Fund.

The final evaluation report will be submitted by the steering committee, and will draw clear conclusions, based on the information gathered, to provide information necessary for the decision of the mid-term review as to whether to release the optional tranche for the remainder of the mandate and as to the regional distribution of any additional financing.

The scope of the evaluation

The evaluation will cover the previous mandates (2000 to 2006) and the first years of the 2007-2013 mandate, up to the end of 2009. It will examine project financing volumes and disbursements by country as well as technical assistance and risk capital operations. Considering the effects at project, sector, regional and country level, the evaluation will base its conclusions on:

- (a) the in-depth evaluation of the relevance, performance (effectiveness, efficiency and sustainability) of EIB operations against their specific regional objectives as originally set within the relevant Community external policies as well as of their added value (to be conducted in association with the EIB's evaluation unit and Commission services);
- (b) the assessment of consistency with the relevant Community external policies and strategies and of the additionality and added value of EIB operations in the first years of the 2007-2013 mandate in the framework of the specific regional objectives in the 2007-2013 mandate and of the corresponding performance indicators to be set by the EIB (to be conducted in association with the EIB's evaluation unit and Commission services);
- (c) analysis of the financial needs of the beneficiaries, their absorption capacity and the availability of other sources of private or public financing for the relevant investments; EN 22.7.2009 Official Journal of the European Union L 190/9(d) the assessment of the cooperation and coherence of actions between EIB and the Commission;
- (e) the assessment of the cooperation and synergies between the EIB and international and bilateral financial institutions and agencies.

For the purposes of the assessments under points (a) and (b), the added value of EIB operations will be measured against three elements:

- support of Community policy objectives,
- the quality of the projects themselves, and
- alternative sources of financing.

Annex 2. The Steering Committee of “wise persons”: profile of members**Michel Camdessus (chair)**

Former Managing Director of the IMF (1987-2000), Mr. Camdessus is Honorary Governor of Banque de France. Previously, he has been head of the French Treasury and Chairman of the European Monetary Committee and of the Paris Club. In September 2009, he was appointed Special Commissioner to monitor French banks' bonus payments practices. He is a member of the Africa Progress Panel, chaired by Kofi Annan, and of the UN Secretary General's Advisory Board on Water and Sanitation. He was the Chairman of the French Financing Corporation-SFEF (2008-2009). He was a member of the Commission for Africa, chaired by the Tony Blair (report: “Our Common Interest” - 2005). He was the Chairman of the World Panel on Financing Water Infrastructure (report: “Financing Water for All” - 2003).

He was educated at the University of Paris and earned postgraduate degrees in economics at the Institute of Political Studies of Paris and the National School of Administration (ENA). He was born in Bayonne, France, on May 1, 1933. French national, he is married to Brigitte d'Arcy; they have six children.

Kemal Derviş

Dr. Kemal Derviş, former Minister of Economic Affairs of Turkey (2001-2002) and Executive Head of UNDP (2005-2009), currently holds the position of Vice President and Director of Global Economy and Development at the Brookings Institution and is a member of the International Board of Overseers of Sabancı University. He chairs the International Advisory Board of Akbank and is an Advisor of the Director-General of the ILO.

Kemal Derviş received his Bachelors and Masters Degrees from the London School of Economics (1969, 1970) and his PhD from the Princeton University (1973). After holding various positions there, he became Vice-President of the World Bank in 1996. Kemal Derviş returned to Turkey in February 2001 where, after his cabinet post as the economy minister, he got elected to Parliament at the November 2002 elections, representing Istanbul. While in Parliament, Dr. Derviş was a member of the European Convention working on a Constitution for Europe. Dr. Derviş has published various articles and books in Turkish, French, German and English on macro economics, international trade, planning and growth models, global governance, income distribution, development and the European Union.

Norbert Kloppenburg

Dr. Norbert Kloppenburg first worked as a consultant in Burundi before transferring to the Konrad-Adenauer-Foundation in India. He has been working for KfW Bankengruppe since 1989. After heading the Brussels office of KfW Bankengruppe in the mid-1990s, he returned to KfW Bankengruppe in Frankfurt/Main in 1998 and was responsible for the Energy and Environmental Technologies Division of the Export and Project Finance Department. From 2002 onwards he headed the Asia and Europe Directorate at KfW Entwicklungsbank. He has been on the Managing Board of KfW Bankengruppe since 2007 in charge of the international financing activities of KfW Bankengruppe. Dr. Kloppenburg is on the Board of several business associations.

Manana Kochladze

Manana Kochladze is Regional coordinator for the Caucasus of the Central and Eastern European Bankwatch Network, and has been in charge of the region since 1998. In 2004 Ms Kochladze was honoured with a Goldman Environmental Prize in recognition of her campaigning work on the

controversial Baku-Tbilisi-Ceyhan campaign. She is one of the founders of environmental watchdog 'Green Alternative', which has been particularly committed to environmental protection in Georgia. Ms Kochladze is the author of several reports and other publications focusing on social and environmental issues in the region.

She graduated in 1994 with an MSc degree in Biology from Tbilisi State University and continues postgraduate education in Institute of Physiology.

Richard Manning

Richard Manning is an independent consultant on international development.

He worked for nearly 40 years in the UK Department for International Development and its predecessor agencies. This included postings to the British High Commission in Lagos in the late 1960s and to Bangkok, as head of the South-East Asian regional office of the then Overseas Development Administration in the late 1970s. He was closely involved in the negotiations leading to the first Lome Convention, as First Secretary in the UK's Permanent Representation to the EC, and was UK Alternate Executive Director at the World Bank from 1984-86. From 1996-2003 he served as a Director-General in first ODA and then DFID. From 2003 to 2007 he was Chair of the OECD Development Assistance Committee, where he was closely involved in the negotiation of the Paris Declaration of 2005. He is currently Chair of the Board of the Institute of Development Studies.

Luis Martí Espluga (vice-chair)

Luis Martí held the position of deputy director of the Spanish Exchange Control and presided over the dismantling of the institution in 1973. For several years he was a director in the Spanish Export Credit Corporation [CESCE] and became Executive Chairman of the Board in 1982. Between 1990 and 1993 he was chief executive officer in the Spanish Foreign Trade Institute. He was Vice-President and member of the Management Committee of the EIB between 1994 and 2000, and Executive Director in the Board of IMF 2003-2004, and in the World Bank 2004-2006. He often lectures and publishes on world economic topics.

Sauli Niinistö

Sauli Niinistö is lawyer and judge by profession, but entered in his 40's into politics. He has been MP nearly twenty years and is currently Speaker of the Parliament of Finland. Former Minister of Justice, Minister of Finance and Deputy Prime Minister during years 1995-2003. He served as a Vice-President and member of the Management Committee of the EIB from 2003 to 2007.

In 1994-2001 he was acting as the Chair of the National Coalition Party in Finland and is also honoured as the Honorary Chair of the European People's Party EPP.

Ewa Osniecka-Tamecka

Ewa Osniecka-Tamecka is the vice-Rector of the College of Europe Natolin campus in Poland. Former Secretary of State for European Affairs, she acted as Poland's Sherpa for EU Constitution. Before that she was a Chief de Cabinet of the Minister for European Affairs, National Aid Coordinator, Director of the Programme Management Unit responsible for implementing EC PHARE SIERRA/FIESTA programme, and an Adviser to the Minister for European Affairs in the Prime Minister's Office.

Involved for many years in the programming and management of the EU funds for Poland, especially in the field of European Integration programmes and preparation of the Polish membership in the EU, she is a Member of the Board of the Cooperation Fund.

Mario Sarcinelli

Mario Sarcinelli made his career at Banca d'Italia, the Italian central bank, that he left in 1982 as Deputy General Manager to become Director General of the Italian Treasury for the following nine years. For a brief spell in 1987 he was appointed Minister of Foreign Trade. In 1991 he became Operations Vice President of the newly established EBRD. From 1994 to 1998 he was chairman of the publicly owned Banca nazionale del lavoro. Until 2008 he was a lecturer mainly in monetary economics at the University of Rome "La Sapienza". In 2000, he was appointed by the Inter-American Development Bank as one of the four experts of the External Review Group for assessing the role of the IADB in the private sector. He has published extensively on economic, monetary, financial and fiscal topics, both in Italian and in English, and has contributed regularly to the leading economic and financial newspaper "Il Sole-24 ORE" until 2006. At present, he is chairman of Dexia Crediop, a bank specialised in financing local authorities and in project finance, and is an independent Board director of a few companies.

Jean-Louis Biancarelli (EIB representative)

Jean-Louis Biancarelli, a French national, Honorary Director General of the European Investment Bank (EIB), was born in 1946.

After completing his studies in Economics, Political Sciences and Sociology at the University of Aix-en-Provence, he was assigned to the Ministry of National Economy in Tunisia, where he worked as Technical Adviser to the Minister from 1970 to 1973. He subsequently moved to the World Bank in Washington where he remained for 3 years as Project Officer in the Central Project Staff Unit. In 1977 he joined the EIB as loan Officer in charge of a number of African countries and became Head of Division for Western Africa in 1983. A move to the post of Head of Division for Lending Operations in France followed in 1986, and later, in 1992, he was nominated Director for Lending Operations in Africa and in 1994, Director for the African, Caribbean and Pacific States (ACP). At the end of 1996, he became Head of the Mediterranean countries Department. From the year 2000 until his retirement at the end of 2008, he was the EIB's Director General for Lending Operations outside the European Union.

David McGlue (Commission representative)

Until 2008 David McGlue was Director in the European Commission responsible for the Commission's own financial market operations, the management of investment financing programmes for small business, and relations with the European Investment Bank Group. Between 1994-2000 he was full-time resident Executive Director of the European Investment Fund after occupying various posts in the Commission in the fields of finance, energy and industrial policy. He began his career in London in the UK diplomatic service after studies at the Universities of Cambridge (M.A.) and Sussex (PhD. Economics). He is currently a member of the Board of Directors of the EIF.

Annex 3. Statistical appendix

Table 1. Level of financing available by EIB and the EU per each external region

	EIB lending ceiling 2007-2013 EUR bn	EU budget funds 2007-2013 EUR bn
PreAccession	8,700 + 6,200 ³¹ own risk	11,500 (1)
Mediterranean	8,700 + 2,000 own risk	7,500 (2)
Eastern Neighbours & Russia	3,700 + 1,500 own risk	3,800 (3)
Asia	1,000	5,200 (4)
Latin America	2,800	3,300 (5)
Rep. of South Africa	900	0,960 (6)
Optional mandate	2,000	
Energy sustainability and security of supply	3,000 own-risk	
Others		23,600 (7)
Total	40,500	55,900

Notes:

- (1) IPA (Instrument for Pre-Accession Assistance) for assistance to candidate and potential candidate countries.
(2) ENPI (European Neighbourhood and Partnership Instrument) (EUR 7.300 billion for the financial cooperation with Mediterranean countries, as well as the peace process and UNRWA) and DCI (EUR 0.200 billion for East of Jordan)
(3) ENPI financial cooperation with Eastern Europe, including cross-border cooperation (EUR 0.160 billion)
(4) DCI (Development Cooperation Instrument) cooperation with developing countries in Asia, of which 0.320 billion for the rehabilitation and reconstruction in Afghanistan in 2009-2010.
(5) DCI cooperation with developing countries in Latin America.
(6) DCI relations with South Africa.
(7) This figure covers the rest of Heading 4 of the EU budget, including :

Thematic programmes:

- Food security (EUR 1.600 billion)
- Non-State actors and local authorities (EUR 1.600 billion)
- The environment and the sustainable management of natural resources (EUR 0.950 billion)
- Human and social development (EUR 1.000 billion)
- Cooperation in the area of migration and asylum (EUR 0.400 billion).

The European Instrument for Democracy and Human Rights (EIDHR): EUR 1.100 billion over the period 2007-2013.

The Instrument for Cooperation with Industrialised and Other High-Income Countries (ICI): EUR 0.200 billion.

Specific crisis-response instruments:

- The Instrument for Stability (IfS): (EUR 1.800 billion)
- The Humanitarian Aid Instrument: (EUR 5.600 billion)
- Common foreign and security policy (CFSP): (EUR 2.000 billion)
- Macro-financial assistance and loan guarantee: (EUR 0.800 billion)
- Emergency aid reserve: (EUR 0.480 billion in 2008).

³¹ Total amount authorized for 2000-2010 is EUR 19,500m, of which EUR 6,200m available for the 2007-2010 period in the current PreAccession countries. The facility may be replenished for the 2011-2013 period.

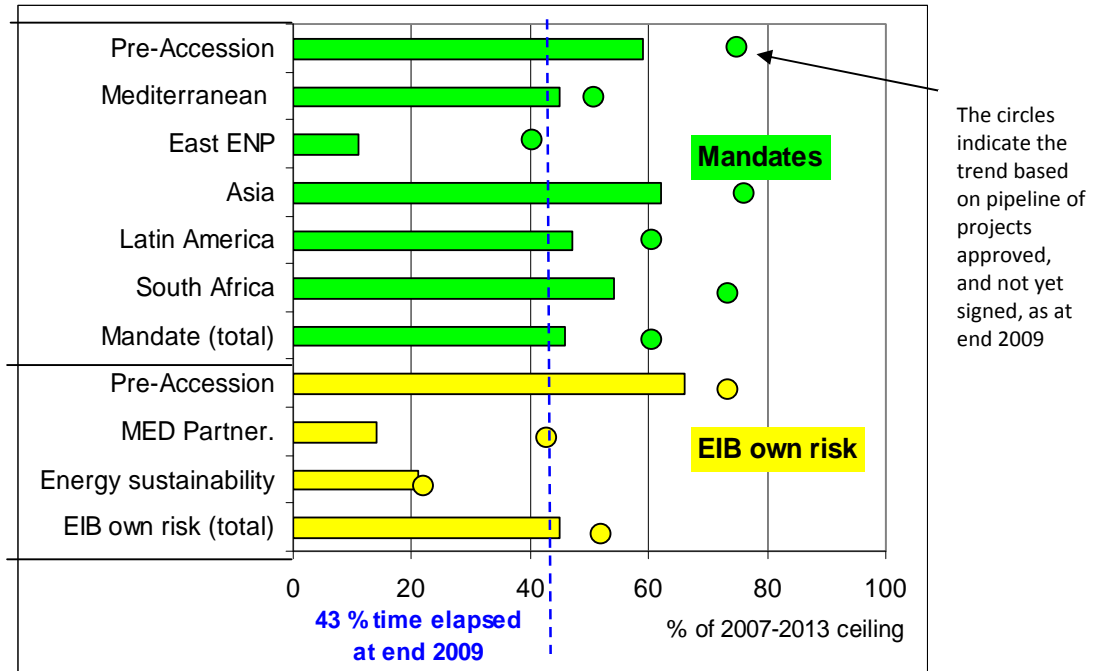


Chart 1. Level of commitment of EIB mandates and facilities at end 2009 out of the total available for 2007-2013 (actual signatures and trend based on pipeline of approvals)

Source: EIB Operations Evaluation department

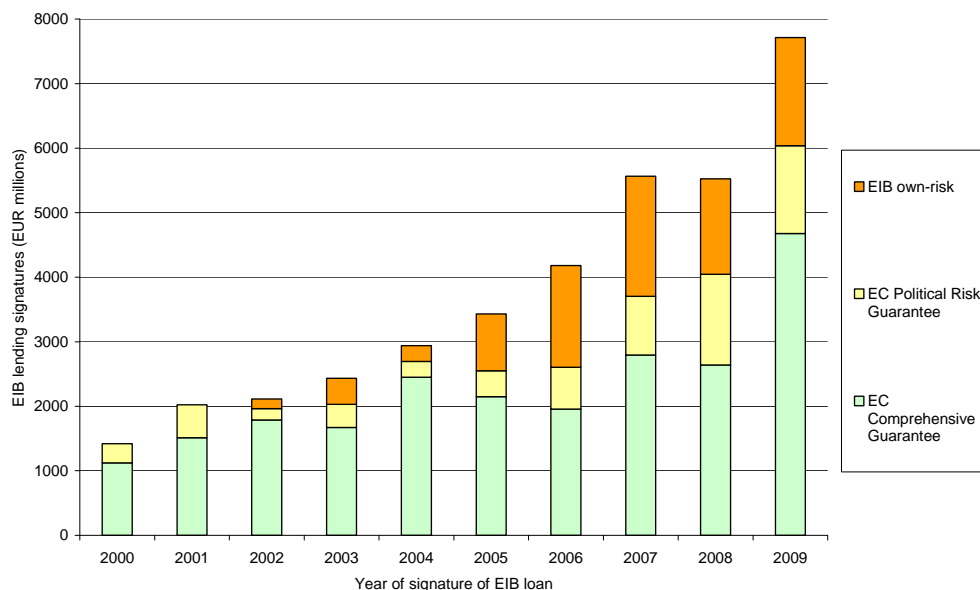


Chart 2. Evolution of EIB lending activity (net signed amounts) by type of guarantee over 2000-2009

Notes: based on net signed amounts for EIB own resources financing by type of guarantee (under EC Comprehensive Guarantee, EC Political Risk Guarantee, EIB own-risk).
Source: EIB Operations Evaluation department.

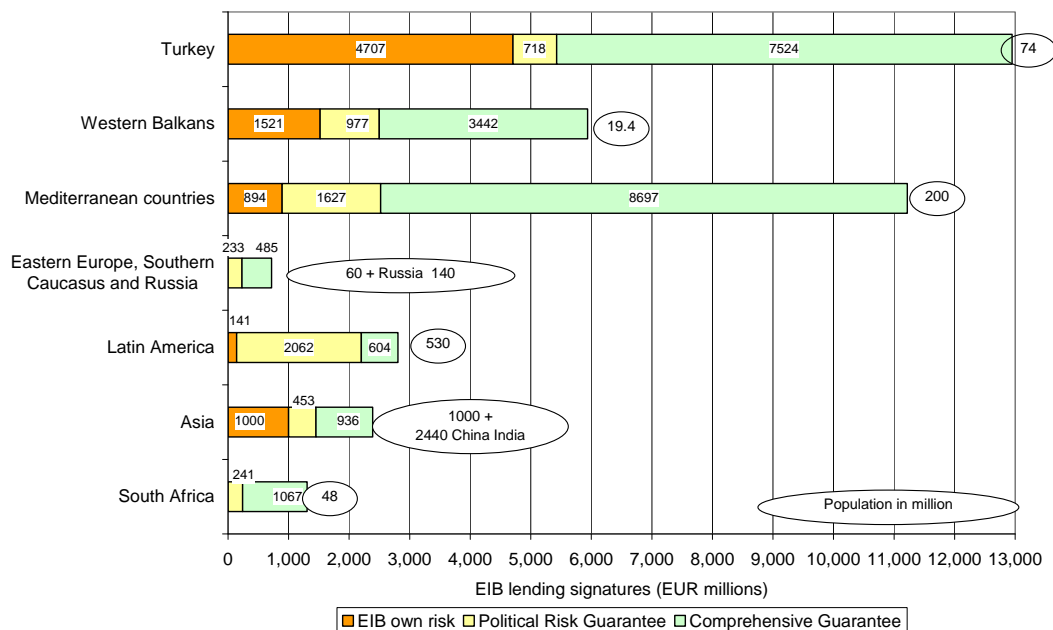


Chart 3. EIB lending signatures by type of guarantee and by region over 2000-2009

Source: EIB Operations Evaluation department.

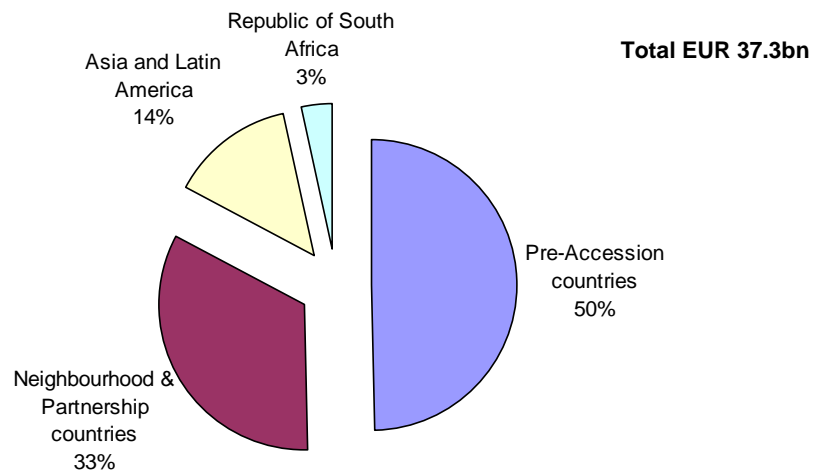


Chart 4. Geographic distribution of EIB financing activity in the external mandate regions – 2000-2009

Source: EIB Operations Evaluation department

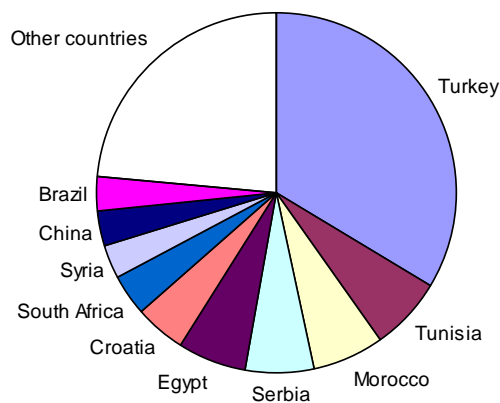


Chart 5. Distribution of EIB financing activity by country: the top 10 countries in 2000-2009

Source: EIB Operations Evaluation department

Table 2. Distribution of EIB external lending between middle-income and low-income countries

Low-income countries according to OECD DAC list of ODA recipients for 2009 and 2010 reporting.

2.1 In the regions covered by the external mandate, excluding ACP/OCT

	ODA recipients			Total
	Least-developed and other Low-income countries	Middle-income countries and territories	Other countries (Russia, Israel)	
Cumulative EIB net signatures over 2000-2009	EUR 518 m (1.4 %)	EUR 36,159 m (96.9 %)	EUR 652 m (1.7%)	EUR 37,329 m (100%)

2.2 In all regions outside the EU including ACP/OCT.

	ODA recipients			Total
	Least-developed and other Low-income countries	Middle-income countries and territories	Other countries and territories	
Cumulative EIB net signatures over 2000-2009	EUR 4,249 m (10 %)	EUR 37,458 m (88.4 %)	EUR 677 m (1.6%)	EUR 42,384m (100%)

Notes: Low-income countries eligible for EIB operations under the external mandate include Bangladesh, Laos, Maldives, Nepal, Yemen, Pakistan, Vietnam, as well as 30 countries located in ACP/OCT on the basis of OECD DAC classification. No loan was signed by the EIB in 2000-2009 in Nepal, nor in Yemen. "Other countries and territories" correspond to EIB operations signed in Russia, Israel, French Polynesia, New Caledonia, Turks and Caicos Islands.

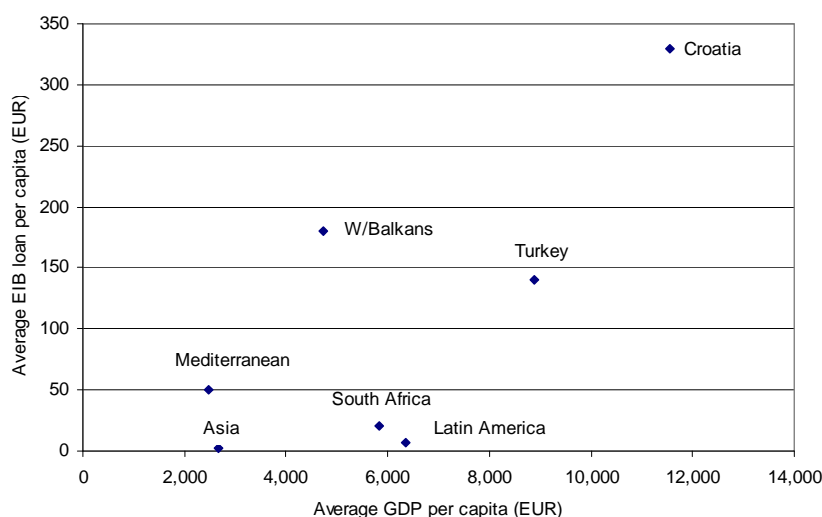


Chart 6. Distribution of average EIB loan per capita vs GDP per capita by region over 2000-2008

Notes: Eastern Neighbours and Russia not shown in the chart given the limited level of EIB activity in the period 2000-2009.

Source: EIB Operations Evaluation department

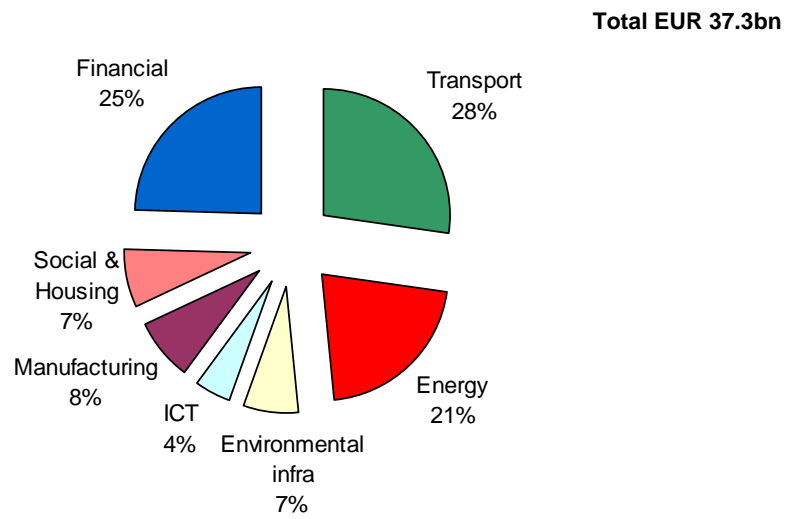


Chart 7. Distribution of EIB activity (net signatures) by sector over 2000-2009

Source: EIB Operations Evaluation department

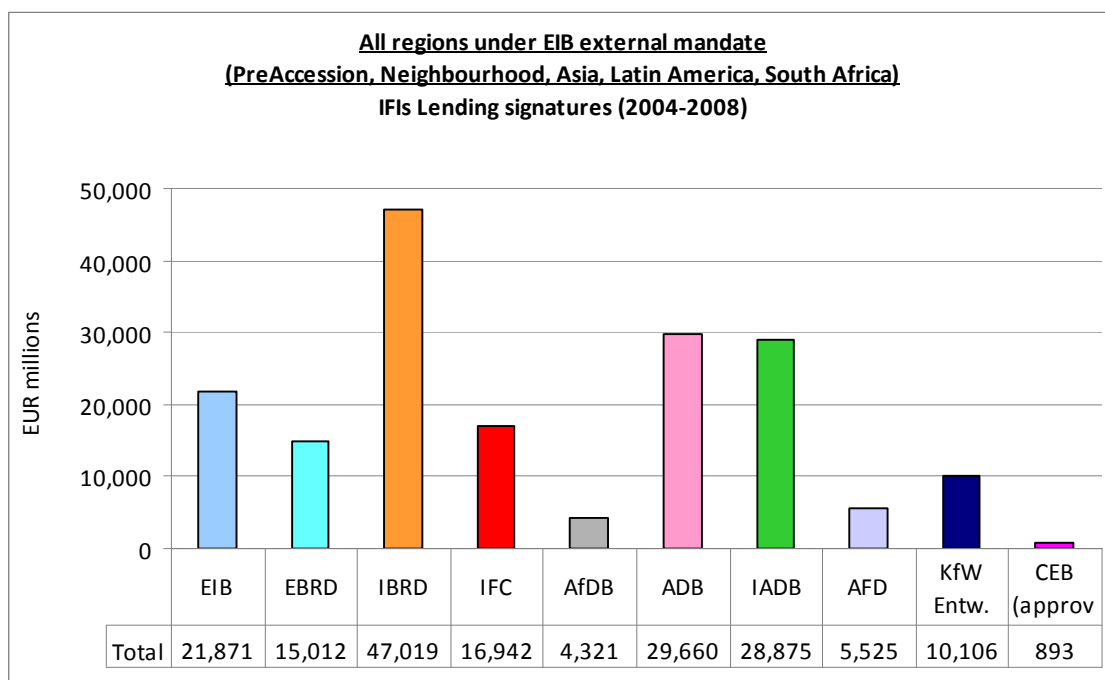


Chart 8. Cumulative lending signatures of EIB and main IFIs and EBFIs over 2004-2008

Notes: exchange rate between EUR and USD based on average rate of each year.

Fiscal year ending 30 June for IBRD and IFC.

Source: annual reports of respective institutions, data provided by KfW Entwicklungsbank.

Table 3. EIB co-financing with other IFIs or EBFIs

Year of EIB signature	2007	2008	2009
Number of projects cofinanced by EIB with other IFIs/EBFIs	29	33	49
Percentage of <u>total</u> EIB activity cofinanced with other IFIs/EBFIs (including ACP and EIB own-risk)	31% of total financing of € 6,684m	43% of total financing of € 6,145m	51% of total financing of € 8,767m
Percentage of EIB activity <u>under mandates</u>³² cofinanced with other IFIs/EBFIs (excluding ACP and EIB own-risk)	42% of financing under mandates of €3,770m	55% of financing under mandates of € 4,107m	60% of financing under mandates of € 6,062m

³² including the lending mandates before 2007, the new lending mandate for 2007-2013, as well as Femip risk capital 2007-2010.

Table 4. Indicative data on staff, financing commitments and grants of EIB and selected IFIs and EBFIs operating outside EU

	EIB (Operations outside EU)		Agence Française de Développement		KfW Entwicklungsbank (excluding DEG)		EBRD		World Bank Group		
	2009	2009	2008	2009	2009	2009	2009	FY2009	FY2009	FY2009	FY2009
Regions of Operation:	Pre-Accession, Mediterranean, Russia and Eastern Neighbours, ACP, South Africa, ALA	All regions covered by the mandate excluding ACP	Asia and Pacific, Sub-Saharan Africa, North Africa and Middle East, Latin America - Caribbean, French Overseas Comm.'s	Asia and Oceania, Sub-Saharan Africa, North Africa and Middle East, Europe and Caucasus, Latin America	Western Balkans, Turkey, Central & Eastern Europe, Easter Neighbours, Russia, Central Asia and Mongolia	IBRD + IDA + IFC	IBRD	IDA	IFC		
Staff (direct and indirect)	339	185	1,412	507	1,375	11,633	3,402				
of which, in field offices	29	11	603	63	393	6,564	1,837				
Staff in field offices [%]	9%	6%	43%	12%	29%	56%	54%				
Number of Field Offices	9	4	64	60	34	120	106				
Financing Commitments (loans, grants, etc.) [mEUR]	8,772	7,909	4,469	3,715	7,861	46,014	23,508	10,029	7,534		
Financing Commitments [mEUR / employee]	25.9	42.8	3.2	7.3	5.7	4.0	2.2				
by Type of Funding											
Loans	8,222	7,822	3,450	2,259	6,400	35,010	7,886	3,616			
Grants	78	65	698	1,112	146	2,014	1,857	157			
EIB EC Guarantee ³⁴	207	207									
WB Trust Funds						4,943					
Guarantees			215		304	1,792	286				
Equity	472	22	106		1,157	1,258					
Other			-	344		996					
Concessional financing commitments³⁵ [% of total Financing]	3%	3%	16%	30%	2%	15%	2%				

³³ EUR=1.4USD for World Bank Group figures.

³⁴ Calculated on the basis of the incremental amount provisioned in the EC Guarantee Fund, equal to 9% of the EIB disbursements.

³⁵ Sum of Grants, EC Guarantee (EIB) and Trust Funds.

Annex 4. Main findings on the current mandate requirements by region**PreAccession**

Key EU objectives for PreAccession countries are defined in the Accession and European Partnership agreements, and in the Stabilization and Association agreements. Among the objectives to which the EIB can contribute with its financing operations are the transposition, implementation, and enforcement of the EU *acquis*, the transition to a functioning market economy and the regional cooperation.

The current mandate requirement that *“the EIB activity should, in addition, also seek to encourage the institution building aspect, where relevant, in cooperation with other international financial institutions active in the region”*, could be supported by a more active involvement of the EIB in strategic issues including the development of sectors and local institutions.

Neighbourhood and partnership countries

In the course of the current mandate for the period 2007-2013, two major EU policy initiatives and related flagship projects have been launched: the Union for the Mediterranean in July 2008, and the Eastern Partnership in May 2009.

It is noted that a broad margin of EIB lending remain available under the mandate for Eastern Neighbourhood & Russia. This is due to several factors including the tightly targeted nature of the mandate, the political and economic environment of the partner countries which have been severely hit by the financial crisis, the limited EIB staff resources, the constraints of the MoU with EBRD, which have in practice limited the opportunities for EIB co-financing with EBRD in the sectors covered by the mandate.

More should be done to ensure further progress in this region, where it is extremely important that the EIB be actively engaged. In particular, the revised mandate should consider several recent developments in Eastern Neighbourhood & Russia:

- in the context of the Eastern Partnership, the EIB has been requested to finance SMEs in this region;
- the EIB and the EBRD are finalising a new Mutual Understanding replacing the tripartite EC-EIB-EBRD Memorandum of Understanding of December 2006;
- the EIB Board of Governors have approved the establishment of the Eastern Partners Facility at EIB own-risk for €1,500m over the period 2010-2013.

Central Asia

Central Asia is part of Asia envelope in terms of lending ceilings (EUR 1bn for the period 2007-2013), although the mandate objectives are different and focus on major energy supply and energy transport projects (ref. recital 13 of the mandate Decision).

Asia and Latin America

The mandate Decision (recital 12) specifically indicated that the mid-term review will re-examine the objectives of EIB financing in Asia and Latin America.

Asia and Latin America are regions including a large number of countries of varying size and income level. The EIB is a small and occasional lender in comparison to other IFIs and EBFIs in both regions, has very limited operational staff and does not have any local office, and has no access to concessional funds to support operations in less prosperous countries.

The current mandate requirement that *“the EIB should endeavour to progressively expand its activities across a larger number of countries in these regions, including in less prosperous countries”* appear difficult to reach, in addition to the other objectives, with current limited EIB financial and staff resources and no local presence.

The Steering Committee recommends not to have a special regime for Asia and Latin America regions, but rather to apply the general high-level mandate objectives applicable to all regions, with priority given to support for “*global and regional public goods*” such as climate change mitigation and adaptation. The objective of support to EU presence and in particular EU FDI should not be a specific objective in itself.

The limited means at EIB disposal call for enhanced cooperation with other IFIs and EBFIs, in particular to foster climate change and development oriented goals.

South Africa

The possible EIB contribution to “regional cooperation” objective in Southern Africa region, which is an EU policy objective, is not explicit, also considering that the EIB finances operations in South Africa under the external mandate and in the neighboring countries under the ACP-EU Cotonou partnership agreement.

Annex 5. Outline of the EIB subsidiary for activities outside the EU

This annex includes a possible outline of the main features of the EIB subsidiary that would consolidate EIB activities outside the EU. It is intended as a basis to be further developed by the feasibility study before an actual proposal can be submitted.

Capital and membership

The subsidiary would be majority owned by the EIB and the accounts would be consolidated within the EIB Group, similar to the European Investment Fund.

The subsidiary could either operate with no capital, or operate with a minimum capital and under “mandate” from the Council-Parliament for the EU guarantee and “mandate” from the EIB for the management of the EIB portfolio of financing activities outside the EU.

The capital of the subsidiary could also be open to the Commission, as well as minority shareholding by the beneficiary countries and EBFIs (ref. medium-term scenarios).

Governance

- A Supervisory Board would represent the EIB shareholders, i.e. EU Member States, for instance as a Sub-Committee of current EIB Board of Directors. The Commission would be member *ex-officio* (and not *ad personam*) in this body to ensure a full coordination and consistency with EU policies.
- An Investment Committee, chaired by a CEO and composed of a dedicated management team appointed by the Board, would have decision-making power on the portfolio under mandates, with full accountability vs mandate providers and shareholders. The Commission would have a permanent member with observer status, to ensure coordination with Commission actions and synergy with the delivery of EU grant assistance.
- Regional Committees would have consultation power and include Member States and beneficiary countries (PreAccession, Femip, East, ACP-IF, etc.), ensuring adequate beneficiary involvement and ownership. Civil society representatives would also be consulted.

Scope of activities

Regions: PreAccession countries³⁶ (subject to confirmation of EIB Governors), Neighbourhood and Partner countries, Asia, Latin America, Republic of South Africa and ACP.

Areas of intervention could be defined on the basis of:

- EU policies which are regionally differentiated (ref. IPA, ENPI, DCI).
- Countries of operation and related stage of development: middle-income vs low-income countries.
- Sectors : climate change mitigation and adaptation; economic infrastructure; local private sector development.
- Types of financial instruments: lending; technical assistance and advisory services; concessional finance; risk capital; guarantees.

Financial resources

Funding would be provided by the EIB.

The subsidiary would operate under mandate from the EIB, and from the EU as the EU guarantee would remain.

³⁶ EFTA countries would normally continue to be supported with financing by EIB, alongside EU Member States, unless otherwise decided.

Organization and staff resources

Staff would be transferred from the EIB to the Subsidiary, with some possible secondments from the EC, other IFIs and EBFIs.

The adequate split between internalising services in the Subsidiary or making use of the common services of the EIB Group should be defined in detail avoiding any duplication or any additional costs. The general orientation would be that core lending process and project cycle activities should be autonomously carried out by the Subsidiary staff, while support and administrative functions (such as HR, IT) would be provided by the EIB due to economies of scale.

Global relationship management for large counterparts (e.g. financial intermediaries, or EU companies) that are common to EU and non-EU activities would also be provided by the EIB.

A stronger link should be established with the EC delegations to enhance the local presence.

Annex 6. Extracts from “European Parliament resolution of 25 March 2009 on the 2007 Annual Reports of the European Investment Bank and the European Bank for Reconstruction and Development”

The “European Parliament resolution of 25 March 2009 on the 2007 Annual Reports of the European Investment Bank and the European Bank for Reconstruction and Development” (EP reference 2008/2155(INI)), based on the Mitchell report, was voted by the EP on 25 March and includes *inter alia* the following recommendations:

Cooperation between the EIB and the EBRD, and with other international, regional and national financial institutions

24. *Notes that the EIB and the EBRD are increasingly financing operations in the same geographical regions outside the European Union, such as in Eastern Europe, Southern Caucasus, Russia, the Western Balkans, and, in the near future, also Turkey;*
25. *Points out that in countries of common operation, there are currently three different types of cooperation between the EIB and the EBRD: for Eastern Europe there is a Memorandum of Understanding, which places the EBRD in the lead and provides for joint investment as a general rule; in the Western Balkans there is a move away from competition or parallel operations to cooperation through the pooling of funds; and, recently, elsewhere, as in the case of cooperation in Turkey, there is an agreement based on the definition of specific and common areas of competence, with the leading bank to be determined on a case-by-case basis;*
26. *Notes that the objectives, expertise and modus operandi of the two banks are different and that a line cannot simply be drawn between lending operations to the public and private sectors; points out that there are increasingly common areas on which both banks develop skills such as in the financing of SMEs, energy and climate change, and private-public partnership (PPP) projects; highlights, in this regard, the need for enhanced cooperation;*
27. *Takes the view that the activities of the EIB and the EBRD in the countries of common operation should not compete, but should, rather, be complementary, be based on each bank's comparative advantages, and avoid duplication costs for the client;*
28. *Recommends, therefore, in order to achieve better structured cooperation between the EIB and the EBRD in countries of common operation, that:*
 - (a) both banks improve their functional division of labour on a path towards greater specialisation in order to focus on their respective skills and strengths;*
 - (b) the EIB specialise more in the financing of larger- scale private and public infrastructures and projects, including PPP investments and foreign direct investments from EU companies, and the EBRD specialise more in smaller-scale investments, institution building, privatisation, trade facilitation, financial markets, and direct equity investments, in order to promote corporate governance standards;*
 - (c) a definition be adopted of types of projects, sectors and products that are of potential interest to both banks, where they could enhance common pools of knowledge and resources, such as SME financing, and where they could enhance investments to combat climate change, e.g. to encourage energy from renewable sources and diminish greenhouse gas emissions; a pragmatic and case-by-case approach be adopted in those areas of common interest, with a lead institution on each project of co-financing, with the objective of avoiding duplication, and on the basis of a pre-requisite of mutual recognition of procedures; EU standards be taken into account in this context by projects that receive*

- funding, for example with regard to combating climate change or respecting social rights, irrespective of whether the EIB or the EBRD is the lead institution;*
- (d) clear mechanisms of cooperation be implemented in both institutions, both top-down and on the ground;*
 - (e) both banks make a concrete proposal on more consistent cooperation, including a reflection on common standards, to the benefit of their shareholders, stakeholders and beneficiary countries;*
 - (f) both banks regularly report to the Commission on their cooperation;*
 - (g) the Commission report annually to Parliament and the Council on the assessment of the impact and effectiveness of EIB and EBRD financing operations as well as their respective contribution to the fulfilment of the external policy objectives of the European Union, and on their mutual cooperation as well as with other financial institutions; and*
 - (h) annual hearings of the Presidents of both banks together with the Commissioner for Economic and Monetary Affairs be organised in Parliament.*
29. *Recommends in a longer term perspective that the shareholders of the EIB consider an increase of the EIB' ownership of the EBRD, for instance in the context of a capital increase or, if a shareholder of the EBRD is considering a withdrawal, of its ownership in the bank; considers that this may, in the longer term, support better coherence of policies and specialisation of the two banks both from a functional and a geographical point of view;*
30. *Is of the opinion that any overlap of the European Union's external assistance instruments should be avoided; calls for enhanced cooperation with regional and national development institutions or agencies in the European Union, in order to provide for efficient funding by avoiding overlaps and duplications and ensuring a coherent approach and better visibility of the EU impact; supports the possibility of mutual delegation and recognition of procedures in this respect;*
31. *Recalls the importance of the agreement stipulated in the 'The European Consensus', which provides that there should be a strengthening of the synergies between the programmes supported by the EIB and other financial institutions and those financed by the Community in order to guarantee a maximum impact for the beneficiary countries; stresses the need to take particular account of the interests of the beneficiaries when so doing;*
32. *Recognises that the EIB and the EBRD need to work together with other international or regional financial institutions, such as the World Bank, the Asian Development Bank, and the African Development Bank, in order to make greater effects in regions further away from the European Union and to avoid unwanted overlaps and duplications in funding activities; considers, however, that the EIB should play a predominant role regarding the promotion of the European Union's environmental, social and development objectives among multinational development banks and institutions;*
33. *Notes that multinational development banks and institutions have a positive impact on the developing world; considers it to be necessary to further analyse that impact and to consider further activities in the context of the objectives and operations of the European Development Fund (EDF); suggests that the financing of land ownership conditional on environmental and social objectives could be an eligible investment cost under the EIB external mandate, as it is key for endogenous development, especially in African countries.*

Annex 7. Suggested Terms of reference for the feasibility study of the “European Agency for external financing”.**Purpose**

The main purpose is to optimize to the extent possible the EU financing activities for external investment-related financing in support of EU policies, by increasing its coherence, effectiveness, efficiency, visibility and ownership, taking into consideration possible administrative, legal and financial implications.

Objectives of the feasibility study

1. To analyse in detail the current situation of delivery of financing in support of investment by the EIB and the EC outside the EU, as well as of other European IFIs (EBRD, CEB) and EBFIs.
2. To determine the benefits, costs and implications of establishing a European Agency for Cooperation and Development, combining the EIB and EC financing in terms of loans, grants and other instruments to partner countries outside the EU, in support of EU policies and policy objectives.
3. To identify the most viable and effective way to establish such an agency, maximising the EU interest, the effectiveness of financing, and the impact on beneficiaries’ social and economic development.
4. To identify the optimal mechanism for the interaction of the agency with other European IFIs and EBFIs within a “EU platform for external cooperation and development”, maximising the coherence, effectiveness, efficiency, and visibility of EU common financing activities outside the EU.

Scope of the studyGeographical scope

The study would cover all the financing activities of the EIB outside the EU, and all the investment-related financing activities of the EU (via the Commission) outside the EU, in support of EU policies.

Type of instruments

The study would include all the financing instruments provided by the EIB, and the investment-related financing provided by the EC.

The study would analyse which components of the EC-managed funds are suitable for the type of investments being financed by the EIB, and that can efficiently be managed by the agency.

Issues to be addressed

The study should adequately address the following issues.

a) Benefits, costs and implications

The study should include a clear identification of benefits, costs and implications of establishing the agency with respect to current situation, notably:

- the benefits, including inter alia in terms of support to implementation of EU policies (notably on development cooperation), visibility and coherence of EU external action, aid effectiveness, impact on economic and social development of partner countries, financial value-added to address beneficiaries’ needs and priorities, quality contribution to beneficiaries, cooperation with other IFIs and EBFIs, synergies and cost savings. The benefits should be as much as possible quantified or estimated on the basis of a clear methodology.
- the costs, including inter alia for the initial establishment of the agency and ongoing, both in terms of capital and expenses, compared to current situation.
- the implications in terms of institutional setup, staff, organisation, flexibility to adapt to future evolutions.

b) Business model of the agency

Mission and key objectives

- Identify the mission and key objectives of the agency in support of EU external policies, notably with respect to enlargement policy, neighbourhood policy, and development cooperation policy.
- Identify the possible enhanced contribution of the agency to EU development cooperation objectives.

Scope of activity

- Identify the scope of activity in terms of type of countries (middle-income vs low-income developing countries), type of financing instruments and sectors of activity and related regional breakdown, based on expected future needs.
- Examine alternative possibilities in terms of technical assistance, advice and support to beneficiary countries (e.g. Jaspers like).

Capitalisation

- Identify the alternatives and recommend the most appropriate one on the possible capitalisation of the agency. The alternative to establish an agency with no capital and operating under mandate should also be examined.

Financial means

- Identify the most efficient financial means of the agency, notably the funding for any type of instruments (loans, grants, risk capital, guarantees), related amounts and source of funds.
- Identify all opportunities to maximise the impact of combined use of EIB loans with EU grants, including with details by region and sector, and related amounts.
- Identify the type of EC grants that to be managed by the agency.

Financial risk

- Identify the risk profile of the activities of the agency, and the most efficient risk coverage. The option to maintain or not the EU guarantee for part of the EIB lending should be examined with related financial implications.

c) Institutional and governance issues

Legal aspects

- Define the possible legal options for establishing the agency in the EU framework, and related implications (pro's / con's) in the long term.
- Identify the legal possibilities for delegation of power and responsibilities from EIB and EC to the agency, taking into account of the two functions of banking and grant delivery.

Governance of the agency

- Identify the alternatives with respect to shareholding structures (Member States, EC, EIB, EBFIs and beneficiaries) and related implications.
- Define the optimal governance of the agency, notably with respect to the strategic and policy responsibilities, decision-making responsibilities for the approval of financing, and management., considering the outline in part II as a base model.
- Define the most appropriate representation of Member States, of the EIB and of the EC in each governing body, and related decision-making rules.
- Define how to best involve the beneficiaries in the governance, and ensure beneficiary ownership.

Interaction with the Commission and with the EIB

- Identify the most appropriate interaction between the EC and the agency. The features of the new European External Action Service should be considered.
- Identify the most appropriate interaction between the EIB and the agency.

Cooperation with other IFIs and EBFIs

- Identify the most appropriate interaction between the agency and other European IFIs, notably EBRD, and EBFIs in regions and countries of common operation.
- Consider how could the agency further enhance the “European platform for cooperation and development”, for appropriate blending of grants and loans, and maximising synergies between financial institutions in the pursuit of common EU interests.
- Consider how could the agency optimise cooperation with other IFIs and MDBs.

d) Organisation and Implementation issues

Staff resources

- Define the optimal organisational model and the management structure, considering the current situation and possible gradual evolution towards the optimal model.
- Identify the staff that should be working for the agency, from the Commission and from EIB, including related profile (knowledge, skills, seniority).
- Identify the organisational implications for the integration of staff from the two institutions.
- Study options related to the location(s) of staff.

Local presence

- Identify the possible synergies between EIB and EC delegations in local presence in beneficiary countries.
- Identify the most appropriate role and tasks to be carried out by external offices.

Timing

- Identify the key milestones for the establishment of the agency, and the key stakeholders to be involved in the decision-making as well as in the implementation process. In particular, define the time between a decision is made and the start-up of the agency operational work, including possible phasing of activity.

Future evolution

- The possible future evolution to more closely integrate the agency with other European IFIs and EBFIs at a subsequent stage should be duly taken into account in the study.