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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

ON OPERATIONS CARRIED OUT UNDER THE EIB EXTERNAL MANDATE IN 2010

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1. INTRODUCTION

Decision 633/2009/EC of the European Parliament and of the Council of 13 July 2009 (the “Decision” or “mandate”) requires the Commission to report annually on EIB financing operations carried out under guarantee, based on yearly reports provided by EIB.

Outside the EU, in the regions covered by the mandate, the Bank provides loans and loan guarantees with the cover of the EU guarantee ("operations under mandate") or at its own risk under the framework of Article 16 of its Statute ("own risk operations"). The present report reviews 2010 EIB financing operations under mandate and provides a summary of the own risk operations. In contrast, the EIB operations in Africa, Caribbean and Pacific (ACP) as well as in Overseas Countries and Territories (OCT) are covered in a separate annual report.

The report reveals two major developments in 2010: the need for sustained crisis-response lending and the expansion of climate change related operations.

The global crisis hit the Pre-Accession countries and the Eastern Neighbours and Russia the hardest with a real economic contraction in 2009 of 4.5 percent and 8.0 percent, respectively. In Pre-Accession countries, the EIB confirmed its key role contributing to more than half a percentage point of aggregate GDP and helping counter the region’s credit squeeze. Accordingly, SME lending in this region was doubled in 2009. With crisis recovery, this stimulus has been completely withdrawn and lending to this region is back at pre-crisis level. Addressing the economic crisis was done inter alia in cooperation with other IFIs under a Joint Action Plan in support of lending to the banking sector and the real economy in Central and Eastern Europe. While credit growth to the private sector has fully rebounded in the Pre-Accession countries and ALA, it remains still below pre-crisis levels in Mediterranean region as well as in the Eastern Neighbourhood and South Africa. Hence, there remained an important additional countercyclical role for the EIB to play in these regions.

The second major trend in 2010 was a significant expansion of the EIB’s activities to fight climate change, mainly using EIB’s own risk facilities. In total, the EIB invested 1.6 billion in sustainable energy and transport projects, of which more than three quarters in the Asia and Latin America and Eastern Neighbourhood regions, i.e. the less energy efficient regions covered by the mandate. This boost, combined with an increase of energy investments in the Mediterranean region to support European energy security, fully offset the withdrawal of countercyclical investments made in 2009.

In this framework, cooperation between the Commission and the EIB has further intensified over 2010, particularly in the context of the Mid-Term Review of the mandate, as well as in various loan-grant blending mechanisms.

In the course of 2011, several key initiatives were launched at EU level, in particular as a follow-up to the Arab spring, such as the increase of the EIB lending capacity with the EU guarantee for the Mediterranean region, the G8 Deauville Partnership Initiative and the set-up of an EU Task Force for the Southern Mediterranean. Next year's report will review the EIB contribution to these initiatives.

More detailed information and statistical tables on the above activities, including at project, sector, country and regional level, is provided in the attached Staff Working Document (hereinafter referred to as the "SWD")[1]. References to tables in this report are to the SWD unless otherwise stated.

Following the mid-term review of the EIB external mandate, the Commission submitted a proposal for a new Decision to the European Parliament and the Council in April 2010, which was adopted on 25 October 2011[2] (Decision 1080/2011/EU granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union). The new Decision covers financing operations from 1 February 2007 to 31 December 2013 and repeals Decision 633/2009/EC. The new Decision introduces additional reporting requirements which will be applicable to EIB financing operations signed as of 2012.

2. FINANCING OPERATIONS

2.1. Overview of EIB financing volume in the regions covered by the Decision

– Total EIB financing volume in the regions outside the EU – including both operations under mandate and EIB own risk operations – remained stable at about EUR 8.8bn in 2009 and 2010, some 40% above the pre-crisis level of the earlier years (respectively EUR 6.5bn and 6.1bn in 2007 and 2008). Total volume for the regions covered by the EIB external mandate, which do not include ACP/OCT and EFTA countries, amounted to EUR 7.8bn in 2010 as in 2009, compared to EUR 5.6 bn in 2008. With respect to 2009, an increase of EUR 1.2bn (by 67%) under EIB own risk facilities was offset by a corresponding decrease in lending volume under the mandate. In terms of number of projects, 46 projects were financed under the mandate in 2010 compared to 55 in 2009.

– At the end of 2010, the overall amount signed under the mandate stood at EUR 16.8 bn, or 65% of the overall ceiling under Decision 633/2009/EC (EUR 25.8bn). The European Parliament and the Council have decided to release additional EUR 2bn for a horizontal climate change mandate and to increase the regional ceilings under the new Decision, in order not to constrain EIB lending activity during the last years of the mandate, notably in Mediterranean and Pre-Accession countries. As a result, under the new Decision, the overall ceiling of the mandate will amount to EUR 29.5bn. The amount signed by the EIB until the end of 2010 represents 57% of the new overall ceiling.

– The following table provides an overview of the volume of EIB financing on its own resources in 2009 and 2010 in the regions covered by the external mandate.

1 SEC(20--)[…]
2 OJ L280/1 of 27.10.2011

Table 1: EIB financing in 2009 and 2010 (under the 2007-2013 mandate) (EUR m)

Countries of operation (EUR million)	Operations under mandate						EIB own risk operations (1)		Total	
	Comprehensive guarantee		Political risk cover		Total					
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Pre-Accession	2615	1.460	250	75	2865	1.535	1475	1.796	4340	3.331
Mediterranean	1088	1.663	422	346	1510	2.009	56	516	1566	2.525
Eastern Europe, Southern Caucasus and Russia	0	325	233	305	233	631	0	0	233	631
Asia and Latin America	730	223	417	420	1147	643	141	579	1288	1.222
South Africa	240	0	40	50	280	50	0	0	280	50
Total	**4673**	**3.671**	**1362**	**1.196**	**6.035**	**4.867**	**1.672**	**2.891**	**7.706**	**7.758**

(1) EIB own risk operations carried out under the following facilities:
- Pre-Accession Facility: financial envelope of EUR 19.5bn for the period 1998-2010, of which EUR 6.2bn for 2007-2010. An increase of EUR 5.7bn has been authorised for the period 2011-2013;
- Mediterranean Partnership Facility II: EUR 2bn for 2007-2013;
- Facility for Energy Sustainability and Security of Supply: EUR 4.5bn for 2007-2013;
- EFTA Facility: EUR 3.3bn until 2013;
- Eastern Partners Facility EUR 1.5bn authorised in December 2009 until 2013.

In 2010, 75% of the loans signed under mandate were covered by a **Comprehensive Guarantee**, which is used for sovereign and sub-sovereign operations, while 25% benefited from **Political Risk Guarantee** cover for private sector operations. The combined volume of signatures under either guarantee represents 63% of total financing in 2010 in regions covered by the Decision, whereas the remaining 37% corresponds to EUR 2.9bn of **EIB own risk lending** with no recourse to the EU guarantee.

In the Pre-Accession countries, the trend under the mandate shows a return in 2010 to pre-crisis levels, following the exceptionally high lending activity in 2009 as part of EIB's crisis-response support to investments (particularly by SMEs) in the region. In contrast, lending under the Pre-Accession Facility increased by 22% to EUR 1.8bn and exceeded activity under the mandate (EUR 1.5bn) in 2010. In order to accommodate for reduced headroom under the mandate and still significant needs in the Pre-Accession region, an increase of the lending ceiling of the Pre-Accession Facility by EUR 5.7bn until 2013 was approved by the EIB Board of Governors early 2011.

In the Neighbourhood to the South and to the East, EIB financing activity grew significantly in 2010. In the Mediterranean, total lending on EIB own resources (under the mandate with the EU guarantee and under the own-risk Mediterranean Partnership Facility II) reached a record level of EUR 2.5bn. In the Eastern Neighbours and Russia, the lending activity more than doubled since 2009 to reach EUR 631m.

In Asia and Latin America, lending under the mandate declined but an almost equivalent increase of lending to the region was realised under the Facility for Energy Sustainability and

Security of Supply (EFS). Together, total financing under mandate and own-risk facility amounted to EUR 1.2bn in ALA countries.

In South Africa, following the high level of signatures in 2009 (EUR 280m), one new loan of EUR 50m was signed in 2010.

2.2. Contribution to EU policy objectives

The objective of EIB operations under the Decision is to support relevant external policy objectives of the Union. In particular, the Decision provides for some specific policy goals to be addressed through EIB external operations. Table 2 below presents a summary of the key objectives for EIB financing operations in the regions covered by the Decision.

Table 2: Summary of key objectives for EIB financing operations under the Decision

Key Objectives under the Decision	PA	MED	EAST	ALA	SA
Energy - Security of Supply	X	X	X	X	X
Protection of the Environment	X	X	X	X	X
Private Sector Development, SMEs	X	X	X		X
Infrastructure Development, including extension of TENs	X	X	X		X
Pre-Accession support	X				
Support of EU presence				X	

It should be noted that the new Decision will streamline lending objectives across all regions.

The support for energy security of the Member States and the protection of the environment are common objectives throughout the regions covered by the Decision. The following table provides the EIB signature volumes in 2009-2010 in support of these objectives.

Table 3: EIB operations signed in 2009 and 2010 in support of energy security and environment (EUR m)

	2009	2010
- **under the mandate**		
Energy security of the Member States	25	20
Protection of Environment	1.032	742
- Tackling climate change	*518*	*390*
- Water and waste water	*351*	*337*
- Natural resources management	*161*	*0*
- Reduction of industrial pollution	*3*	*16*
Sustainable communities (for reference)	443	572
- Sustainable transport	*386*	*442*
- Urban renewal and regeneration	*48*	*0*
- Health care	*0*	*130*
- **under EIB own risk Facilities**		
Energy security of the Member States	0	500
Protection of Environment	196	1.014
Sustainable communities	0	27
Total (Mandate + Facilities) in the regions covered by the Decision		
Energy security of the Member States	25	520
Protection of Environment	1.228	1.756
Sustainable communities	433	599

Over the past years, the EIB has strengthened its **Climate Action** lending and its wider commitment to the EU goal of low-carbon and climate-resilient growth within and outside the Union in particular in the follow-up of the UNFCC Copenhagen Summit. In 2010, the EIB had set itself a target of dedicating 20% of its overall lending to Climate Action. This target is foreseen to progressively increase in the future years.

Building on the experience and expertise gained through investments within the EU, the EIB has swiftly extended its climate change related activity in the regions covered by the mandate. The EIB is also an active player in the specific climate change windows set up at the end of 2010 in all EU regional Investment Facilities. The EIB is thus well positioned to promote the building of capacities and development and diffusion of knowledge and climate-friendly technologies to developing countries.

More detailed information on the extent of EIB contribution to EU policy objectives targeted by the Decision is provided in the SWD.

The mid-term review of EIB mandate carried out in the course of 2010 showed that, while EIB operations were generally in line with EU external policies, the link between EU policy objectives and their operational implementation by the EIB should be strengthened and made more explicit and structured. This is reflected in the new Decision which foresees the development of regional technical operational guidelines by the Commission and the EIB in order to strengthen the link between the implementation of EIB activities, the general high-level objectives set under the mandate and the EU regional strategies and priorities.

2.3. Sectoral breakdown

Table 4 below provides an overview of the regional and sectoral distribution of EIB operations under the Decision in 2010.

Table 4: Sectoral breakdown of operations signed in 2010 (EUR m) under the mandate

Region	Grand Total	Energy		Transports		Services and Industry		Water, sanitation		Credit lines for SMEs		Health and education infrastructure	
Pre-Accession Countries (**PA**)	1.535	40	3%	375	24%	650	42%	167	11%	253	16%	50	3%
Mediterranean countries (**MED**)	2.009	939	47%	539	27%	346	17%	55	3%			130	6%
Eastern Neighbours & Russia (**EAST**)	631	350	56%	85	13%	75	12%	66	10%	55	9%		
Asia and Latin America (**ALA**)	643	290	45%	223	35%	130	20%						
South Africa (**SA**)	50							50	100%				
Total	**4.868**	**1.619**	**33%**	**1.222**	**25%**	**1.201**	**25%**	**338**	**7%**	**308**	**6%**	**180**	**4%**

Energy was the largest sector with EUR 1.6bn financing under the mandate in 2010. The share of financing for energy efficiency (EUR 330m) and renewable energy (EUR 100m) together represented 27% of energy lending under the mandate. In renewables, the two hydropower projects financed in Georgia are considered as cornerstones of Georgia's energy sector strategy, which aims to turn the country into a net exporter of hydropower in the region.

Transport - including rail, road, port and urban transport infrastructure - represented 25% of total lending under the mandate. Within this sector, around 44% related to EIB contributions for the financing of three large terrestrial and maritime infrastructure projects in Morocco and Tunisia, whereas another 19% comprised three projects in Serbia for the development of transport axes linking to TENs.

The **services** sector represented around 13% of total lending under mandate, with contributions via three investment programmes to the strengthening of knowledge economies and the research and innovation capacities in Serbia and Turkey. The **industry** sector covered almost 10%, with two projects financed in Egypt and Brazil that will result into cleaner production outputs and reduced industrial pollution. Lending to the **agriculture** sector comprised one EUR 75m loan (about 1.5%) to the Republic of Moldova to help to address structural weaknesses in the Moldovan wine industry (mainly composed of SMEs), from vineyard to final packaging and dispatch.

Financing to **water and sanitation infrastructure** was provided for an amount of EUR 337m (corresponding to 7% of total lending) to nine projects in all regions of the mandate except ALA. In line with the UN Millennium Development Goals, the EIB contributes to the improvement of sustainable access to safe drinking water and sanitation. These projects are typically associated with strong positive environmental and public health impacts and an overall benefit to the quality of life of the inhabitants concerned. For increased concessionality or project implementation support, 7 of the 9 projects financed benefit from technical assistance or other grants alongside EIB financing.

Intermediated **credit lines for SMEs** accounted for EUR 308m of financing under the mandate (corresponding to 6% of total lending). More significant financing via credit lines for SMEs was provided under the Pre-Accession Facility for an amount of EUR 980m. This support is channelled through a number of public as well as private financial institutions on-lending to a variety of sectors. Part of this financing is provided in the framework of the Joint IFI Action Plan in support of the banking systems and lending to the real economy in Central and Eastern Europe (including Western Balkans and Turkey). Moreover, two loans (for EUR 55m) were extended in Georgia and Moldova within the SME Eastern Partnership Initiative.

Four percent of total lending was provided for two operations in **health and education infrastructure**. In Serbia, EUR 50m was lent for investments addressing systemic issues in the primary and secondary education sector, whereas in Syria a second loan was signed in 2010 for an investment programme aiming to increase the country's capacity to respond to the underlying healthcare needs of the population, including addressing the changing demographic and epidemiological challenges.

2.4. Impact and value added of EIB operations

The EIB assesses the value added of its operations on the basis of a framework structured along the following three pillars:

Pillar 1 - the consistency with and contribution to EU policy objectives;
Pillar 2 - the quality and soundness of the project;
Pillar 3 - the financial and non-financial contribution made by the EIB to the project.

The framework applied to operations in the Pre-Accession countries, called the Value Added (VA) framework, is identical to the one used for financing operations within the EU. In all other regions covered by the Decision, the EIB applies the so-called Economic and Social Impact Assessment Framework (ESIAF), which reflects the different needs and characteristics as well as the respective lending objectives of each of the geographical regions.

The assessment is performed by the EIB ex-ante on the basis of facts and data collected during project appraisal phase. The framework is designed so that it can provide valuable information and benchmarks throughout the life of the project, in particular for both monitoring and ex-post evaluation.

Table 5a: Value Added ratings of operations approved in 2010 in Pre-Accession countries (maximum score = 200).

Impact rating	Pillar 1	Pillar 2	Pillar 3	Average score	*Operations approved*
Mandate with EU guarantee	139	128	151	139	*10*
Pre-Accession Facility	129	139	150	139	*14*

Table 5b: Value added ratings of operations approved in 2010 in Mediterranean, Eastern Neighbourhood and Russia, Asia and Latin America, and South Africa

Impact rating	Pillar 1	Pillar 2 - Investment loans	Pillar 2 – Intermediated loans (SMEs)	Pillar 3
High	29 (*76%*)	11 (*35%*)	1 (*14%*)	25 (*66%*)
Medium	9 (*24%*)	19 (*61%*)	6 (*86%*)	11 (*29%*)
Moderate	0	1 (*3%*)	0	0
Low	0	0	0	0
Total	***38*** *(100%)*	***31*** *(100%)*	***7*** *(100%)*	***38*** *(100%)*

In **Pre-Accession countries**, small differences between operations under EU guarantee and at own-risk can be observed for the Pillar 1 and 2, which partially reflect the fact that the mandate is mainly targeted at projects with relatively higher risks, where the EU guarantee provides the highest value added.

In the **other mandate regions**, nine operations received “high” overall ratings in all three pillars, eight of which represent investments contributing to the protection of the environment (renewable energy, energy efficiency, reduction of industrial pollution, water supply and sustainable transport) and one is a regional mezzanine fund on FEMIP risk capital resources.

3. COOPERATION WITH THE COMMISSION

The Commission and the EIB cooperated intensively in the framework of the mid-term review of the EIB external mandate. The report prepared by a steering committee of wise persons and the evaluation carried out by an external consultant were the basis for the Commission proposal submitted to the European Parliament and the Council in April 2010. The ordinary legislative procedure for the amendment of the Decision was finalised in October 2011. The new Decision calls for even greater cooperation and synergy between the Commission and the EIB, as well as the newly established EEAS.

In the context of the post-2013 Multi-Annual Financial Framework, the Commission and the EIB have started reflections on new financial instruments in support of EU external policies. The significant increase in the use of innovative financial instruments should allow a greater share of EU grants to be blended with loans or used in equity or risk-sharing instruments, so as to mobilize additional funding, especially from private-sector investors, to cover the investment needs of our partner countries. The use of innovative financial instruments in external policies should be supported under an "EU Platform for cooperation and development", in order to enhance effectiveness and efficiency of EU external financing.

Climate action financing reached close to 30% on the EIB's overall financing volume in 2010. During the 16th Conference of the Parties of the United Nations Framework Convention on Climate Change in Cancun, the EIB further developed partnerships on climate action through various events. These included a joint Commission–EIB conference on climate change mitigation and adaptation in ACP & OCT island states, a presentation of the latest developments of the EIB-managed Global Renewable Energy and Energy Efficiency Fund and a roundtable discussion on Multilateral Development Banks' climate safeguards and performance standards.

With a view to enhancing EIB contribution to EU development cooperation objectives, a series of seminars on human rights were organised for exchanging best practice and facilitating dialogue between stakeholders, most notably in the civil society, business and intergovernmental organisations. The London seminar in June 2010 was attended by over 80 representatives responsible for human rights and was followed by a second seminar in Johannesburg in July 2010 with a further 40 stakeholders, mainly from African countries. Finally, a roundtable between representatives of the EIB and the European Commission was held in Brussels in October 2010.

The EIB has continued to provide a detailed reporting of its financing operations that potentially qualify as Official Development Assistance according to the OECD DAC Directives. The interpretation of the application of these Directives to EIB lending activity under the EU Guarantee has been the subject of intense discussions between the OECD and the EC, which are ongoing.

4. COOPERATION WITH INTERNATIONAL FINANCING INSTITUTIONS

In 2010 co-financing with other IFIs or European bilateral institutions represented 43% of EIB total financing volume outside the EU (including ACP). Under the mandate, the co-financed volume represented 64% of total signatures (including EU budget funded FEMIP risk capital). This proportion of co-financed operations has steadily increased since the beginning of the mandate period, namely from 42% in 2007, to 55% in 2008 and 60% in 2009. The list of co-financed operations signed in the regions covered by the external mandate in 2010 is included in the SWD.

The mid-term review of the external mandate assessed positively EIB cooperation with other IFIs, acknowledging the increase in co-financing and efforts to ensure, where appropriate, coherent project and sector conditionality among IFIs. The EIB was encouraged to pursue joint co-financing with increased mutual reliance when it makes sense in the interest of project beneficiaries and when it improves the efficiency of the financing support given by the IFIs.

The EIB has been an active player in the regional blending facilities established by the Commission over the past years together with the EIB, the EBRD and other EBFIs (e.g. the Neighbourhood Investment Facility, the Investment Facility for Central Asia, the Western Balkans Investment Framework and the EU-Africa Infrastructure Trust Fund). The EIB will consider its participation in other facilities in other regions (such as the Latin American Investment Facility).

A new MoU between the Commission, the EIB Group and the EBRD was developed in 2010 and signed in March 2011. The new MoU replaces and merges earlier agreements covering Eastern Europe, the Southern Caucasus, Russia and Central Asia (of December 2006) and Turkey (of January 2009). The MoU will allow for enhanced strategic and operational cooperation. The new tripartite MoU on cooperation outside the EU should be revised once the EBRD becomes operational in the Mediterranean region.

The EIB continued in 2010 to pursue its close cooperation with other IFIs and European bilateral institutions, thus enhancing its catalytic role to support EU policy objectives and standards, including within the Long Term Investors Club and the Club of Institutions of the EU specialising in Long-Term Credit.

In April 2010, the EIB hosted in Luxembourg the semi-annual meeting of the Heads of Multilateral Development Banks, which discussed the coordination of these institutions' response to climate change, as well as ways to improve coordination and efficiency particularly in response to the economic crisis.

Cooperation with AFD and KfW was reinforced and formalised in the signature of the Tripartite Agreement on Mutual Reliance in February 2010. In this framework, the three institutions seek to enhance their collective effectiveness and efficiency, by mutually recognising and relying on the procedures and standards applied by each institution on co-financed projects. By the end of 2010, pilot projects have been selected for the Southern Neighbourhood and ACP regions.

The Joint IFI Action Plan (JAP) in support of Banking Systems and Lending to the Real Economy in Central Asia and Eastern Europe, signed by EIB Group, WB Group and EBRD in response to the global financial crisis in February 2009, was successfully completed in 2010 and provided over €33 billion in support for banks and economies of the region. The unprecedented level of cooperation was instrumental in ensuring that key Western banks maintained their engagement in the region at a time when international markets ground to a halt and private funding dried up. A final report issued on 11 March 2011 concluded that the JAP objectives had been reached. Overall, JAP helped to avert systemic banking crisis and a severe credit crunch, and helped re-start a credit recovery in many countries.