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**COMMISSION STAFF WORKING DOCUMENT**  
*Accompanying the document*

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**Assessment of the effectiveness of the existing system of European public financing  
institutions in promoting investment in Europe and its neighbourhood**

{COM(2016) 46 final}

## **1. INTRODUCTION**

In recital 8 to Decision No 1219/2011/EU of the European Parliament and the Council of 16 November 2011 concerning the subscription by the European Union (EU) to additional shares in the capital of the European Bank for Reconstruction and Development (EBRD), the Commission (EC) is invited to present to the European Parliament and the Council, by the end of 2015, a report assessing the effectiveness of the existing system of European public financing institutions in promoting investment in Europe and its Neighbourhood (the "Report").

In line with the Decision, this Staff Working Document (SWD) aims to complement the above mentioned Report by providing an analysis of the instruments used by EBRD, European Investment Bank Group - which includes the European Investment Bank (EIB) and the European Investment Fund (EIF) - and to a lesser extent their peer institutions operating in Europe and its Neighbourhood. The SWD covers the period 2010-2014 and focuses on those EU countries where EBRD is active and on the European Neighbourhood ("the Region"): Eastern and Central European EU Member States (EU-11); Southern and Eastern Mediterranean; South Eastern Europe; Eastern Europe and Caucasus; Central Asia; Russia and Turkey<sup>1</sup>.

## **2. OVERVIEW OF PEER INSTITUTIONS**

### **➤ WORLD BANK**

Established in 1944, it was created to fight extreme poverty. Today, the World Bank Group comprises five different institutions<sup>2</sup> (the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes). It strives to improve lives of people living in extreme poverty. It provides low interest loans, zero to low interest credits and grants to developing countries. It also offers support to developing countries through policy advice, research and analysis as well as technical assistance.

The main sectors of investment of the World Bank are: health and education, public administration, infrastructure, agribusiness, environmental and natural resource management and the private sector. Its main geographical focus is on developing countries.

### **➤ INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)**

IBRD was created in 1944 to help Europe rebuild after World War II. Today IBRD provides loans and other assistance primarily to middle income countries. It is owned by its 188 member countries. The institution provides a combination of financial resources, knowledge sharing, technical services, and strategic advice to developing countries, including middle income and credit-worthy lower income countries.

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<sup>1</sup> Detailed description of the countries of each region is provided in the Glossary of this document.

<sup>2</sup> Only the International Development Association and the International Finance Corporation from the World Bank Group were considered as peer institutions for the Report.

The main sectors of investment of IBRD are: public administration, law and justice, transport, energy and natural resources, financial sector, health and education, municipal and environmental infrastructure and industry. Its main geographical focus is on: Brazil, India, China, Ukraine, Romania, Philippines, Morocco, Indonesia, Colombia and Tunisia.

➤ **INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)**

Established in 1960, IDA is the World Bank's fund for the poorest countries. It aims to reduce poverty by providing loans (called credits) and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions. IDA complements the World Bank's original lending arm, the IBRD.

IDA's main sectors of focus are: education, healthcare, water and sanitation, climate and the environment, business climate improvements, infrastructure and institutional reforms. Its main geographical focus is on the 77 least developed countries - 39 of them in Africa.

➤ **INTERNATIONAL FINANCE CORPORATION (IFC)**

Established in 1956 and owned by 184 member countries, the IFC was created to end extreme poverty and boost shared prosperity. Focused on the private sector, IFC works closely with businesses in developing countries to help them succeed in ways that promote prosperity for all. It provides investment, advice, and asset management.

Its main sectors of coverage are: financial markets, infrastructure, consumer and social services, industry, agribusiness and information and communications technology (ICT). Its main geographical focus is on Latin America and the Caribbean, Europe and Central Asia, East Asia and the Pacific, Sub-Saharan Africa and South Asia.

➤ **BLACK SEA TRADE DEVELOPMENT BANK (BSTDB)**

BSTDB was founded by the 11 founding countries of the Black Sea Economic Cooperation. Its purpose is to accelerate development and promote co-operation among its shareholder countries. It supports regional trade and investment, providing financing for commercial transactions and projects in order to help its Member States establish stronger economic linkages. It has a dual mandate: i) promote regional cooperation among and ii) economic development in its Member States principally by financing operations in the private and public sectors.

Its main sectors of coverage are: infrastructure, energy and natural resources, transport, industry, ICT and the financial sector. Its main geographical focus is on its founding members which include: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, Ukraine.

➤ **KREDITANSTALT FÜR WIEDERAUFBAU (KfW)**

The KfW Development Bank, a part of the KfW Banking group, focuses on improving the economic and social conditions of people in developing countries. It finances investment reform programs focused on local needs in multiple sectors. It also promotes and supports programmes on behalf of governments.

The main sectors where KfW invests are: energy generation/distribution, finance, water supply and sanitation, health and education. In terms of geographical focus KfW mainly targets the following areas: Sub-Saharan Africa, Asia and Oceania, North Africa, Latin America and South-Eastern Europe.

➤ **AGENCE FRANCAISE DE DÉVELOPPEMENT (AFD)**

Established in 1941, the main priorities of the AFD are to fight against poverty and inequality and to support economic growth and to preserve global public goods. AFD finances sustainable development projects carried out by governments, local authorities, public companies, and the private sector on five continents - with priority given to Africa, which receives two-thirds of AFD commitments, the Mediterranean countries and the French Overseas Territories.

AFD is investing mainly in the following sectors: health and education, potable water and sanitation, the fight against climate disruption and support to the private sector. Its main geographical focus is on: Sub-Saharan Africa, French Overseas Territories, Latin America and the Caribbean and the Mediterranean countries.

➤ **COUNCIL OF EUROPE DEVELOPMENT BANK (CEB)**

Created in 1956, its original aim was to help refugees and other displaced people after WWII. Its scope of action has progressively widened to other sectors of action directly contributing to strengthening social cohesion in Europe. It acts as a development bank, granting loans to member states of the bank.

The main sectors of investment of CEB are: social integration, environmental protection, health and education and Small and Medium-sized Enterprises (SMEs). Its main geographical focus is on its 41 member states.

➤ **BANK GOSPODARSTWA KRAJOWEGO (BGK)**

BGK was established during Poland's monetary reforms of 1924. The primary objective of BGK is to provide banking services for the public sector, in particular through the support of the government's economic programs, as well as local governments and regional development programs implemented with the use of public funds, including those of the EU. It provides funding for infrastructure investments and supports Polish exporters by taking on part of the risk related to their trading activities. In collaboration with other financial institutions, BGK improves access to funding for businesses.

BGK mainly covers the following sectors: infrastructure, energy efficiency and public utilities. In terms of geographical focus, BGK mainly targets Poland.

### 3. DESCRIPTIVE ANALYSIS OF EBRD, EIB GROUP AND PEER INSTITUTIONS<sup>3</sup>

#### 3.1 COUNTRIES AND SECTORS OF OPERATION OF EBRD AND EIB GROUP

The data analysis, which was carried out over project data of operations in the reference period 2010-2014 in the Region, demonstrated that there are differences in the volume of the EIB Group and EBRD's commitments across the different regions and sectors.

The analysis showed that the EIB Group has higher volumes of commitments than the EBRD in the EU-11, the Southern and Eastern Mediterranean and Turkey. On the other hand, the EBRD has higher volumes in Eastern Europe and Caucasus, Central Asia and Russia. In South Eastern Europe the volumes of commitments between the two International Financial Institutions (IFIs) are similar.

**Table 1: EBRD and EIB Group commitments 2010-2014 in bn EUR**

	EU-11	South Eastern Europe	Eastern Europe and Caucasus	Central Asia	Southern and Eastern Mediterranean	Russia	Turkey	Regional*
<b>EIB Group</b>	49.4bn	4.5bn	3.9bn	0.3bn	5.8bn	1.4bn	11.1bn	-
EIB	47.8bn	4.4bn	3.9bn	0.3bn	5.8bn	1.4bn	10.5bn	-
EIF	1.6bn	0.1bn	-	-	-	-	0.6bn	-
<b>EBRD</b>	9.6bn	3.7bn	8.0bn	3.4bn	1.5bn	9.3bn	4.6bn	3.6bn

**Source: PWC**

\* *Regional: Data from the EBRD included a number of operations that were classified as "regional" as they cover several countries and it has not always been possible to attribute the commitments to a single country.*

The analysis also demonstrated that the EBRD committed financing to operations in 33 countries, while the EIB signed contracts in 30 countries and the EIF supported operations in 16 countries. With regards to the financing volume by geographical breakdown, the EBRD committed EUR 9.6bn in EU-11, EUR 9.3bn in Russia, EUR 8bn in Eastern Europe and the Caucasus, 4.6bn in Turkey, EUR 3.7bn in South Eastern Europe and EUR 3.4bn in Central Asia. This is in line with EBRD's mandate foreseeing that the bank will support former members of the Soviet Bloc in their transition towards market economies. Due to a relatively recent expansion of the EBRD to Southern and Eastern Mediterranean countries, its commitments to the regions are lower, around EUR1.5bn.

On the other hand, the EIB as the bank of the EU is the leading IFI in the EU-11 (EUR 47.8bn). In South Eastern Europe, the two IFIs have similar commitments (EUR 3.7bn for the EBRD and 4.4bn for the EIB). The EIF closed financial deals in EU-11 (EUR 1.6bn), Turkey (EUR 558m) and South Eastern Europe (EUR 65m). The fact that the EIB's volume of operations in the EU-11 is 5 times larger than the EBRD's in those countries is a natural trend given that these countries are EU Member States and are also reaching a stage of development that is more aligned with the social and economic cohesion objective of the EU and progressively perceived less as economies in transition.

<sup>3</sup> EIB and EBRD are by far the most active IFIs throughout the Region and therefore the analysis is mainly concentrated on them.

As for the peer institutions, based on the publicly available data, the most active institution in Eastern Europe and Caucasus, in Central Asia, in Southern Eastern Mediterranean, in Turkey and in the EU-11 was the IBRD, in Russia was BSTDB, KfW and IBRD whereas in South Eastern Europe were the IBRD and the KfW.

**Table 2: Commitments of the peer institutions 2010-2014 in bn EUR.**

	Central Asia	Eastern Europe and Caucasus	EU -11	Russia	South Eastern Europe	Southern and Eastern Mediterranean	Turkey
<b>BSTD</b>	-	0.5bn	0.2bn	0.4bn	0.07bn	-	0.2bn
<b>IBRD</b>	5.9bn	5.1bn	13.2bn	0.2bn	2.2bn	11.0bn	8.7bn
<b>IFC</b>	0.01bn	0.1bn	0.2bn	-	0.1bn	0.2bn	-
<b>KfW</b>	0.3bn	0.8bn	0.1bn	0.3bn	1.5bn	1.9bn	0.7bn

Source: PWC

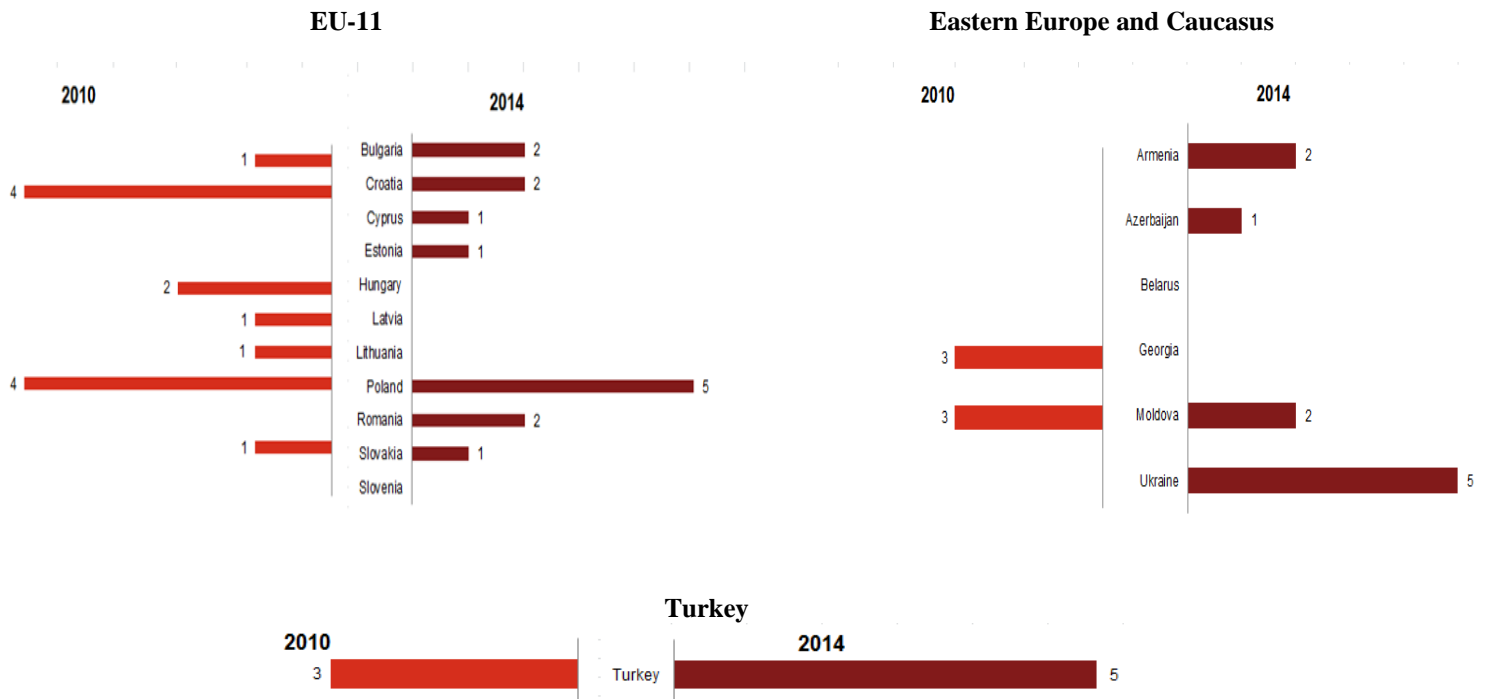
Regarding the breakdown by economic sector, both the EIB Group and the EBRD provide a large share of their total commitments to the financial, transport and energy sectors. Furthermore, each institution has its own sectors of expertise. EIB has an in-depth expertise in supporting the development of municipal and environmental infrastructure, service sector projects as well as SME financing through on-lending, equity and risk-sharing. EBRD has a strong know-how when it comes to financing industrial, agribusiness projects and SMEs. Even if the EIB lending to the municipal sector is larger in terms of volume, the EBRD also has a long history of engaging with the municipal sector on a sub-sovereign basis.

In terms of loan origination of the two IFIs, the EBRD has very strong focus on direct lending (86% of its commitments, EUR 45 bn in absolute terms). Also the EIB Group finances most of its operations in a direct manner (72% of its commitments, EUR 67 bn in absolute terms), EIB's direct lending is focused on large projects with well-known and creditworthy counterparts.

**3.2 COUNTRIES AND SECTORS ATTRACTING INVESTMENTS FROM BOTH EBRD AND EIB GROUP**

There are a number of countries and sectors in which both the EIB Group and EBRD invest across the Region, particularly in the EU-11, Eastern Europe and the Caucasus and Turkey, as shown below:

**Figure 1: Comparing the number of sectors which are covered by both EBRD and EIB in the EU-11, in Eastern Europe and Caucasus and in Turkey in 2010 and 2014 (commitments).**



Source: PWC

In EU-11 countries, Poland was a key focus of the EIB Group’s and the EBRD’s operations both in 2010 and in 2014. Bulgaria and Romania appear to have become relatively more important markets for the IFIs and by 2014 they demonstrated increased potential for overlap. In terms of sector coverage, the financial sector is the most common sector of potential operational overlap between the EIB Group and EBRD in the EU-11 both in 2010 and 2014.

As regards the operations of the peer institutions in the EU-11, the analysis showed that for Bulgaria, Croatia and Romania there were also at least two other peer institutions (BSTDB and IFC) operating in the financial sector in addition to the EIB Group and EBRD. Moreover, each of the energy and natural resources sectors in Bulgaria, Croatia and Romania are covered by at least three IFIs.

In Eastern Europe and Caucasus region, whereas in 2010 a potential overlap was only identifiable in Georgia and Moldova, in 2014 potential overlap occurs in four countries (Armenia, Azerbaijan, Moldova and Ukraine). The increase in potential overlap in countries and sectors observable between 2010 and 2014 is largely a result of the EIB’s heightened activity in the region, as the EBRD already had a strong presence in all countries in 2010. The most common sectors of potential overlap between the EIB and EBRD in this region are in the financial sector and the municipal and environmental infrastructure sector.

When the commitments of the peer institutions in Eastern Europe and Caucasus region are also taken into account, there were at least two other peer institutions (BSTDB and IFC) operating in the region in addition to the EIB Group and EBRD. Potential overlaps involving at least three of these financing institutions occur mostly in the financial sector in Armenia, Azerbaijan, Georgia and Ukraine. Moldova and Armenia have a particularly high concentration of IFIs’ operations, with at least three financing institutions involved in several

economic sectors. For instance, in Armenia these sectors are agriculture, energy, financial and services, while in Moldova these are agriculture, financial and industry.

Finally, in Turkey, IBRD and the EIB Group are the IFIs with the highest commitments. However, the EBRD and KfW also play a significant role. The key trend emerging for Turkey when comparing commitments from 2010 and 2014 is that Turkey appears to be a country with a high concentration of both EIB and EBRD operations, with five sectors displaying potential for overlap. Potential overlaps between the EIB and the EBRD were found in the sectors of agriculture, energy, financial, ICT, industry, municipal and environmental infrastructure, and transport. Once the commitments of the peer institutions are considered, potential sectorial overlaps between them and the EBRD and EIB Group also arise in the financial and the industry sectors.

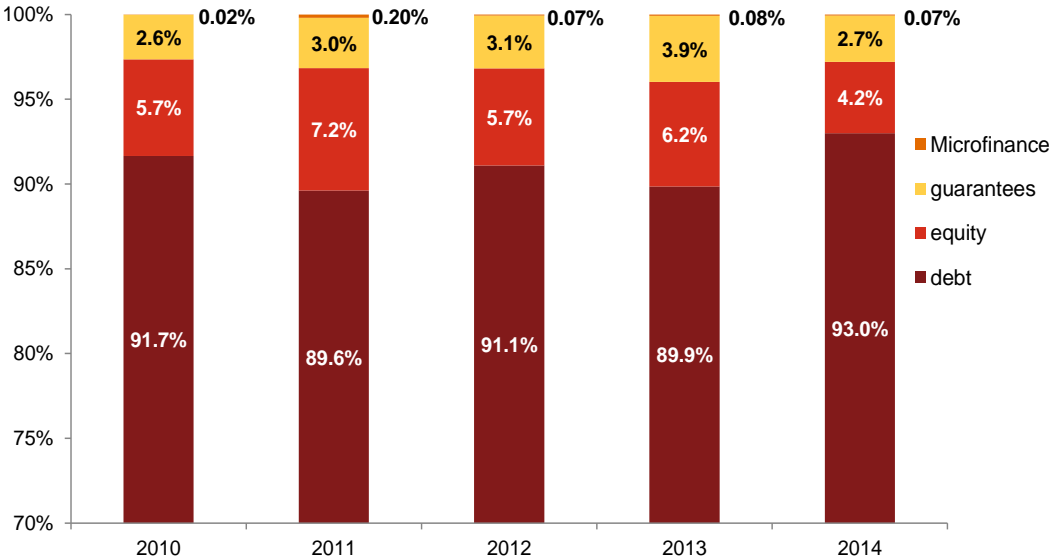
**3.3 FINANCIAL PRODUCTS USED BY THE EBRD AND BY EIB**

The following financial products are delivered by EBRD and the EIB Group (the below figures show commitments over the 2010-2014 period in the analysed Region):

- Debt (EIB Group: EUR 72.7bn; EBRD 36.7bn);
- Guarantees (EIB Group: EUR 1.6bn; EBRD 2.1bn);
- Equity (EIB Group: EUR 1.3bn; EBRD 5.7bn);
- Microfinance (EIF).

As can be seen in Figure 2, the vast majority of the EBRD, EIB Group and peer institutions’ commitments are provided as debt products. It is to be highlighted that EIB provides subordinated or mezzanine finance on a limited scale while the EBRD makes use of these financial products more regularly with the biggest share as subordinated debt.

**Figure 2: Comparing financial products over time (EBRD and EIB Group's aggregated commitments for 2010 - 2014)**



Source: PWC

Breaking down the financial products by region for the years 2010 to 2014, in three out of the seven areas under review, the relative size of equity and guarantee commitments increased compared to debt. The provision of financial instruments measured as share of total



commitments was expanded in Eastern Europe and Caucasus, Central Asia, the Southern and Eastern Mediterranean as well as in Turkey.

On the other hand, in the EU-11, South Eastern Europe, and Russia, the relative but also the absolute commitments in equity and guarantee instruments declined when comparing the years 2010 to 2014.

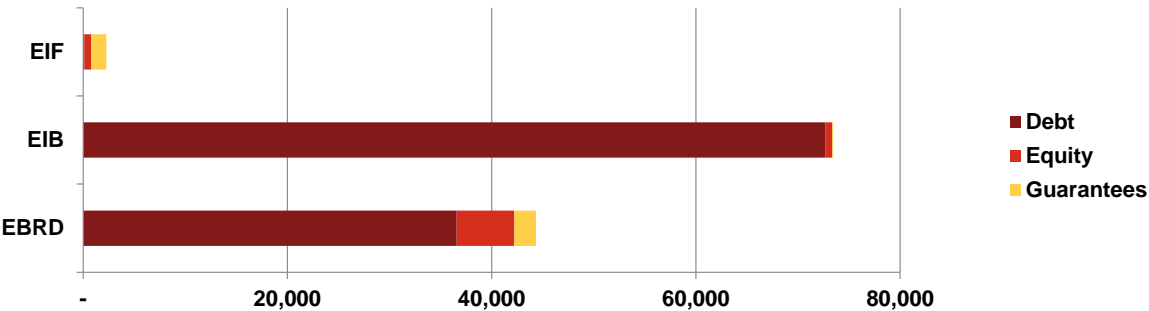
Comparing the EIB Group's and EBRD's financial products, it is apparent that the EBRD uses relatively fewer debt instruments and more guarantees and equity than the EIB. Within the EIB Group there is a clear division of labour to exploit comparative advantages: the EIB finances virtually all investments through debt while the EIF provides nearly two-thirds of its volume of total commitments through guarantees and nearly a third through equity instruments.

Figure 3 underlines this observation: out of the operations included in the database, the EIB Group is providing the highest proportion of debt products to the countries covered by this document in absolute terms (EUR 72.79bn over the period 2010 – 2014), and such products make up 96.2% of its portfolio. Over the same period, the EBRD committed EUR 36.6bn of debt products, representing 82.6% of the institution's overall commitments during the period of 2010 – 2014. The EIF, as the main provider of equity and guarantee products within the EIB Group, has only signed EUR 104m of debt products (5% of EIF's total portfolio); mainly for microfinance operations.

In absolute terms, the EBRD provided EUR 2.1bn of guarantees (5%), which compares to the EIB Group having committed EUR 1.57bn (2.1% of the EIB Group's commitments). Broken down by entity this makes EUR 100m (less than 1%) for the EIB and 1.47bn for the EIF (65%).

The EBRD is also the leading equity investor with EUR 5.7bn (13%), which compares to the EIB Group's EUR 1.33bn (1.8% of EIB Group's commitments). For the EIB this means it made available EUR 648m (1% of its commitments) and the EIF committed EUR 687m (30% of its activities).

**Figure 3: Comparing the EIB, EIF and EBRD's provision of debt, equity and guarantees over the 2010 – 2014 period (commitments in million EUR)**



Source: PWC

Note: This breakdown includes EBRD operations classified as "regional" both for equity worth EUR 2.14bn and debt worth EUR 1.41bn.

#### **4. COOPERATION OF THE EIB GROUP AND EBRD WITH THE EC**

The EBRD's and the EIB's cooperation with the EC takes on different forms (e.g. the Memorandum of Understanding signed between the EBRD, the EIB and the EC, involvement on the boards of joint facilities, regular inter-institutional meetings) and occur at different levels throughout the organisations (from Director General/Vice-President-level to loan and desk officer-level in the field).

The scope and modalities of cooperation and the policy frameworks under which the cooperation occurs vary substantially between the operations in the EU-11 and those taking place outside the EU.

In the EU-11, the EIB Group has supported, and will continue to support, the EC in the design, setup and implementation of financial instruments under the European Structural and Investment Funds (ESI Funds). This is done through the provision of horizontal and bilateral technical assistance to FI stakeholders across the EU Member States, implementing blending activities with ESI Funds and direct fund management activities. The Project Bond Initiative<sup>4</sup> is one of the most visible examples of financial cooperation.

In addition, the EU has given the EIB a number of mandates to perform certain lending operations supported by the EU budget. Particularly relevant is the recent Investment Plan for Europe, within which the EC and the EIB Group have forged a strategic partnership to address market gaps and help shoulder risk inherent in projects to encourage higher risk private and public investment. The European Fund for Strategic Investments (EFSI) is established within and managed by the EIB in order to maximise synergies and benefit from EIB expertise and experience.

Moreover, EIF has been mandated by the EC to implement various EU programmes supporting SMEs via guarantees and equity. Besides this, the EIF has implemented a number of local mandates funded by structural funds.

As regards the EBRD, until now it has played a different role with respect to EU Cohesion Policy. EBRD has invested in a number of operations that were co-financed through Structural Fund/ESI Funds resources, mostly in the municipal and environmental infrastructure, energy efficiency and SME sectors. In many of those transactions, the EBRD played a key role in structuring the products in close cooperation with the EC and the beneficiary country. Although EBRD has invested in operations that were co-financed through Structural Fund/ESI Funds resources, it has not been involved in the management of ESI Funds-funded instruments on behalf of national and regional Managing Authorities due to the limited appetite of EBRD to pursue such mandates as well as some administrative and procedural hurdles. However, the emphasis on financial instruments in the new 2014-2020 Multiannual Financial Framework, has brought some major new opportunities for the EBRD, the EIB and EC to cooperate more extensively in the region.

Outside the EU, the EC, the EIB and the EBRD have a long established cooperation to enhance coordination and synergies of their activities. On 1 March 2011, a tripartite

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<sup>4</sup> The Project Bond initiative is a joint initiative of the EC and the EIB. Its objective is to stimulate capital market financing for large-scale infrastructure projects in the sectors of transport (TEN-T), energy (TEN-E) and information and communication technology.

Memorandum of Understanding (MoU) was signed to maximise synergies between the activities of the three partners. This MoU sets out a framework of cooperation and coordination of the activities of the three institutions outside the EU.

The role of the EIB Group is to finance investment projects in support of EU external policy objectives, complementing the EU's corresponding external assistance policies, programmes and instruments in the different regions, and adapting its activities to developments in EU policies. As such, the EIB is granted an External Lending Mandate (ELM), providing an EU guarantee against losses under loans and loan guarantees for projects outside the EU.

The combination of resources also occurs between the EIB Group and/or EBRD on the one hand, and EU budget external financial instruments on the other hand, notably in the Instrument for Pre- Accession Assistance (IPA) countries, the European Neighbourhood and Partnership Instrument (ENPI) and the Development Cooperation Instrument (DCI).

Furthermore, the EC is increasingly focusing on the efficiency of the use of EU financial resources and on the use of financial instruments in particular. The combination of EU grants with the financial instruments occurs in the Region particular through three EU blending facilities<sup>5</sup>, i.e. the Western Balkans Investment Facility (WBIF) which covers pre-accession countries, the Neighbourhood Investment Facility (NIF), covering both the Southern and the Eastern Neighbourhood, and the Investment Facility for Central Asia (IFCA).

In addition to co-investment, the cooperation between the EC, the EIB Group and the EBRD also takes the form of the provision of joint technical assistance, in particular through the JASPERS (Joint Assistant to Support Projects in European Regions) Programme. The JASPERS Programme was established in 2006 and is co-sponsored by the EC and the EBRD and managed by the EIB, which provides the technical staff. Its mission is to provide free-of-charge advice to the 13 countries that joined the European Union in 2004, 2007 and 2013 as well as to Greece, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia during project preparation, to help improve the quality of the major projects to be submitted for grant financing under the Structural and Cohesion Funds.

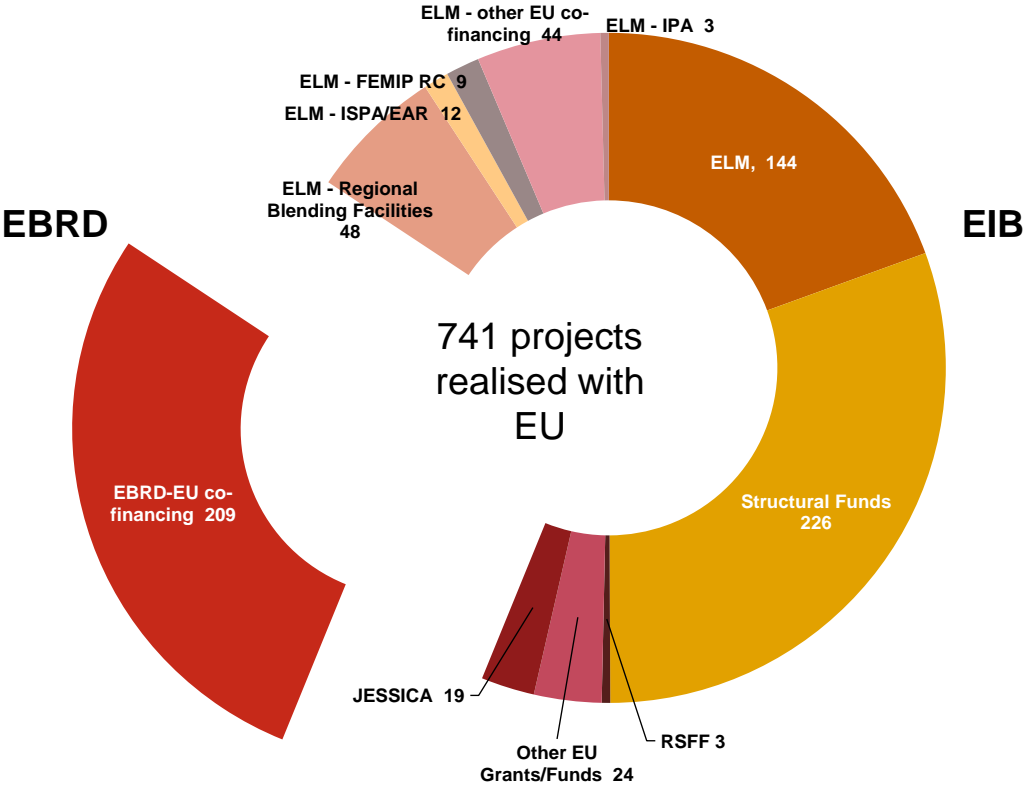
As the figure below shows, 741 projects financed by either the EBRD or the EIB were realised with EU support, most of them with direct co-financing from the EU budget. This compares to a total number of projects of 3,391 for the 2010 – 2014 period.

The EBRD realised 209 projects co-financed by the EU budget (also including Technical Assistance funds). In addition, the EIB promoted 532 projects with an EU financing component or under the ELM. EIB projects profiting from EU co-financing mainly drew funds from structural funds (226), regional blending facilities (48) and other co-financing under the ELM (44).

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<sup>5</sup> Blending facilities combine EU grants with financing from the EIB Group, EBRD and peer institutions.

**Figure 4: Breakdown on the number of operations co-financed by the EU budget or realised within EIB's External Lending Mandate during 2010 and 2014**



Source: PWC

**5. ASSESMENT OF THE EFFECTIVENESS OF THE EBRD AND EIB GROUP**

This SWD further develops the information presented in the Report regarding the analysis of the assessment of the effectiveness of the existing system of IFIs in promoting investments in the Region.

As explained in the Report, the analysis of effectiveness of the IFIs system has focused on the following areas: effectiveness in meeting market needs, assessment of other effects, leveraging of private financing, cooperation between the two IFIs as well as in the analysis of their complementarities and comparative advantages.

**5.1 EFFECTIVENESS IN MEETING THE MARKET NEEDS**

A wide range of market needs are covered by EIB Group and EBRD's broad offer of different financial instruments and technical assistance:

- Insufficient development of capital markets, which hinders the diversification of funding sources for a wide range of public and private actors.
- Lack of equity investment in renewable energy and the energy efficiency market. Several countries in the Region are confronted with a growing energy demand while investments in the sector remain insufficient.
- Lack of access to finance for SMEs due to local financial institutions' inability to estimate underlying risk correctly and offer reasonable pricing of financing products.

- Insufficient financing for public infrastructure especially for larger scale projects with a long-term investment horizon.

However, a number of factors limit the effectiveness of their operations, such as:

- Insufficient development of the regulatory framework and the limited capacity of market actors both on the demand and supply side;
- Joint financial instruments, which did not manage to provide equity investments due to the additional complexity when compared to intermediated loans. This is linked to the difficulty of identifying a pipeline of bankable projects in the target countries and the longer due diligence and appraisal time needed;
- Greater than expected availability of EU structural funds, which has resulted in some cases in a readjustment of the financial contribution of EIB and EBRD, delaying the project implementation.

## **5.2 OTHER EFFECTS**

The positive externalities resulting from the operations of the two institutions can be considered a very important element for enhancing the effectiveness of their interventions. These positive externalities are therefore part of the IFIs' intervention logic. The positive effects of the two institutions' operations can be identified in various forms.

In the financial sphere, there is clear evidence of strong demonstration effects for both the EIB Group and the EBRD's financial transactions, in particular in terms of structuring new products and new types of beneficiaries. Moreover, EBRD actively supports local capital markets in its countries of operations in various ways. More specifically, through its Local Currency and Capital Markets Initiative, the EBRD has provided loans in several local currencies in its countries of operation and has contributed to the development of local bond markets so that they ultimately can be sustainable without public sector involvement. Aside from these elements, the two banks promote international financial and risk-related standards through their operations.

Economic effects (such as the boost to employment, the impact on the real economy, skills upgrading or promotion of international technical standards) are more difficult to assess. However, they can be best understood by differentiating for direct and indirect economic effects. On the one hand, the EIB and EBRD financial instruments directly targeting SMEs aim at generating economic growth and job creation and thus can have a positive economic impact on the real economy. On the other hand, financial transactions targeting capital markets developments and public infrastructure projects have also had a positive indirect impact on the workforce's skills upgrading and employment levels, which in turn has a positive effect on the real economy. In this context, it should be noted that EBRD considers including transition impact, looking at youth unemployment, gender inequalities and regional exclusions in its assessment, while job creation is not part of the EBRD's mandate.

Social, environmental and governance effects are also recognized. Sectoral reforms and policy dialogue, including changes to legal and regulatory frameworks, are key aspects for the transition impact pursued by the EBRD. EBRD supports projects in countries of operation which are committed to multiparty democracy, pluralism and market economies. With a similar effect, the EIB Group is bound by the EU Treaties and policies.

Another important contribution of the two institutions in this area of effects is their significant exposure to financing of operations targeting climate change and the environmental impact.

For example, the EIB has adopted rules and guidance concerning the management of the impacts of its operations on climate change which are spread across the bank's sectoral policies (in sectors such as energy and transport), its greenhouse gas accounting methodology and project feasibility assessments. The Climate Action Programme of the EIB currently targets at least 25% of all EIB lending. Both the EBRD and the EIB can hence be seen as providers of leadership which propose solutions addressing climate concerns. Finally, both IFIs contribute to setting appropriate corporate governance standards by tackling illegal capital flows and potential tax evasion and avoidance.

### 5.3 LEVERAGE OF PRIVATE FINANCING

Another aspect which needs to be analysed when assessing the effectiveness of IFIs interventions is how successfully they manage to leverage private financing in their operations.

The analysis of the data made through this exercise showed that both the EIB Group and the EBRD manage to leverage private sector financing. However, their respective success in leveraging private funding varies across sectors, countries and the types of financial products and instruments provided. For example, EBRD published results which show that funding to Eastern partnership countries as well as Southern and Eastern Mediterranean region achieved a leverage of 36 times the initial grant contribution within the context of the NIF. The leverage under the Western Balkan Investment Framework financing projects in the transport, energy and environmental sectors in the region has achieved different leverage targets depending on the specific projects, with a loan multiplier ranging from 1 to 50 times the initial grant. EIB's latest figures highlight that projects outside of the EU approved by the EIB in 2014 leveraged 2.7 times its initial contribution. Looking at the EIF on its own, it has achieved a leverage of 7.5 times on its initial commitments.

The level of achievable leverage is linked to a number of external factors, such as:

- ***Risk mitigation products***: Risk-sharing programs in partnership with private sector companies can help to enhance aid effectiveness by harnessing private sector capital and developing capital markets.
- ***Local Capital Markets Enhancement***: There is a perceived need for new financial instruments and an expansion of current instruments, such as the EBRD's local currency and capital markets programme, specifically aimed at developing local capital markets and expanding local sources of available credit in direct collaboration with private sector and national government experts.
- ***Regulatory and Foreign Exchange Risk***: The EIB and EBRD need to collaborate with private sector experts in designing new financial structures that correspond to market needs in two specific areas blocking mobilisation of capital - government regulatory risk and foreign exchange risk.
- ***Assistance for project feasibility studies***: The EIB and EBRD need to pool project feasibility funds and make them easy to access, utilising appropriate experts from across the public and private sectors to identify quality projects and develop acceptable risk-mitigating financial structures. As the stakeholder interviews revealed, there is still some room for improvement regarding the coordination and sharing of technical and financial feasibility studies. Therefore, pooling feasibility funds would facilitate access to these studies and avoid overlaps in tendering them.

Furthermore, it has to be highlighted that the leverage is higher in projects related to infrastructure, e.g. the Project Bond Initiative<sup>6</sup>, which aims to stimulate capital market financing for large-scale infrastructure projects and enabling eligible infrastructure projects promoters, usually public private partnerships, to attract additional private finance from traditional institutional investors such as insurance companies and pension funds. Also, overall non-concessional finance is estimated to leverage fewer private funds than concessional finance. Equity and guarantees financed via grants are estimated to have a higher leverage than debt underpinned by grants.

## **5.4 EBRD-EIB GROUP COOPERATION, COMPLEMENTARITIES AND COMPARATIVE ADVANTAGES**

### **5.4.1 COOPERATION**

As mentioned earlier (section 4), a tripartite MoU was signed between the EC, the EIB Group and EBRD to maximise synergies between the activities of the three partners outside the EU. The analysis has recognized three distinct scenarios of cooperation between the EIB Group and the EBRD that may occur when their operations target the same countries and sectors:

- ***Ad-hoc cooperation***: Both the EIB Group and the EBRD are undertaking investment activities in the same country/region and are offering products to the same sectors without necessarily co-financing any specific project.
- ***Co-financing on a project-by-project basis***: The EIB Group and the EBRD finance separate project components of the same investment.
- ***Co-financing under joint facilities/funds***: The EIB Group and the EBRD undertake investments in a more formalised governance framework of cooperation and coordination.

One should be aware that the analysis showed that there is some form of exchange of information, coordination or cooperation between EIB Group and EBRD in almost all operations. This can be ascribed to the fact that there is a very dense network of formal and informal contacts between the two institutions at all levels, from the technical staff to the top level of management, also reflecting that the EIB was a founding member of the EBRD, and is thus fully represented in the EBRD Board of Directors and Board of Governors.

The analysis also showed that there are a number of formal and informal mutual reliance mechanisms already in place helping to coordinate the actions between the EBRD and EIB Group, especially with regards to the exchange of information on projects and clients, joint monitoring and reporting. However, there are limits to potential deepening of existing forms of mutual reliance during the project appraisal. This is mainly due to the fundamental differences in two institutions' mandates and shareholding structures and to risk management considerations, which limit the extent to which each institution can rely on the due diligence and appraisal performed by the other.

The two institutions co-finance on a project-by-project basis and through joint facilities. In particular, this includes large projects (e.g. energy, transports or municipal infrastructure), where the investment costs and risks are high and each institution can leverage its own comparative advantages as well as those operations where the two institutions' policy objectives and interests are well aligned.

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<sup>6</sup> Please refer to footnote 4.

The analysis also showed that the two institutions co-finance on a project-by-project basis and through joint facilities or funds. This includes, in particular, operations with the following characteristics:

- Large projects (e.g. energy, transport or municipal infrastructure) where the investment costs and risks are high and each institution can leverage its comparative advantages. In these instances the EIB Group brings in its strong technical and engineering skills in project assessment and appraisal while the EBRD can contribute with its strong local presence and knowledge of the market actors, as well as its strong financial structuring capabilities.
- Operations where the two institutions' policy objectives and interests are very well aligned (especially in energy, transport and municipal infrastructure projects; projects that have a positive climate change impact; and operations that support the growth of SMEs).

Nonetheless, the analysis has identified a number of potential barriers to co-financing or co-investing, in particular in terms of:

- *Small scale projects* where contribution from more than one IFI is impractical due to the disproportion between the transaction costs and the size of the investment.
- Areas in which the *requirements of the two IFIs are diverging* due to the differences in their shareholder structure and mandates. As an example of this, there can be situations in which the EBRD needs to request sectoral reforms as a condition to ensure the transition impact of its financial support, while this is not a priority of the EIB. In such cases, EIB relies on the dialogue of the EC and the European External Action Service (EEAS) with the partner country and does not engage in a parallel dialogue to avoid duplications. On the other hand, there might be cases in which the EIB considers that a project's technical or financial characteristics need to be improved or modified in order to be better aligned with EU policy objectives and the promotion of the implementation of EU legislation.
- Operations in which one of the institutions is *not able to provide the most appropriate financial products* due to a lack of previous experience with the product itself, lack of sufficient knowledge of the market, or the presence of financial intermediaries and borrowers, resulting in an unsuitable risk profile of the operation. For instance, this may be the case in markets in which the EIB has just recently started operations and in which the EIF does not invest, even though the most needed financial products are small-scale equity investments (e.g. in commercial banks or corporates). In these cases the EBRD can provide financing, since these investments require a much more hands-on approach, a significant market knowledge and local presence to properly manage the associated risks. The EIB is in a strong position for operations involving high volume and long-tenure lending to public sector entities where substantial value added is provided.
- Moreover, there is a significant *difference in the two banks' pricing approach*: the EBRD employs a market-based pricing policy and the EIB follows a risk-based pricing policy. As such, the EIB has a clear comparative advantage since it is able to pass its favourable borrowing conditions on to its clients.
- Co-financing and joint investments appear to be particularly complex in the area of support to the development of capital markets due to *the risk of crowding out private investors*. The solution is to provide risk-absorbing products in order to foster the mobilisation of liquidity that is not willing to take certain types of risks. The balance



in absorbing risk to attract others and at the same time not to deprive them from assuming risk is sought, every time, along with continuous interaction with market players. The very purpose of such instruments (e.g. subordinated debt for credit enhancement, the purchase of corporate bonds, the purchase of equity stakes, the provision of risk-sharing instruments or guarantees) is to provide just enough support to enable the clients to access the capital markets and to raise additional funding. In such cases, the joint participation of two IFIs in the same operation may create unnecessary distortions in the financial structure of these operations and lead to too large a contribution of public grant resources and possibly to undesirable capital inefficiencies.

## 5.4.2 COMPLEMENTARITIES AND COMPARATIVE ADVANTAGES

The analysis has identified that the two institutions have a high degree of complementarity, but also fundamental differences resulting in a number of comparative advantages, which are described in the following paragraphs.

### *Mandates, shareholders, business models*

As mentioned in the Report, EIB Group and EBRD have different shareholders, distinct mandates and particular business models. These differences bring the two IFIs their own specific comparative advantages enabling them to maximize the effectiveness and efficiency of their respective public financing, thus also benefitting the economies in the Region.

The EIB is owned by and representing the interests of the EU Member States with a mandate is to support the achievement of EU policy objectives and, although not a shareholder, with the EC represented in the EIB Board. The EBRD's shareholding is wider – see table 3 - and its mandate is to "foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative" across Central and Eastern Europe, Central Asia and, more recently, the Southern and Eastern Mediterranean region. The following table gives an overview of the EBRD's structure and eligible countries of operation.

**Table 3: EBRD's structure**

	Background	Examples
Shareholders	<p>Article 3 of the EBRD Basic Documents foresees the possibility of new shareholders joining EBRD.</p> <p>1. Membership in the EBRD shall be open: to (1) European countries and (2) non-European countries which are members of the International Monetary Fund; and to the European Economic Community and the European Investment Bank.</p> <p>2. Countries eligible for membership as specified above may be admitted, under the terms and conditions determined by the EBRD, to membership in the EBRD upon the affirmative vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members.</p>	<p>For instance, China has recently become a shareholder in the EBRD. The Governors of EBRD voted on a resolution that China shall become EBRD's shareholder.</p>
Eligible of countries of operation	<p>According to the Article 1 of the EBRD Basic Documents the "purpose of the EBRD shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics".</p>	<p>For example, the EBRD Board recently voted in favour of Egypt becoming an eligible country of operation.. Now the EBRD can carry out its purpose and functions in Egypt as set out in Article 1 and 2 of the Agreement, namely "to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative".</p>

<b>Graduation</b>	Graduation reflects the successful transition to a well-functioning and sustainable market economy. The main instrument for decision making on graduation is the respective country strategies, jointly agreed by the EBRD and country authorities.	For instance, the Czech Republic expressed, "the desire that EBRD operations in the Czech Republic be considered to have 'graduated' in 2007. As a consequence, the EBRD have had no longer considered or approved new operations in the country since 2008.
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### ***Geographical and sectoral focus***

The detailed information regarding the complementarities/comparative advantages of the two IFIs in terms of their geographical and sectorial focus is provided in section 3.1 of this SWD.

### ***Public/private nature of beneficiaries***

In terms of breakdown by final beneficiaries, the analysis showed that both EBRD and the EIB Group mainly finance private entities. Specifically, 78% of EBRD's commitments (EUR 40.5bn) are dedicated to private beneficiaries and 22% of its commitments are focused on (EUR 11.7) public beneficiaries. The EIB Group, 62% commitments (EUR 57.8bn) are concentrated on private beneficiaries while 38% of its commitments (EUR 35.5bn) are focused on public beneficiaries.

### ***Financial products provided***

Even though the EBRD and EIB offer similar financial products, they target different risks in line with their own strengths and comparative advantages, thereby providing complementary products.

For example, in the equity transactions, EIB makes selective investments in equity funds whose investment strategy addresses EU priority objectives, and it has longstanding experience in supporting sustainable urban development through equity investment. EIF, as a specialist provider of risk finance, is the main provider of equity products and it takes minority stakes in a wide range of equity funds. By contrast, EBRD directly invests in corporates, SMEs and commercial banks. It also provides equity indirectly by investing in private equity funds, as well as donor supported equity funds.

In terms of debt transactions, the EIB mainly uses standard project loans but also offers subordinated debt and mezzanine financing for projects addressing EU priority objectives. It also finances using capital markets instruments (covered bonds and asset backed securities as a means to provide finance for eligible projects) and a wider range of non-loan financing products. EBRD provides tailor-made debt products for both public and private sector clients, including subordinated and mezzanine structures for SMEs, recapitalization of commercial banks and corporate acquisitions – including in local currency. This requires a much more hands-on approach and, as such, a close cooperation between the EBRD and its clients. Besides, EBRD mobilises other sources of financing to the transactions it supports, through loan syndications also known as A/B loans.

The guarantees and risk-sharing instruments are provided by the EIB Group mainly through the EIF in the form of guarantee products on junior, mezzanine and senior tranches of SME and mid-caps loan portfolios of a wide range of financial intermediaries. A significant share

of these guarantee products are deployed by the EIF under EU programmes (COSME<sup>7</sup>, Horizon 2020<sup>8</sup>), as well as with EU Member States. The EBRD's guarantee activities mainly consist of two types of products: the Trade Finance Programme (TFP) guarantees, which is by far the largest proportion of EBRD's guarantee activity and the funded and unfunded risk-sharing products.

Looking also at the comparative advantages of non-financial products, the EBRD has a strong business and legal advisory component in its programmes, while the EIB often contributes its technical know-how to the projects it finances.

## **6. CONCLUSIONS**

Based on the analysis above, the EC believes that the existing system of European public financing institutions in promoting investment in Europe and its Neighbourhood is effective: a wide range of market needs are being well served with significant positive effects, and accompanied by the efforts of the IFIs to leverage private financing (as described in sections 5.2 and 5.3).

The EC also recognises that the two institutions, the EBRD and the EIB Group, have distinct capabilities that stem from their specific know-how, business models and capital structures (as described in section 3 of the Report and also in section 5.4.2). They strive to avoid duplication of efforts particularly in the project appraisal and due diligence procedures, in negotiations, financing and monitoring of financed operations. Furthermore, on an institutional level, a formal information exchange resulting from regular operational and institutional meetings under the MoU framework were also observed (as described in section 5.4.1).

The analysis also demonstrated that the two institutions co-finance on a project-by-project basis and through joint facilities or funds whenever it makes sense from an investment and policy perspective. This includes in particular large projects (e.g. energy, transport and municipal infrastructure) where the investment costs and risks are high and each institution can leverage its own comparative advantage, and operations where the two institutions' policy objectives and interests are perfectly aligned (again, energy, transport and municipal infrastructure projects can be mentioned but also projects with a focus on the positive climate change impact, such as energy efficiency and renewable energy projects, as well as operations that support the growth of SMEs) (as described in section 5.4.1).

Overall, it can be concluded that both IFIs are well aware of their comparative advantages in terms of their respective mandates, lending models and pricing policies and in general make good use of such comparative advantages.

## **7. RECOMMENDATIONS**

As mentioned in the Report, the EC makes the following recommendations in order to further enhance the effectiveness of the IFIs' interventions.

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<sup>7</sup> COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises.

<sup>8</sup> Horizon 2020 is the EU's Research and Innovation programme.

## **Recommendation 1**

Although there is already an existing and close high-level inter-institutional dialogue in the framework of EU financial instruments <sup>9</sup>(as described in section 4), the EBRD and the EIB Group could still enhance the cooperation at operational level. The two IFIs should further build on existing synergies between their mandates, business models and the resulting comparative advantages in order to foster their cooperation, in particular when using EU resources in the blending frameworks. When cooperating, the IFIs should consider using a more standardised or systematic approach and minimise the creation of ad-hoc instruments. In those cases when they decide to cooperate with the EC and/or Managing Authorities of various Member States (including possible use of European Structural and Investment Funds 2014-2020 (ESI Funds)<sup>10</sup>), they should preferably use the existing structure of EU financial instruments and/or financial instruments under ESI Funds, including the so-called off-the-shelf instruments<sup>11</sup> where appropriate.

During the preparation of the Report, several case studies have been analysed. Some of those case studies have demonstrated that in order to further enhance policy impact and leverage; the EC should continue to play an important role in the funding, setting-up and oversight of joint facilities/funds without necessarily being directly involved in investment decisions or their management. In particular, through blending with EU grants, the involvement of the EC in setting up joint facilities/funds could be further promoted, especially to provide further value-added and to incentivise the cooperation of the two IFIs, although the EIB Group and the EBRD also cooperate without the involvement of EU funds.

Additionally, when using EU funds (including ESI Funds), the two IFIs should to the maximum extent possible build on the already existing reporting obligations at project level, including by the Financial and Administrative Framework Agreement concluded between the EC and EIB Group and the Framework Administrative Agreement between the EC and EBRD, when meeting the relevant reporting requirements for the EU and/ or ESI Funds. In this context, the administrative burden of any new reporting requirements should not become a disincentive for the participation of the private sector in the financing operations of IFIs.

At the same time, some economic effects are not covered by the IFIs' current reporting systems, as is the case for the EBRD regarding employment effects. This could be an area for further alignment of reporting approaches between the EC and the two IFIs, especially when they are using EU resources. Furthermore, both IFIs should improve and streamline how they report on the leverage effects as the analysis identified diverging methodologies for the calculation of leverage figures.

## **Recommendation 2**

As described in section 5.4.1, the analysis showed that there are many examples of mutual reliance, such as the exchange of information during appraisal procedures, sharing due diligence on jointly financed projects, an agreed protocol for procurement on co-financed

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<sup>9</sup> As defined in Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union.

<sup>10</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 (the Common Provisions Regulation - CPR).

<sup>11</sup> See Article 38(3)(a) CPR. So far, the following off-the-shelf instruments have been adopted by implementing act: No 964/2014 of 11 September 2014: Risk-sharing loan and capped portfolio guarantee for SMEs and renovation loan for individual households.

projects and a multi-IFI understanding on reporting on Climate Finance. However, there may still be potential for enhanced mutual reliance especially in terms of joint contract negotiations, coordination and sharing of market assessments and further alignment of reporting requirements, in particular with EU objectives when EU resources are used. Nevertheless, due consideration has to be given to the differences in their mandates and policy standards that may limit the extent to which each institution can rely on the due diligence and appraisal performed by the other.

Furthermore, risk management considerations may also come into play and which might necessitate that, even when co-financing the same project, the two institutions perform separate diligence procedures, following their own appraisal processes in order to get their respective Boards' approval. As such, complete mutual reliance, especially recognition of procedures or standards does not appear to be the objective per se.

### **Recommendation 3**

In light of the institutions' ongoing effort to ensure the *additionality* - in the case of EIB – or *transition impact* - in the case of EBRD, *quality* and *soundness* of their operations, both IFIs should further develop their financial and non-financial incentives as well as Key Performance Indicators, which would continue to strengthen the motivation of their staff towards the achievement of those objectives.

In that context, the EBRD's and the EIB Group's lending objectives in terms of volume should be accompanied by ambitious targets for the additionality/transition impact, quality and soundness of operations (as described in section 3 of the Report). One important additional consideration in this regard is that the EBRD and the EIB Group should each strengthen their emphasis on the crowding-in of private financing.

The analysis showed that risk-sharing structures (such as junior/subordinated debt, mezzanine products, guarantees, equity, senior debt with higher risk profile) can be used to achieve a high level of private sector participation and should continue to be part of both IFIs' strategies to attract private financing (as described in section 5.4.1). In appropriate circumstances (such as market failures or market makers), EU blending facilities could provide support in order to pave the way for more private sector financing.

Furthermore, there seems to be scope to also strengthen the motivation staff in both IFIs to maintain policy dialogue between themselves and with the EC, especially on EU policy priorities such as local economic governance, capital markets development, development of sustainable infrastructure etc – see also recommendation 6.

### **Recommendation 4**

The cooperation between the two IFIs could be further increased through EBRD's involvement in the Investment Plan for Europe, a flagship EU initiative. EBRD could get engaged, in particular, via Investment Platforms which are foreseen by the European Fund for Strategic Investments (EFSI) Regulation<sup>12</sup>. The EBRD's expertise and past knowledge in

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<sup>12</sup> Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments.

identifying viable projects, developing and bundling projects and attracting potential investors would be valuable for setting up Investment Platforms involving the EU-11 Region.

Investment Platforms aim to further leverage EU funds and to involve public financial institutions, including national promotional banks and institutions, and institutional investors and commercial financiers in the delivery of the EFSI. They can be designed in various forms so as to enable the provision of direct and indirect equity injections as well as guarantees for high-quality securitisation of loans and other products that are granted in pursuit of the aims of the EFSI.

### **Recommendation 5**

The two IFIs should increase their efforts to pro-actively involve institutional investors such as pension funds and Sovereign Wealth Funds<sup>13</sup> (SWFs) in co-financing projects in infrastructure in their common countries of operation. As the case study analysis showed, SWFs, public pension funds and insurers have ample liquidity available for investments and are the most natural type of investors for long-term financing projects in areas such as infrastructure financing due to their requirement to match long-term liabilities.

This enhanced cooperation may in many instances require so-called "stratification of investors", which means that different classes of shares with different risk-return profiles and degrees of influence are issued within a single investment facility.

For example, the increased interest and expertise of European-based insurance companies and pension funds can be capitalized on. In this context, the EBRD and EIB Group could be encouraged to jointly develop projects with such entities. On the other hand, SWFs should only be engaged when they meet acceptable standards of governance and ensure alignment with the EU policies and legislation.

### **Recommendation 6**

EBRD and EIB Group's mandates is to finance SMEs and infrastructure projects, help to attract private sector investments and develop an open, stable financial system facilitating access to finance for the private sector. Against this backdrop, the EC should encourage the two banks to be instrumental, in particular, in the development of capital-based products and in policy dialogue. The EBRD could step up its engagement with the EC and countries of operation to deliver on mutually-beneficial policy initiatives. Within the EU-11 for example, both IFIs could assist national governments in developing policies which would help them move towards a common capital market in Europe, as promoted by recently-announced flagship initiative on a Capital Markets Union (CMU). This legislative initiative is in line with the EBRD and the EIB Group's mandates to finance SMEs and infrastructure projects, to help attract private sector investments and develop an open, stable financial system facilitating access to finance for the private sector.

Finally, there is scope for both IFIs to further work with the EC on policy dialogue to define appropriate joint policy responses to regional and country-specific challenges through regular, structured exchange of policy analysis and discussion on strategies to promote common goals and priorities.

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<sup>13</sup> Subject to compliance with the state aid rules.

## GLOSSARY

**AFD:** Agence Française de Développement

**BGK:** Bank Gospodarstwa Krajowego, the Polish National Promotional Bank

**BSTDB:** Black Sea Trade and Development Bank

**CEB:** Council of Europe Development Bank

**Central Asia:** Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, Uzbekistan as defined for this assignment.

**DCI:** Development Cooperation Instrument

**Eastern Europe and Caucasus:** Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine as defined for this assignment.

**EBRD:** European Bank for Reconstruction and Development

**EBRD's additionality: in terms of whether the bank provides financing that could not be mobilised on the same terms by markets and/or whether the Bank can influence the design and functioning of a project to secure transition impact.**

**EC:** Commission

**EEAS:** European External Action Service

**EFSI:** European Fund for Strategic Investments

**EIB Group:** The European Investment Bank and the European Investment Fund

**EIB:** European Investment Bank

**EIB's additionality: is ensured through EIB's value added which is based on the three pillar methodology described in the EIB's business model in the Report.**

**EIF:** European Investment Fund

**ELM:** External Lending Mandate

**ENPI:** European Neighbourhood and Partnership Instrument

**ESI Funds:** European Structural and Investment Funds

**EU:** European Union

**EU-11:** Post 2003 accession countries, i.e. Bulgaria, Croatia, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia and Romania. Malta is not included since it is not an EBRD recipient country. The Czech Republic is not included as it graduated from the EBRD investment activities in 2008, although it was originally a recipient country.

**FEMIP:** Facility for Euro-Mediterranean Investment and Partnership

**IBRD:** International Bank for Reconstruction and Development

**ICT:** Information and communications technology

**IDA:** International Development Association

**IFC:** International Finance Corporation

**IFCA:** Investment Facility for Central Asia

**IFIs:** International Financial Institutions

**IPA:** Instrument for Pre-Accession Assistance

**ISPA/EAR:** Instrument for Structural Policies for Pre-Accession/ European Agency for Reconstruction

**JASPERS:** Joint Assistance to Support Projects in European Regions

**JESSICA:** Joint European Support for Sustainable Investment in City Areas

**KfW:** Kreditanstalt für Wiederaufbau, for this assignment specifically its development branch, KfW Entwicklungsbank

**MoU:** Memorandum of Understanding

**NIF:** Neighbourhood Investment Facility

**PWC:** PricewaterhouseCoopers

**Region:** EU countries where EBRD is active and the European Neighbourhood

**Report:** The report assessing the effectiveness of the existing system of European public financing institutions in promoting investment in Europe and its Neighbourhood.

**RSFF:** Risk-Sharing Finance Facility

**SMEs:** Small and Medium-sized Enterprises

**South Eastern Europe:** Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro, Serbia as defined for this assignment.

**Southern and Eastern Mediterranean:** Egypt, Jordan, Morocco, Tunisia as defined for this assignment. As far as the EBRD is concerned, its operations in Egypt are carried out using Special Fund resources as the country has not yet received the status of Full Country of Operations. For the purposes of this assignment, Egypt is included as if it were a Full Recipient Country.

**SWD:** Staff Working Document

**TEN-E:** Trans-European energy networks

**TEN-T:** Trans-European transport network

**TFP:** Trade Finance Programme

**WBIF:** Western Balkans Investment Facility