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**COMMISSION STAFF WORKING DOCUMENT**

**IMPACT ASSESSMENT - EIB external mandate 2014-2020**

*Accompanying the document*

**Proposal for a Decision of the European Parliament and of the Council  
on granting an EU guarantee to the European Investment Bank against losses under  
financing operations supporting investment projects outside the Union**

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## List of Acronyms

ACP	African, Caribbean and Pacific
AECID	Agencia Española de Cooperación Internacional para el Desarrollo
AFD	Agence Française de Développement
AIF	Asian Investment Facility
ALA	Asia and Latin America
BRICs	Brazil, Russia, India and China
CEB	Council of Europe Development Bank
CGAP	Consultative Group to Assist the Poor
COFIDES	Compañía Española de Financiación del Desarrollo
COP	Corporate Operational Plan
CSP	Country Strategic Paper
DCI	Development Cooperation Instrument
EaP	Eastern Partnership
EaPIC	Eastern Partnership Integration and Cooperation
EFI	European Financial Institution
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECOFIN	Economic and Financial Affairs Council
EEAS	European External Action Service
EFSE	European Fund for Southeast Europe
EFTA	European Free Trade Association
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
EIF	European Investment Fund
EN	Eastern Neighbourhood

ENC	Eastern Neighbouring Countries
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood Policy Instrument
EP	European Parliament
ESF	Energy Stability and Security of Supply Facility
ESIAF	Economic and Social Impact Assessment Framework
EU	European Union
EUBEC	EU Platform for Blending in External Cooperation:
EWBJF	European Western Balkans Joint Fund
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FINNFUND	Finnish Fund for Industrial Cooperation
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GF	Guarantee Fund
GFM	Green Financing Mechanism
GHG	Green House Gas
GoE	Group of Experts
IA	Impact Assessment
IASG	Impact Assessment Steering Group
ICJ	International Court of Justice
IFC	International Finance Corporation
IFCA	Investment Facility for Central Asia
IFI	International Financial Institution
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
JASPERS	Joint Assistance to Support Projects in European Regions

KfW	Kreditanstalt für Wiederaufbau
LAIF	Latin America Investment Facility
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MFA	Macro Financial Assistance
MFF	Multiannual Financial Framework
MIC	Middle Income Country
MIP	Multiannual Indicative Programme
MIPD	Multi-Annual Indicative Planning Document
MIV	Microfinance Investment Vehicle
MoU	Memorandum of Understanding
MRI	Mutual Reliance Initiative
MS	Member States
MSME	Micro, Small and Medium-sized Enterprise
NGO	Non-Governmental Organisation
NIB	Nordic Investment Bank
NIF	Neighbourhood Investment Facility
OCT	Overseas countries and territories
ODA	Official Development Assistance
OeEB	Oesterreichische Entwicklungsbank
OECD	Organisation for Economic Co-operation and Development
PIDG	Private Infrastructure Development Group
PPP	Public-Private Partnership
RCF	Risk Capital Facility
ReM	Results Measurement framework

SCWP	Steering Committee of Wise Persons
SIMEST	Società Italiana per le Imprese all'Estero
SME	Small and Medium-sized Enterprise
S&P	Standard & Poor's
SOFID	Sociedade para o Financiamento do Desenvolvimento
TEN-T	Trans-European Transport Network
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UfM	Union for Mediterranean
UfMS	Secretariat of UfM
UNSCR	United Nations Security Council Resolution
WB	World Bank
WBG	World Bank Group
WBIF	Western Balkans Investment Framework
WTO	World Trade Organisation

## Introduction

### *Description of EIB external mandate and of the EU guarantee*

The European Investment Bank (EIB) activities outside the European Union (EU) traditionally made up around 10% of its total activities. The Bank undertakes operations outside the EU in support of EU external policies partially on the basis of a mandate from the EU with an EU budgetary guarantee allocated in the framework of each Multi-annual Financial Framework (MFF), referred to as the “(EIB) external mandate”. This activity is complemented by activities carried out at EIB own risk (limited to investment grade operations), or under other specific mandates such as, in ACP countries, under the Cotonou Agreement with European Development Fund resources or with a guarantee of Member States. On average, EIB activity under the external mandate accounted for 62% of total EIB activity outside the EU since 2007. This share has been gradually decreasing until the end of 2011, although it is expected that it has increased in 2012.

<b>EIB Activities (*) - EUR mn</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>TOTAL Activities</b>	<b>47 447</b>	<b>57 227</b>	<b>78 625</b>	<b>71 219</b>	<b>59 930</b>
<b>EU Countries</b>	<b>41 431</b>	<b>51 480</b>	<b>70 505</b>	<b>62 858</b>	<b>53 015</b>
<b>Outside the EU (Mandate countries + ACP)</b>	<b>6 016</b>	<b>5 747</b>	<b>8 120</b>	<b>8 361</b>	<b>6 915</b>
- of which loans under the external mandate	3 723	4 045	5 969	4 868	3 050
Share of external mandate in total external activities	62%	70%	74%	58%	44%
<b>Total external Activities in % of Total activity</b>	<b>13%</b>	<b>10%</b>	<b>10%</b>	<b>12%</b>	<b>12%</b>
(*) Loans on EIB own resources (no budget resources)					

The EU budgetary guarantee to the EIB covers risks of a sovereign and political nature in connection with its financing operations carried out outside the EU. Over the years, the external mandate has been granted through a series of Decisions of the Council and, since 2009, of the EP and the Council. The overall scope and general conditions of the EU guarantee coverage for EIB external operations are set out currently in Decision 1080/2011/EU (the "Decision" or the "mandate").

From an historical point of view, the need for an EU budget guarantee stemmed on the one side from EIB's obligation under its Statute to ensure adequate security for all its lending operations and, more broadly, from the need to safeguard EIB's creditworthiness in order not to compromise its task of contributing to the balanced and steady development of EU internal market in the interest of the Union. The EU guarantee has been the key instrument ensuring the compatibility between the EIB's highly leveraged financial structure (different from other International Financial Institutions (IFIs)), the significant highly inherent risk of lending to third countries, the need to avoid a deterioration of the Bank's AAA rating whilst limiting the EIB capital consumption. The EIB does not remunerate the EU for this guarantee. According to EIB estimates<sup>1</sup>, additional regulatory capital would be consumed by the EIB to support current exposures to the external mandate regions without EU guarantees. In total, capital absorption would increase by more than 140% (from a current capital use of around EUR 2bn

<sup>1</sup> Based on simulated capital requirements for sovereign borrowing given the exposure weighted sovereign credit rating of the respective regions. Values are estimated.

to around EUR 5bn). Therefore, a loss of the mandates' guarantees would either significantly reduce the EIB's capacity to lend outside the Union or absorb significant capital to the detriment of EIB financing within the EU. For more details on history and rationale of the mandate, see Annex 1.

EIB operations eligible for EU guarantee are currently loans and loan guarantees within the eligible countries (as defined in the Decision – see below) in the support of any of the following objectives: (i) local private sector development, in particular support to SMEs; (ii) development of social and economic infrastructure, including transport, energy, environmental infrastructure and information and communication technology; and (iii) climate change mitigation and adaptation.

The geographical coverage of EIB external mandate is divided into various regions: Pre-Accession region (Candidate Countries and Potential Candidates), Neighbourhood and Partnership Countries (with Mediterranean countries on the one side and Eastern Europe, Southern Caucasus and Russia on the other), ALA region (Asia – including Central Asia – and Latin America) and South Africa (which includes only the Republic of South Africa<sup>2</sup>).

Decision 1080/2011/EU establishes a General Mandate ceiling of EUR 27.484 bn and a Climate Change Mandate ceiling of EUR 2bn for EIB loans and loans guarantees for the period 2007-2013. The General Mandate ceiling is broken down into regional ceilings. Within these ceilings for individual regions, the EIB shall progressively ensure a balanced country distribution<sup>3</sup>. The current breakdown of the General Mandate into regional ceilings is presented in the table below. As a comparison, the amounts allocated to the EU external financial instruments (Instrument for Pre-Accession – IPA, European Neighbourhood Policy Instrument – ENPI, and Development Cooperation Instrument – DCI) under the current MFF 2007-2013 are also presented below. All figures are in EUR bn.

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<sup>2</sup> The rest of the African continent except North Africa is covered by the ACP mandate.

<sup>3</sup> It should be noted here that the Decision also introduces the possibility for 10%-flexibility between the regional ceilings (previously, it was only within them).

Regions	Ceilings
<b>Pre-Accession</b>	<b>9.048</b>
<b>Neighbourhood and Partnership countries</b> <i>Of which</i>	<b>13.548</b>
<b>Mediterranean countries</b>	9.7
<b>Eastern Europe, Southern Caucasus and Russia</b>	3.848
<b>Asia and Latin America:</b> <i>Of which</i>	<b>3.952</b>
<b>Latin America</b>	2.912
<b>Asia</b>	1.04
<b>South Africa</b>	<b>0.936</b>

EU instruments	
<b>Pre-Accession - IPA</b>	<b>11.5</b>
<b>Neighbourhood – ENPI</b>	<b>11.8</b>
<b>Asia, Latin America, South Africa – DCI</b>	<b>16.9</b>

The EUR 2bn envelope for climate action was one of the novelties introduced by Decision 1080/2011/EU following the mid-term review of the implementation of the mandate. Operations in other sectors like e.g. environmental or biodiversity infrastructure were already eligible for EU guarantee coverage but, in light of the challenges of financing global climate action, the legislators decided to put a particular emphasis on climate change operations while maintaining a broad spectrum of eligibility for infrastructure financing.

The climate change envelope is global and does not present any regional pre-allocation even if the EIB is requested to strive to ensure a balanced distribution across regions over the mandate period. It should be noted, as described below in section 2.1.3, that there is an increasing uncertainty about the ability of the EIB to fully reach the ceilings established under the current mandate due to financial constraints that led its governing bodies to significantly reduce the Bank's external activity in the recent years and the limited absorption capacity in some key regions, such as the Mediterranean one.

*EIB external mandate, EU financing mechanism for external action and other actors:*

It should be recalled that EIB activity in the regions covered by the mandate is also implemented in co-financing with other European Financial Institutions (EFIs) - notably the EBRD, CEB, and other national/bilateral agencies<sup>4</sup> – or other IFIs. Co-financing also takes place with EU budgetary funds stemming from the other EU external financial instruments mentioned above. In 2011, co-financing with EU budgetary contributions represented 26% of EIB total signatures under the mandate. This co-financing is notably implemented in the context of the various facilities set-up in the recent years, i.e. mainly the Western Balkans Investment Framework (WBIF), the Neighbourhood Investment Facility (NIF), the Investment Facility for Central Asia (IFCA), the Asia Investment Facility (AIF), and the Latin

<sup>4</sup> Such as e.g. KfW or AFD.

America Investment Facility (LAIF) which also involve the other EFIs and IFIs. The table below illustrates the size of these facilities.

	WBIF	NIF	IFCA	AIF	LAIF
Creation	2009	2008	2010	2012	2010
Financial contributions from EU budget, from MS	<b>€243.6m*</b> <i>(2008-2011)</i> * incl. from the 3 partner IFIs (EIB, EBRD, CEB)	<b>€745m from ENPI and €70m from MS</b> <i>(2007-2013)</i>	<b>€65m</b> <i>(2011-2013)</i>	<b>€30m</b> <i>(2011-2012)</i>	<b>€125m</b> <i>(2009-2012)</i>

By the end of 2011, the NIF has supported 52 projects representing a total investment cost in excess of EUR14 billion. The total grant contribution awarded under the facility amounts to EUR 417.7m and the financial institutions' loan resources leveraged is EUR 6.3 billion. The EIB is the largest financier in terms of volumes lent for NIF projects. It has co-financed more than 2/3 of the projects (35 out of 52) approved by the NIF Board up to date.

By the end of 2011, WBIF has supported 111 projects representing a total investment cost in excess of EUR10 billion. The total grant contribution awarded under the facility amounts to EUR 220m and the financial institutions' loan resources leveraged is EUR 5.5 billion. EIB co-financed almost 47% of WBIF approved by the WBIF Steering Committee to date.

While the external mandate is only open to EIB, in line with the new Financial Regulation, complementary financial instruments under other EU external instruments - such as IPA II, ENI or DCI – are also open to other EFIs alongside the EIB. In this context, the EU Platform for Blending in External Cooperation (EUBEC) has recently been created to improve the quality and efficiency of EU development and external cooperation blending mechanisms, taking due account of the policy frameworks that govern EU relations with the different partner countries, notably EU Development, Neighbourhood and Enlargement policies. This includes promoting cooperation and coordination between relevant actors thereby increasing the impact and visibility of EU external cooperation. The launch of the EUBEC provides an opportunity to develop a deeper partnership with European Financial Institutions, including the EIB, and deepen cooperation with other international institutions.

Improved coordination and cooperation between EFIs and enhanced efficiency of co-financing between all actors of external funding has been an on-going call of several key stakeholders including the Council, the European Parliament and civil society. During the last years, the EIB and the Commission have put in place several mechanisms, notably in the form of Memoranda of Understanding (MoU), to facilitate cooperation, promote synergies, exploit comparative advantages and avoid duplication of efforts between the EIB and other financial institutions active in the external field (e.g. the tripartite MoU between the Commission, the EIB and the EBRD, or the Mutual reliance Initiative between the EIB, KfW and AFD). These issues, however, will not be addressed in the current IA report as not strictly (and solely)

related to the external mandate legislative proposal and in particular are not related to the proposed modifications under any future Decision compared to the current mandate. Moreover, these questions are expected to be tackled under a separate framework as the Commission is invited by the Council and the Parliament to submit by end 2015 a report assessing the effectiveness of the existing system of European public financing institutions promoting investment in Europe and its neighbourhood.<sup>5</sup>

## **1. SECTION 1: PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES**

### **1.1. Organisation and timing**

The drafting of the Impact Assessment (IA) has been coordinated by an **Impact Assessment Steering Group** (IASG) composed of representatives of the relevant European Commission (EC) Directorates General (ECFIN (drafting team), DEVCO, ELARG, FPI, BUDG, ENTR, ENV, CLIMA) and the Secretariat General as well as of the European Action External Service (EEAS). The EIB also attended the IASG meetings as observer.

The **content** of this report duly takes account of the consultations, reviews and studies mentioned in Section 1.2.

The IASG was launched on 9 March 2012. Three **meetings** of the IASG were organised on 29 March, 11 May and 19 July 2012. Between each meeting, frequent exchanges occurred between the IASG members and the drafting team to provide written comments at the various stages of the drafting. The IA report was endorsed by the IASG following its meeting of 19 July 2012.

The IA was submitted to the IA Board on 27 July 2012. The review of this Impact Assessment by the **Impact Assessment Board** took place on 5 September 2012. The positive opinion of the Impact Assessment Board was delivered on 29 January 2013. A more detailed discussion on the outcome of the Board is provided in point 1.4 below.

In line with Article 27 of the Financial Regulation (Council Regulation (EC, Euratom) No 1605/2002) and Article 21 of the Implementing Rules of the Financial Regulation (Commission Regulation (EC, Euratom) No 2342/2002), the present impact assessment is the ex-ante evaluation of the EU guarantee to EIB external operations.

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<sup>5</sup> According to recital (8) of Decision No 1219/2011/EU of the European Parliament and Council of 16 November 2011 concerning the subscription by the European Union to additional shares in the capital of the European Bank for Reconstruction and Development (EBRD) as a result of the decision to increase this capital, the Commission is required to "present to the European Parliament and the Council, by the end of the CRR4 period (2015), a report assessing the effectiveness of the existing system of European public financing institutions promoting investment in Europe and its neighbourhood. That report should include recommendations on the cooperation between the respective banks and the optimisation and coordination of their activities as called for by the European Parliament in its resolution of 25 March 2009 on the 2007 Annual Reports of the European Investment Bank and the European Bank for Reconstruction and Development."

## 1.2. Consultation and expertise (public and internal)

The mid-term review of the current EIB external mandate was completed with the adoption of Decision 1080/2011/EU on 25/10/2011. In this context, an **evaluation** of the mandate was carried out by an **external contractor** (COWI). In addition, the EIB external activity was subject to a report of a **Steering Committee of Wise Persons (SCWP)**. Both documents were concluded in 2010 and made available to the public<sup>6</sup>. In the context of these evaluations, several stakeholders were consulted including EU officials, Non-governmental Organisations (NGOs), other International Financial Institutions (IFIs), Member states (MS) representatives, EIB loan beneficiaries, etc. On the basis of these two reports and in line with the requirements of the mandate decision in place, the Commission also issued its own evaluation<sup>7</sup> on which the proposal for the current mandate was based.

This impact assessment draws on these consultations as well as on the outcome of the inter-institutional negotiations that led to the adoption of Decision 1080/2011/EU. Moreover, the impact assessment takes into account the recent reflections on the EU financial architecture for external cooperation and development, in particular in the context of the **Group of experts on the EU Platform for Cooperation and Development**<sup>8</sup>. In addition, this report also hinges on the implementation of the current and previous mandates as of mid-2012. Key figures and facts regarding the implementation of the current mandate are available in the recently issued Commission Report to the European Parliament and Council on the Activity under the EIB External Mandate in 2011 and the accompanying Commission's staff working document<sup>9</sup>.

Finally, informal exchanges of views with key external stakeholders including representatives of Member states and main relevant NGOs representatives were organised through meetings and seminars in June and October 2012 in order to take stock of the state of play of respective reflections. In particular, exchanges of views were undertaken on the problems identified in this report as well as on the options envisaged to address them.

The recent widespread consultations of key stakeholders (those affected by the Decision, those involved in its implementation and of the legislators) in the context of the revision of the current mandate concluded at end-2011 and the recent informal exchanges of views provided sufficient ground to form a view on position of external stakeholders. Therefore, in view of the limited period by which a new Decision has to be adopted to avoid an interruption in EIB lending signatures, it was estimated that there was no need for a formal open 12-week internet public consultation.

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<sup>6</sup> "Mid-Term evaluation of the EIB external mandate – Final report of COWI": [http://ec.europa.eu/economy\\_finance/evaluation/pdf/ecfin\\_eval\\_en.pdf](http://ec.europa.eu/economy_finance/evaluation/pdf/ecfin_eval_en.pdf) and "Mid-Term Review of EIB external mandate – Report of the Steering Committee": <http://www.eib.org/about/documents/mtr-external-mandate-report-steering-committee.htm>

<sup>7</sup> COM(2010)173. "Report from the Commission to the European Parliament and the Council on the mid-term review of the external mandate of the EIB"

<sup>8</sup> See annex 2 for more details.

<sup>9</sup> COM(2012)637 and SWD(2012)358.

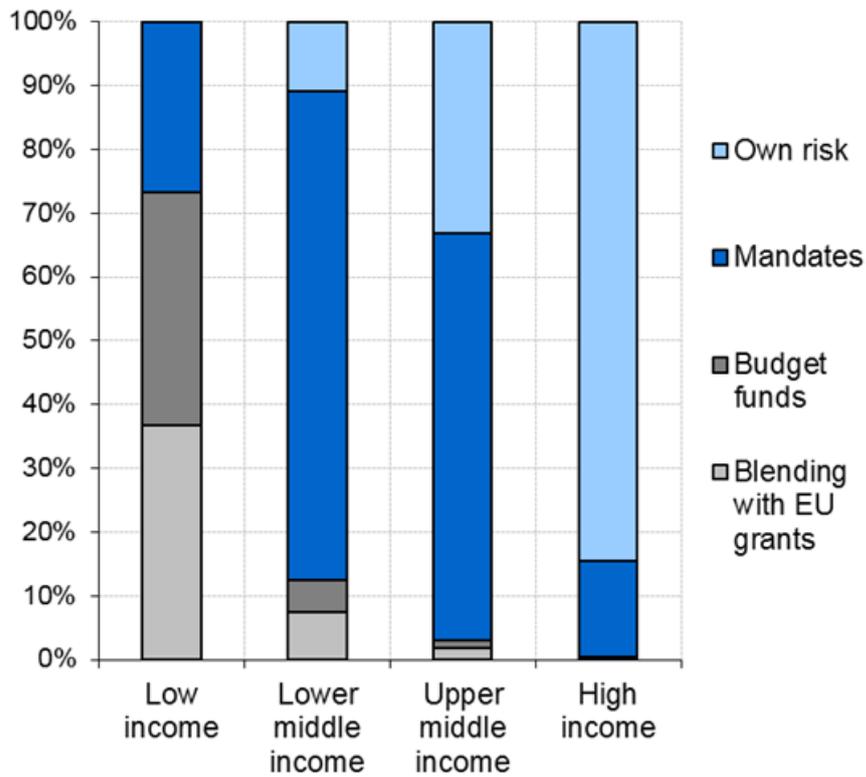
The list of stakeholders consulted for the Mid-Term evaluation, the informal consultation and the GoE are included in Annex 2.

### **1.3. Main outcome of the consultation and lessons**

The SCWP and the external evaluation showed that EIB financing under the mandate contributed to the achievement of EU policy objectives. The EU guarantee proved to be an essential tool allowing the EIB to intervene in the countries covered by the mandate. In particular, the SCWP underlined that "the EU guarantee enables the Bank to be involved in a wider range of countries and of borrowers within them than would otherwise be the case, both because it enables the Bank to intervene in higher risk countries and operations, and because it can make the financial conditions more attractive to borrowers. This is particularly valid for sub-investment grade sovereign operations under the comprehensive guarantee and for sub-investment grade private sector operations under the political risk guarantee. In such cases, the guarantee adds significant value to what would be possible without it".

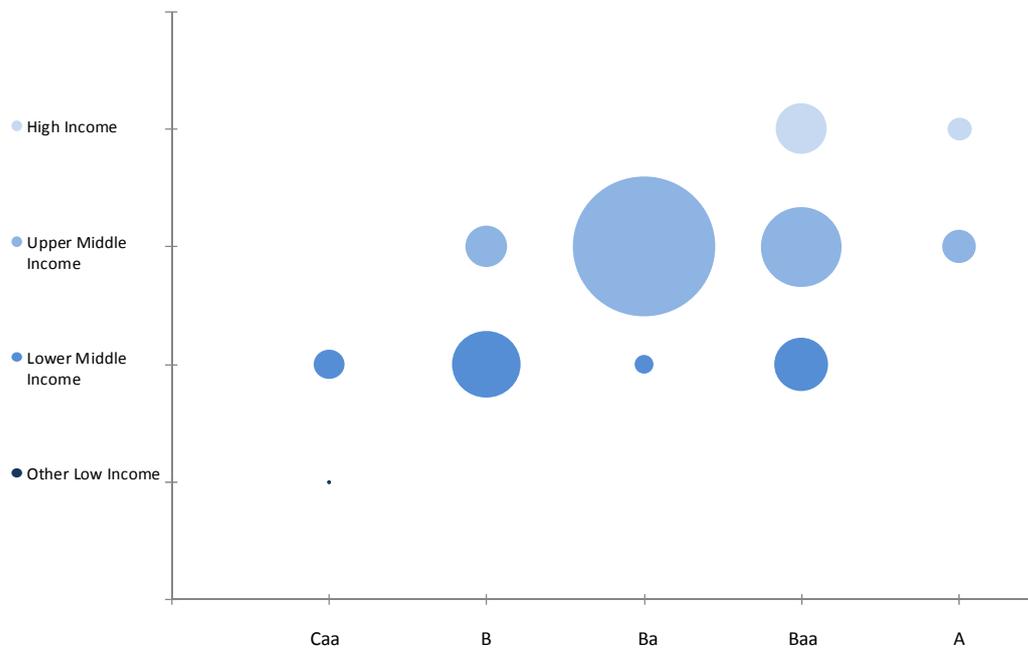
However, the SWCP underlined that the objectives were broadly defined and diversified by region, which called for a streamlining/rationalisation of the objectives across regions and the development of appropriate operational guidelines to ensure a suitable link with implementation. The SWCP also stressed that the additionality of EIB lending under the EU guarantee was less clear for operations in countries with well-developed banking markets and in support to FDI.

The chart below illustrates EIB exposure by source of funds and income groups and shows the value-added of EIB lending under mandate, particularly in lower and upper middle income countries according to the OECD list of ODA recipients (see table in Annex 3).



Source: EIB (excludes OCT, EFTA and EU).

The following graph shows the breakdown of 2008-2011 EIB total activity in the regions covered by the external mandate, including both operations at own risk and operations under guarantee, in relation to level of country income and rating (as at 31 December 2011).



Annex 4 details the main recommendations of the SCWP and of the external evaluator linked to the external mandate and outlines the follow-up in the implementation of the current mandate, highlighting in particular what was realised in the current mandate and what remains to be done.

The key elements on the status of implementation of these recommendations are the following:

First, as mentioned, the current decision streamlined EIB intervention in all regions setting out three horizontal objectives:

- a) Local private sector objectives, in particular support to SMEs;
- b) Development of social and economic infrastructure, including transport, energy, environmental infrastructure<sup>10</sup>, and information and communication technology;
- c) Climate change mitigation and adaptation.

There are no sectoral ceilings as envelopes are determined on a regional basis. However, in order to reinforce EIB support to climate change activities, Decision 1080/2011/EU introduced a specific cross-regional mandate dedicated to climate change activities, which can therefore be financed both under the dedicated envelope and under the regional ceilings. The weakness perceived under the current setup is that it does not provide sufficient incentives to EIB to step-up its climate change activity under the mandate, which was the ultimate aim of the creation of a dedicated climate change envelope while other sectors like environment or biodiversity seemed adequately covered.

Second, while the current mandate aims to enhance EIB contribution to development objectives, it is perceived that the development impact of EIB activity under mandate could be further strengthened by focusing it on poorer countries and beneficiaries which are most in need of EIB financing. In addition, it does not provide the EIB with the possibility to support all type of microfinance operations which belong to the usual toolkit of instruments available to financial institutions active in third countries. The legislators recognised this weakness and requested the Commission to analyse the possibility to introduce all type of microfinance operations coverage in the future Decision.

In addition, the SCWP and the external evaluators encouraged the EIB to pursue own risk activities, limit the application of the EU guarantee to non-investment grade borrowers and limit concentration risk in specific countries/operations. This Recommendation was partly implemented in the current mandate by asking the EIB to prepare – in consultation with the Commission - an allocation policy. The latter will indicate how the EIB intends to allocate operations under EU guarantee or at its own risk activities. However, it is felt that a further step is needed to ensure that EIB financing under mandate focuses on less creditworthy

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<sup>10</sup> Environmental infrastructure includes e.g. water and sanitation infrastructure, biodiversity and forestry investment, waste and solid waste infrastructure.

operations in a transparent and orderly manner, whilst respecting concentration risks by country/beneficiary.

Finally, following the SCWP and external evaluators' recommendation, under the current mandate, the Commission and the EIB are asked to jointly prepare technical regional operational guidelines and the EIB is requested to prepare, in consultation with the Commission, a climate change strategy as well as multiannual financing strategies. These documents have been finalised respectively on 7 November 2012 (guidelines) or and on 12 December 2012 (climate change strategy). However, the recommendation and the subsequent implementation did not spell out a process to update these documents in an informed and transparent manner, to take into account the evolution of the EU priorities and policies in the external field.

As regards consultation with other stakeholders in June and October 2012, MS and NGOs representatives acknowledged the Commission's analysis of the problems to be addressed by the new legislation. In particular, NGOs representatives found legitimate to reconsider the value added of some EIB external activity under the EU guarantee. In this context, they underlined the most recent changes which occurred in the context in which EIB currently operates, including the implications of the economic and financial crisis both on the beneficiaries and the Bank's capacity to operate, as well as the relative limitations of EU budgetary grants. In this respect, they insisted on the need to ensure an adequate division of labour between all actors, including with other IFIs and on the need to focus the priorities of the mandate by setting clear guidelines for action.

Other main points raised by NGOs during the two rounds of consultations:

- They questioned the need to explicitly expand the scope of the EU guarantee to microfinance given the existence of other actors in the field. More in general, they questioned the activity in support of the private sector carried out through financial intermediaries.
- The EIB should focus on neighbouring countries and the EU guarantee should be used for lower income countries rather than emerging middle income ones.
- While expressing concerns on some energy operations (fossil fuel based), they welcomed an increased support to certain climate change related action such as energy efficiency and renewable energy. Appropriate parameters to define climate change action should be defined and methods to assess the carbon foot print of the overall EIB external activity notably under the mandate should be developed.
- They stressed the need for EIB to be closely aligned with EU priorities and suggested to develop coherent (possibly joint) programming between EIB activities and Commission managed instruments. The development of regional guidelines is a positive step forward. As regards the climate change strategy, they would favour an enhanced process including e.g. public consultation for the next Decision.
- The need to further enhance EIB transparency, due diligence on certain development aspects (e.g. human rights, conflict prevention) and results measurement.

#### **1.4. Impact Assessment Board**

The draft Impact Assessment report has been discussed at the IAB meeting of 5 September 2012. In its opinion of 7 September 2012, the IAB requested a resubmission of the report, with the following recommendations for improvements: (1) strengthen the context and problem definition, (2) widen the scope of the analysis, (3) significantly strengthen the analysis of impacts and the comparison of options, and (4) better present stakeholders' view.

The report was accordingly reorganised and a revised version was submitted on 20 December 2012. In particular, the context of the proposal was clarified in order to better highlight the strengths and weaknesses of the current mandate, by including further data and analysis, and the problem definition was fine-tuned in order to clarify the link with the objectives of the proposal. The scope of the analysis was widened notably to cover the setting of regional ceilings. The analysis of impact was strengthened through the integration of the economic, social and environmental impacts into the main impact analysis which was furthermore enriched by the clarification of the criteria used and of the rating applied. Finally, the stakeholders' view and consultation process was better presented throughout the report.

The IAB delivered a positive opinion on the revised draft on 29 January 2013. The IAB requested further clarifications on the status of implementation of the recommendations of the mid-term review and on EIB's role within EU financing for external action and in complementarity to other actors' activity, further improvements of the assessment of impacts and comparison of options sections, as well as more details on the stakeholders' view presentation. The report was further improved accordingly and has been hereby finalised.

## **2. SECTION 2: PROBLEM DEFINITION**

### **2.1. Framework and legal constraints:**

#### *2.1.1. Requirements of Decision 1080/2011/EU for a proposal for next MFF*

Article 16 of Decision 1080/2011/EU states that the Commission shall present to the European Parliament and the Council a new proposal for the next MFF (2014-2020). It further foresees that, "when submitting the proposal on the EU guarantee under the next multiannual financial framework, the Commission should be invited in particular to examine, in close cooperation with the EIB and taking into account the implications of the provisioning of the Guarantee Fund, the ceilings covered by the EU guarantee, the list of potentially eligible countries and the possibility for the EIB to provide micro-credit financing and other types of instruments. The Commission and the EIB should also examine the possibilities of enhancing in the future synergy between the financing through the Instrument for Pre-Accession (IPA), the European Neighbourhood Policy Instrument (ENPI), the Development Cooperation Instrument (DCI), the European Instrument for Democracy and Human Rights (EIDHR) and the Instrument for Stability and the external mandate of the EIB".

Under the terms of Decision 1080/2011/EU, the EU guarantee covers EIB financing operations signed between 1 February 2007 and 31 December 2013. Therefore, a new

Decision has to be adopted under the ordinary legislative procedure by 31 December 2013 before the current mandate expires<sup>11</sup>.

### *2.1.2. 2014-2020 MFF budgetary framework and ceilings*

It is important to describe the budgetary mechanism underpinning the EU guarantee provided under the EIB external mandate, as this has implications on some of the options analysed further in this IA.

A Guarantee Fund (GF) aims to shield the EU budget against shocks due to possible default from the lending activity under the EIB external mandate and other external action, i.e. Macro Financial Assistance and Euratom loans (the EIB mandate representing more than 90% of the portfolio covered by the GF). The GF must be maintained at a target level of 9% of the total outstanding disbursements<sup>12</sup> on all these actions. In 2010, an external evaluation of the functioning of the Guarantee Fund concluded that the 9% provisioning rate was deemed appropriate.

The GF is endowed by one annual payment from the EU budget. Based on the technical input from the European Commission to the negotiation of the individual programmes implementing the next Multiannual Financial Framework sent by the Commission on 27 March 2013, the envisaged EU budget amount for the provisioning of the GF over the period 2014-2020 will amount to EUR 1.193 bn (in current prices). The provisioning mechanism of the GF which aims at maintaining the GF at a level of 9% of outstanding loan disbursements creates therefore de facto a limit in the size of the EIB external mandate covered by EU budget guarantee. According to Decision 1080/2011/EU, the EU budget guarantee covers up to 65% of the EIB outstanding loan disbursements. See Annex 1 for more details on the evolution of the EU guarantee coverage over the years.

For reference, the guarantee has been historically called only three times: Former Yugoslavia (amount fully recovered), Argentina (amount fully recovered), and recently Syria.

Based on expected patterns of disbursements and reimbursements of guaranteed loans, this assumption would allow for a fixed ceiling of around EUR 25 billion (vs. EUR 29.5 billion under Decision 1080/2011/EU). Possible negative developments such as any new defaults leading to calls on the GF were not taken into consideration in this calculation. However, it accounts for the recent call on the Guarantee in the context of loans to Syria for an amount equivalent to approximately EUR 21.5mn in 2012 (which will affect the GF provisioning needs in 2014 as the latter will have to be increased accordingly) as well as calls expected in

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<sup>11</sup> It should be noted that, if, on expiry of the current mandate, the European Parliament and the Council have not adopted a decision granting a new EU guarantee to the EIB for its financing operations outside the Union, Decision 1080/2011/EU foresees that that period shall be automatically extended by six months.

<sup>12</sup> The Guarantee Fund has to be provisioned according to the Guarantee Fund Regulation (Council Regulation (EC, Euratom) No 480/2009). In line with this Regulation, loans are provisioned on the basis of the total outstanding guaranteed amounts (i.e. disbursements minus reimbursements) plus accrued interest at the end of a year  $t_0$ . The provisioning amount calculated at the beginning of the year  $t_1$  is introduced in the preliminary budget for  $t_2$  and inscribed in the final budget for  $t_2$ . Therefore, the Fund is provisioned by one single payment transaction at the beginning of the year  $t_2$  from budget line 01040114.

the coming years if the Syrian default situation persists. The calculation also integrates assumptions regarding the expected activities related to Macro Financial Assistance and Euratom loans.

As mentioned above, the Decision provides a breakdown of this General Mandate ceiling into regional ceilings. The current regional ceilings were increased by Decision 1080/2011/EU compared to the previous Decision<sup>13</sup>. The legislators decided to exceptionally increase the regional ceiling for the Mediterranean region by EUR 1bn and to increase by the same proportion (+4%) all other ceilings. The legislators clearly stated in the recitals of the Decision that these increases were temporary and exceptional with the view to deal with the Arab Spring and account for EIB increased support to EU partners in the 2009-10 crisis context.

This shows their intention to maintain the overall regional balance that was negotiated with difficulty in 2009 and was the outcome of a delicate policy compromise. Hence, since the 2009 overall regional balance was confirmed during the mid-term review (beyond these exceptional increases), it is assumed that the 2009 regional balance should form the basis for the new legislative proposal. The regional balance of the 2009 Decision was the following:

<b>Regions</b>	<b>%-Ceilings</b>
<b>Pre-Accession</b>	<b>33.7</b>
<b>Neighbourhood and Partnership countries</b> <i>Of which</i>	<b>48.0</b>
<b>Mediterranean countries</b>	33.7
<b>Eastern Europe, Southern Caucasus and Russia</b>	14.3
<b>Asia and Latin America:</b> <i>Of which</i>	<b>14.8</b>
<b>Latin America</b>	10.9
<b>Asia</b>	3.9
<b>South Africa</b>	<b>3.5</b>

The above approach would also be in line with the thrust of the Commission 2014-2020 MFF proposals for external financial instruments, where the relative percentage of DCI - which covers Asia/Latin America/South Africa - did not change compared to IPA II (Pre-Accession) and ENI (Neighbourhood).

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<sup>13</sup> Decision 633/2009/EC

EU instruments	2007-2013	2014-2020
	MFF	MFF*
Pre-Accession	29%	25%
Neighbourhood	29%	33%
Asia, Latin America, South Africa	42%	42%

*\* as in COM proposal from Dec2011 (IPA II, ENI and DCI only)*

### 2.1.3. The general environment in which the EIB operates

The context in which the Bank operates has significantly evolved and the legislative proposal for the EU guarantee under the next MFF has been drafted in a fundamentally more difficult context than the one prevailing e.g. at the time of the mid-term review of the mandate which preceded the Decision 1080/2011/EU, including the Wise Persons Steering Group reflections.

In particular, the financial crisis had a significant impact on the funding conditions of EIB and entailed possible threats to the EIB's AAA rating<sup>14</sup>. Due to its very high leverage, the progressive deterioration of its asset quality (with a correspondingly declining capital adequacy ratio) and of the ratings of its shareholders, the EIB was rated by Standard & Poor's Moody's and Fitch "AAA with negative outlook"<sup>15</sup>. Against this backdrop, the Corporate Operational Plan (COP) 2012-2014 endorsed by the EIB Board of Directors end 2011 envisaged a significant reduction in lending volumes back to pre-crisis levels in particular in the external field.

Similarly, the current economic and financial context is also having an impact on the quality of the external lending portfolio. However, such impact was diverse by country/region. While the credit ratings of some countries, such as Turkey which represents the highest exposure under the EIB external mandate, have recently been upgraded, other countries, particularly in the Southern Neighbourhood region, are experiencing difficulties. Under the current circumstances, the EIB external mandate and the EU guarantee play a crucial role that allow the EIB to operate outside the EU and maintain its top credit-rating by bringing concrete benefits to the EIB capital adequacy through substantially lowering the risk weighting of EIB external operations, particularly for higher risk countries and borrowers.

EIB Activities	2008	2009	2010	2011	2012	2013	2014
EU Countries	51.5	70.5	62.9	53.0	44.0	42.7	41.4
Outside the EU	5.7	8.1	8.4	6.9	6.0	5.3	4.6
<b>TOTAL</b>	<b>57.2</b>	<b>78.6</b>	<b>71.2</b>	<b>59.9</b>	<b>50.0</b>	<b>48.0</b>	<b>46.0</b>
<i>External activities (% of total activities)</i>	10%	10%	12%	12%	12%	11%	10%

*(\*) Loans on EIB own resources (no budget resources)*

<sup>14</sup> All three major rating agencies (S&P, Moody's and Fitch) apply specific rating methodologies for the Supranational/Multilateral Development Bank segment. In particular, Standard & Poor's issued a revised methodology on 26 November 2012. The main rating factors are the financial profile (asset quality, leverage, risk concentration, capitalization) and shareholder support.

<sup>15</sup> At the end of 2011, the EIB Capital Adequacy Ratio decreased at around 24.9%. At the end of 2011, EIB leverage (ratio between total borrowings and shareholders' equity) was 985% while EBRD ratio stood at 192%, the African Development Bank at 252% and the World Bank at 342%.

While the recently approved EIB capital increase would allow increasing EIB lending inside EU, EIB external activity should not be affected. Moreover, the EIB Board of Governors' approval of the current external mandate stressed that the Bank should endeavour to mitigate the impact on human resources for its implementation.

In this context, as a result of EIB governing body decisions and the lower absorption capacity of beneficiaries in key countries of operations, it is anticipated that EIB may under-use the amounts available under the current mandate. At project level, the EIB activity will particularly depend on the identification of sound and bankable projects, grants-loans blending opportunities, level of indebtedness of the beneficiary countries, risk analysis, economic and political context, quality of project preparation, capacity of the project promoters, etc.

Another element which has been incorporated in the reflections on the proposal for a new mandate is *inter alia* the extension of European Bank of Reconstruction and Development (EBRD) geographical scope to the Southern and Eastern Mediterranean. While EBRD's activity in four countries in the Mediterranean region was initially implemented through cooperation funds (i.e. mainly technical assistance operations), the EBRD is now able to deploy the full range of its product through a Special Shareholders Fund and, in a second stage, through its own resources, once the ratification process of the changes in its Articles of Agreement Establishing the EBRD is implemented. In the coming years, EBRD could eventually reach an annual business activity of up to EUR 2.5 bn in the Southern and Eastern Mediterranean (which would be more than total combined EIB financing - under the mandate and at own risk).

## **2.2. The problems requiring action**

Four problems have been identified:

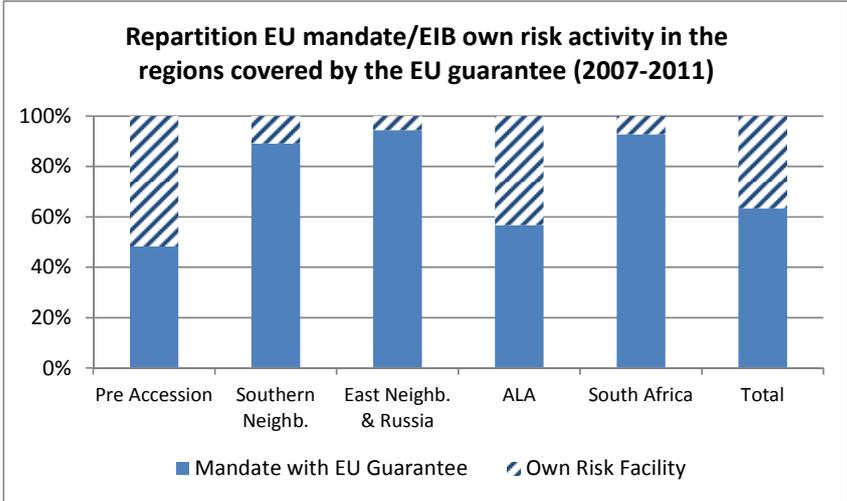
### *2.2.1. The risk of sub-optimal use of the EU guarantee*

The chart below shows that although, on average, more than 60% of EIB external operations have been carried out with the EU guarantee in the regions covered by the mandate between 2007 and 2011, this repartition differs significantly from one region to another.

In this context, there are creditworthy countries/beneficiaries notably in ALA where the additionality of EIB lending with the EU guarantee is less palpable than in others. For those operations, EIB financing could be provided at own-risk and do not necessarily require an EU-budget guarantee as borrowers can more easily access commercial funding.

For instance, it should be noted that, in 2011, investments in sub-investment grade countries under the guarantee in ALA represented less than half of the overall lending of 310 mn in the region. On the contrary, the remaining operations were carried out in creditworthy countries (Brazil and Mexico). This issue was identified in the context of the mid-term review and was also raised by most of the NGOs consulted. However, other stakeholders, in particular the EEAS, stressed the need to maintain a broad eligibility to the guarantee coverage in order to

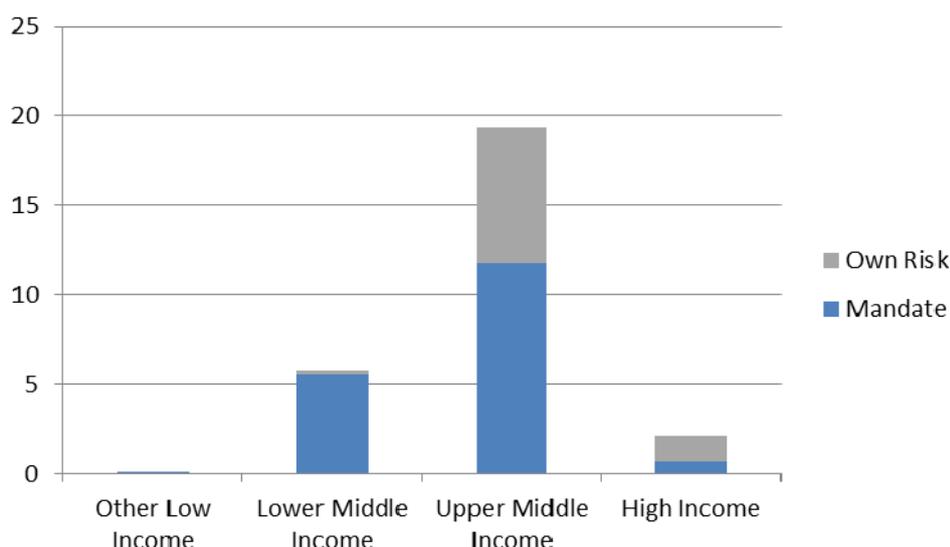
limit the risk of having some EU partners becoming "orphans" from EU financial assistance following the graduation of some countries from EU bilateral financial assistance in the future DCI.



Moreover, the general crisis context, in which the role of emerging market economies on the global scene has significantly increased, including as fund providers, has raised questions from some stakeholders including Commission services, some MS and some NGOs on how to further focus EIB resources devoted to partner countries on higher value added and result-oriented activity. In particular, EU taxpayers have become more sceptical about funding wealthier Middle Income Countries (MICs) notably the BRICs (Brazil, Russia, India and China). In this context, it should be noted that almost half of EIB financing operations in the BRICs are already done at own-risk although this figure ranges from 95% for China to less than 20% in Russia. If EIB own-risk activity outside the Union were to be reduced (as it is currently foreseen by EIB governing bodies), there is therefore a risk that operations in these countries will compete for the EU guarantee coverage with operations in less creditworthy countries.

The Decision on EIB external mandate provides the framework for EIB operations under the EU budget guarantee while it does not frame EIB own-risk facilities which are decided by EIB Board of Governors (which is the same as the ECOFIN). Nevertheless, given interactions and complementarities between the two types of activities, a clearer focus of the mandate should allow a better use of the mandate and influence EIB own-risk activity, thereby ensuring efficient use of the guarantee in terms of financial value added.

The following graph shows the breakdown of 2008-2011 operations at own risk and under guarantee in the regions covered by the mandate (EUR bn).



### 2.2.2. *The impossibility for EIB to finance all type of microfinance operations with the EU guarantee*

Decision 1080/2011/EU requests the Commission to assess whether the EIB Mandate should be extended to cover all type of microfinance operations.

The EU guarantee does not explicitly cover EIB lending for micro-credit financing operations. While the EU guarantee could cover microfinance operations linked to an economic/business activity (supply side), i.e. e.g. micro-credit to small producers/micro-enterprises that need access to financial services to invest, generate income, and build assets, the EU guarantee does not cover operations linked to consumption behaviours (demand side) or other type of financial services provided to micro-entities (see below point 2.4 for more details). With this type of operations, EIB's financing could potentially have a substantial impact on poverty alleviation and on economic and social development in partner countries.

The impact of microfinance activity on poverty reduction is the subject of intense (and still open) debate in the academic literature. Recent research identifies both positive and negative impacts from microcredit within a heated and complex debate over the methodological reliability of the findings of many of the key studies involved<sup>16</sup>.

At the same time, an estimated 2.5 billion working-age adults (more than half of the total number of working-age adults in the world) remain without formal financial services such as a savings or check account. A growing body of empirical evidence shows that access to the right financial product at the right time helps poor households build assets, generate income, smooth consumption, and protect themselves from risks. An inclusive financial system allows for more effective and efficient social policy interventions, for example through conditional payment transfers in health and education. And at the macro level, deeper financial

<sup>16</sup> For instance: "Helping or hurting: What role for microfinance in the fight against poverty?" <http://www.appg-microfinance.org/files/APPG%20on%20Microfinance%20inquiry%20report%202011%20-%20low%20res.pdf>

intermediation in an economy leads to more growth and less inequality. Access to financial services is an important element for the success of an economy and the wellbeing of its citizens<sup>17</sup>. Moreover, anecdotal evidence and report from various NGOs underline significant market gaps for medium sized borrowers despite a reported oversupply in some regions.

In this context, the EIB has been one of the latest entrants in the microfinance business. Although its portfolio still represents a very small fraction of the total budget, it has been growingly steadily through the years. Since the first operations in Morocco, back in 2003, the average deal size has been increasing constantly and is now expected to top 10 to 50 million euros. It is therefore legitimate to investigate whether EIB external mandate should be extended to cover all type of microfinance operations.

### *2.2.3. The insufficient level of funding for climate action and the difficulty for EIB to increase its lending in this area*

In the current economic and financial environment, there is a risk that global financing for Climate Change operations will fall short of needs and expectations. The EU has committed to work with other developed countries in a constructive manner towards the identification of a path for scaling up climate finance from 2013 to 2020 from a wide variety of sources of finance, to reach the international long term committed goal of mobilizing jointly US\$100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation with a view to reducing global greenhouse gas emissions so as to keep the increase in global average temperature below 2°C compared to preindustrial levels. In this context, the Council recently "acknowledged the important role of Multilateral Development Banks and other public financial institutions, including the EIB in facilitating the mobilisation of these flows"<sup>18</sup>.

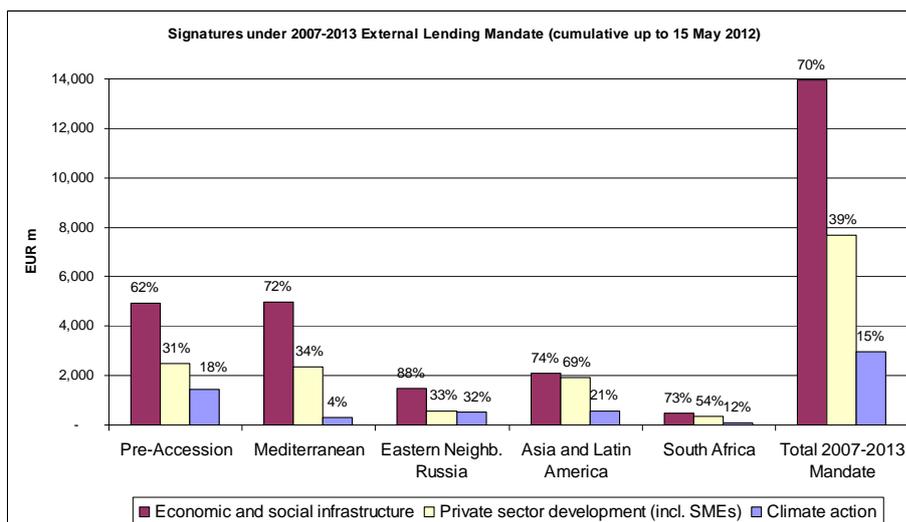
EIB's climate action is carried out both under the EU mandate and at own risk. The focus on climate action has been introduced by Decision 1080/2011/EU while other more traditional sectors like support to environmental or biodiversity infrastructure were maintained as they were.

It is estimated that around 15% of EIB operations carried out since 2007 with the EU guarantee could be qualified as climate change operations. This global figures hides however disparities across regions/countries as it ranges from less than 5% in the Mediterranean region to almost a third of operations in the Eastern Neighbourhood and around 20% in Pre-Accession and ALA region as described in the chart below.

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<sup>17</sup> "Advancing Financial Access for the World's Poor: A Brief History of CGAP", [http://www.cgap.org/gm/document-1.9.57930/CGAP\\_Brochure\\_May\\_2012.pdf](http://www.cgap.org/gm/document-1.9.57930/CGAP_Brochure_May_2012.pdf)

<sup>18</sup> Council conclusions on climate finance - fast start finance, 15 May 2012.



**Source:** EIB

**Notes:**

- The volumes per objective represent the cumulative gross signatures over the period corresponding to the actual implementation to-date of the External Mandate (i.e. 01/08/2007-14/05/2012).
- The percentages refer to the objective's proportion of total volume in each region. The objectives are not mutually exclusive (one operation may simultaneously contribute to more than one objective), therefore the volumes or percentages for a single region cannot be added.
- The Climate Action indicator was defined late 2009. Volumes relating to operations signed prior to 2010 are indicative.
- In addition to the above volumes on EIB own resources, private equity was provided in the Mediterranean in an amount of EUR 162m on EU budget resources.

While EIB activity in support of climate action in the external field has proportionally grown in recent years, this is not yet matching the needs arising from EU and global commitments in this area. One of the reasons for this could be the necessary time-lag between the moment a project is being identified as "bankable" and its materialisation. As mentioned, the climate change dimension was introduced in the 2011 Decision. This constitutes a significant evolution of EIB activity which requires times for implementation, both in terms of client identification and project preparation. In addition, pipeline of projects tend to be "sticky" in some sectors as the Bank needs to gradually diversify its traditional client base.

Nevertheless, some of the NGOs consulted questioned whether the EIB had sufficient incentives to substantially step-up this activity under the current mandate despite the fact that the latter stated that:

*"in line with EU and international climate change objectives, the EIB shall, in cooperation with the Commission, present by 2012 a strategy on how to gradually and steadily increase under its external mandate the percentage of projects promoting the reduction of CO<sub>2</sub> emissions and phase out financing projects detrimental to the achievement of the EU climate*

*objectives*". In line with the Decision requirements, this strategy was presented by the Bank in December 2012.

#### 2.2.4. *Unclear EIB positioning as a delivery tool of EU external financial support*

EIB external activity is an integral part of EU financial support to third countries. As mentioned above, despite significant improvements introduced by Decision 1080/2011/EU to align better EIB financing with EU external policy objectives, there have been cases in the recent years where it has proven complex to translate EU policy developments into EIB activity. These examples include EIB's activity in Russia where a series of trade related questions prevented the Commission from providing a favourable opinion to EIB support to projects in a number of sectors in Russia which are eligible under the mandate (e.g. transport). Similarly, despite the increase of the ceiling for the Mediterranean region and a clear political call to step up its support to the region in the aftermath of the Arab spring, EIB has encountered, as all other IFIs, difficulties to close deals in the region in the very short term.

All these examples illustrate the need to strike a balance between the predictability of EIB activity in order for it to build a viable pipeline of bankable projects and the need to align with the latest policy developments.

The so-called Article-19 procedure<sup>19</sup>, whereby the EIB submits a project proposal to the Commission for an opinion, ensures policy coherence by preventing any inconsistencies between EIB activity and policy developments. Nevertheless, the submission under Article 19-procedure occurs when EIB project are already relatively well prepared and identified. Therefore a process for interaction between the EC/EEAS and the Bank at an earlier stage of the project cycle would allow to save resources.

It should be noted that this problem is also identified by the stakeholders consulted (EP, NGOs)<sup>20</sup> who also asked for increased synergies with EU budgetary fund. A review of the latter was also requested in Decision 1080/2011/EU.

More recently, the EP has also studied the implications of EIB and EBRD co-financing with EU budget notably in relation to the extent to which such activity helps delivering on of EU policy objectives<sup>21</sup>. In this context, it should be noted that, despite the introduction in the current mandate of the regional technical operational guidelines, the alignment with EU policies and the coherence and synergies with EU instruments within the timeframe of the new mandate could be further improved. In this respect, the recent creation of the EEAS should contribute to achieve this goal of overall policy orientation, coherence and synergies. Nevertheless, there is not yet for instance any mechanism that clarifies how to ensure the effective and timely mirroring of the differentiation principles (e.g. "more for more" whereby

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<sup>19</sup> The consultation procedure is set out in Article 19 of EIB statute.

<sup>20</sup> E.g. European Parliament Resolution of 25 March 2009 on the 2007 Annual Reports of the European Investment Bank and the European Bank for Reconstruction and Development, OJ C 117 E, 6.5.2010, p. 147.

<sup>21</sup> <http://www.europarl.europa.eu/committees/en/studiesdownload.html?languageDocument=EN&file=37031> (2011)

incentives are provided to support more those partners who implement Action Plan priorities) established in e.g. the revised European Neighbourhood Policy.

### **2.3. The underlying drivers of the problems**

The following underlying drivers to the problems identified in section 2.2 have been identified:

- The problem of non-optimal use of the guarantee which would not be reserved for operations with most value added is due to unclear criteria in the current mandate to decide whether operations are to be financed or not with the support of the EU guarantee and the lack of process to review them. There is no reason for any evolution of this situation in the next MFF if no action is taken.
- EIB inability to support all type of microfinance operations is due to the current design of the EU guarantee as not all types of operations are currently eligible. This situation will not change in case of status quo.
- The insufficient level of funding for climate action and the difficulty for the EIB to increase its lending in this area are due to the lack of sufficient incentives in the mandate and/or provisions for enhanced and more efficient allocation of funds in this area. There is no particular reason to assume that this underlying driver and the resulting problem would evolve favourably in the next MFF in case of status quo.
- The problem of unclear positioning of EIB as a key delivery tool of EU external financial support is due to lack of a dynamic process to provide upstream political impetus to EIB project identification business with the view to allow continued alignment of EIB activity with EU policies and to capture for the evolving environment in which it operates. There is no reason for any particular positive evolution of this situation in the next MFF period if no action is taken.

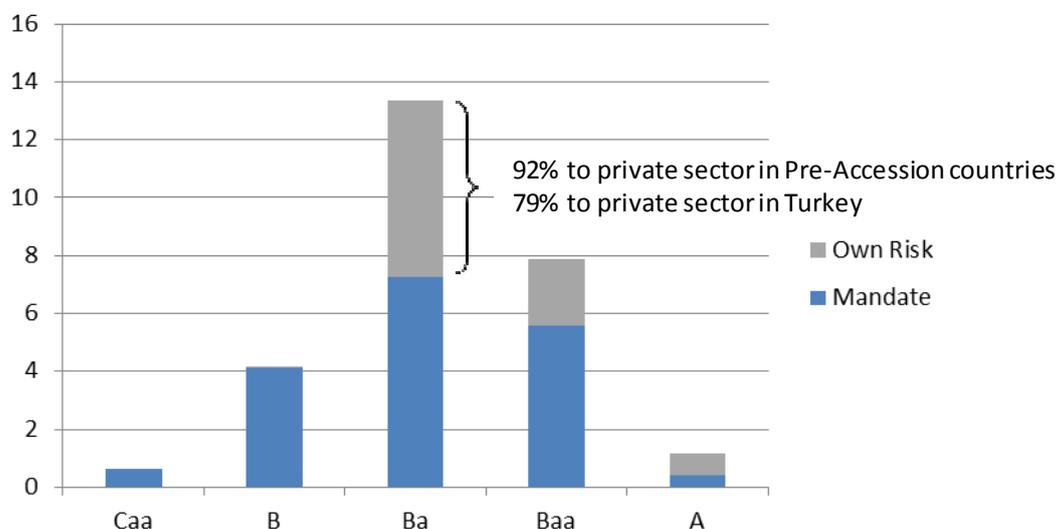
### **2.4. The consequences of the status quo – the base line scenario**

The base line scenario would entail the replication of the current Decision under the next MFF, i.e. from 01/01/2014 until 31/12/2020.

- Given the recent strategic shift by the Bank to significantly lower own-risk operations outside the EU to cater for the riskier environment in which it operates and maintain its top credit rating, there is a significant risk that the EU Guarantee will be increasingly reserved for creditworthy operations which have easier access to commercial funding and for which the value added of an EU budget guarantee is questionable. In particular, this may reduce the impact of this budgetary instrument on most needful countries/beneficiaries which display a more difficult operating environment than richer countries given e.g. their less developed financial infrastructure. Therefore, in the absence of a clearer method in the mandate to decide whether operations are to be financed or not with the EU guarantee, the less creditworthy potential beneficiaries, in particular local private sector and sovereign beneficiaries in lower income countries, would be negatively affected.

The following graph shows the breakdown of EIB 2008-2011 activity in regions covered by the mandate according to end of 2011 (groups of) rating levels split by operations at own risk and operations under guarantee. It should be noted that the vast majority of operations at own risk in the Ba category are private sector operations in the Pre-

Accession region, and in particular Turkey. The graph shows that there is a significant correlation between the level of creditworthiness of a country and the capacity of the Bank to carry out operations at own risk. Moreover, for private sector operations in Pre-Accession countries, the Bank is capable to bear the risk even when such country has not yet reached full investment grade. However, there seems to be still scope for rationalisation.



- EIB can support only a limited type of operations under the EU guarantee as specified under Decision 1080/2011/EU. However, the EU guarantee does not cover microfinance operations which be linked to consumption behaviours (demand side). These refer to households' need to smooth consumption in the face of irregular income and expense streams and manage risks. Moreover, the EU guarantee in the current set-up does not cover some financial services provided to micro-entities/SMEs other than micro-credit operations but often also referred to as "microfinance operations" such as savings, insurance, and fund transfers. Finally, the EU guarantee could not cover the financing of activities linked to the development of an inclusive financial system, the creation of an enabling environment and the capacity building of regulatory institutions and financial intermediaries. The continuation of the EU guarantee in the current set-up therefore entails the risk not to reach part of the most in need population in EU partner countries through the financing of these "demand side" microfinance operations. This could be detrimental for individuals which would not have access to a potential additional source of financing.
- Despite the presence of a specific envelope of EUR 2 billion (i.e. 7% of the total mandate) for climate action, the lack of sufficient incentives in the mandate and/or provisions for enhanced and more efficient allocation of funds in this area does not guarantee that such a relatively small envelope will allow the EIB to sufficiently prioritise climate action in its external activity. Moreover, the presence of a dedicated amount does not ensure that an adequate climate impact is achieved in particular in terms of GHG emission reduction. Therefore, there would be no particular incentive for EIB to increase its climate action both in terms of financed volumes for climate specific projects (see chart in section 2.2.3) and in terms of mitigating the potentially negative climate impact of its activity.
- The continuation of the EU guarantee in the current set-up bears risks that EIB activity under the mandate is not fully integrated in the EU financial toolkit to support its external policy objectives due to unclear guidance provided to the Bank in the absence of lack of a dynamic process to provide upstream political impetus to EIB project identification and to

capture for the evolving environment in which the EIB operates. Moreover, there is a reputational risk for the EU/EIB if EIB support is granted albeit not being fully in line with EU policies or of waste of resources if after preparatory work, some projects are then objected under article 19 procedure.

## **2.5. Analysis of subsidiarity and justification for EU action**

The proposal falls under the exclusive competence of the EU. The subsidiarity principle therefore does not apply.

The specific legal bases for EU action in granting an EU guarantee to the EIB against losses under loans and loan guarantees for projects outside the EU are Articles 209 and 212 of the Treaty on the functioning of the EU. In particular Article 209(3), in conjunction with Article 208, provides that the EIB is to contribute, under the terms laid down in its Statute, to the implementation of the measures necessary to further the objectives of Union development cooperation policy.

The EIB is the Bank of the Union established under Article 309 of the Treaty. The Statute of the EIB is laid down in a Protocol annexed to the Treaties. Article 16 of EIB Statute states that the Board of Governors – consisting of Ministers from the Member states – may decide to grant financing for investment carried out, in whole or in part outside the territories of Member states.

## **3. SECTION 3: OBJECTIVES:**

### **3.1. General policy objectives of the new EU guarantee EIB external operations and other specific objectives**

With a view to supporting Union external action, and in order to enable the EIB to finance investments outside the Union without affecting the credit standing of the EIB, part of its operations in external regions benefit from an EU budgetary guarantee under the external mandate.

The objective of EIB activity outside the EU under the EU guarantee should be to support the Union's external policies by financing relevant projects in partner countries or at regional level through the combination of EU budgetary funds (via the provisioning of the Guarantee Fund for external action which backs the EU guarantee) with EIB own resources.

Through its financing operations outside the EU under the EU guarantee, the EIB should support the economic, social and environmental sustainable development of EU partner countries, and their partnership with the EU. Moreover, EIB financing operations under the EU guarantee shall be consistent with the wider Union regional policy framework e.g. the Accession and European Partnership and the Stabilisation and Association process, the new European Neighbourhood Policy, the Eastern Partnership and the Partnership for Democracy

and Shared Prosperity. The new mandate should also be consistent with the recent "Agenda for Change"<sup>22</sup>.

Other **specific objectives** of the new EU guarantee should include to:

- **Better exploit EIB expertise and resources (objective a).** As mentioned, EIB governing bodies have recently expressed concerns regarding EIB activity outside the EU as opposed to its core activity inside the EU, in particular in terms of resources allocated to this activity. In this context, ensuring that EB external activity builds upon EIB's existing and recognised expertise and resources should ensure that EIB has the capacity to fully implement the mandate in the most efficient manner.
- **Improve the effectiveness of the EU guarantee whilst preserving a sound budgetary cover (objective b).** One of the main conclusions of the recent World Bank Development challenge series: "The Future of the Global Aid Architecture and Europe's Role in It"<sup>23</sup> was that European aid must continue to be rooted in democratic legitimacy, which (at a time of austerity) requires a focus on needs and results. This would also be coherent with relevant principles of the European Consensus on Development and the principles of aid effectiveness outlined in the Paris Declaration of 2005, the Accra Agenda for Action of 2008 and the Busan Partnership Agreement of 2011. In a context of scarce EU budgetary resource, it is therefore important to ensure effectiveness of the mandate without exposing the EU budget to excessive risks.

### 3.2. Operational objectives of a new EU guarantee

In this context, the operational objectives of the new EU guarantee should be to:

- **Focus the scope of the EU guarantee on beneficiaries where its use would display highest value added (objective 1).** Given the anticipated non-negligible reduction of EIB external activity carried out at own-risk, there is a potential risk that, without any specific incentives, the EU guarantee may be used by the EIB for an increased number of operations with most creditworthy beneficiaries (which were previously carried out at own-risk) to the expense of less creditworthy potential beneficiaries (where the EU guarantee's value added would have been higher) with the view to preserve the EIB's good credit stance.
- **Explicitly extend the EU guarantee to all microfinance operations (objective 2)** to reach out the poorest.
- **Reinforce the climate change dimension of the EU guarantee in order to incentivise EIB operations in this key sector of EU external action (objective 3)** to meet the international commitments while maintaining traditional support to infrastructure development, including environmental.
- The core objective of the EIB external mandate is that EIB financing operations support EU external policies. In this context, the operational objective is to **increase the impact of EIB financing through better alignment with EU policies and coherence and**

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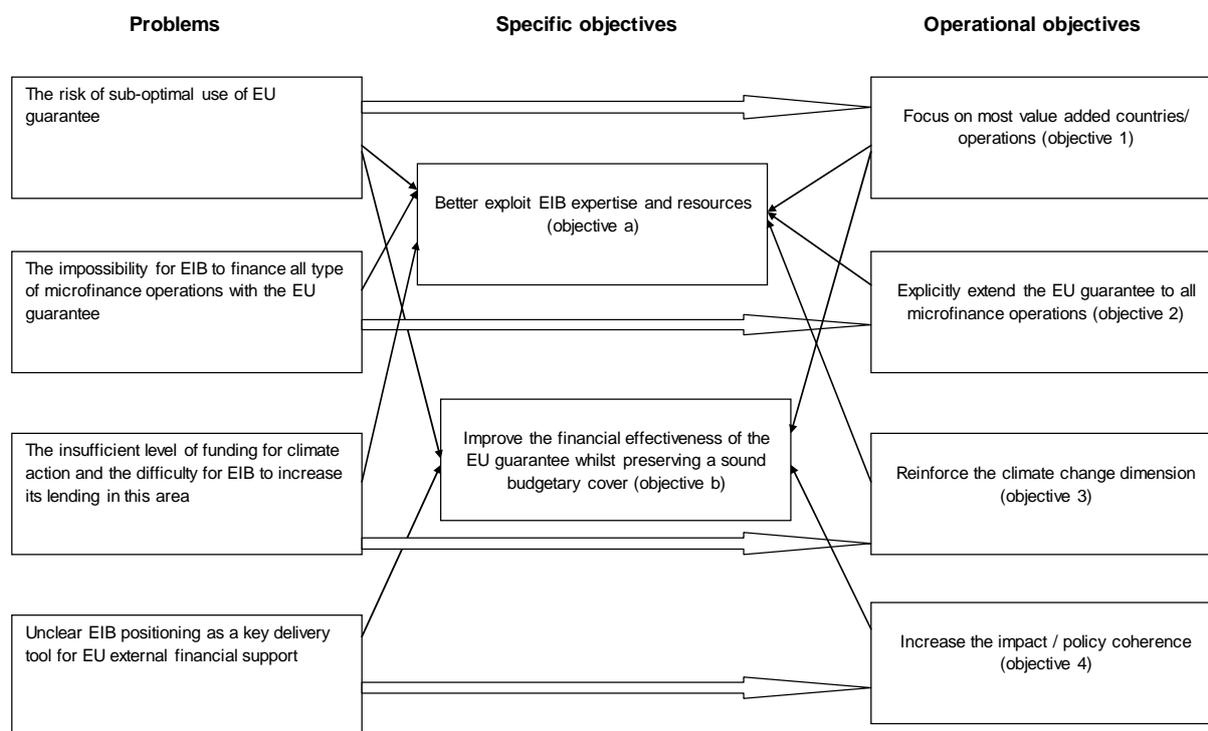
<sup>22</sup> COM(2011)637

<sup>23</sup>

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/WBEUROPEEXTN/0,,contentMDK:23226468~pagePK:64168445~piPK:64168309~theSitePK:268437,00.html>

**synergies with EU instruments (objective 4)** to more satisfactorily mirror policy developments in a timely manner.

The diagram below illustrates the link between the identified problems and the specific and operational objectives of the new legislative proposal.



#### 4. SECTION 4: POLICY OPTIONS

##### 4.1. Description of policy options

**Option 0: no new decision** – i.e. no new EU budget guarantee extended to any new EIB operations outside the EU.

Under this option, EIB could potentially partly continue its activity at own risk, subject to EIB governing bodies' decision, in accordance with Article 16 of EIB Statute. Financing contracts signed under Decision 1080/2011/EU would continue to benefit from the EU Guarantee, but no new EIB activity would be carried out outside the EU with the EU Guarantee. As a result, EIB overall external activity would substantially decline from a current level of EUR 6bn a year to probably less than a third of it.

**Option 1: no change** (as in Decision 1080/2011/EU but extended until 31/12/2020 and with an overall ceiling of EUR 25 bn) – base line scenario.

Under this option, the geographical scope of the EU guarantee and the regional balance would remain unchanged compared to Decision 1080/2011/EU (i.e. covering Pre-Accession, Neighbourhood, Russia and Central Asia, Asia and Latin America and South Africa) **(objective 1)**.

Microfinance operations would not be explicitly eligible for benefitting from the EU budget guarantee under this option (**objective 2**).

Under this option, climate action would remain one of the three general objectives of the mandate (alongside the development of social and economic infrastructure and local private sector development, in particular support to SMEs). A specific EUR 2bn global envelope (without any particular geographical allocation) would remain pre-allocated for climate change operations (**objective 3**).

The link of EIB external activity under the EU guarantee with EU policies would be principally ensured through the elaboration of the regional technical operational guidelines (although no regular revision is foreseen), the possibility for the Commission to amend the list of eligible countries through delegated act to reflect political developments and the submission for an opinion to the Commission of EIB financing requests in accordance with Article 19 of EIB Statute (**objective 4**).

**Option 2: amend the existing guarantee**, as follows:

Acronyms were given to the 3 following sub-options according to their main feature. Each of the three sub-options has been defined as an articulated combination of 4 types of amendments with the view to address in particular the 4 operational objectives identified in Section 3.2. The selection of the various combinations has been widely debated within the IASG and with the stakeholders consulted informally in order to ensure that each sub-option stands as a logical combination of amendments. The selection of the parameters under each sub-option is determined on the basis of the mutual interaction and spillover of the modifications of such parameters.

**Sub-option 2.1 "CLOSE"**.

Under this option, the geographical scope would be amended to exclude all ALA countries and South Africa in order to focus the guarantee on regions neighbouring (/CLOSEst to) the EU and where EIB activity provides the highest impact. Therefore only Pre-Accession and Neighbourhood would remain eligible under this option. This option should be regarded as a step forward in the direction given by Council and the EP and more recently stressed by the EIB Board of Directors to focus external activity on Pre-Accession countries and Neighbours in the East and the South. Under this option, a similar balance of the regional ceilings distribution as in the 2009 Decision between Pre-Accession and Neighbourhood would lead to e.g. 42% of the general mandate for Pre-Accession and 58% for the Neighbourhood (42% for the South and 16% for the East) (**objective 1**).

This policy option also entails that all type of microfinance operations would become eligible under the general mandate as one of the main objectives of the EU guarantee (**objective 2**). It should however be noted that the current structure of the EU guarantee may not be sufficient to allow EIB support to all type of microfinance operations due to the presence of an excessively high residual commercial risk. Hence, to become effective this

option would require reducing the risk for the Bank to an acceptable level. This could be achieved either by (i) providing financing through a public entity – either a sovereign or a sub-sovereign presenting an "appropriate EIB credit risk assessment" in line with Article 10(1) of the current Decision -, which intermediates or guarantees microfinance operations carried out by public or private operators (NB: in this specific case, and by extension of the EU budget guarantee, the EIB would be exposed only to the credit risk of the sovereign/sub-sovereign entity and not to the risk of each microfinance intermediary or operation. The application of the EU comprehensive guarantee to the sovereign/sub-sovereign entity would apply in line with current provisions set out in the current legal basis and in the corresponding guarantee agreement); or (ii) obtaining an accompanying grant component from EU budget or other sources, e.g. to fund a first loss guarantee instrument supporting microfinance operations. However, the level of EU grants would ultimately depend on the means available under other external financial instruments for such purpose and on their respective underlying policy objectives.

Under this option, the climate change dimension would be reinforced by a substantial increase of the specific global envelope reserved for climate change operations (e.g. from EUR 2bn in the current Decision to e.g. 4 bn<sup>24</sup>) which should ensure an expansion in the amounts financed by EIB to support climate action. This specific envelope would still complement the general mandate for which climate action would remain one of the general objectives (alongside the development of social and economic infrastructure and local private sector development, in particular support to SMEs and microfinance) **(objective 3)**.

Better alignment of EIB financing with EU policies and coherence and synergies with EU instruments would be ensured under this policy option through the drafting annual country strategy papers. This would in particular allow revisiting e.g. eligibility of countries on a yearly basis and thereby ensuring a strict alignment of EIB external lending activity with EU external policy developments and ensuring coherence and synergies with EU financial instruments. Although this annual adjustment would require mobilising significant resources in the Commission and the Bank, this would be possible as the number of EIB countries of operation outside the EU would be significantly smaller under this option (25 countries) than when EIB could operate also in ALA and South Africa under the EU mandate (more than 65 currently) **(objective 4)**.

It should be noted that the stakeholders consulted presented diverse views on this option. On the one hand, while some NGOs – in particular those mostly concerned on the development impact of EIB activity – favoured the exclusion from the guarantee coverage of the further regions, other stakeholders such as the member states, the EEAS or even other NGOs more focused on climate impact preferred maintaining the current regions of operation. Finally, as

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<sup>24</sup> As mentioned before, it is currently estimated that around 15% of EIB operations (i.e. around EUR 4.15bn) carried out with the EU guarantee are climate change operations. These operations can be funded either from the specific EUR 2bn global envelope or from the EUR 27.5bn general mandate (climate action being one of the three general objectives).

mentioned, most of the NGOs expressed reservation on the explicit extension of the guarantee coverage to all type of microfinance operations.

### **Sub-option 2.2: "MICRO"**

Under this option, all **MICRO**-finance operations would benefit from the EU guarantee through the creation of a specific envelope pre-allocated for this type of operations (e.g. EUR 2 bn). This specific envelope could also benefit to local SMEs, particularly the smaller ones. The creation of a specific envelope should be accompanied by a modification of the current guarantee structure in order for the allocated amount to be actually invested by the EIB. As mentioned above, currently the EU guarantee provides a comprehensive coverage for sovereign/public operations while it only provides a political risk coverage for private sector ones. Given that microfinance operations undertaken by the private sector typically present an excessively high residual commercial risk for the EIB, in order for the allocated envelope to be deployed by the EIB, the latter would require that all microfinance operations benefit from a comprehensive guarantee from the EU budget to bring down the risk to an acceptable level for the EIB. While the structure of the guarantee would remain unchanged compared to the current set-up for other type of operations, this increased exposure of the EU budget to private sector risks would constitute a complete change of the nature of the EU Guarantee compared to the current model and would have implication for the provisioning of the GF (**objective 2**).

The geographical scope of EU guarantee should remain unchanged compared to Decision 1080/2011/EU, in particular as potential needs from this type of operation can be significant in ALA region, which in turn justifies a meaningful size of the envelope. (**objective 1**). Under this decision, the regional balance should be similar to the one of the 2009 Decision as described in section 2.1.1, whereby the ceilings for Pre-Accession and the Neighbourhood account for more than 80% and ALA and South Africa for the rest.

The creation of the specific envelope for micro-finance operations would entail the emergence of a specific risk profile of EIB lending portfolio under EU guarantee. In this context, in order not to over-expose EU budget to significant additional risks, the specific climate change envelope which existed under Decision 1080/2011/EU would have to be absorbed/integrated into general mandate (climate change remaining one of the three high-level horizontal objectives of the general mandate). The reinforcement of the climate change dimension could be envisaged through the introduction of targets for regional envelopes which would imply more volumes than in current trends (e.g. 50% in the ALA (and South Africa) and 20% elsewhere) (**objective 3**).

A better alignment with EU policies and increased coherence and synergies with EU instruments would be ensured under this policy option through:

- the update of technical operational regional guidelines consistently with initial and periodically reviewed multiannual indicative programming (MIP) of the EU external financial instruments as simplified in the recent legislative proposals (e.g. in particular the Single Support Framework for neighbouring countries or multi-country strategy papers in Pre-Accession),
- the suspension of a country eligibility under Delegated Act, which is already foreseen under the current mandate and already applied for Syria, would affect not only the

signature of new operations but also the disbursements on existing ones. This has a particular relevance for those cases where the suspension is caused by the violation of human rights. The EIB should include specific provisions in its financing contracts to this effect, and.

- the application of the differentiation ("more for more") principle in the Neighbourhood through periodical reviews by the Commission services and the EEAS of the EIB countries/sectors of operations and at the project level during Article 19 appraisal **(objective 4)**.

As mentioned above, the legislators requested to assess the possibility for the EU guarantee to support all type of microfinance operations. However, most of the NGOs expressed reservation on the explicit extension of the guarantee coverage to all type of microfinance operations (including with a comprehensive coverage). Moreover, the stakeholders consulted mentioned the need not to focus only on the amounts invested in climate action but rather on the effectiveness of these investments, in particular in terms of CO<sub>2</sub> emissions.

**Sub-option 2.3: "FOCUS"**. As mentioned, the Commission's legislative proposal on the next generation of DCI<sup>25</sup> foresees that several countries in ALA region will graduate from development bilateral assistance. Under this sub-option, the proposal is to maintain all countries in principle eligible for EIB financing operations under EU budgetary guarantee while introducing a mechanism to **FOCUS** the geographical scope in particular in the ALA region. The principle could also be considered in the Pre-Accession region and Neighbourhood whilst taking into account EIB exposure limits by country. A mechanism would be defined in the legislative act whereby (i) the use of EU budget guarantee would be defined on the basis of the creditworthiness of the beneficiaries and other credit related criteria (in order to focus the guarantee on operations where value added would be highest, while ensuring that there would be no 'orphan' countries from EU financial support). The mechanism would allow to review the concrete application of such criteria on a regular basis in order to take into account the evolution of financial creditworthiness of potential beneficiaries of EIB loans and of EIB balance sheet; (ii) differentiation could be introduced depending on the beneficiary/type of operations (sovereign/sub-sovereign or private) and on the region concerned (Pre-Accession vs. others). With such a mechanism, all countries would still remain "eligible" for own-risk operations (as recommended by SCWP). It would also allow to take into account risk implications for the EIB and to keep eligible under the EU guarantee the beneficiaries/countries not yet eligible for own-risk operations under EIB credit assessment rules. For instance, some operations with creditworthy beneficiaries (e.g. a loan to a well rated emerging economy public entity) would not benefit from the guarantee coverage unless specific justifications can be applied. On the contrary, the use of the guarantee would be reserved for operations with less creditworthy beneficiaries, in particular in LDCs. In this context, it should be noted that, in light of the recent developments which allowed the EU to open a new chapter in its relations with Myanmar and to support the on-going political and economic reforms in the country, the Commission should propose in the upcoming legislative proposal to extend the list of eligible countries in Asia to Myanmar. More details on the rationale for this is provided in Annex 5. **(objective 1)**. Under this option, as in option

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25 COM(2011)840 Final.

MICRO, the regional balance should be similar to the one of the 2009 Decision as described above, whereby the ceilings for Pre-Accession and the Neighbourhood account for more than 80% and ALA and South Africa for the rest. A specific sub-regional ceiling should be identified for Central Asia within the ALA region to reflect enhanced EU cooperation with the area. Finally, the introduction of a dynamic mechanism to focus the use of the EU guarantee on operations where it displays the highest value added may potentially lead the EIB over the 7-year period of the Decision to reach certain sub-regional ceilings earlier than the end of the period while other may remain underutilised. Therefore, to cater for this potential problem, it would be important to enhance the flexibility to re-allocate amounts within sub-regions compared to the current Decision.

Under this option, microfinance operations would continue not to be specifically eligible under the EU guarantee as the three general objectives would remain the same as in Decision 1080/2011/EU. The main underlying rationale of this option is to focus on key value added activities where the EIB presents a significant comparative advantage (including through a more financially targeted scope). In this context, further developing microfinance support seems difficult to justify given the fact that this activity would be significantly resource-intensive. In this case, resources could be maintained in areas of strong EIB expertise (infrastructure, SMEs, climate action) whilst enhancing e.g. its climate impact (**objective 2**).

Under this policy option, the reinforcement of the climate change dimension of the EU guarantee would be through the introduction of an overall target (e.g. of 25% of total lending which would represent a substantial increase in financing compared with the current level for climate change operations) with no specific regional differentiation. In addition, this overall target would be accompanied by the introduction of a tracking system allowing to monitor absolute and relative GHG emission reduction of EIB significant projects supported under the EU guarantee throughout the project lifecycle and report accordingly (**objective 3**).

Eligibility for climate change operations would be clarified against agreed criteria building on - and if needed tightening - existing EIB definitions to track climate change expenditure (e.g. introducing benchmarks related with Green-House Gas (GHG) emission reduction, improving if appropriate the definitions for energy efficiency and adaptation), which would also be used in the monitoring phase.

A better alignment with EU policies and increased coherence and synergies with EU instruments under this policy option would be ensured, as in option MICRO through:

- the update of technical operational regional guidelines consistently with initial and periodically reviewed multiannual indicative programming (MIP) of the EU external financial instruments as simplified in the recent legislative proposals,
- the suspension of a country eligibility under Delegated Act, which is already foreseen under the current mandate and already applied for Syria, would affect not only the signature of new operations but also the disbursements on existing ones. This has a particular relevance for those cases where the suspension is caused by the violation of

human rights. The EIB should include specific provisions in its financing contracts to this effect, and

- the application of the differentiation ("more for more") principle in the Neighbourhood through periodical reviews under the COM/EIB/EEAS MoU of the EIB countries/sectors of operations and at the project level during Article 19 appraisal (**objective 4**).

Most of the stakeholders consulted expressed interest in this policy option allowing to focus the use of the EU guarantee on most value added operations. They also appreciated positively the idea to further incentivise EIB climate action support albeit not at the expense of other more *traditional* sector support. This option would probably not entirely satisfy certain stakeholders, notably some members of the European Parliament, which seemed to be in favour of extending the EU guarantee to all type of microfinance operations.

### **Option 3: provide the guarantee to other financial institutions.**

This option would entail opening the coverage of the EU guarantee to other European Financial Institutions eligible in the various blending facilities (such as WBIF, NIF, LAIF, IFCA, AIF etc.) to the extent that they promote projects supporting EU priorities.

## **4.2. Discarded policy options at an early stage of the assessment**

### **Option 0: no new decision** – i.e. no guarantee

In light of the crucial role played by the EU guarantee to EIB external operations in supporting EU external policy objectives and in light of the global economic crisis which emphasises the significant investment needs, it seems essential to continue preserving an adequate investment flow to EU partner countries. With EIB operations outside the EU without the EU guarantee being more and more limited in the current risk environment, the discontinuation of the EIB external mandate under the EU guarantee would lead to a withdrawal of the EIB from a number of countries and a significant increase in funding costs for projects located in these countries. This is deemed not to be politically desirable in particular in the closest regions outside the EU (i.e. Pre-Accession and Neighbourhood) where EU influence has to be preserved and EU policy objectives promoted.

Moreover, as stated already, Article 16 of Decision 1080/2011/EU states that the Commission shall present to the European Parliament and the Council a new proposal for the next financial framework (2014-2020).

Therefore, policy option 0 is disregarded without any further assessment.

### **Option 3: provide the guarantee to other financial institutions.**

Option 3 could be attractive to enhance the outreach of EU guaranteed financing to a larger spectrum of projects/areas. In addition, given the current limitations on overall EIB external lending imposed by the EIB governing bodies, this would allow a potentially higher volume of lending to be achieved. However, there are a few potential drawbacks to this proposal.

On the one side, the opening of the EU guarantee to other institutions would correspondingly decrease the share of EIB guaranteed lending, which could have a negative impact on the visibility of EU action, given the EIB EU institutional standing. Following the “graduation” of the middle- income and emerging countries out of most of the EU bilateral development funding, it is all the more important to make sure that EIB lending operations carrying an EU flag can fill the void of largely reduced development aid budgets.

A generalised opening of the EU guarantee to other intermediaries on a level playing field would strongly limit EIB external activity. In turn, a significant risk would arise that the EIB will not be able to reach the necessary critical mass for its external operations to justify their continuation. This is politically undesirable from an EU perspective, taking into account the long standing presence of EIB in the external field and above mentioned reduced aid budgets.

In addition, the EU budget would assume additional contingent liabilities on financing operations conducted by financial institutions which are not strictly part of the EU institutional constellation and do not have the same shareholders (as it is the case for the EIB), which could be contested by the budgetary authority. In line with the new Financial Regulation, other multilateral and bilateral financial institutions are eligible – alongside the

EIB - to implement complementary financial instruments under other EU programmes such as IPA II, ENI or DCI (e.g. EU grants may cover the first loss piece of a debt instrument established by one or more financial institutions).

Lastly, contrarily to the EIB, whose activity is politically and legally solely determined by and accountable to EU institutions (Council, EP, Commission with the involvement of the EEAS), the other institutions have their own strategies agreed by the respective governing bodies which could limit the influence of the EU through its guarantee. In this context, it is worth recalling that – according to Article 19 of the EIB Statute, which is part of the EU Treaty - all EIB operations are submitted to the Commission for an opinion. A Commission negative opinion under the Article 19 consultation would require an unanimous decision by the EIB Board of Directors to be overruled and, in any case, such operation cannot benefit from the EU guarantee. Such a mechanism would not be in place if the external mandate were to be extended to non-EU institution(s).

In this context, it should be mentioned that all stakeholders consulted (including potential beneficiaries of the mandate) did not show any interest for this option.

Therefore, policy option 3 is disregarded without any further assessment.

**4.3. Retained policy options**

Following the disregard of these two policy options, option 1 (base line scenario –as specified in Decision 1080/2011/EU but extended until 31/12/2020), and sub-options CLOSE, MICRO and FOCUS of option 2 will be analysed. The table below summarises the main changes incorporated in options CLOSE, MICRO and FOCUS compared to the base line (no change) scenario.

**Main differences between the retained policy options compared to the "baseline - no change" policy option**

<b>Responses to the operational objectives</b>	<b>Option CLOSE</b>	<b>Option MICRO</b>	<b>Option FOCUS</b>
(i) focus on most value added countries/ operations	<b>Exclusion of ALA and South Africa</b>	<b>No change</b>	<b>Focus on less creditworthy beneficiaries (in a dynamic way)</b>
(ii) provide explicit guarantee for all microfinance operations	<b>All microfinance operations specifically eligible but no commercial risk borne by the EU guarantee</b>	<b>Pre-allocated envelope of EUR 2bn for microfinance operations with comprehensive EU guarantee</b>	<b>No change</b>
(iii) reinforce the	<b>Increase of the</b>	<b>Setting up of</b>	<b>Overall lending</b>

climate change dimension	<b>pre-allocated envelope for Climate change operations to EUR 4bn</b>	<b>regional targets and absorption of the pre-allocated envelope into the overall ceiling</b>	<b>volume target + tracking GHG emission reduction</b>
(iv) Increase the impact / policy coherence	<b>Drafting of annual country strategy papers</b>	<b>Update of technical operational regional guidelines in line with MIP of EU external financial instruments</b>	<b>Update of technical operational regional guidelines in line with MIP of EU external financial instruments</b>

## 5. SECTION 5: ANALYSIS OF IMPACTS OF RETAINED POLICY OPTIONS

It should be noted that it is not possible to provide throughout quantitative estimates of the impacts of each option as the latter will depend on the implementation of the Decision by the EIB and in particular on the selection and implementation of each project benefiting from the EU guarantee. Indeed, as stated in the legal basis, the regional ceilings mentioned in section 4 are indicative. They do not represent target volume. While, as mentioned in section 2, the implementation of the Decision heavily depends on EIB governing bodies decision and on the absorption capacity of the beneficiaries, at project level, EIB activity will also particularly depend on the identification of sound and bankable projects, grants-loans blending opportunities, level of indebtedness of the beneficiary countries, risk analysis, economic and political context, quality of project preparation, capacity of the project promoters, etc. Nevertheless, a qualitative analysis has been carried out while references to data and figures have been provided where possible.

In agreement with the IASG, it has therefore been decided that the core of the assessment would be based on a qualitative analysis of the main impact of each option.

### 5.1. Definition of the criteria for main impact analysis

A list of criteria has been established by the IASG to assess each option with the view to highlighting their main impacts.

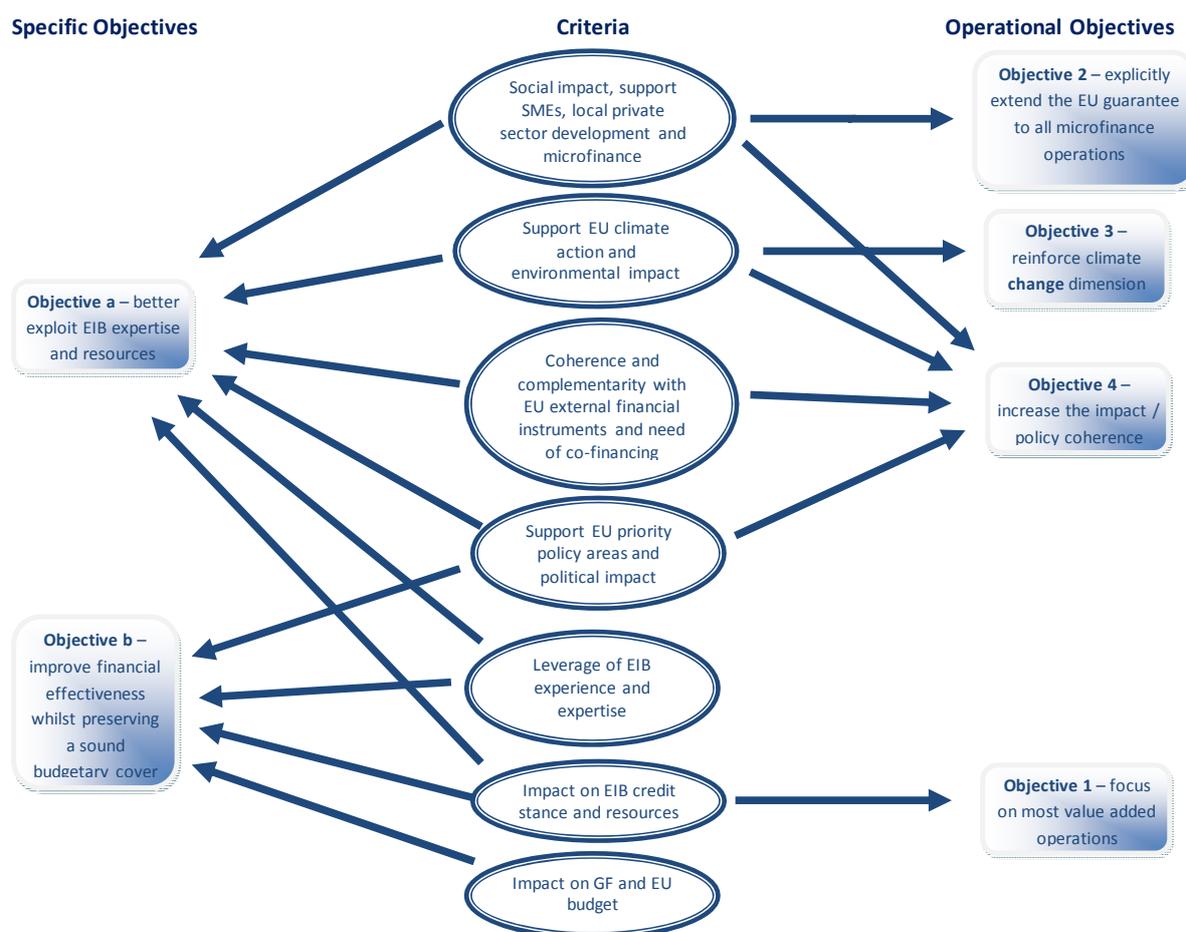
The impacts highlighted below have been defined in relation to operational and specific objectives highlighted in Section 3.

- Support priority policy areas of the EU, including enlargement, neighbourhood and the development of third countries and political impact (objectives a, b and 4).
- Coherence and complementarity with EU external financial instruments and need for co-financing (objectives a and 4).
- Leverage of EIB experience and expertise (objective a).

- Social impact, support to SMEs, local private sector development and microfinance in partner countries (objectives a, 2 and 4).
- Support EU climate action and environmental impact (objectives a, 3 and 4).
- Impact on the Guarantee Fund and on EU budget (objective b).
- Impact on EIB credit risk stance/rating and resources (objectives a, b and 1).

It should be noted that the last two criteria (Impact on the GF and on EU Budget and Impact on EIB credit risk stance and resources) are probably the most important ones as they de-facto set the boundaries within which the Decision can be implemented.

The diagram below summarises the link between these criteria and the specific and operational objectives set out in section 3.



On the basis of the analysis below, the report provides an assessment of the impact of each option in terms of effectiveness, efficiency and coherence in comparison with the baseline scenario. The different options have been qualitatively assessed based on the Commission Services' qualitative appreciations of the likely impact.

**Effectiveness** means doing the right things, that is setting the right goals and objectives and making sure they are accomplished.

**Efficiency** means doing things right, in other words it is getting the most from EU resources, taking into account EIB constraints. This encompasses organisational aspects.

**Coherence** means possibilities to exploit complementarities and synergies in terms of delivery towards achieving the agreed objectives and to avoid negative consequences and overlaps which would adversely affect the implementation of policies.

From the Commission's side, the administrative cost of implementing the options analysed in this section should be equivalent to that of implementing the baseline scenario.

**5.2. Main impact analysis of each retained policy option**

*5.2.1. Option 1 - baseline scenario (no change)*

	<b>Analysis and Assessment</b>
<p>Support priority policy areas of the EU, including enlargement, neighbourhood and the development of third countries and political impact</p>	<p>Following a mid-term review, Decision 1080/2011/EU already enhances the coherence of the EU guarantee and the link with EU policies by notably establishing horizontal high-level objectives, a wider Regional Policy Framework (Annex 4 of the Decision) and technical regional operational guidelines.</p> <p>In addition, Decision 1080/2011/EU mentions that EIB should strive to support indirectly the achievement of the Millennium Development Goals (MDGs) and that an EIB financing objective in developing countries shall be to contribute indirectly to development objectives such as reducing poverty through inclusive growth and sustainable economic and social development.</p> <p>As experience of implementation of the previous decisions has witnessed, this option would however not allow sufficient flexibility to adequately/satisfactorily mirror recent policy developments in a timely manner for instance to align with differentiation policy in the Neighbourhood ("more for more"). Further alignment with EU policy orientations under next MFF could be developed, including through more regular updating of the guidelines in line with the evolution of EU policies throughout the Decision period.</p> <p>The continuation of the EU guarantee as under Decision 1080/2011/EU would not allow for any focus on most value added or less developed countries/regions. The advantage would however be the continuity in EU relations with its external partners and the preservation and support of investment flow to these countries.</p> <p>Finally, the Decision foresees a significantly enhanced reporting and monitoring of development impact, including through the establishment of appropriate performance indicators.</p>
<p>Coherence and complementarity with EU external</p>	<p>Following the mid-term review, Decision 1080/2011/EU emphasised the need to enhance complementarity and coherence of EIB activity under the EU guarantee with EU external instruments. Moreover, it</p>

<p>financial instruments and need for co-financing</p>	<p>mentions the need to complement the resources of the EIB, where possible, and appropriate, with concessional funds available under the EU budget, both for climate change and development financing.</p> <p>It should be noted that Decision 1080/2011/EU provides the legal basis for the EU guarantee underpinning EIB external financing. However, EU grants which can be combined with EIB financing originate from other legal bases (external instruments such as IPA II, ENI or DCI). In this context, the EU has devoted resources to various facilities in the regions covered by the Decision, such as the WBIF, the NIF, the LAIF, the IFCA and the AIF, where it cooperates with the EIB and other IFIs to promote investments supporting EU policy objectives. The grant resources available under these facilities may be used to leverage EIB loan resources.</p>
<p>Leverage of EIB experience and expertise</p>	<p>The mid-term review of the EIB external mandate, including the report of the SCWP and the external evaluation, concluded that the EIB provides financial value-added mainly through offering large lending amounts with longer maturities and grace periods at attractive conditions which are not available in the market. The additionality was found by the evaluation to be particularly high in public sector operations, notably for infrastructure investments. In the private sector, the longer maturities of EIB loans make them additional particularly in countries with less developed financial markets. Beyond the significant financial contribution provided to borrowers, the EIB contributes positively through its appraisal process, which is based on compliance with EU standards (notably environment and procurement) and the technical and economic expertise of the EIB project staff.</p> <p>However, Decision 1080/2011/EU does not cover potentially relevant areas, where the EIB has some experience, particularly within the EU or in ACP countries, such as explicit support to microfinance. Moreover, the implementation of the mandate shows that particularly in the Neighbourhood, the support to local private sector development and PPPs is challenging due to insufficient creditworthiness of potential beneficiaries. On the latter, several joint Commission-EIB risk sharing initiatives have been developed recently within the EU.</p>
<p>Social impact, support to SMEs, local private sector development and microfinance in</p>	<p>In line with the objectives of the Decision, EIB external activity under the guarantee has historically mainly provided support to basic infrastructure investments, such as transport, energy and water sanitation – sectors that are key for promoting economic growth and poverty reduction. More recently, support to local private sector development, including SMEs has become one of the three high-level</p>

partner countries	<p>horizontal objectives of Decision 1080/2011/EU, whereas before 2011 it was an explicit priority only for the Southern Neighbourhood region. This sector is key to alleviate unemployment and contribute to a more equal income distribution. Moreover, EIB financing helps attracting increased foreign direct investment, research, innovation and technology transfer, stimulating innovation and job creation in partner countries.</p> <p>Maintaining the status quo does not alleviate the risk of under-development of support to new innovative investment schemes and to micro-SMEs which are a significant source of job creation in Partner countries. Moreover, the current Decision does not envisage any provision for the explicit support to microfinance operations which could support improve households' living standards and conditions and help protect themselves from risks.</p>
Support EU climate action and environmental impact	<p>Climate change mitigation and adaptation is among the three high-level horizontal objectives of Decision 1080/2011/EU. The release of the EUR 2bn global envelope for climate change activity in the Decision constituted an additional visible strengthening of EIB support to EU climate action in this regard. EIB activity is key in promoting environmental sustainability in partner countries, including through projects in the areas of renewable energy, environmentally friendly transport systems, water management and biodiversity. Enhanced support to environment related infrastructure in the current Decision allows more inclusive and sustainable economic development.</p> <p>Moreover, when implementing the Decision, including for projects other than climate changes ones such as transport or energy projects, the EIB ensures that EU environmental principles and standards are applied as far as possible thereby avoiding potential negative impacts on the environment.</p> <p>The presence of a specific envelope of EUR 2 bn (i.e. 7% of the total mandate) does not however ensure that EIB sufficiently prioritise climate action, given its relatively limited size. Moreover, the presence of a dedicated amount does not ensure that an adequate climate impact is achieved for instance in terms of GHG emission reduction.</p>
Impact on the Guarantee Fund and on EU budget	<p>According to the current Regulation, the Guarantee Fund for external action must be maintained at a target level of 9% of the total outstanding disbursements. The 9% target level was confirmed as an appropriate rate in light of the risk profile of the loan and guarantee portfolio covered by a recent external evaluation.</p> <p>Under the present option, there is no need to revisit the level of the</p>

		target rate. However, the evolution of the environment in which EIB's external activity is delivered in the post-2014 period may impact the quality of the external lending portfolio in particular for Southern Neighbourhood countries, which may in turn entail an impact on the Guarantee Fund and on the EU budget (the risk has already materialised for Syria – see section 2.1.2). The final impact on the EU budget will depend on various factors, such as the speed of signatures and disbursements as well as the actual default rates and severity of default on both existing and new loans, which in turn depend on the evolution of the economic and political context, on the quality of project preparation and implementation, etc.
Impact on credit stance/rating and resources	EIB risk and	<p>The continuation of the guarantee as specified in Decision 1080/2011/EU implies that the EIB would continue to operate in the same geographical areas. At the time of the writing of the report, EIB governing bodies have decided to reduce the overall EIB external activity and in particular the complementary external activity carried out at own risk. Were this trend to continue, this would mean that the bulk of EIB external activity under the next MFF would be carried out under the EU guarantee.</p> <p>Before the crisis, the EIB set aside some own resources to be used as provisions for riskier private sector operations outside the EU including under the mandate (e.g. the Special FEMIP Envelope). However, in the current context where the EIB is expected to focus on EU activity and to preserve its credit standing, the development/continuation of such riskier external facilities is expected to be limited. This may entail limitations on local private sector development support.</p> <p>The strengthened policy setting, reporting and monitoring requirements set out in Decision 1080/2011/EU present a non-negligible impact on EIB resources. This was mentioned as a potential concern by the EIB Board of Governors when they endorsed the mandate in November 2011, given the necessity to focus the resources of the Bank on activity within the EU and the limited scope for expanding staff resources for the external field.</p>

### 5.2.2. Option CLOSE

	<b>Analysis and Assessment</b>
Support priority policy areas of the EU, including enlargement,	The reduction of the geographical scope of the EU guarantee will be perceived as a disengagement of the EU vis-à-vis its partners in the regions concerned as some partners in ALA and South Africa would become orphans from almost all type of EU funding (bilateral

<p>neighbourhood and the development of third countries and political impact</p>	<p>assistance from DCI and EIB lending). Moreover, it is not evident that this disengagement will go hands-in-hands with better / more efficient support to the Pre-Accession and Neighbourhood regions. At the same time, the negative impact on borrowers in these regions should be limited, given the small size of EIB activity in these countries compared to other IFIs. While the EIB's signed contracts in the ALA region amounted to EUR 1.2bn in 2010, the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB) committed USD 17.5bn and USD 12.1bn, respectively, in these same period. Besides, the World Bank is also active in both regions. EU countries are among the major shareholders of the ADB and World Bank, and they also hold shares in the IADB. The EU could thus continue to influence IFI lending in these regions after an EIB withdrawal. A better EU coordination in the governance of such institutions would reinforce the EU voice in the region.</p> <p>On the other hand, the explicit inclusion of micro-finance operations under the high-level objectives of the EU guarantee would allow the EIB to contribute more to poverty reduction and/or MDGs achievement in the countries covered than in the baseline scenario, albeit to a lesser extent than in the MICRO option (see below).</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> lower than in the baseline scenario as the potentially wider support to EU sectoral policies (such as climate action, SMEs support) is not sufficient to counterbalance the severe impact on relations with Partner countries caused by the reduction of the geographical scope.</p> <p><b><u>Efficiency:</u></b> equivalent to the baseline scenario as the disengagement from some regions does not automatically imply more efficient assistance in the closest regions.</p> <p><b><u>Coherence:</u></b> better than in the baseline scenario due to the drafting of country annual strategies which should ensure better support to EU policies through better alignment.</p>
<p>Coherence and complementarity with EU external financial instruments and need for co-</p>	<p>Complementarity and coherence would be enhanced by the drafting of annual country strategy papers. This allows revisiting e.g. eligibility of countries on a yearly basis and thereby ensuring a strict alignment of EIB external lending activity with EU external policy developments and ensuring coherence and synergies with EU financial instruments. However, these annual adjustments would limit the medium-term</p>

financing	<p>predictability of EIB lending in partner countries/regions.</p> <p>As mentioned in Section 4, given the riskier nature of microfinance operations and the fact that the EU guarantee is technically not the best instrument to provide a comprehensive risk coverage for them, a significant amount of accompanying grants would be required to implement microfinance operations on a wider scale. Additional accompanying grants would also be needed to be able to implement the EUR 4bn specific envelope for climate change action. Such higher demand for grants may not be matched by a sufficient supply given the relatively limited grant resources available through the external instruments under next MFF.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> equivalent to the baseline scenario as the stronger coherence entailed by an annual review of country strategy papers is compensated by the significant risk of under-utilisation caused by the potential mismatch between grant resources demand and availability.</p> <p><b><u>Efficiency:</u></b> lower than in the baseline scenario as the preparation of annual strategy papers would require mobilising resources from the Commission/EEAS/EIB for a relatively limited impact. In addition, the implementation of the Decision depends on the availability of grant resources.</p> <p><b><u>Coherence:</u></b> better than in the baseline scenario as the approach is closely aligned to the one used for external instruments.</p>
Leverage of EIB experience and expertise	<p>The sole focus on Pre-Accession and Neighbourhood regions would allow the EIB to more efficiently deploy its capacity to support the implementation of EU standards and principles which is a core area of expertise acquired in EU activity.</p> <p>As regards microfinance operations, EIB should draw on its experience within the EU (through the Progress Microfinance Facility) and in ACP. It remains however to be seen whether the EIB has the necessary staff resources to widely develop this activity, as these operations are very resource intensive (smaller amounts per operation compared to typical EIB loans, specific skills required, etc.).</p> <p>On the other hand, compared to the MICRO option (see below), provided that grant resources are available, the EIB would be able to leverage its financial capacity through joint Commission-EIB risk-sharing instruments to support local private sector development, in</p>

	<p>particular SMEs and microfinance operations. The absence of a dedicated comprehensively guaranteed envelope should indeed allow a more market-driven selection of investments.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> lower than in the baseline scenario as EIB expertise would not be leveraged on a global basis.</p> <p><b><u>Efficiency:</u></b> better than in the baseline scenario as the more limited geographical coverage should allow EIB to further develop its expertise.</p> <p><b><u>Coherence:</u></b> better than in the baseline scenario as the more focused guarantee should allow improving the coherence with EU policy objectives.</p>
<p>Social impact, support to SMEs, local private sector development and microfinance in partner countries</p>	<p>All type of microfinance activity would become eligible under this option which should imply higher economic and social impact than in the baseline scenario. There might however be uncertainties on the EIB capacity to implement such a mandate to the same extent as in the MICRO option (see below), given the need for the EIB to bring down the risk to an acceptable level. This could be achieved either by:</p> <ol style="list-style-type: none"> <li>1. providing financing through a sovereign/public entity, which intermediates or guarantees microfinance operations carried out by public or private operators (NB: in this specific case, the EIB, and by extension the EU budget guarantee, would be exposed only to the credit risk of the sovereign/sub-sovereign entity and not to the risk of each microfinance intermediary or operation); or</li> <li>2. obtaining an accompanying grant component from EU budget or other sources, e.g. to fund a first loss guarantee instrument supporting microfinance operations. However, the amount of EU grants would ultimately depend on the means available under other external financial instruments for such purpose.</li> </ol> <p>On the other hand, the reduction of the geographical scope will prevent EIB to provide financial support to ALA region and South Africa which display a significant number of poorer countries (even if EIB activity in these countries has been relatively limited up-to-date). Therefore, on balance, the indirect contribution to the reduction of MDGs and hence the economic and social impact should be similar than in the baseline scenario.</p>

	<p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> lower on balance than in the baseline scenario given the uncertainty to finance microfinance operations and the impossibility to support private sector in less prosperous countries in Asia, Latin America and South Africa.</p> <p><b><u>Efficiency:</u></b> equivalent to the baseline scenario as the benefits provided by a more focused geographical scope should offset the uncertainty linked to the financing of microfinance operations.</p> <p><b><u>Coherence:</u></b> lower than in the baseline scenario as the reduction of the geographical coverage does not allow EIB support to the private sector at the global level.</p>
<p>Support EU climate action and environmental impact</p>	<p>The increase to EUR 4bn of the specific dedicated envelope for climate change operations would be seen as a visible political decision and would represent a significant incentive for EIB to expand its climate related activity.</p> <p>There might however be doubts on the ability of the EIB to implement it, notably if the geographical scope is significantly reduced. In addition, as in the baseline scenario, the presence of a dedicated amount does not ensure that an adequate climate impact is achieved for instance in terms of GHG emission reduction. Nevertheless, on balance, the environmental impact should be higher than in the baseline scenario.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> better than in the baseline scenario as EIB support to EU climate action should be further improved.</p> <p><b><u>Efficiency:</u></b> lower than in the baseline scenario given the uncertainty regarding EIB ability to implement the increased mandate in a more limited geographical area and regarding the overall climate impact of the Decision.</p> <p><b><u>Coherence:</u></b> equivalent to the baseline scenario as the reinforcement of the climate dimension would be offset by the exclusion of big CO<sub>2</sub> emitters from the eligible countries under the mandate. It would contradict commitment from EU for climate change long term financing benefiting developing countries, since some of them are in the ALA region.</p>

<p>Impact on the Guarantee Fund and on EU budget</p>	<p>The reduction of the geographical scope will imply more geographical concentration of the Bank's guaranteed portfolio quality. The reduced diversification and the concurrent focus on certain regions (e.g. Mediterranean countries) where recent political events affected the creditworthiness of some countries/beneficiaries may potentially put pressure on the Guarantee Fund provisioning requirements.</p> <p>With the EU guarantee continuing to be limited to only cover sovereign/sub-sovereign risks (with EIB appropriate credit risk assessment) and political risk events as in the current mandate, the possible explicit inclusion of microfinance operations is expected to have a marginal impact on the risk born by the EU budget.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> lower than in the baseline scenario as on balance, the risk born by the EU budget would be higher.</p> <p><b><u>Efficiency:</u></b> lower than in the baseline scenario as the EU budgetary guarantee does not seem to be the appropriate instrument to cover all type of EIB microfinance operations outside the EU.</p> <p><b><u>Coherence:</u></b> lower than in the baseline scenario as an increased risk would not be coherent with the specific objective of shielding the EU budget from excessive risks.</p>
<p>Impact on EIB credit risk stance/rating and resources</p>	<p>The geographical reduction of the guarantee coverage may also imply a disengagement of the Bank from its own-risk activity in the regions concerned. It is however not possible to infer the overall impact of this withdrawal on the rating / risk stance of the Bank.</p> <p>At the same time, the reduction of the geographical scope can be seen as better allocation of scarce budgetary resources and EIB staff resources to EU priority regions. The cost of monitoring and reporting on the activity would be lower given the geographical concentration.</p> <p>While this would release additional resources for Pre-Accession and Neighbourhood, the drafting of the annual strategies would require significant new staff resources. Moreover, the development of microfinance activity would also require additional resources.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> equivalent to the baseline scenario as the resources freed by the reduced geographical scope would have to be directed to</p>

	<p>additional tasks.</p> <p><b>Efficiency:</b> slightly better than in the baseline scenario as the option would allow optimising the use of scarce resources, despite the need to reallocate part of them to the preparation of annual strategies.</p> <p><b>Coherence:</b> N.A.</p>
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### 5.2.3. Option MICRO

	<b>Analysis and Assessment</b>
Support priority policy areas of the EU, including enlargement, neighbourhood and the development of third countries and political impact	<p>Providing a comprehensive guarantee to micro-finance operations constitutes an additional tool to support economic and social development outside the EU, thereby providing a more significant contribution to poverty reduction and MDGs achievement than in the baseline scenario. However, this option bears the risk of a reduced overall volume of the guarantee (see below – impact on the Guarantee Fund and EU budget).</p> <p>The possibility to update the technical regional operational guidelines and the application of differentiation provides for a better alignment of EIB financing with EU policy developments and therefore should enhance the efficiency of the guarantee in supporting EU policies, while preserving the necessary medium-term predictability of EIB financing.</p> <p><b>Assessment of Effectiveness, Efficiency and Coherence:</b></p> <p><b>Effectiveness:</b> lower than in the baseline scenario due to the combined risk of an overall reduced guaranteed amount and the lack of resources available in EIB to implement the microfinance mandate. This is partly mitigated by the fact that this option should allow a more targeted response to economic and social challenges and better support to EU policy objectives.</p> <p><b>Efficiency:</b> lower than in the baseline scenario as the increase in microfinance activity would come at the expense of other important priorities where EIB has a comparative advantage.</p> <p><b>Coherence:</b> better than in the baseline scenario due to the better alignment with EU policy objectives provided by the possibility to revise the guidelines and the application of the differentiation.</p>
Coherence and complementarity	The use of the EU comprehensive guarantee to support such operations bears a significant cost for the EU budget (see below).

<p>with EU external financial instruments and need for co-financing</p>	<p>Given that microfinance operations can also be supported under the regional investment facilities (WBIF ,NIF, IFCA, LAIF, AIF) in the context of the objective to support local private sector development, a question arises on whether providing a comprehensive guarantee is the most efficient and coherent means to support such operations.</p> <p>As regards climate change support, setting regional targets rather than dedicating a specific envelope is coherent with the EU approach in other internal and external instruments where climate change is considered as an horizontal objective across instruments without any specific climate change instrument. At the same time, the expected increase in the climate change operations entailed by the setting of regional targets might require additional accompanying grants.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> lower than in the baseline scenario as microfinance operations under the guarantee would directly compete with those undertaken under other external instruments.</p> <p><b><u>Efficiency:</u></b> lower than in the baseline scenario as other instruments are more appropriate to cover all type of microfinance operations.</p> <p><b><u>Coherence:</u></b> lower than in the baseline scenario as the fact that other instruments than the EU guarantee would be more adequate to cover all type of microfinance operations is not sufficiently compensated by the increased coherence on climate change operations.</p>
<p>Leverage of EIB experience and expertise</p>	<p>The reservation of a specific envelope for microfinance operations should allow the EIB to develop this activity in the regions covered by the EU guarantee. This development will draw on EIB's experience in particular within the EU (through the Progress Microfinance Facility) and in ACP.</p> <p>As for option CLOSE, it remains to be seen whether the EIB has the necessary staff resources to implement such a Decision, as these operations are very resource intensive (smaller amounts per operation compared to typical EIB loans, specific skills required, etc.).</p> <p>In addition, the presence of a comprehensive guarantee could be a counter-incentive for the EIB to leverage its financial capacity to better support private sector under joint Commission-EIB risk-sharing instruments, which have been developed mostly in the EU and more recently in the Balkans (EFSE) and the Neighbourhood region (SME</p>

	<p>Guarantees).</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> equivalent to the baseline scenario as the uncertainty to implement the microfinance mandate should be offset by better incentives to further support EU climate action.</p> <p><b><u>Efficiency:</u></b> lower than in the baseline scenario due to the uncertainty about the availability of resources within the EIB to implement globally the microfinance mandate in a satisfactory manner.</p> <p><b><u>Coherence:</u></b> lower than in the baseline scenario as EIB resources dedicated to areas where the EIB has a comparative advantage (infrastructure, climate change, private sector development) would have to be diverted to implement the microfinance mandate in a satisfactory manner.</p>
<p>Social impact, support to SMEs, local private sector development and microfinance in partner countries</p>	<p>Even if there might be concerns on the ability of the Bank to implement the microfinance mandate (see description of the option in Section 4), the presence of a specific envelope for microfinance operation benefitting from a comprehensive guarantee is a clear support to this sector. However, according to the Microrate 6<sup>th</sup> Annual survey and analysis of Microfinance Investment Vehicles (MIVs)<sup>26</sup>, the effects of the global financial crisis of 2008 led the microfinance sector to experience an oversupply of capital as demonstrated by an excess liquidity on the balance sheets of many MIVs. This slowed significantly their funding activities and led to a flight to quality and intense competition among funders in certain markets. This view was also shared by several NGOs consulted that did not really favour any substantial increase in EIB activity in this area under the EU guarantee given the plethora of actors in the sector.</p> <p>Therefore, the potential contribution of EIB funding to this sector under the EU budgetary guarantee remains to be seen. Moreover, the extent to which the presence of such dedicated envelope would limit the EIB support to other forms of support to local private sector development remains to be seen.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> higher than in the base line scenario as the provision of</p>

<sup>26</sup> <http://www.microrate.com/media/downloads/2012/04/The-State-of-Microfinance-Investment-2011-MicroRate.pdf>

	<p>a comprehensive guarantee to microfinance operations has the potential to allow the EIB to develop this activity on a global basis, providing it allocates sufficient resources to this activity. At the same time, there is uncertainty linked to the EIB ability to implement the microfinance mandate.</p> <p><b><u>Efficiency:</u></b> lower than in the baseline scenario due to the larger presence of other actors in the microfinance field, the uncertainty linked to EIB ability to implement the microfinance mandate and the potential impact on other funding to private sector operations.</p> <p><b><u>Coherence:</u></b> equivalent to the baseline scenario.</p>
<p>Support EU climate action and environmental impact</p>	<p>The introduction of targets per region should be seen as a visible political decision to reinforce the climate change dimension of the EU guarantee compared to Decision 1080/2011/EU.</p> <p>Setting differentiated target for ALA (and South Africa) than for Pre-Accession and Neighbourhood would moreover give a strong signal that EIB lending in the former is geared on a priority strongly advocated by the EU in all international fora. Nevertheless, as in the baseline scenario, the reinforcement of the lending volume does not ensure that an adequate climate impact is achieved.</p> <p>On balance, the environmental impact should be higher than in the baseline scenario.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> higher than in the baseline scenario due to the introduction of the regional targets for climate action.</p> <p><b><u>Efficiency:</u></b> equivalent to the baseline scenario as the reinforcement of the climate change dimension would be offset by the absence of incentives to ensure adequate climate action support in "non-climate change" projects.</p> <p><b><u>Coherence:</u></b> better than in the baseline scenario due to the reinforcement of the climate change dimension.</p>
<p>Impact on the Guarantee Fund and on EU</p>	<p>Microfinance operations are considered as risky financing operations. Moreover, contrary to what was believed prior to the global financial crisis, the links of the microfinance industry with both domestic</p>

budget	<p>economic conditions and changes in international capital markets have grown stronger<sup>27</sup>.</p> <p>The recourse to a comprehensive guarantee for microfinance operations – hence fully exposing the EU budget to commercial risks (which is not possible under the current decision) - for an envelope of EUR 1.5 billion would necessarily impact the risk of the guaranteed portfolio and hence require an adaptation of the Regulation of the Guarantee Fund for external action (GF). In particular, this would necessitate an increase of the target provisioning rate, currently set at 9%, in order to preserve an adequate cushion to absorb a sufficient portion of the additional risk borne by the budget.</p> <p>Given the functioning of the GF regulation, an increase of the target rate by e.g. 1% to cover for the overall increased risk would require an additional budget for provisioning the GF in the order of magnitude of EUR 400mn over the next MFF. Alternatively, if an increase of the budget for provisioning the GF is not feasible, the maximum size of the overall mandate would have to be more than halved compared to the baseline.<sup>28</sup></p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> lower than in the baseline scenario due to the potential need to more than halve the size of the mandate to account for higher risks.</p> <p><b><u>Efficiency:</u></b> lower than is the baseline scenario due to increasing risks to be borne by the EU budget.</p> <p><b><u>Coherence:</u></b> lower than in the baseline scenario as an increased risk would not be coherent with the specific objective of shielding the EU budget from excessive risks.</p>
Impact on EIB credit risk stance/rating and resources	<p>Given the presence of the comprehensive guarantee for microfinance operations, there is no impact on the credit risk borne by the EIB. The EIB would need to significantly reinforce its staff dedicated to microfinance operations which are more resource intensive in terms of due diligence, implementation and monitoring.</p>

<sup>27</sup> IMF working paper, The Impact of the Global Financial Crisis on Microfinance and Policy Implications, Gabriella Di Bella (2011) WP /11/117.

<sup>28</sup> It should be noted that, in accordance with Regulation governing the functioning of the GF, a significant share of the provisioning needs in the next MFF stems from net-disbursements on loans signed under the current 2007-2013 mandate.

	<p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> equivalent to the baseline scenario as there is no impact on EIB credit stance. Additional resources for microfinance would be found through redeployment of staff currently working on more traditional EIB lending (this would be possible as the overall mandate volume would be reduced).</p> <p><b><u>Efficiency:</u></b> lower than in the baseline scenario as resources specialised in areas where EIB has a comparative advantage would have to be diverted to microfinance operations.</p> <p><b><u>Coherence:</u></b> N.A.</p>
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5.2.4. Option FOCUS

	<b>Analysis and Assessment</b>
<p>Support priority policy areas of the EU, including enlargement, neighbourhood and the development of third countries and political impact</p>	<p>This option would allow better defining EIB activity under the mandate to focus on Pre-Accession and Neighbourhood regions while providing support to most needful beneficiaries in other regions. All countries would remain "eligible" in order to politically allow EIB own-risk activity, allowing continuation of EIB presence in these countries.</p> <p>As for the MICRO option, the possibility to update the technical regional operational guidelines and the application of differentiation provides for a better alignment of EIB financing with EU policy developments and therefore should enhance the efficiency of the mandate in supporting EU policies, while preserving the necessary medium-term predictability of EIB financing.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> better than in the baseline scenario as this option should allow a more targeted response to economic and social challenges and better support to EU policy objectives.</p> <p><b><u>Efficiency:</u></b> better than in the baseline scenario as this option should prevent that some countries remain orphans from EIB funding while avoiding a sub-optimal use of the guarantee.</p> <p><b><u>Coherence:</u></b> better than in the baseline scenario due to the better alignment with EU policy objectives provided by the possibility to revise the guidelines and the application of the differentiation.</p>

<p>Coherence and complementarity with EU external financial instruments and need for co-financing</p>	<p>The "graduation" of some beneficiaries for eligibility to EU guarantee coupled with the application of the differentiated approach principle will allow closer alignment of the EIB mandate with EU external instruments (in particular DCI and ENI).</p> <p>The EIB activity under the EU guarantee would focus on less creditworthy beneficiaries, which are more likely to be subject to IMF concessionality requirements. This may increase the need for co-financing with EU external instruments, particularly through the LAIF, the IFCA and the AIF as well as the WBIF and the NIF.</p> <p>As regards climate change support, setting an overall target across regions rather than dedicating a specific envelope is coherent with the EU approach in other internal and external instruments where climate change is considered an horizontal objective across instruments without any specific climate change instrument.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> better than in the baseline scenario due to the closer alignment and coherence between EIB activity and EU external instruments.</p> <p><b><u>Efficiency:</u></b> equivalent to the baseline scenario as better expected results are compensated by higher opportunity costs in terms of co-financing needs.</p> <p><b><u>Coherence:</u></b> higher than in the baseline scenario.</p>
<p>Leverage of EIB experience and expertise</p>	<p>The non-explicit inclusion of all microfinance operations under the guarantee coverage does not mean that the EIB would not have the possibility to develop such activity under other facilities or support certain type of microfinance operations such as e.g. microcredit to micro-SMEs. On the other hand, the reinforced climate change dimension would allow the EIB to focus on areas where it has a comparative advantage (infrastructure, private sector development, climate action). In particular, a stepped-up approach in climate change area would reinforce the catalytic role of the EIB, thereby enhance synergies with the activities of other institutions.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> equivalent to the baseline scenario as this option would incentivise the EIB to capitalise on specific current strengths, in</p>

	<p>particular for climate funding, instead of developing several ones.</p> <p><b><u>Efficiency:</u></b> higher than in the baseline scenario as the focus mechanism should ensure that this leveraged expertise would benefit to the most needful beneficiaries.</p> <p><b><u>Coherence:</u></b> equivalent to the baseline scenario as the EIB will continue to focus on areas where it has a comparative advantage.</p>
<p>Social impact, support to SMEs, local private sector development and microfinance in partner countries</p>	<p>By focusing the use of the EU guarantee more on less credit-worthy beneficiaries it would be possible to increase the economic and social value-added of the operations carried out under the EU guarantee.</p> <p>Moreover, streamlined policy coherence should enhance the relevance of EIB financing which would allow for a more targeted response to economic and social challenges.</p> <p>Finally, the focus mechanism should allow a better use of the guarantee than in the baseline scenario, thereby ensuring higher impact than in the baseline scenario, in particular on the private sector actors. This should offset the negative opportunity cost of the still non-explicit inclusion of all microfinance operations under the guarantee (as in the baseline scenario).</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> slightly higher than in the baseline scenario due to the possibility to better target beneficiaries.</p> <p><b><u>Efficiency:</u></b> similar to in the baseline scenario as in both cases microfinance operations would not be explicitly eligible.</p> <p><b><u>Coherence:</u></b> similar to the baseline scenario.</p>
<p>Support EU climate action and environmental impact</p>	<p>The introduction of an overall target for climate change operations should be seen as a visible political decision to reinforce the climate change dimension of the EU guarantee compared to Decision 1080/2011/EU.</p> <p>In addition, the introduction of an obligation for the EIB to track and monitor absolute and relative emissions reduction throughout the mandate would further strengthen the achievement of climate impact. Such requirements would allow not only to increase the level of climate friendly investments but also to limit carbon intensive ones.</p> <p>Under this option, the EIB should keep developing methodologies to assess climate risk in order to reinforce the climate resilience for all</p>

	<p>relevant operations, and integrate carbon pricing in economic cost benefit analysis. Restrictive eligibility and criteria for carbon-intensive projects should also be improved in relevant sector policies.</p> <p>This option would ensure that EIB lending operations (at own risk for creditworthy beneficiaries and under guarantee for less creditworthy ones) can fill the void of largely reduced development aid budgets. This is particularly relevant in the field of climate change where the EU strongly advocates more ambitious climate action by middle income and emerging countries whose voice in the international climate negotiations is key.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> better than in the baseline scenario as this option provides a combination of elements that should ensure reinforced climate impact.</p> <p><b><u>Efficiency:</u></b> better than in the baseline scenario as this option ensures that EIB's stepped-up activity on climate action under the EU guarantee would be targeted towards less credit-worthy beneficiaries.</p> <p><b><u>Coherence:</u></b> higher than in the baseline scenario as the design of the option would allow more efficient and better targeted funding for climate action, coherently with the approach retained in other EU internal and external instruments (climate action and environment streamlined in all instruments).</p>
<p>Impact on the Guarantee Fund and on EU budget</p>	<p>Under this option, the guarantee continues to cover sovereign and political risk as in the base line scenario.</p> <p>The graduation of most creditworthy beneficiaries could lead to a gradual increase in the overall risk of the guaranteed portfolio of EIB loans as the relative share of the loans to less creditworthy beneficiaries will become relatively higher than in the baseline scenario.</p> <p>However, the risk increase is expected to be marginal as creditworthy countries currently only represent less than 12% of the guaranteed portfolio and the operations in these countries represent a similar share of the activity under the current mandate. (See table in annex 6).</p> <p>The review of the functioning of the guarantee fund, already foreseen in 2016, will allow assessing <i>inter alia</i> the impact of the focus mechanism on the overall risk of the guaranteed portfolio.</p>

	<p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> equivalent to the baseline scenario as the increased of the risk is expected to be marginal and the functioning of the GF will be reviewed at mid-term.</p> <p><b><u>Efficiency:</u></b> equivalent to the baseline scenario.</p> <p><b><u>Coherence:</u></b> equivalent to the baseline scenario as the functioning of the guarantee would not be altered compared to the existing Decision and Guarantee Fund Regulation.</p>
<p>Impact on EIB credit risk stance/rating and resources</p>	<p>As mentioned, following the graduation of some beneficiaries from the EU guarantee, EIB operation in most creditworthy countries notably in Asia and Latin America should be increasingly carried out at own risk. This should allow a further diversification of EIB overall balance sheet. The overall impact of this option should therefore be overall neutral, if not positive.</p> <p>Overall, the impact of this option on administrative costs and resources utilisation in the EIB should be neutral as the relative increase in needs to implement the focus mechanism should be roughly balanced by the more focused country/beneficiary coverage.</p> <p><b><u>Assessment of Effectiveness, Efficiency and Coherence:</u></b></p> <p><b><u>Effectiveness:</u></b> equivalent to the baseline scenario if not slightly positive.</p> <p><b><u>Efficiency:</u></b> equivalent to the baseline scenario as the impact on EIB resources is neutral while overall impact on the rating is too difficult to predict.</p> <p><b><u>Coherence:</u></b> N.A.</p>

## 6. SECTION 6: COMPARING THE RETAINED OPTIONS

In this section, qualitative ratings have been provided on the basis of the assessment of the main impacts of each retained option. The magnitude of the impact is estimated in comparison to the baseline scenario which cannot be the preferred option as demonstrated by the analysis above.

The following qualitative rating of the impacts is applied based on the likelihood of the options being more or less effective (Efv), efficient (Efc) and coherent (C) than the baseline scenario:

"0": no change/neutral – equivalent to baseline scenario; "+" positive – better than baseline scenario; "-" negative – lower than baseline scenario.

## 6.1. Weighing of positive and negative impacts per option

	<b>BASE LINE</b>	<b>CLOSE</b>	<b>MICRO</b>	<b>FOCUS</b>
Support priority policy areas of the EU, including enlargement, neighbourhood and the development of third countries and political impact	<b>0</b>	<b><u>Efv:</u> -</b> <b><u>Efc:</u> 0</b> <b><u>C:</u> +</b>	<b><u>Efv:</u> -</b> <b><u>Efc:</u> -</b> <b><u>C:</u> +</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> +</b> <b><u>C:</u> +</b>
Coherence and complementarity with EU external financial instruments and need for co-financing	<b>0</b>	<b><u>Efv:</u> 0</b> <b><u>Efc:</u> -</b> <b><u>C:</u> +</b>	<b><u>Efv:</u> -</b> <b><u>Efc:</u> -</b> <b><u>C:</u> -</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> 0</b> <b><u>C:</u> +</b>
Leverage of EIB experience and expertise	<b>0</b>	<b><u>Efv:</u> -</b> <b><u>Efc:</u> +</b> <b><u>C:</u> +</b>	<b><u>Efv:</u> 0</b> <b><u>Efc:</u> -</b> <b><u>C:</u> -</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> +</b> <b><u>C:</u> +</b>
Social impact, support to SMEs, local private sector development and microfinance in partner countries	<b>0</b>	<b><u>Efv:</u> -</b> <b><u>Efc:</u> 0</b> <b><u>C:</u> -</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> -</b> <b><u>C:</u> 0</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> 0</b> <b><u>C:</u> 0</b>
Support EU climate action and environmental impact	<b>0</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> -</b> <b><u>C:</u> 0</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> 0</b> <b><u>C:</u> +</b>	<b><u>Efv:</u> +</b> <b><u>Efc:</u> +</b> <b><u>C:</u> +</b>
Impact on the Guarantee Fund and on EU budget	<b>0</b>	<b><u>Efv:</u> -</b> <b><u>Efc:</u> -</b> <b><u>C:</u> -</b>	<b><u>Efv:</u> -</b> <b><u>Efc:</u> -</b> <b><u>C:</u> -</b>	<b><u>Efv:</u> 0</b> <b><u>Efc:</u> 0</b> <b><u>C:</u> 0</b>
Impact on EIB credit risk stance/rating and resources	<b>0</b>	<b><u>Efv:</u> 0</b> <b><u>Efc:</u> +</b> <b><u>C:</u> n.a.</b>	<b><u>Efv:</u> 0</b> <b><u>Efc:</u> -</b> <b><u>C:</u> n.a.</b>	<b><u>Efv:</u> 0</b> <b><u>Efc:</u> 0</b> <b><u>C:</u> n.a.</b>
<b>Overall average impact</b>	<b>0</b>	- <b><i>"+" : 6</i></b> <b><i>"0" : 5</i></b> <b><i>"-" : 9</i></b>	- <b><i>"+" : 4</i></b> <b><i>"0" : 4</i></b> <b><i>"-" : 12</i></b>	<b>+</b> <b><i>"+" : 10</i></b> <b><i>"0" : 10</i></b> <b><i>"-" : 0</i></b>

## 6.2. Preferred option

On balance, Sub-option 2.3 FOCUS emerges clearly as the preferred option. It should be noted that under the option, the objective 3 would not be achieved as the assessment has shown that the EU budgetary guarantee is not the appropriate instrument to cover EIB financing of all type of microfinance operations in the regions covered by the Decision.

No stakeholder expressed any opposition to the option retained. Notably, sub-option 2.3 seems to reflect the opinion expressed by most of the stakeholders consulted as outlined

earlier in the report and in the Annexes. In particular, the NGOs consulted, the EP and the MS as well as the SWCP pointed out to the need to clarify when the value added of EIB financing under the EU guarantee was the highest and to find ways to incentivise the EIB to focus the use of the guarantee on those situation. The NGOs consulted questioned the need to expand the scope of the EIB mandate to all type of microfinance operations given the existence of several other actors in the field, while this was a request from some MEPS. In addition, the NGOs consulted were requesting for a mechanism for EIB to track carbon emission of EIB financing operations.

## **7. SECTION 7: MONITORING AND EVALUATION**

### **7.1. Core indicators of progress towards objectives**

The new Decision shall constitute the legal basis to provide an EU guarantee to the EIB against losses under loans and loan guarantees for project outside the Union. The details of each project are defined on a case by case basis through each loan contracts signed by the Bank and the loan beneficiary.

In line with the requirements of Decision 1080/2011/EU which required the Bank to further strengthen its assessment, measurement and reporting on the results and impacts of its operations<sup>29</sup>, operational monitoring indicators have been developed by the EIB and shall remain in place under the next Decision. The REsults Measurement framework (REM)<sup>30</sup>, gradually implemented in 2012, improves the ex-ante assessment of expected project results and enhances the Bank's ability to report on actual results achieved. The new framework replaces the existing Economic and Social Impact Assessment Framework (ESIAF).

Being gradually implemented in the course of 2012, the records of the REM were not available at the time of the drafting of this report. The EIB should report according to the REM as of its annual report on 2012 activity in the course of 2013.

Progress towards the specific objectives (see section 4.2) will be monitored in the new legislative proposal through core indicators covering the following areas:

- 1) amount signed by region
- 2) amount disbursed by region
- 3) progress in achieving a balanced distribution of activity by country
- 4) breakdown of activity across the various objectives of the guarantee.
- 5) Volume of climate change lending against targets, financing and impact on absolute and relative GHG emission reduction
- 6) number of projects assessed against the climate risk

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<sup>29</sup> This was also a recommendation of the Mid-Term evaluation.

<sup>30</sup> <http://www.eib.org/projects/cycle/monitoring/rem.htm>

7) number and amount of operations blended with EU grants

8) number and amount of operations co-financed with other IFIs.

The EIB already reports in the areas 1, 2, 4, 7 and 8. It does not yet report on the indicators in areas 3, 5 and 6 but either is in the process of developing these indicators or should be able to develop those indicators at relatively low cost. Indicators in areas 1, 2, and 3 can be seen as proxy towards reaching the objective 1. Indicators in areas 5 and 6 can be seen as proxy towards reaching the objective 3. Indicators in areas 1, 2, and 4 can be seen as proxy towards reaching the objective 4. Indicators in areas 1, 2, 4, 6, 7 and 8 can be seen as proxy towards reaching the objective a. Indicators in areas 1, 2, 7 and 8 can be seen as proxy towards reaching the objective b.

In addition, a more detailed set of performance indicators will be drawn from the three-pillar methodology developed by the EIB under the REM framework and can be seen as additional proxy towards achieving objective 1 and 4. The REM framework serves to show how EIB loans generate outputs, which enable outcomes and, over time lead to impacts, which are in line with the objectives of the Decision.

Pillar 1 includes an assessment of a project's consistency with objectives of EIB external operations under the EU guarantee as well as its contribution to EU priorities and country development objectives, going beyond the current focus on eligibility alone. Pillar 2 consists in a series of sector-specific standardized indicators to capture economic, social, environmental and institutional outcomes of the project. It will also continue to measure project quality and its ability to achieve the expected results. Pillar 3 focuses on an assessment of the EIB additionality over market alternatives in terms of financial product, technical, structuring and sector contribution and standards and assurance.

The three pillars address three separate project dimensions, which cannot be compared with one another. They will be rated independently, and no overall aggregated project rating will be given. Pillar ratings will be based on a qualitative 4-point scale. Ratings are based on a series of objectively measurable indicators and guidelines. Moreover, a process of quality control will ensure that all ratings are checked for consistency across operations

The aim is to better assess and be able to report on the Bank's contribution to objectives of the Decision by focusing on concrete results. This should allow to:

- make the most of limited resources;
- improve support to EU policies;
- achieve transparency and accountability.

As regard the financing for projects that promote climate action, eligibility for climate change operations would be clarified against agreed criteria building on - and if needed tightening - existing EIB definitions to track climate change expenditure (e.g. introducing benchmarks related with GHG emission reduction, improving if appropriate the definitions for energy efficiency and adaptation), which would also be used in the monitoring phase to

'operationalise' the Rio Marker or equivalent system as proposed by the Commission to track the EU budget under the next MFF<sup>31</sup>. The EIB will explore reinforced methodologies to include carbon and to improve climate resilience of its investments, as well as climate risk in project appraisal.

In parallel the EIB should keep developing methodologies to assess climate risk in order to reinforce the climate resilience for all relevant operations, and integrate carbon pricing in economic cost benefit analysis. Restrictive eligibility and criteria for carbon-intensive projects should also be improved in relevant sector policies.

## **7.2. Monitoring**

Regular reports will be envisaged in the legislative act as in Decision 1080/2011/EU. The Commission will annually report on the implementation of the Decision by the EIB to the European Parliament and the Council. This report will also be published on the Commission's website.

Reporting on results will be based on an appropriate aggregation of indicators across the entire portfolio where this is possible, or across a given sector. These indicators will be measured throughout the project cycle at appraisal and during monitoring until the project is fully implemented, operational and the first development outcomes are measurable - typically up to three years after project completion. They will, to the extent possible, also be used for ex-post evaluation.

Finally, a mid-term evaluation will be carried out after three years from the start of the Decision.

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<sup>31</sup> Regarding instruments under the EU budget, in order to reach the Europe 2020 objectives and to help other parts of the world to step up their efforts to combat climate change, the Commission has stated in the June 2011 Communication on "A Budget for Europe 2020" that it intends to increase the proportion of climate related expenditure across the EU budget to at least 20%, with contribution from different policies, subject to impact assessment evidence.

## 8. ANNEX 1: DEVELOPMENT OF EU BUDGET GUARANTEE TO EIB LOANS IN THIRD COUNTRIES

The core mission of the EIB, as established under the Treaty of Rome in 1958, is to support the balanced and steady development of the EU Member States.

In addition to its core activity within the EU, the EIB has been increasingly active in support of EU external policies since 1963 covering progressively most of the regions of the world. However, as compared to other IFIs, the EIB does not have a general mission outside the EU under its Statute but operates under specific mandates by the Parliament and Council or by its Board of Governors to act in support of EU policy objectives. The main structural differences between the EIB and other Multilateral or Bilateral Development Banks can be summarised as follows:

- The EIB has no statutory mission for its operations in third countries, which is the *raison d'être* notably for Multilateral Development Banks (MDBs). It operates outside the EU under mandates from the EP and Council or from its Board of Governors.
- Both EIB and other MDBs or bilaterals carry out activities on their own resources or are entrusted with the management of resources granted from the budgets of one or more States (e.g. International Development Association (IDA) for the World Bank, ACP-Investment Facility for EIB or certain loans for KfW).
- However, the EIB is the only institutions for which a significant part of its activity on own resources is carried out under guarantee of the EU or Member States.
- MDBs present a different capital structure than the EIB both in terms of gearing (other MDB present roughly a 1 to 1 leverage compared to subscribed capital while the EIB has 2.5 gearing) and leverage (other MDB have a leverage between borrowing/own funds of 200/300% while EIB presents historically a leverage of 700/800%). KfW and AFD borrowings on the market benefit from an implicit guarantee respectively by the German and French States.
- In MDBs, beneficiary countries are also shareholders of the MDB itself with positive consequences in terms of Preferred Creditor Status, which is not the case for EIB. The Framework Agreement concluded by the EIB with third countries includes systematically a clause according to which operations financed by the Bank and related financial agreements benefit from treatment no less favourable than that which is accorded to those financed by any IFI. This grants the EIB a *de jure* privileged creditor status.

Until the **EIB Statute** revision under the TFEU entered into force in December 2009, EIB loans outside the Union could only be carried out by way of 'derogation' following an unanimous approval of its Board of Governors. From December 2009 onwards, EIB financing outside the Union can be carried out by qualified majority decision of the Governors (no derogation).

### **Rationale for the EU guarantee**

From 1963 (first protocol with Greece), EIB loans on own resources outside the Union/Community had been carried out under mandates decided by the Council in support of Union cooperation policy and were covered, from the beginning, either by the joint and

several comprehensive guarantee of Member States (ACP/OCT countries) or by a comprehensive guarantee provided by the EU budget (rest of the world). Beyond loans on EIB own resources, the EIB has been entrusted with the management of budgetary funds to be on-lent to beneficiaries in third countries (e.g. EDF resources for ACP/OCT countries and EU budget resources for Special Loans in MED countries).

The need for an EU (or MS) budget guarantee stemmed on the one side from EIB's obligation under its Statute to ensure adequate security for all its lending operations and, more broadly, from the need to safeguard EIB's creditworthiness in order not to compromise its task to contribute to the steady development of EU Member States. For example, the 1996 EIB-Commission report on Community budget guarantees in respect of EIB lending outside the Community also highlighted the necessity of the EU guarantee to ensure the compatibility between the EIB's highly leveraged financial structure (different from other IFIs), the significantly higher inherent risk of lending to third countries, and the need to avoid a deterioration of the Bank's AAA rating.

The same rationale was at the basis of subsequent mandates. For example, Recital 4 of the current Decision states that "*with a view to supporting Union external action, and in order to enable the EIB to finance investments outside the Union without affecting the credit standing of the EIB, the majority of its operations in external regions have benefited from an EU budgetary guarantee administered by the Commission*".

The structure of the mandate evolved over the years: initially the mandates were granted on a country basis (country protocols). Afterwards, on a regional basis, and then since 2007 there is a general mandate covering all regions (except ACP/OCT which is covered under a separate framework-Cotonou Agreement).

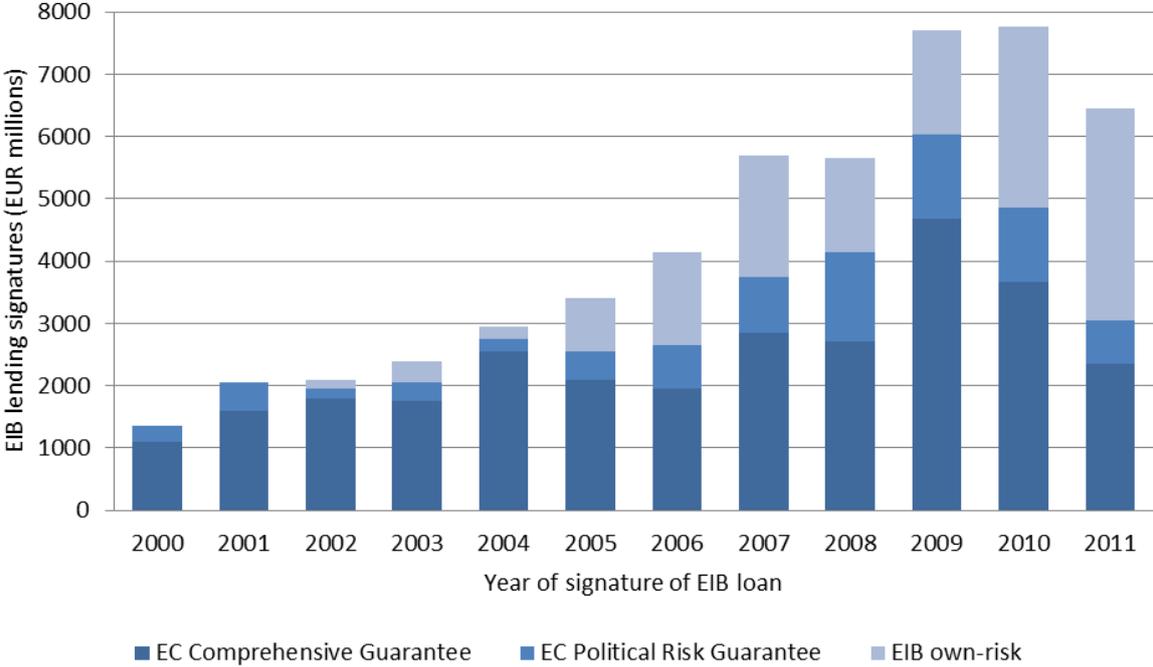
### **Development of EIB own risk activities**

Until 1997, EIB external lending was always either benefitting from a comprehensive guarantee by EU or MS budget or carried out with MS or EU budget resources.

In 1997, the EIB started taking some risk on its own books under two strands: a) the EIB Pre-Accession Facility where EIB granted loans in certain creditworthy Pre-Accession countries at its own risk; b) the risk sharing scheme introduced in the 1997 Council decision on the external mandate where the risk on EIB loans was shared between the EU budget (covering political risks) and the EIB (commercial risks; EIB was covering itself with third party guarantees).

Since 1997, the Pre-Accession Facility has been systematically renewed and extended. Moreover, other own risk facilities have been established either on a regional basis (Mediterranean Partnership Facility I and II, Eastern Partnership Facility) or on a thematic basis with a global reach (Energy Sustainability & Security of Supply Facility). In 2007, the risk sharing scheme became compulsory for all EIB operations with the private sector (renamed political risk guarantee).

The following graph shows that EIB lending at own risk or under risk sharing with the EU budget increased substantially over the years. In 2011, for the first time, the volume of EIB own-risk operations was higher than the one relating to operations under EU guarantee.



In line with the Wise Persons' report and the external evaluation, the current Decision encourages the EIB to increase amounts lent at own-risk and develop a policy for deciding between the allocation of operations under the EU guarantee and at the Bank's own risk. According to Recital 32 of the Council and EP decision " *The EIB should be encouraged to increase its operations and to diversify its financial instruments outside the Union without recourse to the EU guarantee so that use of the guarantee can be encouraged for countries and projects with poor access to the market, taking into account debt sustainability considerations, and where the guarantee therefore provides greater added value. Consequently, and always with the aim of supporting the objectives of the Union external relations policy, the EIB, while taking into account its own risk absorption capacity, should be encouraged to increase the amounts it lends at its own risk, including through the support of Union economic interests, particularly in pre-accession countries and neighbourhood countries and in investment grade countries in other regions, but also in sub-investment grade countries when the EIB has the appropriate third party guarantees. In consultation with the Commission, the EIB should develop a policy for deciding between the allocation of projects to either the mandate under EU guarantee or to EIB own-risk financing. Such a policy would in particular take into account the creditworthiness of the countries and projects concerned* ".

**Blanket Guarantee coverage**

The blanket guarantee coverage - i.e. the upper global ceiling of credits to which the EU guarantee is exposed - declined progressively from 100% in 1963 to 75% in 1977, 70% in

1997<sup>32</sup> and 65% in 2000 (in some exceptional cases the coverage was set at 100% also in more recent years, such as in the case of the specific Russia/WNIS mandate which ended mid-2007). The percentage has remained stable since then.

Under all previous mandates, the blanket guarantee coverage applied to credits opened (i.e. loans signed), while in the current mandate the coverage applies to credits disbursed and not reimbursed.

### **Guarantee Fund provisioning**

In 1994, the Guarantee Fund for External Action was established to shield the EU budget against shocks due to possible default from the lending activity under the EIB external mandate and other external action, i.e. Macro Financial Assistance and Euratom loans (EIB loans with EU guarantee representing more than 90% of the portfolio covered by the GF).

Originally, the Guarantee Fund target provisioning rate was set at 15% of the overall amounts forecast to be signed the next year. Through successive Council decisions, taking into account the building up of the Fund itself and the expansion and diversification of the external lending portfolio, the target rate progressively declined to 9%. Moreover, the last amendment of the Guarantee Fund regulation in 2009 established that provisioning should be based on total outstanding disbursements rather than forecast signatures<sup>33</sup>. In 2010, an external evaluation of the functioning of the Guarantee Fund concluded that the 9% provisioning rate was deemed appropriate.

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<sup>32</sup> It should be noted that the 1996 Commission proposal on the mandate stressed that a 50% blanket guarantee would be sufficient to safeguard the creditworthiness of the cover risks for the EIB. However, the ECOFIN Council opposed this view and eventually set the blanket guarantee at 70%.

<sup>33</sup> The Guarantee Fund has to be provisioned according to the Guarantee Fund Regulation (Council Regulation (EC, Euratom) No 480/2009). In line with this Regulation, loans are provisioned on the basis of the total outstanding guaranteed amounts (i.e. disbursements minus reimbursements) plus accrued interest at the end of a year  $t_0$ . The provisioning amount calculated at the beginning of the year  $t_1$  is introduced in the preliminary budget for  $t_2$  and inscribed in the final budget for  $t_2$ . Therefore, the Fund is provisioned by one single payment transaction at the beginning of the year  $t_2$  from budget line 01040114.

## **9. ANNEX 2: STAKEHOLDERS INVOLVED IN THE CONSULTATIONS ON EIB EXTERNAL MANDATE**

### **9.1. The Steering Committee of Wise Persons**

Decision 633/2009/EC of 13 July 2009 on EIB external mandate foresaw a mid-term review of this mandate to be carried out, drawing on an independent external evaluation of the EIB external operations. The primary objective of the review was to provide the basis for Decision 1080/2011/EU on the revision of the guarantee by drawing recommendations on how to amend it and how to ensure maximum added value and efficiency in EIB's operations.

In this context, the independent external evaluation was supervised by a Steering Committee of “wise persons” (SCWP) appointed by the EIB Board of Governors and composed of with in-depth experience of international financial institutions as well as a representative of Europe’s civil society organisations. The members of the SCWP included:

*Mr Michel Camdessus (chair), Former Managing Director of the International Monetary Fund*

*Mr Kemal Dervis, former Minister of Economic Affairs of Turkey (2001-2002),*

*Mr Norbert Kloppenburg, Member of the Executive Board of KfW since 2007,*

*Ms Manana Kochladze, Regional coordinator of the Caucasus and Central and Eastern Europe Bankwatch Network,*

*Mr Richard Manning, independent consultant on international development*

*Mr Luis Martí Espluga (vicechair), former Vice-President of the EIB and former Executive Director of the IMF and of the World Bank.*

*Mr Sauli Niinisto, former Vice-President of the EIB, Honorary Chair of the European People's Party EPP, President of Finland.*

*Ms Ewa Osniecka-Tamecka, vice-rector of the College of Europe Natolin campus in Poland,*

*Former Secretary of State for European Affairs*

*Mr Mario Sarcinelli, former Deputy General Manager of Banca d'Italia, former Director General of the Italian Treasury, Chairman of Dexia Crediop since 2007.*

*Mr Jean-Louis Biancarelli (EIB representative),*

*Mr David McGlue (Commission representative).*

In accordance with the terms of reference of the Group, the scope of the evaluation included the EIB previous mandates (from 2000 to 2006) and the first years of the 2007-2013 mandate, up to end 2009. The report covered the EIB operations under the external mandate with the EU guarantee, external operations at EIB own risk as well as risk capital and technical assistance activities managed by the EIB.

The Steering Committee has worked from October 2008 until February 2010, with the support of the independent external experts contracted by the Commission (COWI) and supported by a Reference Group including representatives of Commission and EIB services, as well as by the EIB's evaluation department. Moreover, the Steering Committee organised hearing sessions with the Commission and EIB's Senior Management as well as with representatives of the Civil Society (Eurodad, CounterBalance coalition, Amnesty International, European Peacebuilding Liaison Office, Campagna Riforma Banca Mondiale, Brettonwood, CEE Bankwatch Network), European Parliament (several MEPs), International and European bilateral Financial Institutions (World Bank, IFC, EBRD, KfW, AFD, FMO,) and think-tanks (CEPS, Bruegel). Individual members of the Steering Committee have visited a sample of beneficiary countries that benefited from EIB financing support (Poland as a former candidate country, Morocco, Turkey, Senegal, and Russia) where they held meetings with key government officials, representative of the financial sector and of the private sector and EU Delegations. Finally, the Steering Committee drew on background material from the EIB and by the Commission.

## 9.2. Stakeholders consulted by the external evaluator (COWI)

<i>Head offices of IFIs/DFIs</i>		
EBRD	Alain Pilloux	Business Group Director, Russia, Agribusiness, Property & Tourism
KfW Entwicklungsbank	Claudia Arce	First Vice President, North Africa & Middel East Department
World Bank	Peter D. Thomson	Director, Sustainable Development Department, Europe and Central Asia Region
EBRD	Thomas Maier	Business Group Director, Infrastructure and BG and Front Office
<i>NGOs</i>		
Bankwatch	Anna Roggenbuck	EIB coordinator
<i>Romania</i>		
EBRD	Mihail Sevortov	Principal Banker
European Investment Bank, Bucharest	Milena Missori	Head of Office
JASPERS (former Ministry of Transport)	Alexandra Stan	Transport sector specialist
Ministry of Finance	Boni Cucu	Deputy General Director
Ministry of Finance	Rodica Buzdugan	
Ministry of Transport, Romanian Company of Motorways and National Roads	Elena Dan	Director of Project Department
Technical Assistance to Ministry of Transport	Andrew Nesbitt	Road Engineer
<i>Serbia</i>		
Banca Intesa ad Beograd	Dušan Petrović	Project and Structured Finance
Banca Intesa ad Beograd	Radovanka Perović	Business Banking Regional Director
Banca Intesa ad Beograd	Sladana Jelić	Deputy Head of the Corporate Division
City of Pancevo	Zoran Jovanovic	Member of the City Council
EBRD	Mirjana Milovanovic	Senior Analyst
EBRD	Meran Lukic	Analyst

European Union, Delegation of the European Commission to the Republic of Serbia	Danka Bogotić	Project Manager - Operations
KfW Entwicklungsbank	Elke Hellstern	Director, KfW Office Belgrade
Municipal Infrastructure Support Programme of the EU	Cok van Schooten	Team Leader
Municipal Infrastructure Investment Support Programme (Belgrade) of the EAR/City of Belgrade	Erling Hvid	Project Director
Republic of Serbia, City of Belgrade, Investment Agency	Maša Čeranić	Assistant Director
Republic of Serbia, City of Belgrade, Investment Agency	Radovan Drca	Head of PIU
Republic of Serbia, City of Belgrade, Investment Agency	Marko Blagojevic	Assistant Director
Republic of Serbia, Ministry for National Investment Plan	Zoran Cekic	State Secretary
Republic of Serbia, Ministry for National Investment Plan	Branislav Pejic	Head of Department for International Affairs
Republic of Serbia, Ministry of Finance, International Financial Relations Department	Aleksandar Kovacevic	Junior Adviser, Unit for Cooperation with Multilateral Financial Organizations
Republic of Serbia, Ministry of Finance, International Financial Relations Department	Zoran Ćirović	Assistant Minister
Sida/Embassy of Sweden	Björn Mossberg	Counsellor, Development Cooperation Section
Sida/Embassy of Sweden	Nela Jovic	Programme Officer, Development Cooperation Section
WYG International, Infrastructure Projects Facility in the Western Balkans	Jeremy Lazenby	Team Leader
WYG International, Infrastructure Projects Facility in the Western Balkans	Nicolas Sinclair	Deputy Team Leader
<b>Turkey</b>		
Antalya Municipality	Haluk Bayrakdar	Consultant of Mayor
DG ENLARG	Holger Schröder	Former head of EU delegation
EBRD Istanbul Office	Mike Davey	
European Investment Bank	Alain Terrailon	Head of office
European Investment Bank	Kadir Bahcecik	Loan officer
State Planning Organisation	Yilmaz Tuna	Director General
State Planning Organisation	M. Cüneyd Düzyol	Director General
Undersecretariat of Treasury	özgür Pehlivan	Deputy General Director
Undersecretariat of Treasury	Nurhan Karaca	Division Head
Undersecretariat of Treasury	özkan Isil	Junior Treasury Expert
World Bank, Ankara office	Keiko Sato	
<b>Egypt</b>		
African Development Bank/Fund	Almaz Amine	Country Operations Officer

African Development Bank/Fund	Khaled El-Askari	Infrastructure Specialist
Agence Française de Développement (AfD)	Camille Naudet	Projects Officer
Agence Française de Développement (AfD)	Ola El Wakil	Projects Officer
Egyptian Electricity Holding Company	Mohamed M. Awad	Chairman
Egyptian Electricity Holding Company	Yaser Mohammad	Engineer, Projects Department
Export Development Bank of Egypt (E.D.B.E)	Mohamed Moussa	General Manager, Investment Department
European Investment Bank	Jane Macpherson	Head of Regional Office
KfW Bankengruppe	Detlef Geilow	Programme Manager, Water and Waste Water Sector
KfW Bankengruppe	Andreas Holtekotte	Programme Manager, Energy Sector
KfW Bankengruppe	Walid M. Abdel-Rehim	Senior Programme Officer, Water and Environment
Ministry of International Cooperation	Zahir M. Abu Zied	Assistant to the Minister for European Affairs
Ministry of International Cooperation	Mervat Naguib	General Director - European Investment Bank Department
Upper Egypt Electricity Production Company	Reda Kisno	Financial Manager
Upper Egypt Electricity Production Company	Bassem Shawky	Technical Manager
Upper Egypt Electricity Production Company	Essaw Rajah	Project Accountant, El Kureimat Power Plant
Upper Egypt Electricity Production Company	Satly Elsayed	Project director
Upper Egypt Electricity Production Company	Mohamed Naguib	Technical Affairs Director
Power Generation Engineering and Services Company	Ali Mussawi	Operations Manager, El Kureimat Power Plant
Power Generation Engineering and Services Company	Khalil Hakim	Electrical Construction Manager, El Kureimat Power Plant
<b>Tunisia</b>		
Ministry of International Cooperation and Development (MDCI)	Nawele Ben Romdhane	General Director for regional international cooperation
Ministry of International Cooperation and Development (MDCI)	Zahia Abu Zaid	Assistant to the Minister for European Affairs
Ministry of International Cooperation and Development (MDCI)	Raja Jabri Halouani	Deputy Director for Euro Mediterranean cooperation
TAV Tunisie SA	Haluk Bilgi	General director
TAV Tunisie SA	Kahena Mamlouk Ferchichi	Director - Legal Department
TAV Tunisie SA	Bahadir Atalay	Project Monitoring
TAV Tunisie SA	Fourat Binous	Director Infrastructure and Buildings
TAV Tunisie SA	Akram Ayara	Technical Director
Africinvest	Hichem Ghanmi	Investment officer
Africinvest	Samia Ghorbel	Investment officer
Tuninvest	Anis Fathallah	Investment officer
Tuninvest	Aziz Mevarak	Founding Partner
Tunisacier SA	Alberto Galli	Director

Tunisacrier SA	Boussabat Mondher	Administration and Finance
<b>Lebanon</b>		
Bank Audi	Karim Dagher	-
Bank Audi	Khalill Geagea	Group Head - Financial institutions & correspondent Banking
Bank Audi	Noel Hakim	Manager - Corporate Banking
Bank Audi	Ibrahim Salibi	Assistant General Manager
Bank Audi	Nabil Haddad	Senior Relationship Manager
Bank Audi	Geroges Ziade	Senior Coordinator - Portfolio Management
Bellevue Medical Center	Ali Elhaj	Chief executive officer
Bellevue Medical Center	Nayef Maalouf	Director of Business Development
Capital Trust Group	Romen Mathieu	Managing Director
Euromena FMC		
Capital Trust Group	Gilles de Clerk	Director
Euromena FMC		
Council for Development and Reconstruction	Wafaa Charafeddine	Funding Division Director
Council for Development and Reconstruction	Roger Maalouf	Funding Division
Lebanese roasting company	Elias Daniel	Chief Executive Officer
Sodamco	Hady Nassif	Executive Director
<b>Brazil</b>		
Delegation of the European Commission to Brazil	Paulo Lopes	Counsellor for Information Society and Media
Secretariat of International Affairs (SEAIN), Ministry of Planning	Carlos Eduardo Lampert Costa	Joint Secretary
Secretariat of International Affairs (SEAIN), Ministry of Planning	Claudia Veiga de Silva	Coordinator for Public Sector Projects
Secretariat of International Affairs (SEAIN), Ministry of Planning	Cadmo Soares Gomes	General coordinator
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VIVO Participações S/A	Alexandre Cruz Alves	Division Manager for Financial Planning
<b>South Africa</b>		
Amalgamated Healthcare	Suhail Gani	Chief Executive Officer
Amalgamated Pharmacy Group	William Butler	Chief Financial Officer
Booyens Hotel and Conference Centre	Ishmael Ndlovo	Managing Director
Booyens Hotel and Conference Centre	Jonathan Segel	Director of Charter Financing & Auditing
Primolitos Ltd.	Paul Vasconcelos	Managing Director
European Investment Bank	David White	Head of Regional Office
European Investment Bank	Svetla Stoeva	Resident Finance Office of Southern Africa & Indian Ocean

European Union, Delegation of the European Commission to South Africa	Gerry McGovern	First Counsellor
European Union, Delegation of the European Commission to South Africa	Konstantinos Berdos	First Secretary
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Industrial Development Corporation (IDC)	Meryl Mamathuba	SBU Head: Risk Capital Facility
Industrial Development Corporation (IDC)	Shekeel Meer	Divisional Executive: Industrial Sectors
Industrial Development Corporation (IDC)	Vusi Mashicila	Senior Account Manager: Corporate Funding
Republic of South Africa, National Treasury	Robin Tholi	Head, International Development Co-Operation
Republic of South Africa, National Treasury	Thulani Mabaso	Senior Policy Analyst: International Development Co-Operation
Safal Steel (PTY) LTD	Arup Ghoshal	Group Chief Technical Officer
Safal Steel (PTY) LTD	Ashutosh Datta	Technical Manager
Safal Steel (PTY) LTD	Guy du Plessis	Finance Manager
Safal Steel (PTY) LTD	Chris O'Neill	Chief Operating Officer
Safal Steel (PTY) LTD	Philip Truebody	Sales & Marketing Manager
Safal Steel (PTY) LTD	S Saryanarayana	General Manager: Operations
Saicom	MP Maguya Kasango	Chairman
TEIM/Saicom	Giles Douglas	Director
<b>Russia</b>		
EBRD	Natasha Khanjekova	Director, Infrastructure and Energy, Russia Business Group
St. Petersburg Foundation for Investment Projects (FISP)	Alexei Vasilev	General Director
St. Petersburg Foundation for Investment Projects (FISP)	Viktor A. Shilov	Senior Expert
St. Petersburg Foundation for Investment Projects (FISP)	A.D. Grigorov	Senior Expert
Halcrow	David Edwards	Head of Representation
Ministry of Finance	Maria Smirnova	Senior Expert, International Department
Ministry of Finance	V. Mizin	Senior Expert, International Department
Ministry of Regional Development	Dmitry V. Savin	Deputy Director, Department on Capital Investments

### **9.3. The Group of Experts on EU Platform for External Cooperation and Development and the stakeholders consulted**

In the framework of the mid-term review of the EIB external mandate 2007-2013, the SCWP recommended to study the possibility to establish an EU Platform for External Cooperation and Development. In the context, Decision 1080/2011/EU requested the Commission to study the development of an "EU platform for cooperation and development" with a view to

optimising the functioning of mechanisms for the blending of grants and loans in the field of external action.

For this purpose, the Commission created and chaired a Group of Experts (GoE)<sup>34</sup> of Member States, the European External Action Service, the European Investment Bank, the European Parliament and Croatia (as observers) which assessed the costs and benefits of such a platform. This included clarification and agreement on the objectives, tasks and structure of the Platform. In its reflections the GoE has consulted bilateral and multilateral finance institutions and other stakeholders. The list of organisations consulted is provided below.

The Group of Experts has concluded its work and the Commission will report to the European Parliament and Council on the conclusions of the Group and put forward a proposal to establish such Platform by the end of 2012. The EU Platform for Blending in External Cooperation (EUBEC) was launched at the end of 2012.

Consulted Organisations
European Bank for Reconstruction and Development (EBRD)
Council of Europe Development Bank (CEB)
Nordic Investment Bank (NIB)
African Development Bank (AfDB)
World Bank Group (WBG) and International Finance Corporation (IFC)
Agence Française de Développement (AFD)
Kreditanstalt für Wiederaufbau (KfW) Bankengruppe
Agencia Española de Cooperación Internacional para el Desarrollo (AECID)
Società Italiana per le Imprese all'Estero (SIMEST)
Sociedade para o Financiamento do Desenvolvimento (SOFID)
Oesterreichische Entwicklungsbank (OeEB)
Compañía Española de Financiación del Desarrollo (COFIDES)
Finnish Fund for Industrial Cooperation (FINNFUND)
Private Infrastructure Development Group (PIDG)

#### **9.4. Stakeholders consulted by the Commission in 2012 during the preparation of the Impact Assessment**

Informal exchanges of views took place with representatives of Member states (Working Group of Financial Counsellors). Two meetings with main relevant NGOs took place in June and October 2012 (CounterBalance coalition, CEE Bankwatch Network, Amnesty

<sup>34</sup> Established in line with the Framework for Commission Expert Groups C(2010) 7649 final – GoE number E02694.

International, European Peacebuilding Liaison Office, CEE Bankwatch Network, Oxfam International, ICCO, and Concord).

## 10. ANNEX 3 – OECD LIST OF ODA RECIPIENTS

The following table shows the repartition of eligible countries under the mandate under these categories according to the most recent OECD List of ODA Recipients<sup>35</sup>:

	Least Developed Countries	Other Low Income Countries	Lower Middle Income Countries	Upper Middle Income Countries	High Income Countries
<b>A. Pre-accession</b>			- Kosovo*	- FYROM - Montenegro - Turkey - Albania - Bosnia and Herzegovina - Serbia	- Croatia - Iceland
<b>B. Neighbourhood and Partnership countries</b>			- Egypt - West Bank and Gaza Strip - Morocco  - Republic of Moldova - Ukraine - Armenia - Georgia	- Algeria - Jordan - Lebanon - Libya - Tunisia  - Azerbaijan	- Israel  - Russia
<b>C. Asia and Latin America</b>	- Bangladesh - Cambodia - Laos - Nepal - Yemen	- Kyrgyz Republic - Tajikistan	- Bolivia - El Salvador - Guatemala - Honduras - Nicaragua - Paraguay  - India - Indonesia - Iraq - Mongolia - Pakistan - Philippines - Sri Lanka - Turkmenistan - Uzbekistan - Vietnam	- Argentina - Brazil - Chile - Colombia - Costa Rica - Ecuador - Mexico - Panama - Peru - Uruguay - Venezuela  - China - Kazakhstan - Malaysia - Maldives - Thailand	- Brunei - Singapore - South Korea
<b>D. South Africa</b>				- South Africa	

\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

**11. ANNEX 4 – FOLLOW-UP OF RECOMMENDATIONS OF SCWP AND EXTERNAL EVALUATOR**

<b>Recommendation</b>	<b>Implementation in the current mandate / what remains to be done or could be improved</b>
<p><i>To streamline the objectives of the mandate, taking into account EIB expertise and the relative sizes of the regional envelopes.</i></p>	<p>Before the mid-term review, the EIB external mandate decision set as a general objective for EIB activity the support to EU policy whilst providing some differentiated guidance in specific regional Recitals. The Recommendation has been integrated in the current decision which sets three horizontal objectives:</p> <ul style="list-style-type: none"> <li>a) Local private sector objectives, in particular support to SMEs;</li> <li>b) Development of social and economic infrastructure, including transport, energy, environmental infrastructure, and information and communication technology;</li> <li>c) Climate change mitigation and adaptation.</li> </ul> <p>There are no sectoral ceilings as envelopes are determined on a regional basis. However, the Decision introduces a specific cross-regional envelope dedicated to climate change activities, which can be financed both under the dedicated envelope and under the regional ceilings.</p> <p>While the current Decision aims to enhance EIB contribution to development objectives (see recommendation below), it does not explicitly provide the EIB with the possibility to support microfinance operations which belong to the usual toolkit of instruments available to financial institutions active in third countries (although the EIB could support e.g. microcredit to micro-entities). The legislator recognised this weakness and requested the Commission to analyse the possibility to introduce microfinance operations in the future Decision.</p>
<p><i>To enhance the EIB contribution to EU development objectives</i></p>	<p>This recommendation has been integrated in the current Decision notably by enhancing EIB reporting and monitoring requirements. In addition, the EIB was asked to develop adequate performance indicators to measure the development impact of its activities. As a result, the</p>

	<p>EIB implemented as of January 2012 the so called Results Measurement Framework (REM).</p> <p>It is perceived, however, that the development impact of EIB activity under EU guarantee could be further strengthened by focusing it in poorer countries and beneficiaries which are most in need of EIB financing. In addition, as mentioned above, the EIB financial toolkit under the mandate could be explicitly expanded to include support to microfinance operations.</p>
<p><i>To activate a EUR 2bn optional envelope for climate action</i></p>	<p>This Recommendation was integrated in the current Decision.</p> <p>The weakness perceived under the current setup is that it does not provide sufficient incentives to EIB to step up its climate change activity under the mandate, which was the ultimate aim of the Recommendation.</p>
<p><i>To maintain the EU guarantee as a key tool enabling the EIB to intervene in third countries whilst encouraging the EIB to pursue own risk activities and expand the range of financial instruments.</i></p> <p><i>To limit the application of the EU guarantee to non-investment grade borrowers. The EIB should limit concentration risk in specific countries/operations</i></p>	<p>This Recommendation was partly implemented in the current Decision by maintaining the EU guarantee whilst asking the EIB to prepare – in consultation with the Commission - an allocation policy. The latter will indicate how the EIB intends to allocate operations under EU guarantee or at its own risk activities.</p> <p>The current setup represents a significant improvement compared to the previous situation. However, a further step is needed to ensure that EIB financing under mandate focuses on less creditworthy operations in a transparent and orderly manner, whilst respecting concentration risks by country/beneficiary.</p>
<p><i>In order to enhance the cooperation with the Commission and other IFIs, to study the development of EU platform for external cooperation and development</i></p>	<p>This Recommendation was implemented in the current Decision.</p>
<p><i>To define operational guidelines to provide guidance to the EIB on the activity in the different regions and on</i></p>	<p>This Recommendation was implemented in the current Decision by asking the Commission and the EIB to jointly prepare technical regional operational guidelines and requesting the EIB to prepare, in consultation with</p>

<p><i>environmental/climate change operations; the EIB should also prepare multiannual financing strategies.</i></p>	<p>the Commission, a climate change strategy as well as multiannual financing strategies.</p> <p>These documents were finalised at the end of 2012. However, the recommendation and the subsequent implementation did not spell out a fuller process to update these documents in an informed and transparent manner, to take into account the evolution of the EU priorities and policies in the external field.</p>
<p><i>To strengthen dialogue between the Commission and the EIB including on the field</i></p>	<p>This Recommendation is currently being implemented through the revision of the Memorandum of Understanding between the Commission and the EIB to strengthen dialogue and cooperation.</p>
<p><i>The impact of EIB financing would be enhanced if the EIB were devoting more staff to external activities, inter alia to ensure a stronger local presence</i></p>	<p>While the SCWP and the evaluator suggested that EIB financing would be enhanced if the EIB were devoting more staff to external activities, the EIB Board of Governors' approval of the current external Decision stressed that the Bank should endeavour to mitigate the impact on human resources for its implementation.</p> <p>Therefore, the implementation of this Recommendation could only be very limited. As decisions on EIB human resources fall under the remit of the EIB governing bodies, it is not possible to impose any obligation on the EIB in this respect.</p>

## **12. ANNEX 5: BACKGROUND INFORMATION ON MYANMAR**

The Commission proposes to activate the EU guarantee to EIB operations in Myanmar. The current relations of the EU with this country and the rationale for the activation of the mandate are explained below.

### **12.1. Political Situation and bilateral relations with the EU**

Under the civilian government headed by President U Thein Sein (since March 2011), Myanmar's credible and comprehensive reform agenda has taken shape. It covers political, economic and social issues, thus ending the former dictatorial rule, overcoming the country's isolation from the wider world and reviving its stagnant economy. Myanmar is faced with the twin challenges of democratisation and of securing domestic peace. The legacy of the past comprises deep-rooted structural poverty, fragile state institutions, a weak democratic culture, and a severe lack of capacity at all levels of Government. The complex conflict resolution challenges relate to accumulated grievances of Myanmar's ethnic minorities. A most remarkable development is the rapprochement between the Government and the leader of the former opposition. President U Thein Sein reached out to Daw Aung San Suu Kyi, and she and her party, the National League for Democracy (NLD), modified their views and joined the by-elections in April 2012. These reconciliatory steps boosted confidence in the Government's commitment to political reform.

The EU's declared goal is to accompany the country's transition and help a legitimate, civilian government pursue the social and economic development of the country, respect human rights and rebuild relations with the international community. In response to the positive developments, the EU suspended the political sanctions (visa ban, asset freeze, import-export-investment ban in timber, gems and metals) and launched the process of re-instating the GSP, thus giving Myanmar soon unrestricted market access. The political dialogue been stepped up (official visits by Commissioners Georgieva and Piebalgs, HRVP Ashton and President Barroso). The EU opened a diplomatic mission in Yangon (April 2012) which is to be upgraded to a full Delegation shortly. Aid has been significantly increased, expanding the portfolio from health, education and agriculture/livelihoods to strengthening the public administration, electoral support and helping to secure ethnic peace.

#### *EU Financial Assistance*

The European Commission has been providing development assistance to Burma/Myanmar since 1996, since when over €174 million has been committed. 126 projects have been signed since 1996, with 53 on-going programmes worth €104 million mainly covering Livelihoods and food security (46%); Health (22%) and Education (10%) and delivered via UN organisations and NGOs. Broadly 19% of EU assistance also provides support to civil society capacity building, governance and human rights, gender and environment, to a large extent through NGOs, local and international.

In January 2012, Commissioner Piebalgs announced a package of €150 million for 2012 and 2013 to support the reform process. The Commission will commit €100 million in 2012 and

the remaining €50 million in 2013. This includes €80 million in 'new' funds and represents a big increase in annual envelopes from previous years. Development cooperation is complemented and supported by humanitarian actions as well as actions under the Instrument for Stability (IFS).

### *Trade relations*

In March 1997, the EU temporarily withdrew the trade preferences under the Generalised System of Preferences (GSP) from Myanmar (Council Regulation 552/97) due to routine and widespread practice of forced labour, confirmed by the International Labour Organisation (ILO), in a special procedure of its Commission of Inquiry. In June 2012, in light of significant progress in Myanmar to eradicate forced labour, the ILO Conference suspended this resolution. This now allows the EU to reinstate GSP preferences.

Due to the EU sanctions in place for almost two decades, bilateral trade between the EU and Myanmar has been severely limited, at least in terms of official trade flows. A major problem in the case of Myanmar is the unreliability of data and statistics, as a large share of trade and investments takes place through informal channels, and often via third countries in the region. It is noteworthy that Myanmar is actually a long-standing WTO member.

EU investment in Myanmar has also been limited as a result of EU sanctions. Indeed the EU sanctions included an investment ban in state-owned enterprises as well as additional investment ban on enterprises in the timber, gems and precious metals sectors. These sanctions have de facto discouraged investment in the country.

### **12.2. Democracy, Human Rights and Fundamental Freedoms situation**

The political will to improve the human rights situation in Myanmar is strong. Since the elections in November 2010 – the first in twenty years – several positive developments as regards human rights and fundamental freedoms are to be noted. The overwhelming majority of political prisoners have been released. Progress has been made in areas of the EU's concern, such as freedom of assembly, association and expression, forced labour, and child soldiers. A National Human Rights Commission has been established. Several dozen trade unions have been formed. Human rights violations still occur, most notably in ethnic areas affected by armed conflict. Discrimination against the Muslim population continues in Rakhine State.

The legislatures have become drivers of the democratization process, with the cooperation of the 25% of the seats reserved for military representatives. Debates in both Houses of Parliament are dynamic, and Ministers have been subject to robust scrutiny. Members of the Union Parliament not belonging to the majority USDP are still given a voice. Their policy suggestions are being listened to and their representation in the permanent parliamentary committees is disproportionately strong.

### **12.3. Macroeconomic situation and investment needs**

Despite significant natural resources, a large labour force and proximity to some of the most dynamic economies, Myanmar is one of the poorest countries in Asia. In 2011, it ranked 149th out of 187 states in the Human Development Index, lagging behind all of its ASEAN neighbours in indicators for poverty, health and education. Sizing Myanmar's economic performance is a difficult task due to the scarcity of quantitative data. According to IMF estimates, GDP growth picked up in 2011 to 5.5% from 5.3% in the previous year. Inflation declined to 4% from 8.2% a year earlier mainly due to lower food prices and less deficit monetisation. The General Government deficit in 2011 amounted to 5.9% of GDP, reflecting heavy spending on major projects, given the government's small revenue base and weak tax-collection capacity.

A well-targeted tax reform and enforcing mechanisms are required to increase government's revenues and redress the fiscal balance, which has been mostly negative for the past 20 years. Transparency of revenues could be improved as well, especially revenues from natural resource exports, which may generate more hard currency earnings than the country can absorb efficiently (due to capacity constraints), leading to unproductive investments and inflation. Additionally, the government could seek more efficient spending on education and health, and adjusting allocations in the budget between agriculture and defence.

In April 2012 the Government abandoned the overvalued official exchange rate and moved to a managed float, as one of the steps required to have a unified exchange rate and achieve Article VIII status in the IMF<sup>36</sup>. Population has little faith in the Kyat and the banking system due to past demonetisations, high inflation rates and a banking crisis in 2003. Moreover, Myanmar has no independent monetary policy because the Central Bank of Myanmar is currently a department within the Ministry of Finance. The banking system, which could play a major role in the country's development, is by far the weakest and least developed in Southeast Asia, due to restrictive regulations and external financial sanctions.

Myanmar's international trade and investment has been highly restricted for decades by a wide range of administrative measures. The government has been gradually adopting a number of measures to eliminate or reduce trade restrictions, but these have not yet had a macroeconomic impact. 70% of Myanmar's population lives in rural areas where livelihoods depend greatly on agricultural production. Within Asia it has a distinct comparative advantage in agriculture production because its soil has been least damaged and it has the potential of being the main source of organic food for Asia. Exploiting this potential, however, will require exceptionally disciplined policies by the government in the face of powerful market pressures as the country opens up to foreign trade and investment.

The "resource curse" in the case of Myanmar has been most visible in connection with oil and gas production, mineral and gem mining and timber extraction. Despite the severe shortage of electric power across the country, less than 15% of extracted gas was consumed domestically.

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<sup>36</sup> This status means that all restrictions on the purchase and sale of foreign exchange for the export and import of goods and services have been removed.

With foreign exchange reserves already above a comfortable level, the benefits of exporting more power appear low relative to the benefits of exploiting the country's natural sources of energy to provide a sufficient and reliable supply of electricity to most of the country's households and industry.

Myanmar is unconnected to any of its five neighbours by a railroad or highway. The policy challenge here is how to finance construction of the basic transportation network required to connecting Myanmar efficiently to its natural markets in Asia. The communications sector offers one of the biggest opportunities to Myanmar, since telephone and Internet penetration are among the lowest in the world. Finally, Myanmar has been rated as having one of the worst business climates in the world because of administrative obstacles that contribute to high transaction costs. Steps need to be taken to improve the business climate and enhance private sector job creation.

The new Government's ambitious agenda for economic reform faces many challenges which deserve special attention, in particular the strong need for capacity building. Delivering on the country potential with inclusive and sustainable growth would foster economic development and poverty reduction.

#### **12.4. Presence of other IFIs**

##### International Monetary Fund (IMF)

The IMF has recently opened an office in Bangkok which provides technical assistance and will have IMF oversight on Myanmar in collaboration with the Bank of Thailand. Cambodia. The IMF has been conducting Article IV Missions Myanmar for several years. The most recent mission to the country reported that 'broad-based sustainable growth and poverty reduction require structural reforms to remove barriers to trade and foreign investment, enhance the business climate, and improve agricultural productivity'. The IMF will assist the Myanmar Government to complete the process of exchange rate unification before the government's target date of end 2013. The IMF does not have outstanding arrears to be repaid by Myanmar, but until recently was more constrained in its relationship with Myanmar due to US sanctions and US influence over the IMF. The institution is committed to capacity building of government but has not yet placed long-term advisors with the government.

##### The World Bank (WB)

The World Bank (also with IFC) is at the early stages of re-engagement with Myanmar after several years of disengagement after 1987. It opened an office in Myanmar in June 2012. Country Director arrived in September 2012. Current activities include technical assistance, covering analysis (PEFA; PER; ICA); monitoring etc.; looking to support the peace process and community development. The Bank is engaging with civil society to encourage social accountability, transparency and open communications in Myanmar.

The World Bank is preparing two grants, totalling \$85 million, to benefit poor rural areas in Myanmar through community-driven development (CDD). CDD is an approach to local

development in which control over decision-making and resources for local infrastructure, service delivery, and livelihood support is transferred to communities. The grants will also support community programs in border conflict areas. A recent Bank report on fragile and conflict affected countries stresses the importance of generating real economic benefits for all people to increase the prospects for peace.

Interim strategy note guides work with the government. Areas of possible engagement include job creation in the agricultural sector, small and medium sized enterprise development, and access to finance for rural farmers. The Bank is now working on a new “Interim Strategy” with the government and development partners, which will underpin the Bank’s work as it prepares for a full country program. Financing for new projects can only be extended by the World Bank once the country’s arrears have been cleared. The World Bank is engaged in discussion with the Myanmar Government and development partners on arrears issue, plan to be cleared in final quarter of 2012.

### The Asian Development Bank (ADB)

In response to on-going major reform moves by the Government of Myanmar, the Asian Development Bank (ADB) adopted in early 2012 a phased approach to re-engagement with Myanmar, involving significant preparatory analytical work and country dialogue in the first half of 2012. The Asian Development Bank (ADB) and the Government of Myanmar have agreed on a new Interim Country Partnership Strategy (2012-2014) that sets the stage for ADB’s re-engagement in the country.

ADB Strategy will guide the re-engagement of the Bank with Myanmar promoting sustainable and inclusive growth. A central pillar of ADB’s re-engagement with Myanmar is improving connections to narrow the income gap between the urban and rural areas within the country and close the development gap with its neighbours. To boost growth throughout the country, ADB will work with the government to identify key infrastructure investments, particularly in transport and energy. ADB will also work with communities on rural infrastructure projects and develop other projects to improve the livelihoods in rural areas where the majority of people live, including in ethnic minority areas.

ADB will formulate an investment program and funding targets for the country once the government has settled its outstanding arrears with ADB. ADB is working closely with the government and other creditors regarding the arrears. After arrears clearance, ADB will roll out a series of grants aimed at helping government ministries, including in the critical area of education, to better plan and implement development programs and projects, manage the reform process, and improve data gathering. A first loan from ADB in almost 30 years (\$512 mn) was signed in January 2013. The loan will also be used to finalize arrears clearance and sustain government efforts to revamp the national budget process and modernize tax administration. It will also support trade policy reforms and capacity development, improve the investment climate and small and medium-sized enterprise development.

### 13. ANNEX 6 – GUARANTEED PORTFOLIO BY COUNTRY

EUR million	Outstanding Disbursed Amount across mandates	Signed Amount under the current mandate
Albania	257,24	83,00
Algeria	0,00	-
Argentina	269,56	246,00
Armenia	3,04	20,00
Azerbaijan	-	-
Bangladesh	12,96	-
Bosnia Herzegovina	628,01	625,00
Brazil	909,77	970,00
Chile	-	-
China	96,54	59,00
Colombia	178,88	100,00
Costa Rica	7,89	-
Croatia	481,89	-
Ecuador	33,05	-
Egypt	2.037,23	1.456,00
El Salvador	35,71	-
FYROM	219,94	225,00
Georgia	57,58	190,00
Guatemala	-	-
Honduras	-	-
India	198,99	250,00
Indonesia	82,63	-
Israel	259,89	407,00
Jordan	419,71	334,00
Kazakhstan	-	-
Kosovo	-	-
Kyrgyzstan	-	-
Laos	77,83	-
Lebanon	567,50	447,00
Maldives	40,71	-
Mexico	111,85	123,00
Montenegro	189,26	221,00
Morocco	2.483,49	1.760,00
Nicaragua	4,76	69,00
Pakistan	50,52	100,00
Panama	172,53	424,00
Paraguay	73,61	69,00
Peru	98,11	-
Philippines	104,32	-
Republic of Moldova	39,79	225,00
Regional - Pacte Andin	2,96	-
Russia	204,71	383,00
Serbia	1.542,15	1.889,00
Singapore	-	-
South Africa	1.304,09	648,00
Sri Lanka	121,13	-
Syria	727,99	695,00
Tajikistan	-	7,00
Thailand	18,22	-
Tunisia	2.355,41	1.746,00
Turkey	8.330,67	4.772,00
Turkmenistan	-	-
Uzbekistan	-	-
Ukraine	202,24	891,00
Uruguay	23,88	28,00
Venezuela	-	-
Vietnam	248,36	370,00
WB&Gaza	18,66	-
<b>TOTAL activities amount</b>	<b>25.305,24</b>	<b>19.832,00</b>
<i>of which investment grade</i>	<i>2.905,05</i>	<i>2.590,00</i>
<b>%</b>	<b>11,5%</b>	<b>13,1%</b>