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**REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
ON OPERATIONS CARRIED OUT UNDER THE EIB EXTERNAL MANDATE IN
2008**

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1. INTRODUCTION

Decision 633/2009/EC of the European Parliament and of the Council of 13 July 2009 (the 'Decision'), which replaces Council Decision 2006/1016/EC granting a Community guarantee to the European Investment Bank (EIB) against losses under loans and loan guarantees for projects outside the Community, requires the Commission to report annually to the European Parliament and Council on EIB financing operations carried out under guarantee, based on yearly reports provided by EIB.

The present report (the 'Report') reviews EIB financing operations carried out in 2008 ("operations under mandate") as well as the contribution of EIB financing operations to the fulfilment of the external policy objectives of the Community, taking into account the operational objectives of the EIB. Outside the Union, the Bank also lends from its own resources and at own risk under the framework of Article 16 of its Statute. The Report also provides a summary of these operations, in order to complete the picture of EIB activity in the regions covered by the Decision. Moreover, it reports on cooperation between EIB and the Commission, and between EIB and other International Financial Institutions (IFIs) and bilateral donors.

The Decision requires a substantive mid-term review of the EIB external mandate to be carried out by 2010, supervised by a Steering Committee of Wise Persons. As also required by the Decision, an external evaluator contracted by the Commission is currently performing an evaluation in the context of this mid-term review. Drawing upon the evaluation and the recommendations of the Steering Committee, the Commission will present a mid-term report, accompanied by a proposal for amendment of the Decision, to the European Parliament and Council for co-decision no later than 30 April 2010.

The mid-term review will provide a more thorough assessment of the impact and effectiveness of EIB operations under mandate than can be carried out in the context of the annual Commission reporting. The extent of cooperation with international financial institutions and bilateral donors will be assessed in a more comprehensive way at the mid-term review, as called for in Article 4(3) of the Decision. The mid-term review is based on interviews, surveys, case studies and field missions by the external evaluators, EIB evaluation, and the wise persons. The content of the present Report has been adapted in a way so as to not duplicate the work being carried out under the mid-term review.

The Report assesses the value added and contribution of EIB financing operations under mandate to the fulfilment of the external policy objectives of the Community following a desk-review approach. The question of whether other operations than the ones carried out by EIB would have contributed in a more significant way to the same objectives falls outside the scope of the annual reporting. The Report looks at the value added of EIB projects signed in 2008 under the Decision as assessed by EIB during the project selection and appraisal process. Thus, the information relates to projects still to be implemented, the outcome of which is typically covered in ex-post evaluation reports produced on a regular basis by EIB's evaluation department.

More detailed information and statistical tables on the above activities, including at project, sector, country and regional level, is provided in the attached Staff Working Document

(hereinafter referred to as the “SWD”)¹. References to tables in this report are to the SWD unless otherwise stated.

2. FINANCING OPERATIONS

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

- Total EIB lending signatures in the regions covered by the Decision – including both operations under mandate and EIB own risk operations – remained stable at around EUR 5.5 bn in 2007 and 2008. An increase of 9% under the mandate was offset by a corresponding decrease of own risk operations.
- The following table provides an overview of the volume of EIB financing in 2007 and 2008 in the regions covered by the external mandate.

Table 1: EIB financing in 2007 and 2008

Countries of operation (EUR million)	Operations under mandate						EIB own risk operations (2)		Total	
	Comprehensive guarantee		Political risk cover (1)		Total		2007	2008	2007	2008
	2007	2008	2007	2008	2007	2008				
Pre-Accession, of which	1.630	1.094	120	915	1.750	2.009	1.176	1.444	2.926	3.453
- 2000-2007 mandate	1.242	-	120	-	1.362	-				
- 2007-2013 mandate	388	1.094	0	915	388	2.009				
Mediterranean, of which	840	1.103	365	92	1.205	1.195	185	33	1.390	1.228
- 2000-2007 mandate	0	-	0	-	0	-				
- 2007-2013 mandate	840	1.103	365	92	1.205	1.195				
Eastern Europe, Southern Caucasus and Russia, of which	230	170	0	0	230	170	0	0	230	170
- 2000-2007 mandate	230	-	0	-	230	-				
- 2007-2013 mandate	0	170	0	0	0	170				
Asia and Latin America	27	200	398	269	425	469	500	0	925	469
- 2000-2007 mandate	0	-	120	-	120	-				
- 2007-2013 mandate	27	200	278	269	305	469				
South Africa	88	73	25	130	113	203	0	0	113	203
- 2000-2007 mandate	88	-	25	-	113	-				

¹ SEC(2009)[...]

- 2007-2013 mandate	0	73	0	130	0	203				
Total	2.815	2.640	908	1.406	3.723	4.046	1.861	1.477	5.584	5.523
- 2000-2007 mandate	1.560	-	265	-	1.825	-				
- 2007-2013 mandate	1.255	2.640	643	1.406	1.898	4.046				

(1) These operations were referred to as 'risk sharing' operations under the 2000-2007 mandate

(2) EIB own risk operations carried out under the following facilities

- Pre-Accession Facility: financial envelope of EUR 19.5bn for the period 1998-2010

- Mediterranean Partnership Facility II: EUR 2bn for 2007-2013

- Facility for Energy Sustainability and Security of Supply: EUR 3bn for 2007-2013

As regards **operations under mandate**, 2008 was the first full year of implementation of the current external mandate as the first loans under the Decision were signed in the second half of 2007, following the signature of the guarantee agreement between the Commission and EIB in August 2007.

EIB lending under the Decision reached EUR 4 bn in 2008, with cumulative signatures under the Decision attaining EUR 5.9 bn. However, particularly in Eastern Europe and Russia, planned investment projects suffered from the consequences of the financial and economic crises. Moreover, the conflict with Russia in Georgia and the political/economic instability in Ukraine prevented certain projects from being pursued. The Commission and EIB are currently assessing the reasons for the slow progress of implementation in this region, including possible constraints and limitations inherent to the mandate itself.

In 2008, 64% of the loans signed under mandate were covered by a **Comprehensive Guarantee**, while 36% benefited from **Political Risk Guarantee** cover. In terms of volume, Pre-Accession countries (EUR 915 mn) were the most significant beneficiary region of the Political Risk Guarantee.

EIB lending at its own risk in the regions covered by the Decision amounted to EUR 1.5 bn in 2008, compared to EUR 1.9 bn in 2007. This represented 27% of EIB's overall financing activities – mandate and EIB own risk facilities combined - in these regions. Own risk operations in the Pre-Accession countries, for which the Decision specifically encourages EIB to increase its operations without recourse to the Community Guarantee, increased by 23%. 98% of operations at EIB's own risk were carried out under the EIB Pre-Accession Facility. Turkey was by far the largest recipient with 82% of lending under this facility, while 12% were signed in Croatia and 6% in Serbia. The focus of EIB activity was on private sector operations, with credit lines (notably for SMEs) representing 64% of total signatures. In the Mediterranean region, two own risk loans totalling EUR 33 mn were signed in favour of private pharmaceutical research projects in Israel under the Risk Sharing Finance Facility, a joint Commission-EIB initiative.

2.2. Contribution to EU policy objectives

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

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

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

The extent of EIB contribution to EU policy objectives targeted by the Decision is provided in the SWD. It should be noted that EIB operational objectives derived from EU policy goals are recognized as appropriate measures for the fulfilment of the Community's external policy objectives. This is particularly relevant for Pre-Accession countries, where the broad definition of 'Pre-Accession support' has been translated into EIB lending priorities aligned with those within the EU.

The support for **energy security** and the **protection of the environment** are common objectives throughout the regions covered by the Decision. The region-specific policy objectives and the corresponding financing activity realised in each region are detailed in the SWD. The following table provides the volumes of EIB operations signed in 2008 under the Decision in support of the above objectives and to sustainable communities.

Table 3: EIB operations signed in 2008 in support of energy security, protection of the environment and sustainable communities

	<u>EUR m</u>
Energy security	403
Protection of Environment	661
- Tackling climate change	541
- Reduction of industrial pollution	55
- Water and waste water	65
Sustainable communities (for reference)	1,389
- Sustainable urban public transport	819
- Urban renewal and regeneration	300
- Urban infrastructure and public spaces	50
- Social housing	150
- Health care	70

To ensure the secure supply of oil, gas and electricity, EIB investments promoted diversity with regard to energy suppliers and energy transportation routes. In this context, the extension of Trans-European Energy Networks to third countries is a clear priority as well as the

rehabilitation of existing and development of new infrastructure and networks in producer and transit countries. Improved energy efficiency and an enhanced use of renewable energy make a decisive contribution to achieving sustainable, secure and competitive energy, whilst reducing dependence on external supplies.

Support to the protection of the environment and sustainable communities was provided via 15 projects in all regions covered by the Decision. This represented EUR 2bn or 51% of total lending under mandate and included investments to fight the climate change, to improve the environment and health and to promote sustainable communities, in particular urban public transport and urban renewal.

More generally, for all the projects it finances, EIB pays special attention to the issue of **environmental sustainability**, focusing on the environmental impact assessment of the investments proposed and the adequacy of mitigation measures. In particular, climate change, biodiversity and eco-system considerations are integrated into the lending policies and practices of the EIB. A public consultation with internal and external stakeholders was held in 2008 on the revision of EIB Statement of Environmental and Social Principles and Standards. Overall, the commitment of EIB to good practice based on EU principles and standards has been strengthened, especially in the field of climate change, social standards have been more explicitly linked to human rights, the common approach of EIB across all regions of activity has been highlighted, and generally the requirements of EIB have been clarified.

2.3. Sectoral breakdown

Table 4 below provides an overview of the regional and sectoral distribution of EIB operations under the Decision in 2008.

Table 4: Sectoral breakdown of operations signed in 2008 (EUR mn)

Region	Grand Total	Energy		Transports		Urban infrastruct.		Credit lines to SMEs		Telecommunications		Industry & Services		Water & sewerage	
Pre-Accession Countries (PA)	2,009	303	15%	906	45%	350	17%	315	16%	0	0%	70	3%	65	3%
Mediterranean countries (MED)	1,195	841	70%	247	21%	0	0%	52	4%	0	0%	55	5%	0	0%
Eastern Neighbours & Russia (EAST)	170	150	88%	0	0%	0	0%	0	0%	0	0%	20	12%	0	0%
Asia and Latin America (ALA)	469	101	21%	0	0%	0	0%	100	21%	269	57%	0	0%	0	0%
South Africa (SA)	203	0	0%	0	0%	150	74%	0	0%	0	0%	53	26%	0	0%
Total	4,045	1,394	34%	1,153	29%	500	12%	467	12%	269	7%	198	5%	65	2%

Constituting 34% of total financing under the mandate, the **energy sector** was the largest recipient of EIB loans in 2008. Besides addressing the increased demand for energy, owing in

particular to economic development and population growth, several energy projects in partner countries supported EU policies in the areas of energy efficiency and climate change by providing access for the population to modern and more cost-efficient sources of energy.

60% of energy financing was absorbed by power generation and transmission projects in the Mediterranean region where energy remains a major priority. In Ukraine, EIB co-financed the construction of an electricity transmission line enabling connections to the Trans-European Energy Networks (TEN-E). In Turkey and India, EIB granted loans to financial intermediaries to finance investments in the fields of environment, energy and climate change mitigation, including renewable energy and energy efficiency. Finally, in South Africa, EIB financed the construction of a production facility for thin-film photo-voltaic modules,² which represent an important component for the renewable energy sector.

Transport, including rail, road, port and urban transport infrastructure, represented 29% of total lending under the mandate in 2008. The majority (71%) of the loans in transport sector were granted in Turkey, for the financing of large urban public transport projects. In the Mediterranean, the majority of lending supported investments linked to the upgrading of infrastructure with a view to making road transport axes more rapid and effective. The development of transport axes linking to TENs comprised three projects in the Western Balkans representing 7% of the overall transport lending in 2008.

Urban infrastructure was the third largest sector and benefited from EUR 500 mn EIB financing in 2008 (corresponding to 12% of total lending). These projects typically supported the objective of promoting sustainable communities and comprised mainly the strengthening of public buildings in Turkey and Serbia as well as the financing of affordable social housing and related urban infrastructure in South Africa.

Credit lines in support of private sector development (SMEs) represented 12% of total lending, of which the main share (68%) was granted in the Pre-Accession countries. In alignment with its anti-crisis commitment to increase lending to SMEs in order to promote growth and employment within the EU, EIB stepped up its support to SMEs under the Decision and more significantly at its own risk under the Pre-Accession Facility, under which an additional EUR 920 mn was signed in credit lines for SMEs in Turkey and Croatia.

Telecommunications infrastructure was supported by two projects in Latin America (accounting for 7% of lending in 2008), while **industry and services** (including a healthcare project in Serbia) received support in all regions of the mandate, except ALA.

Finally, two projects to rehabilitate the **water and sanitation** infrastructure were financed in the Western Balkans.

2.4. Impact and value added of EIB operations

The desk-review of the value added of EIB operations is based on the ex-ante assessments which the EIB services routinely carry out for each individual operation. These assessments build on a framework structured along the following three pillars, which are based on a number of criteria and indicators:

² The investment is considered under the 'Industry & Services' sector and indirectly contributes to the EU policy objectives of sustainable energy production and climate change mitigation.

Pillar 1: the contribution to overall mandate objectives and priorities;

Pillar 2: the quality and soundness of the project, i.e., the economic, technical, financial and environmental soundness of the project, as well as management capability to design, implement and operate the project;

Pillar 3: the financial and non-financial contribution made by the EIB to the project, i.e., longer maturities and grace periods, attractive interest rates, and risk capital instruments as well as changes to project design, project conditionality and technical assistance.

The framework applied to operations in the Pre-Accession countries, called the Value Added (VA) framework, is identical to the one used for financing operations within the EU. In all other regions covered by the Decision, EIB introduced in 2007 the Economic and Social Impact Assessment Framework, which reflects the different needs and characteristics as well as the respective lending objectives of each of the geographical regions.

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

Table 5: Value added ratings of operations signed under the Decision in 2008

<i>Impact rating</i>	Pillar 1	Pillar 2 - Investment loans	Pillar 2 – Intermediated loans (SMEs)	Pillar 3
High	33 (79%)	15 (48%)	1 (9%)	27 (64%)
Medium	9 (21%)	14 (45%)	10 (91%)	15 (36%)
Moderate	0	2 (7%)	0	0
Low	0	0	0	0
Total	42 (100%)	31 (100%)	11 (100%)	42 (100%)

According to the above table, 79% of EIB operations signed under mandate in 2008 are judged to be highly consistent with the mandate objectives and priorities, while 21% were rated “medium”. No projects were rated “moderate” or “low” in Pillar 1 thereby reflecting EIB’s upfront screening of operations.

On project quality (Pillar 2), for investment loans, the proportion of “high” ratings represented 48% of projects; “medium” was attributed to 45% of projects. Two investment projects (6%) were rated “moderate”, to which contributed e.g. the promoter’s moderate management capabilities to operate the project. In such cases, EIB aims to improve the situation through loan conditions and technical assistance. As far as intermediated loans for SMEs are concerned, ten operations were rated “medium” in Pillar 2, while one was rated “high”. The dominance of “medium” ratings in intermediated operations usually reflects the quality of the financial intermediaries.

In terms of EIB’s contribution to the projects (Pillar 3), 64% of projects were assessed to benefit from “high” EIB contribution, while 36% were rated “medium”.

The ongoing external evaluation of the EIB external mandate will provide an in-depth ex-post analysis of impact and value added of EIB operations.

3. COOPERATION WITH THE COMMISSION

The Decision invites the Commission and the EIB to strengthen the consistency of EIB actions with the external EU policies with a view to maximising synergies of EIB financing and EU budgetary resources, mainly through a regular and systematic dialogue and early consultation on policies, strategies and project pipelines. To this end, the Commission and EIB decided to establish a specific Memorandum of Understanding defining the terms and conditions of this strengthened cooperation. It was signed on 26 May 2008.

With a view to enhancing the coherence of overall EU support in the regions covered by the external mandate, the Commission and EIB are actively cooperating in instruments where EIB financing is blended with EU budgetary resources, notably through the Instrument for Pre-Accession Assistance (IPA) and the European Neighbourhood and Partnership Instrument (ENPI). Several new initiatives established under these instruments are aiming at supporting investments in the regions covered by the Decision, while increasing cooperation between the Commission, EIB and other IFIs.

In the Western Balkans, the Commission, EIB, European Bank for Reconstruction and Development (EBRD) and Council of Europe Development Bank (CEB) worked alongside Member States to establish a Western Balkans Investment Framework combining coordination of grant funds under a Joint Grant Facility with EIB-EBRD-CEB lending. Grant resources under this initiative are made available by IPA, EIB, EBRD and CEB as well as by Member States. In parallel, institutional and sector dialogue with the Commission and other relevant IFIs was enhanced through an IFI Advisory Group.

For the benefit of the Mediterranean region and in order to underpin the financial support provided from EIB own funds, EIB manages EU budgetary resources for technical assistance and risk capital. In addition, selected EIB loans benefit from interest rate subsidies. In 2008, 14 technical assistance operations were contracted in Mediterranean countries for an overall value of EUR 16.8 mn. Risk capital operations amounted to EUR 62 mn, representing a 32% increase compared to signatures in 2007.

In 2008 the Commission established the EU's Neighbourhood Investment Facility, which aims at mobilising additional funding for infrastructure projects mainly in the energy, transport and environment sectors in the entire area of the European Neighbourhood Policy by providing grant support for lending operations of European IFIs and European bilateral institutions. The EIB also manages the NIF Trust Fund which pools contributions from Member States and other donors.

In support of South Africa, the EIB has assisted the Commission in the design and implementation of dedicated EU funded risk capital facilities for South African SMEs. The second Risk Capital Facility set up for an amount of EUR 50 mn and for a period of five years is being implemented according to schedule.

4. COOPERATION WITH INTERNATIONAL FINANCING INSTITUTIONS

The EIB pursued its cooperation with other IFIs and European bilateral institutions in 2008 in the framework of the external lending mandate, but also under its own risk facilities and under the Cotonou agreement for ACP countries. The IFI coordination has been strengthened via several actions, including monitoring of IFI activities, review of institutional agreements

between EIB and other IFIs, and follow-up on the progress in operational cooperation, to maximize synergies between the respective capacities and skills of EIB and other IFIs.

In particular, the Bank cooperated with other IFIs both via inter-institutional participation in horizontal initiatives and topics (such as environment, risk management, planning and budget, legal matters, internal audit, evaluation, participation in IFI annual meetings) and via operational cooperation differentiated by region. As mentioned in chapter 3, a significant level of cooperation was in particular achieved under the platforms established by the Commission, EIB and other IFIs in the Western Balkans and in Neighbourhood countries. A list of operations co-financed between EIB and other IFIs or European bilateral institutions in 2008 is provided in the SWD. The share of EIB loans co-financed with other IFIs or European bilateral institutions, in terms of volume, represented 55% of total signatures under the Decision in 2008 compared with 42% in 2007. In risk capital, co-financed operations represented 50% of signatures.

In Turkey, the Bank continued its long-standing cooperation with other IFIs and European bilateral institutions, resulting in cofinancing a significant number of projects, both for projects under the mandate and the Pre-Accession Facility. In November 2008, the EBRD started up operations in Turkey. In that context, the Commission, the EIB and the EBRD entered into an agreement in January 2009 to ensure co-ordination among the institutions and make optimum use of the EBRD's additional resources, knowledge and expertise for the country.

Given the financial crisis, the Commission and the IFIs, including the EIB, have stepped up their consultation and cooperation in the framework of an IPA Crisis Response Package to pursue a coordinated EC-IFI Action for the Western Balkans and Turkey.

In the Neighbourhood countries, operational cooperation intensified with other IFIs (EBRD, CEB, Nordic Investment Bank, Black Sea Trade and Development Bank) and European bilateral institutions (Agence Française de Développement (AFD), Kreditanstalt für Wiederaufbau (KfW), Oesterreichische Entwicklungsbank) in the context of the Neighbourhood Investment Facility (NIF). A joint pipeline of projects supported by EC grant funds has been established for the East and for the South region, with identification of the lead IFI.

In the Southern Neighbourhood / Mediterranean, the Bank continued close cooperation with European bilateral institutions, notably AFD and KfW. In addition, EIB intensified its dialogue with the World Bank, including on specific sectors such as energy, and continued the institutional dialogue in the Luxembourg Group with World Bank, IMF and the EC.

In the Eastern Neighbourhood & Russia, institutional and operational cooperation with the EBRD has intensified under the EC-EIB-EBRD tripartite Memorandum of Understanding. This includes the build up of a joint pipeline and agreement on the framework policies for each eligible sector under the lead of the Commission. The first joint EIB-EBRD projects under the 2007-2013 mandate were signed in Ukraine and Republic of Moldova.

In Asia and Latin America region, the Bank pursued its operational cooperation with the Asian Development Bank including the identification of co-financing opportunities, following the signature of the MoU in 2007. The EIB also signed in 2008 a joint statement of cooperation with Corporación Andina de Fomento (CAF).

In South Africa the EIB project in the social housing sector complemented operations in the same sector by the AFD and the Netherlands Development Finance Company.

In the framework of its annual visit to the EU institutions, the World Bank's EU Executive Directors visited the EIB in March 2008 and met with the EIB Management Committee and staff.

In June 2008, the EIB signed a Joint Statement on Cooperation with the CEB highlighting the various areas of joint interest and cooperation mechanisms of the two institutions, with particular focus on social sectors, urban development, human capital and environment. In addition, EIB was granted the status of observer at Black Sea Trade and Development Bank.

Most importantly, internal reflection has started in the EIB on how to promote the implementation of "mutual reliance" among IFIs cofinancing the same project, in order to maximize synergies and efficiency for the benefit of borrowers. This concept finds support in principle from other major IFIs and European bilateral institutions and will be further developed in the future, starting with a pilot programme with AFD and KfW.