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

ON 2011 ACTIVITY UNDER THE EIB EXTERNAL MANDATE

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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

ON 2011 ACTIVITY UNDER THE EIB EXTERNAL MANDATE

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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

ON 2011 ACTIVITY UNDER THE EIB EXTERNAL MANDATE

1. INTRODUCTION

Decision No 1080/2011/EU of the European Parliament and of the Council¹ (the “Decision” or “mandate”) requires the Commission to report annually on European Investment Bank (EIB) financing operations carried out under the EU guarantee. This report builds on yearly reports provided by EIB and covers 2011 activity under EIB external mandate. The present report does not therefore refer to developments that occurred in 2012, in particular the endorsement by the June 2012 European Council of an EIB capital increase.

Outside the EU, in the regions covered by the mandate, the EIB provides loans and loan guarantees with the cover of the EU guarantee ("operations under mandate") or at its own risk ("own risk operations") under the framework of Article 16 of its Statute. The present report reviews EIB financing operations under mandate and provides a summary of the own risk operations in 2011. The EIB operations in Africa, Caribbean and Pacific (ACP) as well as in Overseas Countries and Territories (OCT) are covered in a separate annual report. It should be noted that reporting on some of the additional requirements introduced by Article 11 of the Decision will only apply to EIB financing operations for which a financing application has been submitted after 30 October 2011 and which are signed after 1 January 2012.

More detailed information and statistical tables on the above activities, including at project, sector, country and regional level, are provided in the attached Staff Working Document (the “SWD”)². Another SWD includes the Regional Technical Operational Guidelines developed jointly by the Commission and the EIB, in consultation with the European External Action Service, in accordance with Article 6 of the Decision which sets out the contribution of EIB financing operations under the mandate to the Union policies.

The Regional Technical Operational Guidelines aim at ensuring such support and should be valid until the expiry of the current mandate. Decision 1080/2011/EU requires the Commission to transmit to the European Parliament and the Council these guidelines as soon as they are established.

It should be noted that this report will be annexed to the upcoming impact assessment accompanying the legislative proposal for a Decision granting an EU guarantee to the EIB against losses under loans and loan guarantees for projects outside the EU under next Multi-Annual Financial Framework (MFF).

¹ Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC (OJ L 280, 27.10.2011, p. 1).

² SWD(2012)358

2. KEY RESULTS

The Decision increased the overall General Mandate ceiling by EUR 1,684 mn and released an additional EUR 2,000 mn Climate Change Mandate to provide the EIB with a guarantee of up to EUR 29,484 mn for its operations under mandate.

In the course of 2011, several key initiatives were launched at EU level, in particular as a reaction to the Arab spring. In particular, the EIB lending ceiling under EU guarantee for the Mediterranean region was increased by EUR 1 bn. The Commission and the EIB, alongside relevant Member States, actively participated in the G8 Deauville Partnership Initiative and set up an EU Task Force for various countries in the Southern Mediterranean.

In 2011, in the face of a deteriorating world economic outlook, the EIB continued to support economic activity in the mandate regions as well as significantly increased its lending to climate action related projects. Total EIB financing volume outside the EU equalled EUR 7.3 bn in 2011, some 17% less than the EUR 8.7 bn reached in 2010, but still on average above pre-crisis levels. In the regions covered by the mandate, EIB activity amounted to EUR 6.5 bn in 2011 compared to EUR 7.8 bn in 2010. According to the latest Corporate Operational Plan 2012-2014 endorsed by the EIB at the end of 2011, EIB lending volumes in the external area are expected to decline further to reach pre-crisis levels of EUR 6.5 bn in 2012, EUR 5.9 bn in 2013 and EUR 5.2 bn in 2014. In particular, the EIB external financing on own resources (i.e. without considering the ACP Investment Facility and the risk capital activity in Mediterranean countries) would amount to EUR 6.0 bn in 2012, EUR 5.3 bn in 2013 and EUR 4.6 bn in 2014.

The regions covered by the mandate were by no means unaffected by the global crisis. In the Pre-Accession countries, which accounted for around 52% of total lending in mandate regions, although economic growth stabilised at 7.5% in 2011, credit growth remained substantially below pre-crisis levels. The EIB, as the key multilateral lender in the region, continued to support economic activity through substantial lending to SMEs (31% of total volume) and by committing substantial resources to investments in the transport and energy sectors.

At the same time, EIB lending to climate action projects increased by EUR 500 mn to EUR 2.1 bn in 2011, representing 32% of total signatures (from 21% in 2010). Many of the least CO₂ efficient countries were targeted, e.g. Russia, South Africa and India. A particular effort was made in Asia and Latin America where such lending accounted for 78% of total signatures. Climate action further accounted for 29% of lending to Pre-Accession countries and 30% of lending to South Africa in 2011.

While lending volumes were largely stable for most of the regions covered by the mandate, lending volumes in the Mediterranean region sharply fell to EUR 965 mn from a historically high level of EUR 2.5 bn in 2010. This was due to project preparation delays experienced following the Arab spring events and consequent uncertainty and challenging business environment. Several of the interim administrations deferred decisions on long-term investment programmes until after democratic elections. Moreover, as part of the EU sanctions towards Syria, the EIB activity in the country was suspended. In this context, the Commission adopted a Delegated Act in April 2012 removing Syria from the list of eligible

countries under the mandate³. In this context, it should be noted that the EIB experienced defaults on interest and loan repayments from the Syrian Government and a first call on the EU Guarantee was made in May 2012 for an approximate amount of EUR 15.4 million.

3. FINANCING OPERATIONS

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

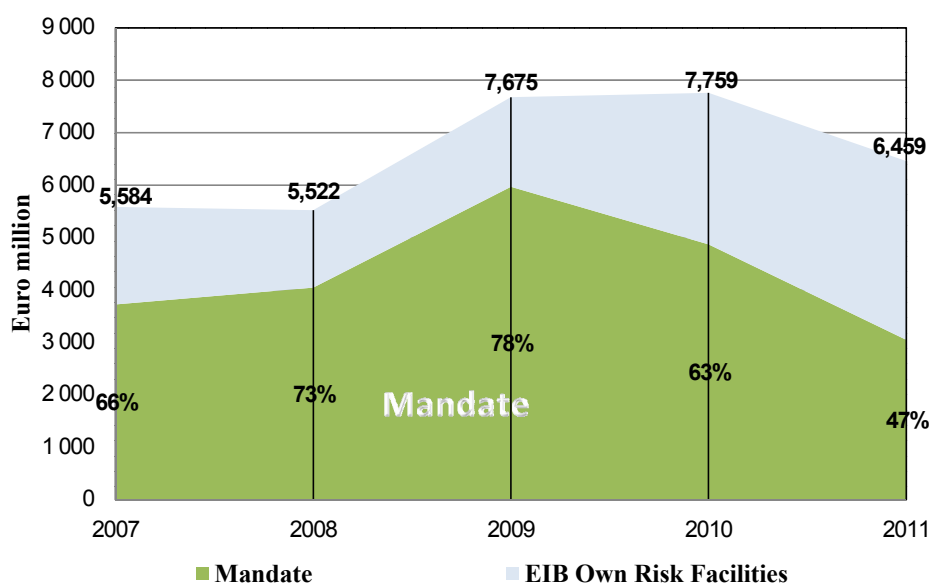
Total volume for the regions covered by the mandate amounted to EUR 6.5 bn in 2011, compared to EUR 7.8 bn in 2010. In 2011, amounts signed under EIB own risk facilities increased by 18%, while the lending volume under the mandate decreased by 37%. The following table provides an overview of the volume of EIB financing on its own resources in 2011 in the regions covered by the mandate.

Table 1: EIB financing in 2011 in the regions covered by the mandate

Countries of operation (EUR million)	Operations under mandate			EIB own risk operations	Total
	Comprehensive guarantee	Political risk cover	Total		
Pre-Accession Countries	998	26	1024	2,358	3,381
Mediterranean countries	553	373	926	39	965
Eastern Neighb., Russia	625	50	675	101	776
Asia and Latin America	61	249	310	861	1,171
South Africa	115	-	115	50	165
Total	2,352	698	3,050	3,409	6,459

In 2011, 77% of the loans signed under mandate were covered by a Comprehensive Guarantee, which is used for sovereign and sub-sovereign operations, while 23% benefited from a Political Risk Guarantee cover for private sector operations. The combined volume of signatures under either guarantee represents 47% of total financing in 2011 in regions covered by the Decision, whereas the remaining 53% corresponds to a record high of EUR 3.4 bn of EIB own risk lending with no recourse to the EU guarantee.

³ Commission Delegated Decision of 8 February 2012 amending Annex III to Decision No 1080/2011/EU of the European Parliament and of the Council granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC, as regards Syria (OJ L 110, 24.4.2012, p. 38).



At the end of 2011, the overall amount signed under the mandate stood at EUR 19.4 bn, or 66% of the overall ceiling under the Decision, which is broadly in line with expectations after five years of the seven-year period of the mandate elapsed. An overall amount of EUR 10.1 bn is the available headroom for the EIB under the mandate. Despite the expected reduction of EIB external activity in 2012 and 2013 and the increase in the overall ceiling introduced by the Decision, the EIB is expected to reach some of the regional ceilings by the end of 2013 (e.g. in the Pre-Accession region), while others are more uncertain (e.g. in the Mediterranean region). It should be noted here that the Decision introduces the possibility for a 10%-flexibility between the regional ceilings.

Table 2: EIB total signatures and disbursements under the mandate (2007-2011)

EUR mn	Ceiling	Net Signed	Net signed as % of ceiling	Disbursed	Net disbursed as % of net signed
Pre-Accession	9.048	7.622	84%	3.899	51%
Mediterranean	9.700	6.559	68%	2.079	32%
Eastern Neighbours, Russia	3.848	1.709	44%	318	19%
Asia and Latin America	3.952	2.761	70%	1.690	61%
South Africa	936	591	63%	425	72%
General Mandate Total	27.484	19.242	70%	8.411	44%
Climate Change Mandate (2011-2013)	2.000	150	8%	150	100%
Total Mandate	29.484	19.392	66%	8.561	44%

In terms of disbursements, as at the end of 2011, the EIB had disbursed EUR 8.5 bn or 44% of the net amounts signed. The disbursement rates in Pre-Accession countries, Asia, Latin America and South Africa ranged between 50%-75% reflecting the usual time lag between finance contract signatures and project implementation and corresponding disbursement. Disbursements in the Mediterranean countries were lower at 32% of net signed amounts,

reflecting the consequences of the Arab Spring and the suspension of operations in Syria. The low disbursement rates of 19% of signatures in Eastern Europe, Southern Caucasus and Russia reflect the delays in resolving institutional issues in the region and the fact that more than three quarters of the amounts were signed in the last two years. The EIB expects that operations in the Eastern Neighbourhood and Russia can be accelerated in light of the broader objectives set out under the mandate for EIB activities in the region, the Memorandum of Understanding (MoU) with European Bank for Reconstruction and Development (EBRD) and the Commission signed in March 2011 and the use of targeted technical assistance to speed up project implementation.

Table 3: Annual lending under the current 2007-2013 mandate

EUR mn	2007 (*)	2008	2009	2010	2011	Gross Total	Cancel-lations	Net Total
Pre-Accession	389	2.009	2.859	1.535	874	7.666	44	7.622
Mediterranean	1.205	1.195	1.510	2.009	926	6.845	286	6.559
Eastern Neighbours, Russia	-	170	233	631	675	1.709	-	1.709
Asia and Latin America	305	469	1.088	643	310	2.815	53	2.761
South Africa	-	203	280	50	115	648	56	591
General Mandate Total	1.899	4.045	5.969	4.868	2.900	19.681	449	19.242
Climate Change Mandate (2011-2013)(**)					150	150	-	150
Total Mandate					3.050	19.831	449	19.392

(*) Until 31st July 2007, lending was also carried out under the previous 2000-2007 mandate.

(**) The EUR 150 mn operation signed under the climate change mandate in 2011 was signed in pre-accession region.

In terms of number of projects, 29 projects were financed under the mandate in 2011 compared to 46 in 2010.

EIB's financing activity in Pre-Accession countries was stable at EUR 3.4 bn in 2011 as it was in 2010, representing 52% of the activity in the regions covered by the mandate. Lending under the mandate declined to EUR 1 bn, while lending under the own-risk Pre-Accession Facility increased by 18% to EUR 2.4 bn. In order to accommodate for reduced headroom under the mandate and still significant needs in the Pre-Accession region, an increase of the lending ceiling of the Pre-Accession Facility by EUR 5.7 bn until 2013 was approved by the EIB Board of Governors early 2011.

While activity in the Mediterranean region sharply decreased, EIB financing activity in the Eastern Neighbourhood grew in 2011 to reach EUR 776 mn (from EUR 631 mn in 2010), of which EUR 675 mn under the mandate representing a record level in the region. In Asia and Latin America, total financing amounted to EUR 1.2 bn as in 2010, with lending under the mandate having declined to EUR 310 mn, compensated by a corresponding increase of lending at the own risk of the EIB, notably under the Facility for Energy Sustainability and Security of Supply (ESF). In South Africa, three new loans totalling EUR 165 mn were signed in 2011, including the first South African signature of EUR 50 mn under the EIB own risk ESF.

3.2. Contribution to EU policy objectives

The objective of EIB operations under the Decision is to support relevant external policy objectives of the Union. The Decision replaces the previously established region-specific

objectives for operations under EU guarantee with the following horizontal high-level objectives for all regions covered by the mandate:

- (i) Climate change mitigation and adaptation;
- (ii) Development of social and economic infrastructure;
- (iii) Local private sector development, in particular support to SMEs;

Additional underlying objectives include the contribution to the general principles guiding external action, as referred in Article 21 TEU and regional integration among partner countries, including economic integration between pre-accession countries, neighbourhood countries and the Union. The EIB may consider increasing its activity in support of health and education when there is clear value added.

The attached regional technical operational guidelines jointly established by the Commission and EIB establish a link between the Union regional policy framework, the horizontal high-level mandate objectives and their implementation. These guidelines aim to ensure that EIB financing is complementary to corresponding EU policies, programmes and instruments in different regions.

The revised objectives indicated above will form the basis of reporting for new operations from 2012 onwards. However, some indications can already be drawn from activities carried out in 2011. In particular, EIB support for social and economic infrastructure accounted for 64% of the overall EIB activity in the regions covered by the mandate in 2011 (75% for operations under mandate). Support to the private sector accounted for 55% of the overall EIB activity in the regions covered by the mandate in 2011 (29% for operations under mandate), while support to SMEs through local financial intermediaries accounted for 17% of the overall EIB activity in the regions covered by the mandate in 2011 (6% for operations under mandate).

Over the past years, the EIB has strengthened its Climate Action lending and its wider commitment to the EU goal of low-carbon and climate-resilient growth within and outside the Union in particular in the follow-up of the 2009 UNFCCC Copenhagen Summit. In 2011, Climate Action signatures increased to EUR 2.08 bn (32% of total EIB financing in the regions concerned), of which EUR 0.89 bn under the mandate (29% of operations under mandate), from EUR 1.6 bn in 2010 (21% of total EIB financing in the regions concerned).

The EIB has adopted a set of sector-specific eligibility criteria for projects to qualify under the climate action objective. For instance not all projects that improve energy consumption are automatically eligible, but only those which can demonstrate energy efficiency gains of 20% or more from the baseline. In addition, only the share of lending that responds to the climate objective is taken into account. The majority of Climate Action lending is related to projects in the following two broad areas: Renewable Energy and Energy Efficiency, and Sustainable Transport.

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

3.3. Sectoral breakdown

Table 4 below provides an overview of the regional and sectoral distribution of EIB operations under the Decision in 2011.

Table 4: Sectoral breakdown of operations signed in 2011 (EUR mn) under the mandate

Region	Total	Energy	Transports	Services and Industry	Water, sanitation	Credit lines for SMEs	Health and Education Infrastructure	Agriculture, Fisheries & Forestry (*)	Telecommunications
Pre-Accession Countries (PA)	1,024	-	617 60%	15 1%	55 5%	87 8%	100 10%	150 15%	-
Mediterranean countries (MED)	926	50 5%	163 18%	421 46%	262 28%	30 3%	-	-	-
Eastern Neighbours & Russia (EAST)	675	175 26%	450 67%	-	-	50 7%	-	-	-
Asia and Latin America (ALA)	310	61 20%	-	149 48%	-	-	-	-	100 32%
South Africa (SA)	115	-	-	-	115 100%	-	-	-	-
Total	3,050	286 9%	1,230 40%	585 20%	432 14%	167 6%	100 3%	150 5%	100 3%

*) Under this heading a EUR 150 mn operation in Turkey was signed under the Climate Change mandate

3.4. Impact and value added of EIB operations

In response to the mandate and the obligation of the EIB to further strengthen its assessment, measurement and reporting on the results and impacts of its operations, the EIB adopted a new framework in 2011, the **Results Measurement Framework (REM)**, to be applied to operations in all regions covered by the mandate. The REM will gradually be implemented in 2012.

In line with the former frameworks, REM is structured along three pillars:

- Pillar 1 - the consistency with and contribution to EU policy objectives and priorities;
- Pillar 2 - the quality and soundness of the project as well as its expected and actual results;
- Pillar 3 - the financial and non-financial additionality of the EIB contribution.

The REM will improve ex-ante project assessments and the EIB's ability to report on actual results achieved. At the same time it simplifies client reporting requirements because it is harmonized as much as possible with results indicators of other International Financial Institutions.

In 2011, the expected performance and impact of EIB financing continued to be assessed by two former frameworks, namely the Value Added (VA) framework in EU and in the Pre-Accession Countries and the Economic and Social Impact Assessment framework (ESIAF) in all other regions covered by the mandate.

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

Table 5a: Value Added ratings of operations approved in 2011 in Pre-Accession countries (VA framework) (maximum score = 200).

<i>Impact rating</i>	Pillar 1	Pillar 2	Pillar 3	Average score	<i>Operations approved</i>
Mandate	146	120	158	141	8
Pre-Accession Facility	139	141	155	145	23

Table 5b: Value added ratings of operations approved in 2011 in Mediterranean, Eastern Neighbourhood and Russia, Asia and Latin America, and South Africa (ESIAF framework)

<i>Impact rating</i>	Pillar 1	Pillar 2		Pillar 3
		Investment loans	Intermediated loans (SMEs)	
High	23 (72%)	13 (41%)	3 (9%)	20 (63%)
Medium	9 (28%)	11 (34%)	4 (13%)	11 (34%)
Moderate	0	1 (3%)	0	1(3%)
Low	0	0	0	0
Total	32 (100%)	25 (78%)	7 (22%)	32 (100%)

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

In the **other mandate regions**, nine operations received “high” overall rating impacts in all three pillars, these operations were mostly related to climate change renewable and alternative energy projects.

4. COOPERATION WITH THE COMMISSION

The Commission and the EIB cooperated intensively in the framework of the mid-term review of the EIB external mandate. The ordinary legislative procedure for the adoption of the Decision was finalised in October 2011. The Decision calls for even greater cooperation and synergy between the Commission and the EIB, as well as the European External Action Service (EEAS).

Following the adoption of the Decision, in November 2011 the Commission and the EIB signed a new guarantee agreement and a new recovery agreement in line with respectively Article 14 and 13 of the Decision, which replaced the previous ones, to cater for the relevant changes introduced in the new Decision. The Commission and the EIB also jointly developed the Technical Regional Operational Guidelines attached to this Report.

In 2012, the two institutions are expected to update the Memorandum of Understanding defining the terms and conditions of strengthened cooperation to extend it to the EEAS and take into account the new elements introduced in the mandate. Cooperation on the ground should also be reinforced through more extensive co-location of EIB offices with EU Delegations. In parallel, close cooperation is on-going to prepare the proposal for the next EIB external mandate covering the period 2014-2020.

In both the Southern and Eastern Neighbourhood regions, the EIB was associated to the European Neighbourhood Policy Review. Cooperation between the EIB, the EEAS and the Commission has intensified over 2011, in particular in the context of coordinating the EU response to the Arab Spring and building the Partnership for Democracy and Shared Prosperity in the Southern Mediterranean. The EIB has also been actively involved in the High level Task forces established by HR/VP Ashton to further optimise coordination in some countries of the region, the first meeting of which took place in Tunisia in September 2011. The EIB also contributed to the reflections on the Agenda for Change⁴, the Commission communication seeking to increase the impact of EU development policy, specifically concerning support to sustainable economic growth and private sector development.

The above strands of work will continue in the next years with the EIB supporting the Commission and the EEAS in the implementation of the new Neighbourhood Policy as well as relevant priorities of the Agenda for Change. Joint work will also focus on Enlargement Policy in support of Croatia's EU accession and further reform of candidate countries and potential candidates on their road towards EU integration. The EIB, with the support of the Commission, will seek to re-start operations in Kosovo⁵. In this context, it should be mentioned that – in accordance with Article 10 of the Decision which stipulates that “*Kosovo is represented by the United Nations Mission in Kosovo or by an administration designated in the regional technical operational guidelines*” – the Guidelines mentioned above envisage that such administration should be the Government of Kosovo.

Co-operation on sectoral issues will be further enhanced, particularly in the area of climate action and in the framework of the Sustainable Energy for All Initiative. In this context, in line with Article 6 of the Decision, the EIB will, in cooperation with the Commission, develop by the end of 2012, a strategy on how to gradually and steadily increase under the mandate the percentage of projects promoting the reduction of CO₂ emissions and phase out financing projects detrimental to the achievement of the Union climate objectives.

5. COOPERATION WITH INTERNATIONAL FINANCING INSTITUTIONS

In 2011, co-financing with other International Financial Institutions (IFIs) or European bilateral institutions represented 56% of EIB total signatures under the mandate. Although this proportion decreased following the steady increase experienced over the previous four years (with a peak of 64% in 2010), it still indicates a continued high level of co-financing with other financial institutions. The list of co-financed operations signed in the regions covered by the mandate in 2011 is included in the SWD.

⁴ COM(2011) 637 final.

⁵ This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the Opinion of the International Court of Justice on the Kosovo declaration of independence.

A new MoU between the Commission, the EIB Group and the EBRD was signed in March 2011. This MoU replaces and merges earlier agreements covering Eastern Europe, the Southern Caucasus, Russia and Central Asia (of December 2006) and Turkey (of January 2009). The MoU will allow for enhanced strategic and operational cooperation. The new MoU on cooperation outside the EU will be revised in 2012 to cater for the EBRD's extension of activity in the Mediterranean region.

The two-year pilot phase of the Tripartite Agreement on the Mutual Reliance Initiative signed between EIB, AFD⁶ and KfW progressed substantially during 2011 in the Southern Neighbourhood and ACP regions. The initiative aims to enhance the collective effectiveness and efficiency of the three institutions, by mutually recognising and relying on the procedures and standards applied by one of them taking the leading role for work on a co-financed project. During 2012, the focus will be on developing common operational guidelines.

Cooperation with the World Bank Group continued, including the signature of a bilateral Cooperation Agreement between EIB and International Finance Corporation to improve collaboration in financing private sector development projects in the Southern Neighbourhood and ACP regions. The EIB is also working in conjunction with Multilateral Development Banks in the context of the Deauville Partnership, to support sustainable and inclusive growth in response to the Arab Spring, as highlighted by G8 leaders at their May 2011 Summit. In addition, the EIB continued its participation on various specialised working groups set up by IFIs to to share best practices or to address specific issues.

The EIB has been an active player in the regional blending facilities established by the Commission over the past years together with the EIB, the EBRD, Council of Europe Development Bank and other European Bilateral Financial Institutions⁷. In addition, the EIB played a key role in the Group of Experts set up by the Commission to assess the establishment of an 'EU Platform for cooperation and development'.

The Commission, in cooperation with the EIB and other European multilateral and bilateral financial institutions, has started reflections on new financial instruments in support of EU external policies in next MFF. The significant increase in the use of innovative financial instruments should allow a greater share of EU grants to be blended with loans or used in equity or risk-sharing instruments, so as to mobilize additional funding, especially from private-sector investors, to cover the investment needs of our partner countries. The use of innovative financial instruments in external policies should be supported under the future Platform, in order to enhance effectiveness and efficiency of EU external financing.

⁶ Agence Française de Développement

⁷ e.g. the Western Balkans Investment Framework, the Neighbourhood Investment Facility, the Investment Facility for Central Asia, the Asia Investment Facility and the EU-Africa Infrastructure Trust Fund