



Council of the
European Union

Brussels, 14 November 2014
(OR. en)

15007/14

ECOFIN 1007
FIN 808
RELEX 887

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	30 October 2014
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union

No. Cion doc.:	COM(2014) 674 final
Subject:	REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL ON 2013 EIB EXTERNAL ACTIVITY WITH EU BUDGETARY GUARANTEE AND ON THE APPLICATION OF DECISION No 1080/2011/EU OF 25 OCTOBER 2011 COVERING THE EIB FINANCING OPERATIONS SIGNED DURING THE PERIOD FROM 2007 TO JUNE 2014

Delegations will find attached document COM(2014) 674 final.

Encl.: COM(2014) 674 final



EUROPEAN
COMMISSION

Brussels, 30.10.2014
COM(2014) 674 final

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

**ON 2013 EIB EXTERNAL ACTIVITY WITH EU BUDGETARY GUARANTEE AND
ON THE APPLICATION OF DECISION No 1080/2011/EU OF 25 OCTOBER 2011
COVERING THE EIB FINANCING OPERATIONS SIGNED DURING THE PERIOD
FROM 2007 TO JUNE 2014**

{SWD(2014) 333 final}

1. INTRODUCTION

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 (EIB) against losses under loans and loan guarantees for projects outside the Union¹ (the “Decision” or the “EU guarantee”) requires the Commission to report annually on EIB financing operations carried out under the EU guarantee, building on yearly reports provided by EIB.

The present report also provides a summary of the own risk operations carried out by the EIB in 2013 in the regions covered by the Decision. The EIB covers its operations in Africa, Caribbean and Pacific (ACP) as well as in Overseas Countries and Territories (OCT) in a separate annual report².

Article 17 of the Decision requests the Commission to present to the European Parliament and the Council a final report on the application of the Decision. The final report is provided in Annex and covers the EIB external financing operations signed during the period from 2007 to 30 June 2014 following the extension by six months of the Decision.

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”).

Following the second year of implementation of the new EIB REsults Measurement (REM) framework, this report provides more detailed information on expected results based on EIB financing operations signed in 2013. Actual results achieved based on six selected case studies on operations under implementation are presented in the SWD.

On 16 April 2014, the European Parliament and the Council adopted a new Decision No 466/2014/EU³ granting an EU guarantee to the EIB against losses under financing operations supporting investment projects outside the EU over the period 2014-2020.

2. KEY RESULTS

The Decision sets an overall General Mandate ceiling to EUR 27,484 mn and an additional EUR 2,000 mn Climate Change Mandate which was activated.

Despite a challenging business environment in 2013, the EIB increased signatures in the regions covered by the Decision to EUR 6.8bn (EUR 6.5 bn in 2012). Financing under the EU guarantee increased by around EUR 0.4bn to EUR 4.4bn, while financing at EIB own-risk declined by EUR 0.1bn to EUR 2.4bn.

The EIB continued to demonstrate its strong commitment to supporting the EU's climate action agenda. Overall, climate action signatures in the External Mandate regions as defined in the Decision amounted to EUR 2.1bn in 2013, or 31% of total signatures. In January 2012,

¹ OJ L 280, 27.10.2011, p.1

² EIB – 06/2014 – ISBN 978-92-861-2059-6 "Annual Report 2013 on EIB activity in Africa, the Caribbean and Pacific, and the overseas territories"

³ OJ L 135, 8.5.2014, p.1

the EIB launched the REM framework, which strengthens measurement and reporting on the results and impact of its operations as requested in the Decision. An extensive set of objectively measurable and monitorable indicators have been developed which will guide the assessment throughout the project life cycle. The expected results for all EIB operations signed in 2013 are summarised in the SWD. EIB's own report on results of EIB operations outside the EU has been published on its website⁴.

The Decision emphasised a stronger alignment of EIB external activity and EU external policies, programmes and instruments. Over the year 2013, the EIB continued to cooperate closely with the Commission and the EEAS to strengthen the consistency and coherence of EIB actions with external EU policies. In this context, the Memorandum of Understanding between EC and EIB was updated and extended to EEAS and signed by the parties on 12/09/2013.

3. FINANCING OPERATIONS

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

The following table provides an overview of the volume of EIB financing in 2013 in the regions covered by the Decision.

Table 1: EIB External Financing Operations signed in 2013

Countries of operation (EUR million)	Operations under mandate			EIB own risk operations	Total
	Comprehensive guarantee	Political risk cover	Total		
Pre-Accession Countries	960	0	960	1998	2958
Mediterranean countries	397	133	530	0	530
Eastern Neighb., Russia	1126	560	1686	119	1805
Asia and Latin America	782	215	997	242	1240
South Africa	0	260	260	0	260
Total	3265	1168	4433	2359	6793

Notes: In addition to the above volumes on EIB own resources, equity and microfinance operations amounting to EUR 53m were signed on third party resources in the Mediterranean.

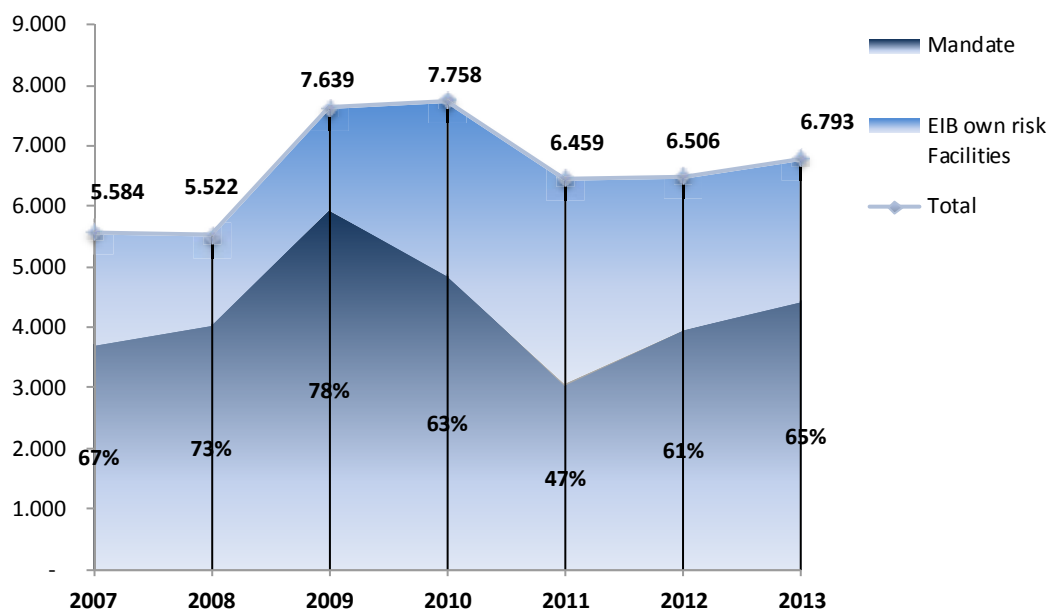
The share of activity under the EU mandate in total volume increased in 2013 by 4% to reach EUR 4.43bn (EUR 3.96bn in 2012) or 65% of total 2013 financing in the regions covered by the Decision. The bulk (85%) of operations financed at EIB own risk was signed in Pre-Accession countries.

In 2013, 74% of the loans signed under the mandate were covered by a Comprehensive Guarantee (EUR 3.26bn), which is used for sovereign and sub-sovereign operations, while 26% benefited from the political risk cover (EUR 1.17bn), for private sector operations with all other risks in these operations being borne by the EIB.

⁴ http://www.eib.org/attachments/country/eib_rem_annual_report_2013_en.pdf

Defaults on interests payments and loan repayments from the Syrian Government continued in 2013⁵. Where in 2012, EIB had made calls on the Guarantee Fund for a total of EUR 42 million and recovered EUR 2.1 million, EIB made in 2013 supplementary calls for a total of 64.8 EUR million.

Chart 1: Annual evolution of EIB external lending volumes on own resources



At the end of 2013 (see table 2), the overall amount signed under the Decision (less cancellations) stood at EUR 27bn, or 92% of the overall ceiling under the Mandate. An overall amount of EUR 2.46 bn was available for new EIB operations under the Mandate. The period of the Decision was automatically extended by six months at the end of 2013 because the European Parliament and the Council had not adopted a new Decision.

Table 2: EIB total signatures and disbursements under the Mandate (2007-2013)

EUR mn	Ceiling	Net Signed	Net signed as % of ceiling	Disbursed	Net disbursed as % of net signed
Pre-Accession	9 048	8 949	99%	5 648	63%
Mediterranean	9 700	8 381	86%	4 145	49%
Eastern Neighbours, Russia	3 848	3 844	100%	898	23%
Asia and Latin America	3 952	3 284	83%	2 322	71%
South Africa	936	911	97%	558	61%
General Mandate Total	27 484	25 369	92%	13 571	53%
Climate Change Mandate (2011-2013)	2 000	1 656	83%	217	13%
Total Mandate	29 484	27 025	92%	13 788	51%

Nota Bene: Disbursement amounts are calculated on the EUR equivalent based on the exchange rate at the moment of the transaction

⁵ See Report from the Commission to the European Parliament and the Council on the Guarantee Fund and its management in 2013 - COM(2014) 463 final of 16.7.2014 and its SWD (2014) 241 final.

In table 2, one can see that the EIB reached or almost reached the regional ceilings in Pre-Accession, Eastern Neighbourhood and in South Africa at the end of 2013. Headroom was still available mainly in Mediterranean and ALA countries. The Decision provides for the possibility of reallocating up to 10% between the regional ceilings.

In terms of disbursement, which is an indicator of progress in project implementation, 51% of net amounts signed under the Decision (EUR 13.8 bn) had been disbursed at the end of 2013. This corresponds to the usual average time lag between signature and disbursement. Asia and Latin America progressed well having drawn 71% of net signed amounts, followed by Pre-Accession (63%) and South Africa (61%). In Eastern Neighbourhood and Russia, disbursements remained below average at 23% of net signatures, reflecting initial delays in project implementation and administrative delays in recipient countries. The rate of disbursements under Climate Change Mandate is relatively low because of its activation at the end of 2011.

Table 3: Annual lending signatures under the current Decision (2007-2013)

EUR mn	2007 (*)	2008	2009	2010	2011	2012	2013	Gross Total	Cancel- lations	Net Total
Pre-Accession	389	2 009	2 859	1 535	874	821	610	9 096	147	8 949
Mediterranean	1 205	1 195	1 510	2 009	926	1 305	530	8 680	299	8 381
Eastern Neighbours, Russia	0	170	233	631	675	934	1 443	4 085	241	3 844
Asia and Latin America	305	469	1 051	643	310	300	584	3 662	378	3 284
South Africa	0	203	280	50	115	100	260	1 008	96	912
General Mandate Total	1 899	4 045	5 932	4 867	2 900	3 460	3 427	26 530	1 161	25 369
Climate Change Mandate (2011- 2013)					150	500	1 006	1 656	--	1 656
Pre-Accession					150	-	350	500	--	500
Mediterranean						350	-	350	--	350
Eastern Neighbours, Russia						-	243	243	--	243
Asia and Latin America						150	413	563	--	563
South Africa						-	-	-	--	-
Total Mandate	1 899	4 045	5 932	4 867	3 050	3 960	4 433	28 186	1161	27 025

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

In terms of number of projects, 42 new operations were signed under the Decision in 2013 compared to 43 in 2012. See table below.

Table 4: Number of operations signed by regions, by resource, in 2013

Regions	Mandate	EIB own-risk	Total	Third party resources
Asia and Latin America	11	2	13	-
Mediterranean	7	-	7	9
Pre-Accession	6	19	25	-
Eastern Neighbours, Russia	16	1	17	-
South Africa	2	-	2	-
Multi-Regional*	-	4	4	-
Total	42	26	68	77

** Operations signed with a focus on 2 or more regions*

The Pre-Accession countries remained the main beneficiary region of EIB financing outside the EU in 2013 with EUR 2.96 bn signed (25 new operations), representing 43.5% of total financing in the regions of the Decision. EIB prioritised credit lines to SMEs and trans-European infrastructure projects. Lending under the EU guarantee declined to EUR 0.96 bn and lending under the own-risk Pre-Accession Facility amounted to EUR 2.0 bn compared to EUR 2.3 bn in 2012 (see table 1).

The Mediterranean countries came under a challenging operating environment in 2013 due to the political events. EIB's activity dropped by 66%, from EUR 1.7bn in 2012 to EUR 0.6bn (16 new operations). As in previous years, energy and transport sectors were the largest beneficiaries of EIB financing in the Mediterranean region. The EIB also stepped up its lending to the private sector with 9 operations signed for private equity and microfinance on third party resources.

EIB financing in the Eastern Neighbourhood and Russia increased with 17 new operations to EUR 1.8bn (see tables 1 and 4). This was mainly due to activities in Russia. However, political events forced the EIB to postpone three operations in Ukraine and Russia which would otherwise have been concluded over the mandate period. Signing of further potential operations in Russia will be subject to the relevant EU sanctions. The Commission will monitor and evaluate the likelihood of further activation (and possible need for replenishment) of the Guarantee Fund.

Furthermore, the EU-Russia transport dialogues have been frozen since 2012. The conditions to re-launch transport cooperation have so far not been met and the wider bilateral relationship has deteriorated further during 2014 following the Ukraine crisis

In Asia and Latin America, total lending increased to EUR 1.24 bn (compared to EUR 700 mn in 2012).

As shown in the table 5, credit lines to financial institutions for private sector development were the most prominent activity by volume of operations signed in 2013, in particular in the Pre-Accession region and the Eastern Neighbourhood. These were followed by energy - in particular in the ALA regions - transport and urban development. The breakdown by sector and region is provided below.

Table 5: Sectoral breakdown of external operations signed in 2013 under the Mandate and at EIB own risks

EUR mn	Pre-Accession	Mediterranean	Eastern Neighbourhood Russia	Asia and Latin America	South Africa	Total
Energy	199	253	105	867	110	1.534
Transport	460	50	438	-		948
Water, sewerage	6	77	64	60		207
Credit lines	1.450	80	1.193	283		3.006
Agriculture, fisheries, forestry	150		6	21		177
Industry		20		9		29
Financial Services	192			-		192
Telecommunications	300			-		300
Urban development	200	50		-	150	400
Total	2.958	530	1.805	1.240	260	6.793

Notes: In addition to the above volumes, equity and microfinance operations amounting to EUR 53m were signed on third party resources in the Mediterranean.

3.2. Contribution to EU policy objectives

The Decision defines three horizontal high-level objectives for all regions covered by the EU budgetary guarantee ("Mandate objectives")

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

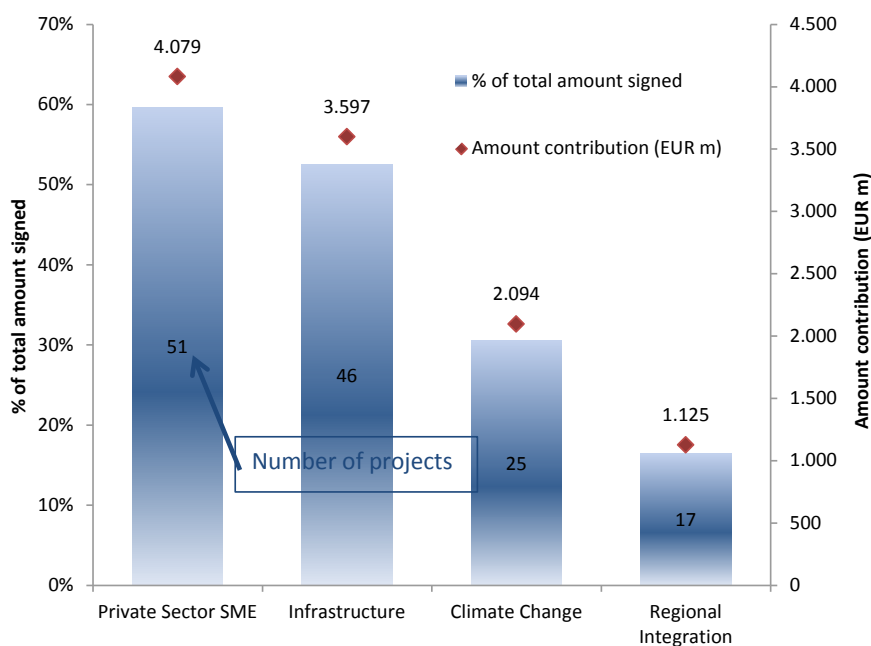
Additional underlying objectives include the contribution to the general principles guiding external action, as referred to in Article 21 TEU and regional integration among partner countries, including economic integration between pre-accession countries, neighbourhood countries and the Union.

Technical Regional Operational Guidelines⁶ aim at ensuring that EIB financing under the EU guarantee is consistent with and complementary to corresponding EU external policies, programmes and instruments in the different regions covered by the Decision.

The contribution to the Mandate's objectives is reflected in the following chart taking into account both the 2013 operations under Mandate and under the own-risk facilities. Almost half of operations contribute to more than one objective. This is particularly relevant in climate action projects.

⁶ See Commission's SWD – COM(2012) 357 final

Chart 2: Contribution to mandate objective (%)



Climate change mitigation and adaptation

The EIB has continued in 2013 to strengthen its climate action lending. The additional Climate Change Mandate envelope of EUR 2 bn has helped to widen, beyond the emerging market economies, the spread of developing countries in which investments in climate action are being made. By the end of 2013, in terms of signature, 83% of the EUR 2 bn envelope (released in October 2011) had been utilised and the balance was already fully earmarked for additional operations in pipeline, which were indeed signed before the expiry of the Mandate in June 2014. Climate action lending remained strong in Asia with almost 90% of signatures, it reached close to 50% in Latin America and Central Asia, and 88% of the new financing volume in South Africa. In the Mediterranean, 50% of the financing signed in 2013 supported climate action. Substantial amounts of climate action finance were also mobilised for projects in the Pre-Accession and Eastern Neighbourhood regions, but the overall proportion is less there in the light of strong other lending priorities, notably private sector development.

Table 6: Climate Action external lending signatures in 2013 in the regions covered by the Mandate

EUR m	Climate Action under			Total climate action	as % of total signed
	Climate Change Mandate	General Mandate	EIB own-risk Facility		
Asia	286	127	51	464	88%
Central Asia	127			127	58%
Latin America		52	191	243	49%
Mediterranean		253		253	48%
Pre-Accession	350		159	509	17%
Eastern Neighbours, Russia	243	5	19	267	15%
South Africa		230		230	88%
Total in Mandate Regions	1006	667	421	2,094	31%

The energy sector accounted for the largest part in terms of climate financing volume (EUR 1.3bn) and number of projects (16), reflecting especially the strong demand for investments in energy efficiency and renewable energy. Other projects which contributed to the EIB's climate action objective were in the sustainable transport (EUR 357mn) and urban development (EUR 177mn) or "natural resources" (EUR 120mn) sectors.

In 2013, climate action signatures amounted to EUR 2.1 bn, representing 31% of total EIB external financing in the regions covered by the Decision. This proportion is above the EIB's global target of 25%. The relatively high volume signed in 2013 can be explained by the signature of relatively high number of projects.

Development of social and economic infrastructure

The EIB signed a total of 46 external operations worth EUR 3.6bn in order to help developing social and economic infrastructure in various sectors. This includes 9 intermediated operations where the actual sector distribution is not known in advance. As in previous years, the largest share was in the energy (18 projects) and transport (10 projects) sectors.

Local private sector development, in particular support to SMEs

The EIB supports local private sector development in different ways, most commonly by extending credit lines to financial intermediaries (mainly banks) for on-lending to small and medium enterprises. Overall, of the 51 external operations that contributed to local private sector development, 36 were loans to intermediaries providing EUR 3.3bn worth of financing for on-lending to SMEs or mid-caps. Another 12% of these operations were direct loans to larger private companies, and 9 operations represent investments in private equity funds and microfinance institutions (MFIs).

Regional integration

Projects in a number of sectors are expected to contribute to regional integration. Of the 17 projects (EUR 1.1bn) contributing to regional integration, 6 are direct operations in the transport sector. These are mainly cross-border roads and regional air navigation networks. Four projects contribute through the energy sector. This dimension was strongest in the Pre-Accession and Eastern Neighbourhood region where roughly three quarters of the total external lending volume in support of regional integration is concentrated.

3.3. Impact and value added of EIB operations.

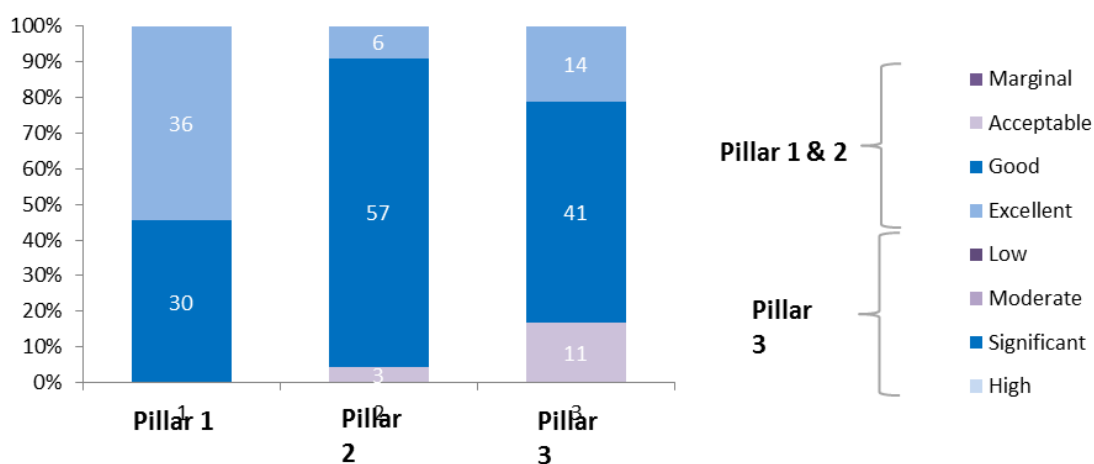
The REM framework provides an assessment of the EIB financing operations throughout their lifecycle. It helps to select sound projects which are in line with EU priorities based on concrete results, and where the EIB involvement will add value. At appraisal, results indicators are identified, with baselines and targets that capture expected economic, social, and environmental outcomes of the operation. Achievement against these specified performance benchmarks is monitored throughout the project life and reported at two major milestones: at project completion and 3 years after project completion ("post completion") for direct operations; at the end of the investment period and at the end of life of private equity funds; and at the end of the allocation period for intermediated lending.

Projects are rated according to three "Pillars":

- (i) Pillar 1 rates the expected contribution to the EU and the countries' priorities and eligibility under EIB mandate objectives.
- (ii) Pillar 2 rates the quality and soundness of the operation, based on the expected results.
- (iii) Pillar 3 rates expected EIB financial and non-financial additionality.

More information on the REM conceptual framework can be found in the SWD. Since it will take several years for actual results to be produced by operations under the REM framework that was introduced in 2012, six selected case studies in the SWD present actual results achieved by projects under implementation. Therefore here below the expected results are presented and discussed for all operations signed in the regions covered by the Mandate.

Chart 3: Distribution of expected REM ratings by pillar of the projects signed in 2013



Expected results of all operations signed in 2013 in the regions covered by the Mandate:

As the distribution of Pillar 1 ratings shows, more than half of the operations signed in 2013 are expected to make an excellent contribution to mandate objectives, meaning a high contribution to both the countries' own development objectives and the EU priorities for the country and/or region. Those projects that are expected to make a "good" contribution are in line with mandate objectives and could make a high contribution to either the country's own development objectives or those of the EU and a moderate contribution to the other.

In terms of Pillar 2, 9% of operations signed are expected to make an excellent rating including direct operations with an economic rate of return (ERR) greater than 15%, or intermediated operations (credit lines) which make an exceptional contribution to increasing access to finance as well as developing the financial sector, in a relatively low risk environment. More than 86% of operations are expected to be "good". These are direct operations with an average ERR of 10% to 15%, or intermediated operations which contribute

to increasing access to finance and financial sector development yet in a high risk environment with less likelihood of results.

Pillar 3 ratings show that about 21% of operations signed in 2013 are expected to have high additionality - typically, extending the longest maturity of debt available to the borrower from the market by more than 100%; matching economic life of the assets to be financed by at least 80%; taking a lead role in project preparation, structuring and/or implementation support. Another 62% are expected to make good contribution, providing significant additionality - typically, combining significant contribution in terms of either technical and sector aspects or higher standards and assurance. The 17% of signed operations that were rated as expecting moderate additionality were typically standard products where limited contribution to project design, structuring or implementation was necessary.

4. COOPERATION WITH THE COMMISSION

A list of the existing frameworks within which the EIB and the Commission cooperated in 2013 with a view to strengthening the coherence of overall EU support in the regions covered by the Decision is included in the accompanying SWD, together with a summary table on the financing volumes signed by the EIB upon its management of EU budget resources. Moreover, some of the main activities coordinated between the two institutions in 2013 are outlined in the SWD.

5. COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS

Cooperation with other International Financial Institutions (IFIs) is an integral part of the EIB activities, ranging from dialogue on institutional matters, horizontal topics and thematic issues, and mutual consultation, to enhanced forms of operational co-financing and work sharing. In 2013, co-financing with other IFIs or European bilateral institutions represented 47% of EIB total signatures with the EU guarantee. The list of co-financed operations signed in the regions covered by the Mandate in 2013 is included in the SWD.

Dialogue between IFIs mostly takes place within specialised working groups meeting periodically to share best practices or to address specific issues. One such group has been working on results harmonisation among financial institutions active in the private sector, and a similar working group was set up in 2013 on results harmonisation for public sector projects.

In addition, ad-hoc working groups are established to address specific issues, for instance the G-20 and G-8 often call on the World Bank and MDBs for input. The EIB participates in other dialogue initiatives such as the Heads of MDBs meeting (January 2014) which was organised by the EIB. The EIB also plays a key role in the EU Platform for Blending in External Cooperation.