Council of the
European Union

Brussels, 10 April 2019
(OR. en)

8482/19

ECOFIN 398
RELEX 382
FIN 290

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	9 April 2019
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2019) 2747 final
Subject:	Commission notice on the Regional Technical Operational Guidelines in the context of European Union guarantee to EIB financing operations outside the Union

Delegations will find attached document C(2019) 2747 final.

Encl.: C(2019) 2747 final

EUROPEAN
COMMISSION

Brussels, 8.4.2019
C(2019) 2747 final

Commission notice

on the Regional Technical Operational Guidelines in the context of European Union guarantee to EIB financing operations outside the Union

Regional Technical Operational Guidelines for EIB external activities under Decision 466/2014/EU

Disclaimer:

The purpose of this Notice is to review the regional technical operational guidelines (the 'guidelines') following the mid-term review of the European Investment Bank's (EIB) External Lending Mandate (ELM) as required by Article 5 of Decision 466/2014/EU as amended by Decision 412/2018/EU. The guidelines were developed for the first time in 2012 in the context of the mid-term review of Decision No 1080/2011/EU and updated in 2015 following the entry into force of Decision 466/2014/EU. The review aims at adapting the guidelines to the developments in the Union external policies and priorities, as well as at taking into account relevant developments in the eligible countries.

These guidelines are set out with a view to ensuring that EIB financing operations under the ELM are consistent with corresponding EU assistance policies, programmes and instruments in the different ELM regions. The guidelines set strategic priorities for the ELM objectives, per region, and they establish practical measures for linking the general objectives of the European Union guarantee with implementation by the EIB. They aim at making EIB financing operations under the ELM consistent with the wider Union external policy objectives, including EU economic diplomacy priorities, and the Union regional policy framework set out in Annex IV of Decision 466/2014/EU, including the differentiation principle in the European Neighbourhood Policy.

The updated guidelines will be transmitted to the European Investment Bank, to the European Parliament and to the Council.

Table of Contents

List of Acronyms

ACP	African, Caribbean and Pacific
AFD	Agence Française de Développement
AIF	Asian Investment Facility
ALA	Asia and Latin America
ARF	ASEAN Regional Forum
ASEAN	Association of South-East Asia Nations
ASEM	Asia-Europe Meeting
CBR	Central Bank of Russia
CCM	Climate Change Mandate
CEB	Council of Europe Development Bank
CSP	Country Strategic Paper
DCFTA	Deep and Comprehensive Free Trade Area
DCI	Development Cooperation Instrument
EaP	Eastern Partnership
EaPIC	Eastern Partnership Integration and Cooperation
EBRD	European Bank for Reconstruction and Development
ECOFIN	Economic and Financial Affairs Council
ECS	Energy Community Secretariat
EDIF	Western Balkan Enterprise Development and Innovation Facility
EEAS	European External Action Service
EIB	European Investment Bank
EIF	European Investment Fund
ELM	External Lending Mandate
EaP	Eastern Partnership
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood Policy Instrument
ERI	Economic Resilience Initiative
ESF	Energy Stability and Security of Supply Facility
EU	European Union
EU-LAC	EU-Latin America and Caribbean Summit
EWBJF	European Western Balkans Joint Fund
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FWA	Framework Agreement

GDP	Gross Domestic Product
GFM	Green Financing Mechanism
GHG	Greenhouse Gas
HELCOM	Helsinki / Baltic Marine Environment Protection Commission
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFCA	Investment Facility for Central Asia
IFI	International Financial Institution
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IIPSA	Infrastructure Investment Programme for South Africa
JASPERS	Joint Assistance to Support Projects in European Regions
KfW	Kreditanstalt für Wiederaufbau
LAIF	Latin America Investment Facility
MEHSIP	Mediterranean Hot Spot Investment Programme
MENA	Middle East and North Africa
MFF	Multiannual Financial Framework
MIP	Multiannual Indicative Programme
MIPD	Multi-Annual Indicative Planning Document
MoU	Memorandum of Understanding
MRI	Mutual Reliance Initiative
MSME	Micro, Small and Medium-sized Enterprise
MSP	Mediterranean Solar Plan
NGO	Non-Governmental Organisation
NIC	National Investments Committee
NIF	Neighbourhood Investment Facility
NPL	Non-performing loans
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PCI	Project of Common Interest
PECI	Projects of Energy Community Interest
PPP	Public-Private Partnership
PSD	Private Sector Development
RCF	Risk Capital Facility
REDD	Reducing Emissions from Deforestation and Forest Degradation

REIPPPP	Renewable Energy Independent Power Producer Procurement Programme
SAARC	South Asian Association for Regional Cooperation
SARi	South African Renewables Initiative
SEETO	South-East Europe Transport Observatory
SME	Small and Medium-sized Enterprise
SWM	Strategy for Water in the Mediterranean
TEN-E	Trans-European Energy Infrastructure and Networks
TEN-T	Trans-European Transport Network
TEU	Treaty on European Union
UfM	Union for Mediterranean
UfMS	Secretariat of UfM
UNEP-MAP	UN Environment Programme-Mediterranean Action Plan
UNFCCC	United Nations Framework Convention on Climate Change
UNSCR	United Nations Security Council Resolution
UDPFI	Urban Development Platform Financial Initiative
WBG	World Bank Group
WBIF	Western Balkans Investment Framework
WTO	World Trade Organisation

1 INTRODUCTION AND OBJECTIVES

On 16 April 2014, the European Parliament and the European Council adopted Decision No. 466/2014/EU[1] granting an EU guarantee to the European Investment Bank (EIB) against losses under financing operations supporting investment projects outside the EU over the period 2014-2020 (the "Decision" and the "EU guarantee").

As in the previous mandate, the current External Lending Mandate (ELM) Decision requires the Commission and the EIB to set out regional technical operational guidelines (the "guidelines") to ensure that EIB financing under the ELM is consistent with corresponding EU assistance policies, programmes and instruments in the different ELM regions.

These guidelines were developed for the first time in 2012 in the context of the mid-term review of the previous Decision and updated in 2015 following the entry into force of the current ELM Decision. The Commission, together with the EIB and in consultation with the European External Action Service (EEAS), has now updated these guidelines following the mid-term review of the ELM Decision and in line with Article 5(1) of the recently amended Decision.[2] The guidelines complement the updated ELM Guarantee Agreement signed on 3 October 2018.[3]

This update includes notably guidelines specific to the new fourth high-level objective relating to long-term economic resilience as a means to address the root causes of migration.

1.1 Scope and Objectives

The amended Decision establishes the ELM with an overall ceiling of EUR 32.3 billion for all EU guaranteed loans, loans guarantees and debt capital market instruments granted or issued for the benefit of EIB investment projects in favour of eligible countries as listed in Annex III of the Decision.[4]

The fixed ceiling is broken down into regional ceilings and sub-ceilings as laid down in Annex I of the Decision and the chart below. According to Article 2 of the Decision, within the ceilings for individual regions, the EIB shall ensure a country distribution within the regions covered by the EU guarantee balanced in line with Union external policy priorities reflected in these guidelines.

ELM 2014 – 2020 (in EUR m) – Breakdown of fixed ceiling by region		
Pre-Accession		**8,075**
EU Neighbourhood	Southern Neighbourhood	**13,030**
	Eastern Neighbourhood, Russia	**6,650**
Asia, Latin America	Asia	**1,165**

[1] OJ L 135, 8.5.2014, p.1
[2] OJ L 76, 19.3.2018, p. 30
[3] Guarantee Agreement between the European Union and the European Investment Bank in respect of financing operations of the European Investment Bank supporting investment projects outside the European Union, signed in Luxembourg on 30 August 2018 and in Brussels on 3 October 2018.
[4] The list of eligible countries was revised most recently through the Commission Delegated Decision (EU) 2018/1102 of 6 June 2018 amending Annex III to Decision No 466/2014/EU of the European Parliament and of the Council granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union, as regards Iran, OJ L 199I , 7.8.2018, p. 11.

	Central Asia	**224**
	Latin America	**2,694**
Republic of South Africa		**462**
Total		**32,300**

Outside the EU, the EIB supports the EU's policy objectives and regional strategies through lending from its own resources under "Mandates" covered by guarantees from the EU (ELM) [5] or Member States (Cotonou Agreement), as well as mobilising third party financing. Complementary to the "Mandates" and third party funds, the EIB also undertakes operations outside the EU via the Own Risk Facilities (ORF) established by decision of its governing bodies.[6] While non-ELM operations equally support EU external policies, including fighting climate change and international cooperation and development, they are not governed by these guidelines. Nevertheless, the guidelines serve as important reference document for operations complementing the ELM, and contain some information on such operations in order to provide a comprehensive picture.

These guidelines should be consistent with the wider Union external policy objectives, including EU Economic Diplomacy priorities, and the Union regional policy framework set out in Annex IV of the Decision, including the differentiation principle in the European Neighbourhood Policy.

The amended Decision in its Article 3 defines the following high-level objectives:

i. **Local private sector development**, in particular support to Small and Medium-sized Enterprises (SMEs);

ii. Development of **social and economic infrastructure**, including transport, energy, environmental infrastructure, information and communication technology;

iii. **Climate change** mitigation and adaptation;

iv. **Long-term economic resilience** of refugees, migrants, host and transit communities, and communities of origin as a **strategic response to addressing root causes of migration**.

Regional integration among countries, including in particular economic integration between Pre-Accession countries, Neighbourhood countries and the Union, shall be an underlying objective for EIB financing operations within areas covered by the general objectives.

Furthermore, while always subject to the EIB’s distinct character as an investment bank, the Decision requires EIB financing operations to contribute to the general guiding principles of Union external action, as referred to in Article 21 of the Treaty of the European Union (TEU), as well as the implementation of international environmental agreements to which the Union is a party. In case of EIB financing in developing countries, this includes indirect contribution to the EU development policy, such as reducing poverty through inclusive growth and sustainable economic, environmental and social development. EIB operations outside the EU

[5] As set out in Article 5(2) of the Decision, an EIB Financing Operation shall not be covered by the EU Guarantee where the Commission delivers an unfavourable opinion on such operation within the framework of the procedure provided for in Article 19 of the EIB Statute.

[6] The EIB currently has four Own Risk Facilities in the ELM and ACP-OCT regions, namely the Pre-accession facility (PAF), the Neighbourhood Financing Facility (NFF), the Climate Action and Environment Facility (CAEF) and the Strategic Projects Facility (SPF).

should be fully coherent with the EU's external policies, including EU trade policy. Particular attention shall be paid to the inclusion of local content requirements, provisions impinging upon intellectual property rights, forced joint ventures and other market-entry barriers in projects to be financed.

All EIB operations outside the EU are also expected to contribute to the public policy goals set by the EIB in the context of its corporate operational plan: i) innovation, ii) SME & MidCaps finance, iii) infrastructure, iv) environment, with climate action as well as social and economic cohesion as cross cutting goals. This means operations will be assessed under both frameworks. However, management of the ELM including eligibility continue to be determined by the Decision.

1.2 General policy issues

This section aims to describe general principles and policy frameworks applying to all the regions, which are therefore better addressed centrally and in a harmonized way. This also comprises modified or additional requirements introduced by the Decision. It is then complemented by the respective regional sections described further below.

Partnership with the Commission and EEAS

With a view to increasing the coherence of Union external action, the Decision encourages further strengthening of dialogue on policy and strategy between the Commission and the EIB, including the EEAS. In line with the Decision, parties agreed that the current Memorandum of Understanding (MoU) on cooperation and coordination in the regions covered by the ELM should continue to be applied. This MoU was revised and signed in 2013, enhancing cooperation and early mutual exchange of information between the Commission, the EEAS and the EIB at operational level. Cooperation in this framework should, in particular, include a regular review of the application of the differentiation principle in Neighbourhood countries.

The EIB should continue to promote the early and systematic exchange of views between EIB and the Commission, including the EEAS, to maximize synergies and expedite coherence and complementarity of instruments, including in support of the EU Economic Diplomacy and related country priorities and actions. This support shall be provided in line with EU and EIB policies and safeguards.

The co-location of EIB-offices in EU Delegations is another initiative that should be pursued further to facilitate information flow and mutual understanding.

In November 2018, senior management of the EIB and the Commission’s Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) agreed to enhance information exchange on potential EIB operations under ELM. This entails, inter alia, better upstream consultation for optimal alignment of EIB activities with EU policies, more efficient blending processes, and enhancing EU communication and visibility.

Allocation Policy

The EIB’s Own Risk Facilities (ORF) have been reviewed following the ELM mid-term review. Their eligibility and geographical scope has been extended and the ceiling increased to fully complement the ELM in the different regions. They currently comprise amongst others the Pre-Accession Facility (PAF), the Neighbourhood Finance Facility (NFF) and the Strategic Projects Facility (SPF) in Asia, Latin America and the Republic of South Africa following the same objectives as established in the Decision, as well as a thematic facility dedicated to Climate Action and Environment Facility (CAEF) covering Asia, Latin America and the Republic of South Africa. All facilities also allow to finance equity-type operations.

The decision whether an operation is to be financed under the ELM or ORF is taken on the basis of a clear and transparent allocation policy, set out by the Commission and the EIB in their guarantee agreement, as required by the Decision (Article 8), in order to ensure the most effective use of the EU guarantee. While it remains at the EIB's discretion to seek EU guarantee coverage within the various sectors, the EIB should aim to strengthen the focus of the geographical scope of the ELM on less creditworthy beneficiaries where the use of the guarantee would display the highest value added.

Climate Action

As regards climate change, the overall objectives of EIB actions are to promote low-emission and climate resilient development and to support the implementation of climate change policies / low-emission climate resilient development strategies in the region. Although a general objective of the ELM, climate action is also a cross-cutting priority for the EIB, an added aspect of climate action will support the sustainability of the other objectives, reducing running costs and maintenance costs as well as greenhouse gas (GHG) emissions.

The Decision introduces a requirement whereby at least 25% of the volume of ELM operations over the 2014-2020 period are in support of climate change mitigation and adaptation, and that EIB financing under the ELM shall be consistent with reaching a target of at least 35% of total lending in developing countries by 2020. This is accompanied by the assessment, under the Bank's tracking system, of significant absolute and relative GHG emissions throughout the portfolio of EIB investment projects supported under the ELM. This reinforces the climate change dimension of the ELM in order to incentivise EIB operations in this key sector of the Union external action.

The previous Decision required the adoption of the ELM Climate Strategy, which was published before the end of 2015.[7] The ELM Climate Strategy is fully aligned with the EIB-wide Climate Strategy that was adopted by the EIB in 2015 after extensive public consultation. The ELM Climate Strategy specifies relevant areas for climate action, and includes information on the regional approach towards climate action. Hence, to avoid duplication, the operational focus on climate action within these guidelines is limited to a broad outline.

The Decision also requests that EIB financing operations should, where possible and appropriate, be complemented by EU funds through blending. Such concessional funding should be used to contribute to EU positioning in the emerging climate finance landscape, support climate change policies in Partner Countries and Regions in synergy with other EU instruments, address the specific challenges of mobilizing private capital for climate investments, and strengthen EU communication and visibility.

Also noteworthy is the establishment of the Green Climate Fund (GCF), which is emerging as a key vehicle to finance climate action projects in developing countries. The EIB has been accredited as implementing agency by the GCF Board in March 2016. The EIB is expected to continue exploring with the Commission how best to ensure alignment of the EIB's use of GCF resources with EU policy and priorities for climate investments outside Europe.

Private Sector Development

The EU Agenda for Change, adopted in 2011,[8] set out key orientations for the programming of EU development policy for 2014-20. It emphasized support for building local institutional

---

[7] http://www.eib.org/attachments/thematic/elm_climate_strategy_en.pdf.
[8] https://ec.europa.eu/europeaid/policies/european-development-policy/agenda-change_en

and business capacity, attracting and retaining substantial private domestic and foreign investment and improving infrastructure. It called for new ways of engaging with the private sector, including up-front grant funding and risk-sharing mechanisms to catalyse public-private partnerships. The New European Consensus for Development, signed in 2017,[9] also notes that the private sector can contribute to the implementation of the 2030 Agenda adopted at the level of the United Nations, and foresees that the EU and its Member States, in close coordination with the EIB, will promote the mobilisation of private resources for development, whilst also promoting private sector accountability, in areas with significant transformation potential for sustainable development. These include sustainable agriculture, safe and clean energy, integrated water resource management, resilient infrastructure, health, sustainable tourism, green and circular economy, telecommunications and digital technology. The EIB has an important role to play in supporting the local private sector in ELM countries, offering a broad range of financing solutions to improve access to finance for MSMEs, leverage private investment, and help overcome barriers to investment by reducing risks, and improve the enabling environment.

The EIB should work within the strategic framework[10] and the set of proposed actions that aim to strengthen the role of the private sector in achieving inclusive and sustainable growth in developing countries. The principles of EU support for private sector development and its engagement with both the local and international private sector complement aid effectiveness principles established in relevant international agreements.[11] Considering different local contexts and fragile situations and having a strong result orientation, EU support should focus on employment creation, inclusiveness and poverty reduction, creating opportunities through market-based solutions. The approach to private sector should be differentiated – with clear criteria when providing direct support – and observing coherence with policies and priorities of the respective partner countries.

Internationalisation

The Decision enables the EIB to support Union presence in partner countries through foreign direct investments (FDI) by companies from the Union that promote economic integration with the Union either under the EU guarantee for investments within areas covered by ELM general objectives or at its own risk, taking into account the EIB's risk-bearing capacity.

The Decision also encourages the EIB to consider supporting access to financing for SMEs from the Union investing in the regions covered by the Decision, while maintaining high value-added and ensuring EIB finances projects for which otherwise no financing would be available on reasonable terms. Where relevant, the EIB should take into account the conclusions of the European Council of 20 and 21 March 2014 related to enhancing European companies' internationalization and competitiveness.

EU Blending

Blending – the mixing of EU grant resources with financial resources from EIB and other eligible finance institutions – strengthens the EIB's ability to perform its core functions. With availability of the grant funds from the EU budget for blending with EIB loans under the ELM, the EIB should be in a good position to continue offering a comprehensive and

[9] https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-evelopment-20170602_en.pdf

[10] Commission Communication COM(2014)263 final "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries" adopted on 13 May 2014 and related Council conclusions of 23 June 2014 and 12 December 2014.

[11] https://ec.europa.eu/europeaid/policies/eu-approach-aid-effectiveness_en

integrated financing package in order to facilitate projects with low financial but high social returns and thus increase the impact of EU external policies. The EIB should also continue to contribute actively to the discussions at the level of the EU Platform on Blending in External Cooperation.

For the Economic Resilience Initiative (ERI) (see below), additional grant funds have been mobilised from Members States, to complement EIB loans under the ERI.

Results Measurement Framework

The Decision contains several references to the EIB's Results Measurement Framework (ReM), in particular in the context of assessing the value added, and the contribution to development, social and environment aspects. The EIB should continue to ensure its operations are results-oriented and should further develop the REM framework, with reporting on expected and achieved results on an annual basis. The REM indicators range across several sectors and beneficiary groups and can be used also for measuring progress on the type of operations envisaged for the Economic Resilience Initiative. Additional indicators should be considered where necessary and possible. Whenever possible, the EIB should report on the expected results of projects by estimating numbers of direct and indirect final beneficiaries and by disaggregating the data by sex and age. Number of jobs sustained and businesses supported will be key indicators to track. (Annex: ERI impact chain).

Where ERI projects benefit from grants/concessional finance via existing frameworks (e.g. NIF or WBIF under Building Block1, see section 2.3), the relevant reporting requirements for these facilities should be followed.

For the ERI as a whole, the EIB should provide formal reporting through (i) the annual ELM Report to the Commission, covering all reporting obligations as per the revised legal framework and (ii) dedicated ERI reporting, specifically addressing the informational needs of the ERI donors, as well as a broader range of stakeholders. The latter will cover the progress in the delivery of all building blocks of ERI (i.e. including the EIB contribution and donor resources) and complement the ELM report.

1.3 Structure of the guidelines

The guidelines are divided into the following chapters.

I. Guidelines on the Economic Resilience Initiative

II. Pre-Accession

III. EU Neighbourhood and Russia

IV. Asia and Latin America

V. South Africa

These chapters follow a uniform structure, starting with a brief introduction to the general context of the EU relations with the region, an overview of the EIB activity covering mainly the previous ELM period 2007-June 2014, and a description of the regional macroeconomic situation. This is followed by the relevant EU regional policy framework, and the EIB cooperation with the Commission, EEAS and with other International Financial Institutions (IFIs). The last section outlines the operational focus for the period 2014-2020 of the ELM in accordance with the high-level objectives.

2 GUIDELINES FOR THE ECONOMIC RESILIENCE INITIATIVE

2.1 OVERVIEW

The Economic Resilience Initiative (ERI) has been developed by the EIB in cooperation with the Commission, in response to a request by the European Council, for a specific initiative aimed at rapidly mobilising additional financing in support of growth, vital infrastructure and social cohesion in the Southern Neighbourhood and Western Balkans regions. Economic resilience refers to the capacity of economies to absorb and respond to crises and shocks, such as the Syrian refugee crisis, while maintaining strong growth. All ERI operations benefiting from the additional EU guarantee provided through the External Lending Mandate (ELM) should contribute to the objective of improving the long-term economic resilience of refugees, migrants, host and transit communities and communities of origin as a strategic response to addressing root causes of migration.

The ERI involves a step change in the EIB's support to the Southern Neighbourhood and Western Balkans regions, with a EUR 6 billion increase of EIB financing over a five-year period starting in late 2016, expected to deliver up to EUR 15bn of additional investment to support vital infrastructure and to promote private sector led growth and employment opportunities. The EUR 6 billion ERI financing comes over and above a EUR 7.5 billion baseline activity already envisaged prior to the initiative.

2.2 EIB ACTIVITY IN THE REGIONS AT THE LAUNCH OF ERI IN 2016

The EIB has been a key development actor in the Southern Neighbourhood and Western Balkans for over four decades and is the largest IFI in terms of operations in the two regions. Over the four years from 2012-15, signatures totalled EUR 5.3 billion and EUR 1.9 billion respectively.

The portfolio in the Southern Neighbourhood was concentrated on Egypt, Morocco and Tunisia (accounting for over 80%). For the Western Balkan region, the portfolio was concentrated on Serbia and Bosnia & Herzegovina (accounting for over 70%). However, all countries have benefited from support over the period.

In terms of sectors, credit lines (in both regions), energy (predominantly in Southern Neighbourhood) and transport (in both regions) made up over 80% of the portfolio, followed by water, industry and services. Private sector operations accounted for around 20% of the operations in the Southern Neighbourhood (political risk coverage, own risk facilities, third party funds), whereas in the Western Balkan region cooperation with the private sector accounted for nearly 50% (only own risk facilities).

The ERI should build on the strengths of the EIB as a financier of vital infrastructure and financial intermediaries, but also expand and re-focus the EIB activities to address the threats to resilience faced within the regions. As a result, there should be an increase in the share of public sector financing in vital infrastructure sectors such as water and sanitation and the share of investments in countries and region where vulnerabilities are most acute such as Lebanon and Jordan. Furthermore, ERI should help to shift the portfolio in the two regions towards the private sector given that the revised ELM Decision allows to cover private sector operations under the ERI with a comprehensive EU guarantee.

Under the ERI, the EIB should focus investments on public and private sector projects that build resilience and have a high social impact. Developing such projects tends to require more intensive engagement to reach target groups and to overcome administrative and technical challenges to implementation. The EIB has addressed this by increasing staff resources including on the ground, in order to further engage with clients to develop more impactful projects and to ensure that quality and pace of implementation are maintained. In the Western Balkans this should also take place in the context of the discussions of Single Project Pipelines, which are approved by the National Investment Committees. The provision of EUR 90m of Technical Assistance and Advisory Services financed from own EIB resources is integral to achieving this and will also help to strengthen local capacity. The EIB will also utilise donor resources to support higher risk or low financial return investments that achieve a higher social and economic returns or reach underserved or vulnerable groups which could otherwise not be supported through the EIB's mainstream instruments.

2.3 THE ERI BUILDING BLOCKS

The ERI has three components:

Building Block 1: Doing more with current resources – EUR 2 billion of extra EIB financing via full utilisation of envelopes under existing lending frameworks for the two regions. This includes projects which have been or will be approved for finance under either the Western Balkans Investment Framework (WBIF) or the Neighbourhood Investment Platform (NIP).

Building Block 2 ("ERI Public Mandate"): Investing in vital infrastructure – EUR 1.4 billion of additional EIB financing in the public sector supported by an EU public sector comprehensive guarantee, plus up to EUR 340 million of donor resources to be deployed alongside EIB financing. This responds to the need to scale-up investments for infrastructure that is, or is at risk of being, under unsustainable pressure from both short-term shocks and longer term strains. It also responds to needs of non-sovereign public entities and state-owned entities playing a vital role but facing difficulties to secure financing without recourse on a state guarantee.

Building Block 3: Building resilience through private sector-led growth – EUR 2.6 billion of additional EIB financing, of which:

- Building Block 3a: EUR 2.3 billion supported by an EU private sector comprehensive guarantee ("ERI Private Mandate"); and

- Building Block 3b (not covered by an EU Guarantee): EUR 300 million of donor-supported impact finance. By increasing the EIB's risk bearing capacity, this allows the EIB to make more loans to a wider range of clients, and to support typically higher risk projects with higher economic and social returns.

The ERI should be implemented taking account of the principles of complementarity, added value and avoiding market distortion. The EIB has sought to ensure complementarity between the ERI and other initiatives through close coordination with stakeholders in the regions, including other IFIs, national and local authorities, and bilateral donors via well-established channels and forums for dialogue. The ERI provides additional opportunities for the EIB to engage with its European partners.

According to the ELM Guarantee Agreement, in the Article 19 letter EIB shall specify "whether the operation is carried out under the Comprehensive Guarantee or Political Risk Guarantee (and, if applicable, whether it corresponds either to the ERI Private Mandate or to the ERI Public Mandate) […] at that date when it consults the Commission in accordance with Article 19 of the Statute of the Bank". The Commission needs to have at its disposal, by the time it prepares its opinion in the context of the Article 19 procedure, relevant information enabling it to opine on the operation, as further detailed below in section 2.4 "Intervention logic".

Ensuring close coordination and complimentary with European Union initiatives is also a key priority. Donor resources for the ERI Public Mandate should be targeted particularly to provide support in areas where existing blending facilities (such as the NIP and the WBIF) are not available in sufficient quantity, partners need further support (e.g. institutional capacities), or where the ability to offer comprehensive packages is essential to move projects forward. Where those packages are envisaged to involve grant and guarantee support from different sources, these sources will be indicated for information.

The ERI and the European External Investment Plan (EIP) will be complementary. As requested by the Council, a process between the Commission and EIB has been launched to ensure complementarity of the EIP with ERI and EIB instruments. Overall, in terms of thematic and geographic focus, as well as the products offered, it is expected that there will be limited overlap in terms of geographical, sectoral and instrumental eligibilities of ERI with EIP and other initiatives (e.g. the EIP does not cover the Western Balkans). In such cases, the EIB estimates that the magnitude of the current challenges nonetheless guarantees full absorption.

2.4 INTERVENTION LOGIC

Article 3.1 of the ELM Decision states that EIB financing operations shall support […] *"d) the long-term economic resilience of refugees, migrants, host and transit communities, and communities of origin as a strategic response to addressing root causes of migration"*. Article 3.8 provides that EIB financing operations supporting this objective shall:

(a) "address increased needs for infrastructure and related services to cater directly or indirectly for the influx of migrants while also benefitting the local population;

(b) boost employment opportunities for host and refugee communities;

(c) foster economic integration and enable refugees to become self-reliant; or

(d) strengthen humanitarian action and support for creation of decent jobs."

Moreover, Article 8.1 of the ELM Decision stipulates that projects under the ERI Private Mandate should on average have a higher risk profile than the portfolio of projects covered under the political risk guarantee in the ERI regions.

The intervention logic is illustrated in the Results chain provided in the Annex: Under the ERI, the EIB should provide finance and technical assistance predominantly for investments targeted at strengthening vital public infrastructure and increasing the availability of private sector finance - particularly for SMEs and midcaps, and for groups traditionally underserved such as women and young people. These investments will increase access to vital infrastructure and private sector finance, contributing to fostering resilient economies that generate sustainable growth and employment and reduce poverty.

For both the Southern Neighbourhood and Western Balkans, there are substantial gaps in economic and social infrastructure. Moreover, even the existing infrastructure is in many cases in urgent need of upgrading due to years of underinvestment. The Syrian refugee crisis and its impact on neighbouring countries has provided a stark demonstration of how a shock can quickly overwhelm public infrastructure and services, making it challenging to meet the needs of local and refugee communities alike. The additional public sector EU guarantee (ERI Public Mandate) should be utilised to support investments in vital public infrastructure that builds resilience to current and future shocks and strains, and promotes an enabling environment for economic growth and job creation.

Migration is only one of a number of possible future shocks, which could also include more frequent natural disasters driven by climate change, economic shocks such as sudden and sharp reversals in terms of trade. Ensuring preparedness is critical to mitigating negative impacts of these shocks and to making the most of new opportunities that may arise. By financing investment in vital infrastructure now, the EIB should help countries reduce the risk that the infrastructure systems and public services in the regions are not sufficiently resilient.

Non-sovereign public entities and state-owned entities, without a state guarantee, are key actors in providing vital infrastructure and services. However, as a result of constrained public finances they find it increasingly challenging to secure sufficient financing with recourse on a state guarantee. By providing direct support to such entities for sustainable investments, the EIB can also contribute to reducing the risk of insufficient resilience.

Investments to build or renovate infrastructure should be designed so as to contribute to strengthening the enabling environment for inclusive economic growth and social cohesion, with the view to creating job opportunities and generating resources for further public investment and services as key components of long-term economic resilience and stability. As such, this directly addresses one of the primary drivers of migration, namely the search for economic opportunities which are not available in countries of origin. In the Western Balkans, sustainable and inclusive economic growth and social cohesion are also crucial to maintaining progress towards meeting the convergence conditions for EU accession.

Grant Allocation Framework for concessional public infrastructure operations

Where required, the ERI will combine lending under the additional public sector EU guarantee with donor resources channelled through a bank administered ERI fund. Grant allocations will be made using a new grant allocation framework devised by the EIB. The framework provides a robust and transparent methodology to ensure that ERI fund grants are directed to where the need and potential impact is greater, and where public resources are insufficient to make investments happen. This is based on an assessment of the needs and vulnerabilities that undermine economic resilience in the regions. The framework incorporates an assessment of both project-specific and contextual characteristics to determine (i) whether an operation contributes to the objective of the EU guarantee and (ii) the maximum level of grant allocation it is eligible to receive, as a proportion of the EIB financing.

Project-specific characteristics captured in the framework include: the project's expected employment effect; the type of vital infrastructure being supported; the potential contribution to gender equality and social inclusion; and the extent to which a project reduces vulnerability to climate change.

The contextual characteristics in the framework include: lack of capacity or ability of the sovereign to take on additional debt at commercial terms; the environment for long-term growth; population of refugees/asylum seekers/internally displaced people; the level of human development, adjusted for inequality; and the vulnerability to conflict and fragility;

Operations are scored against both sets of characteristics. The score will inform the maximum level of grant for which the project is eligible. Levels will typically range between 25 and 40 per cent of the EIB financing. The framework is calibrated to ensure that the level of grant is positively correlated to the assessed need, the vulnerability of the beneficiaries and the expected social and economic impact of the operations.

Additional investment grants are a precondition for the EIB to be able to deliver such projects. As part of the internal approval process for ERI donor resources, the EIB will assess alternatives such as securing support through the EU blending facilities. This assessment can also result in a recommendation to combine grants allocated from the ERI fund with further resources in order to make highly impactful projects happen that require a higher share of grant support to total project costs than can be typically provided under the respective frameworks. In such case, the different sources of grant support will be made transparent. At an early project origination stage, several options for securing grant support may be explored. However, the EIB will set up internal allocation meetings to ensure a sound pipeline management under different initiatives.

The grant allocation framework will be shared with the Commission once it has been finalised.

ERI Private Mandate

The enhanced private sector EU guarantee provided through the new ERI Private Mandate under the ELM should be utilised to increase the EIB's risk bearing capacity to support investment projects that address root causes of migration and contribute to long-term economic resilience and to the United Nations sustainable development goals and safeguard sustainable development in beneficiary countries, taking into account the criteria set out in Article 3(8) of the ELM Decision.

To improve economic resilience, the private sector plays a central role, as it is driving inclusive growth and job creation, while also generating resources for public and private investment. For decades the EIB has been an important source of private sector finance to support this process. However, the EIB's capacity for risk bearing had been constrained under existing frameworks, limiting the range of private sector beneficiaries to which the EIB can provide finance. The ERI Private Mandate should help alleviate this constraint, allowing the EIB to lend more for productive investments in support of economic growth and to serve a wider range of beneficiaries. In addition, the Bank will seek to promote greater inclusion by combining lending under the new EU guarantee with technical assistance from the dedicated envelope funded from the EIB's own resources.

As one of the aims of the ERI Private Mandate is to encourage private sector development through addressing market failures, projects supported should on average have a higher risk profile than the portfolio of projects supported by EIB normal operations covered under the political risk guarantee, in accordance with the requirement set out in the second subparagraph of Article 8(1) of the ELM Decision.

To complement the above, the EIB has established an impact finance envelope, financed with the support of donor resources, aiming to support high impact investments, for example via: (i) risk mitigation for foreign exchange operations, thus allowing the EIB to provide funding in local currency; (ii) risk sharing, for example via instruments in the form of first loss pieces alongside EIB financing; or support for (iii) operations via intermediaries or direct financing through debt or equity for projects with high developmental impacts.

When preparing its opinion in the context of the Article 19 procedure on projects foreseen to be included under the ERI Public Mandate or ERI Private Mandate, the Commission will typically require written information clarifying the project's intervention logic in line with the RTOGs, as well as specific measures foreseen within the project in pursuit of the resilience objective and how the expected outcome and output can be quantified and monitored.

2.5 MARKETS AND SECTORS

This section provides a broad outline of the ERI's operational focus and should not be considered to represent an exhaustive list of countries, sectors or activities covered under the initiative, although it should include the large majority of ERI operations.

BB2: Investing in vital infrastructure

The Southern Neighbourhood is an area of chronic water scarcity with generally low available resources per capita compounded by non-sustainable use. Water supply, sanitation and wastewater treatment as well as solid waste management have high relevance to economic and social resilience, and the problems in these sectors are aggravated by the influx of refugees. At present, efficiency of operation tends to be low, with water losses reaching 50% and water supplies intermittent. Increasing urbanisation has contributed to wastewater and solid waste becoming two of the most important pollution sources in the region. This is a significant source of vulnerability.

Through investments on concessional terms and technical assistance, the Bank should therefore seek to catalyse the implementation of projects that address these challenges. EIB operations should help build up the resilience of the water sector, placing a priority on efficiency improvements (e.g. water efficiency, demand management, leakage reduction, energy efficiency, pump replacements, generation of renewable energy from sludge, wastewater reuse). These are high-impact water security projects, which also have further resilience impacts in terms of climate action. With regard to solid waste, the EIB's efforts should focus on increasing the coverage and efficiency of waste collection and disposal in properly situated and designed sanitary landfills. Where justified, project scopes should be complemented with waste prevention, recycling and recovery measures. Egypt, Jordan and Lebanon are likely to be amongst the key beneficiaries of support in this sector.

In the Western Balkans, countries have achieved high levels of access to improved water and sanitation. The objective is to foster further progress towards high EU standards while reducing pollution caused by untreated wastewater and flood risk. Serbia and the former Yugoslav Republic of Macedonia are likely to receive support in this sector.

Rapid urbanisation occurring across the regions requires accompanying provision of both acceptable housing and urban services, particularly for areas which have experienced significant inflows of migrants. In a number of countries in Southern Neighbourhood and Western Balkans' regions, rural infrastructure is also in need of rehabilitation and modernisation to address existing pressures and to ensure preparedness for future shocks. The EIB should therefore seek to address this vulnerability through infrastructure projects as well as framework loans, particularly targeting the most affected or vulnerable communities/geographical areas.

Investments in economic infrastructure, such as industrial zones, should also be sought, as these are critical to promoting the enabling environment for growth. This is especially important for countries that have come under particular pressure from migration such as Lebanon.

Access to markets through improved road conditions and transport infrastructure is a pre-condition for promoting employment. Low carbon transport solutions will also increasingly play an important role. The roads and urban transport sectors demonstrate significant needs for development finance, including for road safety: in Jordan and Lebanon, major influxes of refugees have put a severe strain on transport resources generally; in North Africa – particularly Egypt, Morocco and Tunisia – there is also a particular need for transport infrastructure to ensure that rural communities benefit from growth. Road safety is a priority for the Western Balkan partners under the South East Europe Transport Observatory (SEETO). Hence, all Western Balkan partners are likely to benefit from investments complementing other initiatives in the transport sector. In particular, Kosovo[12], Montenegro, Bosnia and Herzegovina are expected to benefit from support in this sector.

[12] This designation is without prejudice to positions on status, and is in line with UNSCR 1244(1999) and the ICJ Opinion on the Kosovo declaration of independence.

The EIB should seek to support social infrastructure where EIB instruments are considered to be an appropriate source of financing, particularly where the need is acute. A focal area would be rehabilitation and extension of basic public sector healthcare infrastructure, including access to health services in both rural and urban communities. In the Southern Neighbourhood in particular, the health sector has been put under stress as a result of the influx of refugees, who need affordable access to basic health services. There is also an urgent need for adequate educational infrastructures and modern equipment, although local governance constraints make education operations challenging. More investment in this sector could support a new cohort of educated and skilled workers, thereby helping to mitigate the current 'brain drain' from the two regions.

For the Western Balkans narrowing the gap in living standards with the EU is essential as the region takes steps towards accession. To facilitate this, the EIB should seek opportunities to support local investments by sub-sovereign entities below the appropriate credit risk (ACR) level which carry out projects with high positive impact for the local population including for vulnerable social groups such as refugees/asylum seekers, for example providing basic sewerage and waste collection systems as well as shelter to areas where such systems or facilities are currently lacking or over-burdened. Serbia, the former Yugoslav Republic of Macedonia and Albania have particular needs in this regard.

Across all sectors, the EIB should seek to support projects that support the countries' climate-related plans, such as their Nationally determined contributions (NDCs), Nationally Appropriate Mitigation Actions (NAMAs) and National Adaptation Plans (NAPs), to move towards low carbon and climate resilient development pathways. For the Southern Neighbourhood region this should include taking advantage of abundant renewable energy sources and energy efficiency potential.

BB3: Building resilience through private sector-led growth

For SMEs, the new private sector comprehensive EU guarantee should firstly enable the EIB to reach out to lower rated intermediary banks, with which it could hitherto not work, and thus broaden the range of channels through which EIB funding for SMEs is available. Such banks will typically be oriented towards smaller and weaker SMEs, often in niche markets, and be willing to try new innovative approaches to such SMEs. Availability of EIB funding under ERI could allow their innovative and more risk-taking to reach out to those types of SMEs. This is expected to help to increase competition in the local banking sector and thus improve access to finance for SMEs, including riskier ones, through reduced collateral requirements, lower interest rates and extended maturities. Secondly, the new guarantee should enable the EIB to increase its lending to banks that are already EIB intermediaries, beyond the exposure limits previously mandated by the EIB's risk policies.

The EIB's intermediated loans for SMEs should systematically support its intermediaries' initiatives to improve their targeting of particular groups (e.g. women, young people, very small businesses) or specific sectors (e.g. agro-industry, energy efficiency). This will be achieved through the provision of technical assistance, financed using EIB own resources, that will target (i) capacity building in the intermediary banks and (ii) improved financial literacy and business case presentation at the level of the SMEs. These measures will help overcome the prevailing disconnect between banks and SMEs, leading to a broadening of SME lending and improved lending conditions based on a better understanding of business risk. SME lending through the ERI should take account of the EDIF, the SME platform in the Western Balkans.

The EIB should directly finance mid-caps when there is better leverage to achieve the resilience objectives than through intermediated financing. In particular tailor made technical assistance may be required to address integrity issues, financial reporting standards and poor governance that impede their development. Access to attractively priced local currency funding may be facilitated with the use of grants. Although the private sector focus will be on SMEs and mid-caps, where there are cases of corporates that promote inclusive growth and enhanced job creation but are not adequately served by the local financial markets, the EIB should consider providing long term lending to facilitate their expansion, contribute to improving their business model/environmental and social policies, and foster as far as possible convergence with EU standards.

Project finance and PPPs are a good way to ensure that projects are built on time and according to predefined standards, thereby maximising efficiency in the provision of infrastructure and contributing to private sector development. This is an important method of promoting the parallel objectives of job creation, infrastructure development and climate action in a fragile region. The new private sector guarantee will enable the EIB to co-finance PPP and project finance transactions, including the riskier ones, alongside other commercial banks and IFIs, by increasing the EIB's risk-bearing capacity. It is expected that these operations will target, among others, renewable energy, water supply, waste and wastewater treatment, transport and social infrastructure.

There are certain types of private sector operations which cannot be sufficiently supported by the EU Guarantee as provided through the general part of the ELM.[13] This includes equity operations, such as investments in impact funds,[14] and microfinance in local currency.[15] Such operations will be pursued under the ERI through a combination of EIB own and donor resources (e.g. in the form of first-loss pieces or as catalyst).

To reach out more effectively to clients and deliver on complex transactions in a difficult market environment, the EIB has reinforced staffing in its local offices. In both regions, the Bank has gone through a ramp-up phase dedicated to market exploration and the identification of bankable clients, using technical assistance as required to address the absence of reliable financial information and to strengthen governance capacity.

Avoiding market distortion

The EIB is bound by Article 16 of its Statute, which states that the "Bank shall grant finance […] to the extent that funds are not available from other sources on reasonable terms". This principle is reflected in the EIB's internal process through an analysis of its measured contribution to a number of political, technical and financial parameters, the details of which can be found on the EIB website.[16] In order to avoid as much as possible the risk of market distortion that could be potentially caused by EIB intervention covered by EU budgetary guarantee, the added value of the EIB's intervention should receive the EIB's careful attention.

The EIB should apply its standard pricing methodology. This includes pricing to cover costs and risk. Where such pricing is restrictive and places EIB out of the market, it may consider making use of derogations, as is foreseen for normal EIB business. The frequency of these derogations will vary with markets and instruments. No grants are foreseen to subsidize private sector lending directly except for microfinance or pre-bankable operations, which cannot be financed from own resources covered by the EU Guarantee. EIB would then carry

[13] Article 2(1), point (a) of the ELM Decision.

[14] Article 1(2) of the ELM Decision restricts eligibility to loans, loan guarantees, and debt capital market instruments.

[15] Additional concessional financing is needed for such operations.

[16] http://www.eib.org/en/projects/cycle/index.htm

out such lending with third party funds. However, the principle of fair risk pricing should remain. EIB might also to some extent use grants as a catalyst (e.g. in form of an FLP) to financial intermediaries and benefiting a larger group of final beneficiaries, but not to subsidize the EIB's lending to the intermediary.

3 GUIDELINES FOR EIB FINANCING IN PRE-ACCESSION COUNTRIES

3.1 General context of EU relations

The current EU enlargement agenda covers the Western Balkans and Turkey. The strategy and status of the enlargement process are covered in Commission Communications COM (2015)611 "EU Enlargement Strategy" and COM (2018)450 "2018 Communication on EU Enlargement Policy".

Cooperation with Turkey

Turkey has been linked to the EU by an Association Agreement since 1964 and a customs union was established in 1995. Turkey became a candidate country in 1999 and accession negotiations started in 2005.

In recent years, there have been grounds for serious concern regarding the independence of the judiciary and the protection of fundamental freedoms. The State of Emergency introduced after the coup attempt in 2016 for two years seriously affected the respect of human rights and principles of rule of law. Very extensive suspensions, dismissals, arrests and detentions of people took place over alleged links to the Gülen movement and involvement in the attempted coup as well as people accused of supporting terrorist activities. The human rights situation also deteriorated in the east and south-east. Following the April 2017 referendum and the June 2018 early presidential and general elections, Turkey has shifted from a parliamentary system to a presidential one. The constitutional amendments introducing the presidential system raised concerns of the Venice Commission and have led to a weakening of the checks and balances and a centralisation of powers in the hands of the President.

As a result, during the period starting in 2014, and more drastically following the dramatic events of July 2016, relations between Turkey and the EU have become more challenging, in particular because of negative developments with regards to the rule of law and fundamental rights, which lie at the heart of the accession process. The Council conclusions of June 2018 stated that Turkey's accession negotiations have effectively come to a standstill and no further chapters can be considered for opening or closing and no further work towards the modernisation of the EU-Turkey Customs Union is foreseen.

At the same time, the EU has maintained an open and constructive dialogue with Turkey and is using every opportunity to emphasise that Turkey's stated commitment to EU accession needs to be matched by corresponding measures and reforms. It has also continued engaging with Turkey in a number of key areas of shared interests including trade and economic relations, energy, transport, migration and asylum, foreign policy, security and counter-terrorism.

Crises in Syria and Iraq are calling for the reinforcement of the dialogue in the field of foreign policy and counter-terrorism.

The political developments in Turkey are highly relevant for the cooperation between the EU and Turkey. Accordingly, the EIB is regularly reviewing the operational orientations for its activities in Turkey.

Cooperation with countries in the Western Balkans

For the countries of the Western Balkans[17], the clear European perspective granted by the EU is a key stabilising factor. It supports progress towards fulfilment of the necessary conditions, including those of the Stabilisation and Association Process, which also concern good neighbourly relations and inclusive regional cooperation. Continuous efforts to tackle bilateral issues among enlargement countries and with Member States, including under UN auspices where relevant, and overcome the legacy of the past are crucial in view of the history of this region so recently riven by conflict. The EU enlargement strategies adopted in the recent years reinforce three fundamental requirements for the enlargement countries: rule of law, economic governance and public administration reform.

However, these countries cannot sustain alone all the efforts and costs of meeting the criteria for joining the EU. There are encouraging signs of their ability to reduce debt and attract foreign investment, but nevertheless most of them lack the capacity to finance on their own the public investments and reforms necessary to stabilize their societies and economies and put them onto a sustainable development path, including climate change mitigation and adaptation measures. Like in the previous enlargement rounds, the EU will continue to offer them technical and financial assistance to overcome their difficult situation and develop sustainably, gradually aligning on EU rules and standards.

3.2 Overview of EIB activity over the period 2007 – June 2014

3.2.1 Turkey

Lending volumes in Turkey increased significantly from 2005 onwards, reflecting the opening of the accession negotiations in October 2005 and the increasing efforts of the EIB to step up its support to the country in a widening range of sectors, in recognition of the status of Turkey as a Candidate Country negotiating accession.

Sector 2007-June 2014	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	%
Transport	2,362	38%	369	4%	2,731	18%
Credit lines	974	16%	5,533	62%	6,507	43%
Services	960	15%	164	2%	1,124	7%
Energy	725	12%	1,217	14%	1,942	13%
Others	600	10%	776	9%	1,376	9%
Urban development	600	10%	200	2%	800	5%
Industry	-	0%	716	8%	716	5%
Grand Total	**6,221**	**100%**	**8,976**	**100%**	**15,197**	**100%**
	ELM	**41%**	**Facility**	**59%**		

To foster growth and employment in Turkey, the EIB further strengthened its support for SMEs and vital infrastructure, with new signatures averaging EUR 2 billion per year during

[17] Albania, Bosnia & Herzegovina, Kosovo (this designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence), Montenegro, the former Yugoslav Republic of Macedonia and Serbia

the previous ELM period. Under the ELM, the EIB supported SMEs, an important sector providing employment in Turkey. The EIB, at its own risk, also stepped up lending to the Turkish banking sector covering both the promotional and public intermediaries as well as the private sector banks.

EIB financing has also been provided to meet Turkey's growth challenges, in particular in area of urban transport, energy efficiency, SMEs, research & development (R&D) and sustainable management of its natural resources, in particular the climate change agenda.

- For example, EIB has been the leading financier of the country's flagship high speed railway project linking Ankara to Istanbul (partly co-financed from funds of the Instrument for Pre-Accession Assistance (IPA), as well as the Bosporus Railway tunnel linking the eastern and western shores of Istanbul. The EIB has also been a key provider of funding for urban transport projects both in Istanbul but also in other metropolitan cities across the country. EIB has also been instrumental in the structuring and funding of the Eurasia PPP tunnel, the new passenger car crossing underneath the Bosporus helping to mitigate congestions problems on Istanbul's east-west crossing.
- EIB has financed almost EUR 1 billion of R&D programmes by leading public research institutes in the country, particularly in the field of scientific research, tertiary education, and private sector innovation. These investments are orientated towards concrete applications with the potential to strengthen the productivity and competitiveness of the economy. In 2014, the first InnovFin operation was signed in Turkey to support R&D in the automotive sector. Backed by the EU research programme Horizon 2020, InnovFin provides financial instruments and advisory services to improve access to finance for research and innovation activities.
- EIB - with EU-funded technical assistance - has supported a number of energy efficiency credit lines in favour of SMEs and midcaps aiming at making their production more sustainable and cost efficient.
- EIB also invested in afforestation and erosion control activities contributing to ELM objectives of climate change mitigation and adaptation, as well as natural resource management in Turkey, supporting economic growth and stability.

3.2.2 Western Balkans

Sector 2007-June 2014	**ELM (EUR m)**	**%**	**Facility (EUR m)**	**%**	**Total (EUR m)**	**%**
Others	488	14%	87	5%	575	11%
Credit lines	1,057	29%	900	57%	1,957	38%
Energy	137	4%	8	0%	145	3%
Services	215	6%	89	6%	304	6%
Transport	1,629	45%	-	0%	1,629	31%
Industry	-	0%	500	32%	500	10%
Urban development	75	2%	-	0%	75	1%
Grand Total	**3,600**	**100%**	**1,584**	**18%**	**5,184**	**100%**

	ELM	69%	Facility	31%			

In the late 1990s, EIB financing in the region focused on urgent reconstruction and repairs to damaged infrastructure: bridges, railways, ports, airports and roads, in line with the countries' priorities at the time. More recently, the EIB has diversified its lending activity into new sectors such as health, education, R&D and foreign direct investment. Transport infrastructure now includes several Pan-European Transport Corridors, whose completion supports regional integration.

During the previous ELM period, the EIB has achieved total signatures of EUR 5.2 billion in the Western Balkans. Lending volumes increased significantly during the period 2009-2011, reflecting the use of EIB financing as a tool to fight the impact of the global financial and economic crisis. Since 2012, lending volumes have stabilised at EUR 0.5-0.7 billion a year remaining at a higher level than pre-crisis figures.

The EIB has significantly increased its lending volumes at its own risk for private sector lending and, where possible, in accordance with its credit policy, in support of the public sector in more solvent countries. This allows activity carried out under the ELM to primarily focus on the support of the public sector in weaker countries. In addition:

- EIB has provided loans in favour of local commercial banks or loans to government entities then on-lent through local commercial banks.
- EIB has also financed several education projects and an ambitious public sector R&D programme in Serbia.
- EIB contributes actively to the reconstruction effort following the devastating floods in Serbia and Bosnia and Herzegovina in May 2014 through modification of existing loans, dedicated new loans (subject to request of beneficiary countries) and technical assistance support (flood mapping and prevention in Bosnia and Herzegovina).

3.3 Regional macroeconomic situation

The broadening global and regional recovery and generally favourable developments in financial conditions have supported the continuation of recovery in the enlargement countries' economies.

In Turkey, GDP growth accelerated sharply during 2017, to 7.4% compared to 3.2% in 2016, mainly driven by a strong rebound of private consumption, public spending as well as strong investment supported by the state-guaranteed corporate loan scheme. The latter together with macro-prudential loosening supported the significant acceleration of annual credit growth. The domestic economy still suffers from high unemployment, in particular among youth, and high inflation. Annual CPI inflation increased markedly in 2017 and well until 2018 as import prices jumped due to the significant Lira depreciation. The current account deficit expanded from 3.8% of GDP in 2016 to 5.5% of GDP in 2017, largely due to a strong increase in the trade deficit in goods. Private consumption and investment will continue to drive the economy, but net trade is likely to become a drag. Increasing macroeconomic imbalances, interference in the conduct of monetary policy and rising external indebtedness of the corporate sector led to repeated rating downgrades by the rating agencies and a sharp depreciation of the national currency during the summer of 2018. Authorities are now considering measures to ensure a soft lending of the economy and the winding down of the financial imbalances in the corporate sector.

The economic recovery in the Western Balkans continued in 2017 but at a slower pace compared to 2016, mainly owing to weather-related supply-side shocks in Serbia, the largest economy in the region, as well as a prolonged political crisis in the former Yugoslav Republic of Macedonia. Private consumption and investment continued to support growth while exports seem to have gained some momentum. Current account deficits narrowed in some countries, but overall external positions in many economies remain vulnerable. The recovery led to further job creation. While unemployment levels remain high, employment growth contributed to a drop in unemployment rates in most countries in the region compared to the previous year. The decline was particularly significant in Bosnia and Herzegovina. Consumer price inflation in the Western Balkan countries accelerated in 2017, though modestly, as stronger domestic demand and higher energy and food prices generated upward pressures.

Bank lending continued to be supportive of growth as credit growth accelerated in most countries in the region. Credit extension is gradually becoming less constrained by the level of non-performing loans, as most Western Balkan countries managed to further reduce non-performing loans (NPL) ratios in 2017 partly as a result of improved resolution frameworks and mandatory write-offs. With the exception of Montenegro, fiscal balances in the region remained in line with targets or even over-performed. However, high public debt levels and/or lack of fiscal buffers remain a source of vulnerability in most countries.

Economic growth in the Western Balkans is forecast to increase by around 4% annually in 2018 and 2019. In Serbia, the largest economy in this group, the economic growth outlook remains bright. Domestic demand should strengthen further on the back of buoyant consumption and investment activity, supported by continuous foreign direct investment inflows. While domestic demand is expected to be supportive for growth also in the other Western Balkan countries, net trade is generally expected to be a drag on economic growth.

3.4 EU regional policy framework

The regional EU policy framework is outlined in the Commission Communications COM (2015)611 “EU Enlargement Strategy", COM (2018)65 "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans" and COM(2018)450 "2018 Communication on EU Enlargement Policy". At the EU-Western Balkans Summit on 17 May 2018, leaders of the EU and of its Member States, in consultation with Western Balkans partners, adopted the Sofia Declaration and its annexed Sofia Priority Agenda.

The EU has spelled out its priorities for Turkey in the Indicative Strategy Paper 2014-2020, which has been recently reviewed[18]. The review led to a substantial reduction of the IPA funds allocated to Turkey and a reorientation of the priorities for support, with most infrastructure support being discontinued. Given the nature of EIB’s lending support to the real economy, the provisions of the reviewed Indicative Strategy Paper for Turkey continue to be the most relevant for EIB’s activity in the sectors of Competitiveness and Innovation, Environment and Climate Action, Transport and Energy. The Commission's general policy goals in Turkey after the revision of the Indicative Strategy Paper are mainly refocussed on:

- Innovative entrepreneurship (start-ups, incubators, etc.) as well as on the transition to a green economy,
- *Acquis*-related Institution Building activities for environment, biodiversity, climate change and support to disaster and risk management activities (soft projects),

[18] The revised Indicative Strategy Paper for Turkey was approved by a Commission Decision - C(2018) 5067 of 10 August 2018 – Annex to the Commission implementing Decision amending Commission Decision C(2014) 5998 of 26 August 2014 adopting the Indicative Strategy Paper for Turkey for the period 2014-2020.

- Facilitating the connection with the TEN-T rail network as well as Turkey's transport policy on decarbonisation, urban transport accessibility and further harmonisation towards EU norms and standards,
- Supporting the energy sector to advance interconnectivity and integration of Turkey's electricity and gas markets, enhancing EU-Turkey energy policy dialogue and promoting Energy Efficiency and Renewable Energies in line with the EU resource efficiency and climate action targets.

With regard to the Western Balkans, the Commission's general policy goals are focussing on:

- Strengthening fiscal consolidation and public financial management, including addressing the high burden of non-performing loans,
- Improving the business environment, restructuring and improving state-owned enterprises, and establishing functioning labour markets, including better matched education and skills improvement programmes,
- Improving transport network and increasing connectivity, including removing non-physical barriers (e.g. more efficient border crossings) and implementing EU standards (e.g. road safety, driving and rest times) through cooperation with the future Transport Community,
- Improving energy networks, in line with European Energy Security Strategy, including further development of trans-European Energy infrastructure, cooperation with the Energy Community, and promoting energy sector reforms, modernisation of energy systems, and integration in energy regulatory framework.

The Commission activities are funded through the Instrument for Pre-Accession (IPA), which is complemented by Indicative Strategy Papers. After the mid-term review of the Indicative Strategy Papers in August 2018, the IPA II, covering the 2014-2020 period, will provide over EUR 11 billion for the region, of which Turkey is foreseen to receive some EUR 3.5 billion.[19]

The EIB should engage with Commission, EEAS, the EU Delegations and the national authorities to increase the impact of the EU policies through closer cooperation and blending, including bundling of IPA and EIB funds. In this respect, closer cooperation and engagement, including with other donors, in local processes, namely the EU instigated National Investment Committees investment fora and the establishments of single project pipelines could also help increase the impact of such policies. The Western Balkans Investment Framework (WBIF) plays an increasingly important role helping coordinate, prepare and support those investments most needed for boosting growth and jobs. The WBIF is expected to expand further strategically in terms of sector coverage and financial allocations.

The Commission has adopted a list of Projects of Common Interest (PCIs) for the development of trans-European energy infrastructure. Revised lists of Projects of Energy Community Interest (PECI) and Projects of Mutual Interest (PMI) were adopted by the Energy Community Ministerial Council in November 2018.[20] The EIB should consider

---

[19] Revised Indicative Strategy Paper for Turkey (2014-20), adopted on 10 August 2018, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180817-revised-indicative-strategy-paper-2014-2020-for-turkey.pdf

[20] Decision 2018/11/MC-EnC on the establishment of the list of projects of Energy Community interest (https://www.energy-community.org/dam/jcr:d9dc16f7-ca43-439e-9b74-c685835584f5/Decision_2018_11_MC-EnC_list_projects_112018.pdf) and Recommendation 2018/01/MC-EnC on projects of mutual interest between Contracting Parties and Member States of the European Union (https://www.energy-community.org/dam/jcr:5c4a96a7-2b28-4325-baec-b0dd1ab8e31b/REC_2018_01_MC-EnC_projects_112018.pdf).

opportunities to implement these networks and (with the EU's help) overcome difficulties in financing interconnections between countries.

3.5 EIB cooperation with the Commission, EEAS and other International Financial Institutions

3.5.1 Turkey

Cooperation between the Commission and the EIB in Turkey continues to be very close. Over the last ELM period, roughly 40% of loans were made blending IPA with EIB own funds, while the rest were made on the basis of the current or previous mandates.

Cooperation also involves the EIF, which has actively participated in the development of the venture capital and private equity industry in Turkey. The EIF implements the Greater Anatolia Guarantee Facility (GAGF), supported by EUR 51.2 m of IPA funds, targeting a total lending volume of EUR 937.5 m complemented by EIB and local banks' lending. Under the G43 Venture Capital Project (EUR 16.3 m IPA funds), private equity investments in the least developed provinces of Turkey will be supported to the tune of EUR 30 m.

The EIB is also a part of the Crisis Response Package designed by the Commission in the aftermath of the euro area crisis, lending to SMEs via local banks at favourable conditions, thanks to EUR 30 m of interest-free IPA grants reducing the price of EUR 120 m EIB loans. The EIF is also the selected implementation partner for the Technology Transfer Accelerator project.

In addition, though mostly on its own risks and not under the ELM, EIB cooperates well with IFIs, in particular EBRD, in field of private sector operations.

3.5.2 Western Balkans

Cooperation between the EIB, the Commission and also other financial institutions takes place in particular in the context of the WBIF. The EIB has been a key partner in the achievements of the WBIF: of the EUR 323m approved by the Steering Committee of the WBIF during the previous ELM period 2007-2014, approximately EUR 128m (39.6% of the total) has been blended with EIB resources for investment projects (transport, environment, energy and other infrastructure) and for private sector support (EDIF). Also, of EUR 347.5m approved by the Steering Committee of the WBIF during the period 2015-2017, approximately EUR 182.4m (52.5% of the total) has been blended with EIB resources for investment projects in the transport sector under the so called "connectivity agenda". It is expected that the cooperation between the Commission and the EIB will further deepen in this respect.

In this context, the Western Balkan Enterprise Development and Innovation Facility (EDIF) was established - with Commission as main donor - to enhance access to finance of SMEs and to promote changes in regulatory environment in support of private sector development. The EIB should continue its relation with this facility, which is managed in close cooperation with the beneficiary countries, IFIs and other organisations active in the region, e.g. the EBRD, OECD and the World Bank.

The EIB should also continue to cooperate with the Commission and other partners to boost energy efficiency and renewable energy sources in the Western Balkans. The Green for Growth Fund (GGF) is a good example for such cooperation. The mission of GGF is to contribute, in the form of a public private partnership with a layered risk/return structure, to enhancing energy efficiency and fostering renewable energies.

Overall, the EIB should maintain operational cooperation and co-financing with IFIs, which have increased significantly over the last years.

3.6 Operational Focus 2014-2020

3.6.1 Turkey

Sector July 2014 – December 2017	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	%
Transport	770	63%	70	1%	840	14%
Agriculture, fisheries, forestry	220	18%	-	0%	220	4%
Services	200	16%	-	0%	200	3%
Solid waste	13	1%	-	0%	13	0%
Water, sewerage	13	1%	35	1%	48	1%
Energy	-	0%	450	9%	450	7%
Credit lines	-	0%	3,900	78%	3,900	63%
Health	-	0%	320	6%	320	5%
Industry	-	0%	200	4%	200	3%
Grand Total	**1,215**	**100%**	**4,974**	**100%**	**6,189**	**100%**
	ELM	**20%**	**Facility**	**80%**		

Local private sector development, in particular support to SMEs

SMEs and mid-caps should remain a high priority of the EIB in Turkey in the years to come, both in cooperation with the public and private sector banking partners, and taking into account the priorities set in the reviewed Indicative Strategy Paper, namely innovative entrepreneurship (start-ups, incubators, etc.) and the transition to a green economy. Transactions consisting of loans to central banks and ministries for on-lending to commercial banks to further on-lend to final beneficiaries (also known as “Apex Loans”) should be exceptional and should only be considered when strong justifications and safeguards can be demonstrated, in the spirit of the joint note referred to in section 1.2. The EIB, in close cooperation with the EIF should continue to seek opportunities for co-financing and blending in cooperation with EU Regional Programmes and the Turkish Ministry of Science, Industry and the Technology to maximise the efficiency, impact and visibility of common action in favour of SMEs. Operations enhancing the development of local capital markets should also be considered in this context.

Investments in research and development oriented to strengthen the economy's productivity and competitiveness would be another critical tool in combating the low average productivity of the Turkish economy. Furthermore, the EIB should consider additional support to R&D programmes by leading public research institutes or private sector entities to underpin the country’s growth potential. Depending on the success of ongoing pilot scheme, further roll-out of facilities in favour of the agricultural sector or rural development could be considered in the years ahead.

Development of social and economic infrastructure

In the transport sector, the priorities should remain focused on the railway sector, including the priority transport corridor between Ankara to Istanbul, and on urban infrastructure schemes (e.g. Eurasia Tunnel, light rail). Concerning IPA II financial assistance to the

Transport sector, the railway line connecting Turkey with the Bulgarian border and the TEN-T network will be the most relevant infrastructure project financed by IPA II in the whole period, covering almost 90% of the Transport IPA programme 2014-2016 budget. Further priorities should be projects that support the promotion of safe and sustainable, low-emission, urban transport accessibility and inter-modal transport as indicated in the reviewed ISP. The environmental infrastructure especially at local authority level requires huge investments in the areas of water, water treatment and waste management to meet the EU acquis. The EIB should take into account the IPA investments in this regard but also pay attention to the new priorities in the reviewed ISP focusing in soft projects on *acquis*-related Institution Building activities for environment, biodiversity climate change and support to disaster and risk management. As a principle EIB should look for projects that have the most visible impact on the population and the environment, and that have transboundary impact. Whilst the EIB has financed a number of investments by the largest metropolitan centres and should continue this approach, it should pursue its discussions with the Turkish Treasury and domestic partners to further widen its reach to include medium-sized municipalities in this respect.

The energy sector requires significant investments also in terms of generation, Liquefied Natural Gas (LNG), distribution and transmission capacity, the latter more in particular given the central role of Turkey in the context of the EU Energy Policy. Renewable Energy and Energy Efficiency should remain a priority sector for further EIB's support, also through a widening network of financial intermediaries to strengthen the EIB’s support in favour of small and medium-sized investments.

Turkey is fundamentally vulnerable to earthquakes because of its geographical location between the tectonic plates of Eurasia and Africa/Arabia. The eastern provinces of the country along the East Anatolian Fault have been recently hit by major quakes, but also the Istanbul area stretching to Izmit and Duzce on the North Anatolian Fault are significantly at risk. Given Istanbul’s predominant role in the country’s economic fabric, any devastation from a major earthquake would have far reaching repercussions on the country’s economy. Turkey has set up a dedicated investment programme with the aim of strengthening Istanbul’s resilience to major earthquakes. If appropriate, the EIB might consider supporting a widening of the investment programme for earthquake risk mitigation, set up 2008 in close cooperation with the World Bank. Civil protection, disaster risk management and emergency response activities have been prioritised within the Environment and Climate Change portfolio in the reviewed ISP for Turkey.

In order to reinforce the country’s human capital potential, the EIB should consider projects in support of the health and educational sector and enhance access to healthcare facilities. The EIB should consider supporting Turkey's efforts to set up a significant investment programme on PPP basis in health sector to strengthen quality and efficiency of other funding sources to this capital intensive sector.

Climate change mitigation and adaptation

The EIB should seek to support Turkey's investments in energy efficiency and renewable energy, both in its public buildings and its SMEs and mid-cap sector.

Furthermore, the EIB could focus on implementation of Turkey's climate change strategy, e.g. in sectors such as protection and improvement of natural forests, afforestation and measures to prevent forest fires, reducing flooding risks and forest rehabilitation, afforestation and erosion control.

EIB should continue its support to Turkey's efforts to deal with aftermath of earthquakes and to Turkey's work in the field of flood prevention and increasing climate change impact resilience.

3.6.2 Western Balkans

Sector July 2014 – December 2017	**ELM (EUR m)**	**%**	**Facility (EUR m)**	**%**	**Total (EUR m)**	**%**
Credit lines	320	46%	500	100%	820	69%
Transport	247	36%	-	0%	247	21%
Health	65	9%	-	0%	65	5%
Water, sewerage	36	5%	-	0%	36	3%
Services	26	4%	-	0%	26	2%
Grand Total	**694**	**100%**	**500**	**100%**	**1,193**	**100%**
	ELM	**58%**	**Facility**	**42%**		

Local private sector development, in particular support to SMEs

The EIB should continue to support SME investments in the region through its lending operations, both via public sector development banks and commercial banks. The EIB should cooperate with local financial intermediary institutions and ensure that financial benefits of operations under ELM are passed on to their clients and that they provide high value-added. Transactions consisting of loans to central banks and ministries for on-lending to commercial banks to further on-lend to final beneficiaries (also known as “Apex Loans”) should be exceptional and should only be considered when strong justifications and safeguards can be demonstrated, in the spirit of the joint note referred to in section 1.2. The EIB should, as far as possible, increase the diversification of its financial partners.

In the context of the WBIF, the EIB could support the implementation of EDIF to enhance access to finance for innovative SMEs, start-ups and other high growth SMEs difficult to reach with ordinary SME loans as well as through technical assistance promote the development of a local business environment conducive to investment.

In order to avoid as much as possible the risk of market distortion that could be potentially caused by EIB intervention covered by EU budgetary guarantee, the added value of the EIB’s intervention should receive the EIB’s careful attention. This is particularly important when studying possible operations in sectors and countries where there is strong competition and/or market or close-to-market conditions.

Development of social and economic infrastructure

The EIB should continue its support to the development of social and economic infrastructure in line with the priorities agreed between each country and the EU as well as at the level of regional organisations (such as South-east Europe Transport Observatory (SEETO), Energy Community Secretariat (ECS), etc.). This support should concentrate first and foremost on projects in transport and energy infrastructure, in line with the Commission's agenda on connectivity. Where possible, support should also continue on environment as well as health and education.

Where appropriate, the EIB should ensure that projects would benefit from technical assistance and grant financing from the WBIF and from synergies between the WBIF and the support provided through JASPERS.

EIB should consider gradually entering into higher risk and innovative projects, crowding in private finance. In particular under the WBIF, estimates of expected private sector funds mobilization are still modest and the EIB should aim to promote private sector participation in a broader range of sectors, in addition to the energy sector, where two thirds of that private financing already come from project developers. The foreseen Western Balkans Guarantee instrument (to be launched in 2019) will serve as an opportunity to develop such projects with higher private sector participation.

Climate change mitigation and adaptation

The ELM Climate Strategy is expected to support the gradual growth of the EIB's climate related activities, with climate change financing currently representing only 2% of ELM financing in the Western Balkans. This should also be facilitated by the materialisation of climate change projects for which EIB is the lead IFI under the WBIF.

Recent floods resulted in major human and economic losses and required urgent remedial action. The EIB should continue its discussions with the authorities to support investments in the field of flood prevention, including through green infrastructures and ecosystem-based adaptation, based on its long standing experience in the sector. Upgrading the energy efficiency standards of public buildings, including schools and hospitals, will make an important contribution towards reduction of CO_2 emissions. The EIB might consider identifying specific investment programmes with the relevant national authorities in close cooperation with other financing institutions and WBIF.

4 GUIDELINES FOR EIB FINANCING IN EU NEIGHBOURHOOD AND RUSSIA

4.1 General context of EU relations

The European Neighbourhood, both the Southern Mediterranean region and the Eastern Neighbourhood region, is of strategic importance to the EU. Taking into account the recent political and socio-economic developments in the neighbourhood countries, European Neighbourhood Policy (ENP) was revised in November 2015[21]. The reviewed ENP has an overarching goal of contributing to resilience of the Neighbourhood through stabilisation. In order to attain its objective, the new ENP has been focusing on four priority areas: 1) Good governance, democracy, the rule of law and human rights, 2) economic development, 3) security, 4) migration and mobility. Through the ENP, the EU works with Southern and Eastern Neighbours to foster stabilisation, security and prosperity. The implementation of the reviewed ENP is closely coordinated with the Global Strategy for the European Union's Foreign and Security Policy.

Developments in the EU's Neighbourhood and inside the EU have continued to confirm the importance of close and fruitful working relations between the EU and its neighbours. Terrorist attacks in the EU and in neighbouring countries demonstrate the need to keep strengthening cooperation both on security and on the political and socio-economic drivers of violent extremism. Tackling irregular migration and responding to the flows of refugees remain important challenges for both the EU and its neighbours, and key areas on which to focus our work given the continued instability as a result of conflicts, especially in Libya and Syria. To the East, Neighbourhood countries continue to grapple with societal transformation

[21] Joint Communication on the ENP Review (JOIN(2015) 50 final), adopted on 18 November 2015, welcomed by the Council Conclusions of 14 December 2015.

amid pressure from an increasingly assertive Russian foreign policy. The EU and its partners in the East and the South are focusing on sustainable economic development, employability, youth employment, upholding the EU's commitment to promote democracy, the rule of law and respect for human rights, and good governance with effective and accountable public administrations and participation of civil society. The EU has also been encouraging Neighbourhood countries' structural reforms to improve the business environment, boost trade and support SMEs.

Since the ENP Review, there has been a progress on reenergising the relations with partners through new, differentiated partnerships focused on a narrower set of areas that reflect better the needs and aspirations of the partner countries and the EU interests and values. The Partnership Priorities and other equivalent documents (e.g. Strategic Partnerships) were agreed with seven Neighbourhood countries and two Association Agendas (with Georgia and Moldova) were updated.

Cooperation with Libya

Following the conflict in Libya at the beginning of the decade, Libya still faces major challenges in terms of stabilising the country and taking forward a process of democratic transition. Libya has been made eligible for EIB lending, but given the ongoing instability, EIB should consult with the EEAS and Commission to determine the necessary conditions that would permit an approach to the Government to start discussing a framework arrangement. Although already rich in resources, Libya could benefit from financing to support diversification of the economy and restoration of its infrastructure in priority areas for the EU.

Cooperation with Syria

As of 2011, the Council and the European Parliament have already explicitly invited the EIB not to approve new financing operations in Syria. Therefore, Syria is no longer an eligible country.

Cooperation with Belarus

The progress in EU-Belarus relations that led, among others, to the lifting of most restrictive measures against Belarus, resulted in the extension of the mandate of the EIB to Belarus in 2016. On 15 May 2017, the EIB signed a Framework Agreement on Cooperation with Belarus.

Cooperation with Russia

Following a sharp decrease in bilateral trade since 2013, Russia has dropped to the fourth position among the EU's trade partners. However, the EU is still by far the largest trade partner for Russia, with supplies of oil and gas making up a large percentage of Russia's exports to Europe. The legal basis of EU-Russia relations remains the EU-Russia Partnership and Cooperation Agreement.

The illegal annexation of the Crimean peninsula and Russia's role in the destabilization of eastern Ukraine have affected the EU-Russia relationship and also had an impact on bilateral cooperation, including EIB operations. Since July 2014, in accordance with the European Council, the EIB has suspended the signature of new financing operations in Russia. The EIB ensured that its financing operations with Russian and Russian-related counterparts are in full compliance with the EU's approach towards Russia. In this context, the EIB should maintain a continuous dialogue with the Commission and EEAS.

4.2 Overview of EIB activity over the period 2007 – June 2014

During the previous ELM period, the EIB financed almost EUR 15 billion of lending operations across the Neighbourhood region. The bulk of EIB lending occurred under the ELM (93%), with additional operations using the EIB's ORF.

In addition to its own resources, the EIB was also managing EU budgetary resources. In the Mediterranean region, this comprised budgetary resources for technical assistance (over EUR 100 m) and risk capital activities (amounting to EUR 224 m) as well as the FEMIP Trust Fund (FTF). For technical assistance in the Eastern Neighbourhood the EIB managed the Eastern Partnership Technical Assistance Trust Fund (EPTATF), and accessed grant funds from Eastern European Energy Efficiency and Environment Partnership (E5P). For further support to its lending activities, the EIB blended its resources with grants from the Neighbourhood Investment Facility (NIF).

4.2.1 Southern Neighbourhood

Over the 2007-June 2014 period, the bulk of the investments were realised in the energy (mainly gas powered electricity generation, gas and electricity transmission lines and renewables), transport (mainly roads, motorways, urban railways and seaports), water, and industry (mainly fertilizers, refined petroleum products, and some chemicals, cement, motor vehicles) sectors. The main recipients of loans under the ELM were located in Morocco, Tunisia and Egypt (together 64%).

Sector 2007-June 2014	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	**%**
Energy	3,287	34%	685	83%	3,972	38%
Transport	2,393	25%	-	0%	2,393	23%
Industry	1,381	14%	89	11%	1,470	14%
Credit lines	1,003	10%	-	0%	1,003	10%
Water, sewerage	978	10%	-	0%	978	9%
Others	663	7%	55	7%	718	7%
Grand Total	**9,705**	**100%**	**829**	**100%**	**10,534**	**100%**
	ELM	**92%**	**Facility**	**8%**		

For over 30 years of operations in the Mediterranean neighbourhood, the EIB has developed a firm position and strong relations with clients in the region. FEMIP has provided a broad range of instruments suited to the needs of the Mediterranean partner countries, from loans to risk capital, guarantees and technical advisory services. In the Mediterranean region, climate financing reached EUR 1.4 billion over 2007-June 2014, representing 13% of the total volume signed on EIB own resources.

The EIB assigned particular importance to the regional dimension, especially in the case of transport or energy projects. Thus, in addition to existing infrastructure operations, the EIB proposed sector-focus advisory initiatives to support project origination, preparation and upstream capacity building, in collaboration with other partners across the region. Initiatives already under implementation include the Southern Neighbourhood Advisory Programme in the Transport Sector (SNAP-T), TransTrac and Logismed programmes, in the transport sector, as well as the MeHSIP I and II programmes in the water sector and the Public-Private Partnership Project Preparation in the Southern and Eastern Mediterranean (Med5P) initiative to support the emergence of PPP projects, largely financed with grants from EU budget via the NIF. Furthermore, recognising the importance of the private sector in promoting sustainable growth, the EIB's activities under the previous ELM included EUR 1 billion of intermediated lending.

4.2.2 Eastern Neighbourhood and Russia

During the course of the 2007-June 2014 ELM period, EIB financing in the Eastern Neighbourhood and Russia totalled EUR 4.4 billion, supporting 51 projects (with Ukraine having a share of over 40%, followed by Russia with over 30%)[22].

The EIB started operations in this region relatively recently compared to its long-standing record in other regions and lending volumes grew substantially during the abovementioned period. As such, the EIB has established itself as a significant and visible financing partner in support of the EU policy throughout the region, though still significantly smaller than for example the EBRD and the International Bank for Reconstruction and Development (IBRD).

In the first years of the previous ELM period, the main focus had been on projects of significant interest to the EU in transport and energy, telecommunications and environmental infrastructure. Since 2010, the EIB has broadened its activities in particular in support of the private sector, which was made possible by the broadening of the sectoral remit resulting from the revision of the ELM. Reflecting the needs of the beneficiary countries, its loan portfolio is hence currently concentrated on support to SMEs through local intermediaries, transport and energy. Credit lines through intermediary local banks gained the largest share of the portfolio.

Sector 2007-June 2014	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	**%**
Credit lines	1,698	41%	100	45%	1,798	41%
Transport	1,240	30%	-	0%	1,240	28%
Energy	861	21%	40	18%	901	21%
Water, sewerage	184	4%	-	0%	184	4%
Telecommunications	115	3%	-	0%	115	3%
Others	75	2%	81	37%	156	4%
Grand Total	**4,173**	**100%**	**220**	**100%**	**4,394**	**100%**
	ELM	**95%**	**Facility**	**5%**		

Climate financing reached EUR 1.05 billion, representing 23% of the total volume signed on EIB own resources. With regard to strategic infrastructure, the EIB continued to support the expansion of connection with the EU market, energy and environment.

In parallel, EIB expanded the use of blending instruments and intensified its strategic and operational cooperation with EBRD and other financial institutions. To sustain its lending

[22] Under the current sanctions regime the EIB is not pursuing new operations in Russia.

activities and consolidate its position in this strategic region, the EIB aimed at securing additional sources of finance and building partnerships with IFIs, as well as a continuing alignment with EU priorities.

4.3 Regional macroeconomic situation

Southern Neighbourhood

Eight years after the social uprisings in many Arab countries, the macroeconomic and financial situation in the Southern Mediterranean region remains weak and vulnerable. This situation is exacerbated by the intensification of civil strife and armed conflicts in the region (mainly in Syria, Libya and Gaza). Significant downside risks remain as numerous internal and external economic imbalances persist despite incipient reform efforts amidst a mostly convoluted political environment. The fragile political and security situation and the difficult business environment hamper private sector activity. They also hamper the implementation of complex projects, needed to address existing infrastructure gaps and within-country disparities. Many countries in the region suffer from poor infrastructure quality, according to the World Economic Forum's Global Competitiveness Index 2017.

The economic performance of the Southern Neighbourhood countries is slowly improving. The economies of the region expanded by 2.8% on average in 2017. Growth prospects have improved for most countries due to the stronger external demand, especially from Europe, and the stabilisation policies in some countries. This however may not be enough to substantially reduce high unemployment, particularly of youth and women, and address regional disparities within countries.

At the same time, security threats and unrest pose a continuous risk to growth in several countries. Economic activity in Libya and Syria is expected to remain far below potential due to the ongoing armed conflicts, as is the case for Palestine due to the complicated relationship with its neighbours.

On average, fiscal positions have improved in 2017 compared to 2016, but the average public deficit (unweighted) still remains at 6.4% of GDP for the region. Subsidies continue to be one of the troubling common factors weighing on the fiscal deficits, although commendable work has been done on subsidy reform, particularly in Morocco and Jordan. There have also been signs of improvement in Egypt in this area as it implements reforms within the framework of the IMF programme. Nonetheless, persistent large deficits are pushing up public debt levels which reached 79% (unweighted). Public debt to GDP ratios exceeded 90% in Egypt, Jordan and Lebanon with external debt to GDP close to or above 70% in Jordan, Lebanon and Tunisia.

External vulnerabilities remain, but have eased due to stronger external demand. Some countries are still dependent on highly concentrated export structures (primarily fuels) and exposed to commodity price shocks, although they have recently benefited from the recovery of oil prices from their low in 2016.

Current account deficits remain significant for many countries and on aggregate the region will likely remain in deficit in the medium term. Algeria, Jordan, Lebanon, Palestine and Tunisia posted current account deficits above 10% in 2017. Foreign exchange reserves have been falling on average in the region since 2013, particularly due to the sharp decrease in reserves available in Algeria (albeit from a high base). In order to counter this situation and stimulate local production, some countries in the region have resorted to increasingly protectionist trade policies: this is the case, in particular, for Algeria and Egypt, two of the region's largest economies, but a similarly concerning trend can be seen in other countries as well.

Inflationary pressures have eased in most of the countries in the region even in Egypt, which suffered a steep rise in inflation from late 2016 due to its devaluation; inflation is now on a downward trend. Most countries in the region remained net recipients of foreign direct investment. However, FDI flows to North Africa were down 4% in 2017; while investment in Egypt was down, the country continued to be the largest recipient in Africa. Structural problems and ongoing instability in the region continue dampening the prospects for stronger FDI inflows, despite the region's potential.

Financial sectors in the region are dominated by banks pursuing traditional business models. The percentage of firms with a bank loan is comparatively high in Lebanon, Morocco, and Tunisia, whereas Egypt, Jordan and West Bank and Gaza are lagging behind as shown by data from the EBRD/EIB/World Bank MENA Enterprise Survey. Lending to the private sector is often concentrated at a small number of large firms. This can exclude the vast majority of firms from access to bank lending, even if credit to the private sector is high. Non-bank financial institutions and capital markets are still at an early stage of development. While 73% of firms claim that they are not credit constrained, 58% of these firms do not even apply for a loan with a bank. In practice, these firms are shutting themselves off the formal financial sector, becoming disconnected.

Structural reform needs vary across countries, but some vulnerabilities are shared. In this respect, many Southern neighbours require structural reforms to: develop financial markets, improve economic governance, strengthen the role of the private sector, improve the business environment, tackle high youth unemployment and skill mismatches, and – especially in commodity-dependent countries – encourage economic diversification.

Eastern Neighbourhood

In the Eastern Neighbourhood, the vast majority of countries achieved higher GDP growth in the second half of 2017 than initially expected, on the back of strong export performance and growing private consumption amid low inflation and a tight labour market. As a result, aggregate real GDP growth in the region reached 3.4% in 2017, the highest level since 2013.

Overall, real GDP growth is expected to accelerate progressively across the region to 3.5% in 2018 and 3.7% in 2019, driven mainly by external demand, notably from the EU and Russia, as well as robust domestic demand supported by growing inflows of remittances and improving consumer confidence. For oil exporters such as Azerbaijan, the recent recovery in oil prices will support the economy, yet growth will continue to remain below the rates seen in the previous decade.

Price pressures in the Eastern Neighbourhood remain modest overall. A healthy harvest has helped contain food prices, which along with solid performance in most of the region's currencies, has kept inflationary pressures in check. This has opened up space for some central banks in the region (Armenia, Belarus, Moldova) to reduce interest rates in order to stimulate the recovery, while others (Ukraine, Georgia) have recently tightened monetary policy in response to stronger economic momentum at home, as well as tightening financing conditions globally, which has made external refinancing more challenging for many emerging market countries.

In 2017, the economic upturn and the ongoing PFM reforms contributed to across-the-board improvement in the fiscal positions, with the average public deficit (unweighted) decreasing to 2.1% of the GDP for the Eastern Partnership region, down from 3.0% in 2016 (excluding Azerbaijan that returned to budget surplus at 0.9% of the GDP in 2017, after recording 1.2%

deficit in 2016). Government deficits narrowed as a result of the revenue increase due to accelerated growth, while growth in public spending was contained. In some countries (Moldova, Ukraine) this also translated into a decrease in public debt-to-GDP ratios in 2017.

Public debt metrics largely stabilised over the last two years and no significant worsening is expected in the near term in the context of the ongoing economic recovery. However, high levels of external debt remain a major source of concern (also in view of the high exchange rate risks). In 2017, external debt exceeds 100% of GDP in Ukraine (at 104%) and Georgia (at 108%), and is also very elevated in Armenia (at 91%) and the Republic of Moldova (at 86%).

In parallel, external vulnerabilities have been somewhat reduced on the back of increased demand from trading partners, which has benefited export performance. Current account deficits are moderate (below 3% of GDP) in Armenia, Belarus and Ukraine, while Azerbaijan has returned to surplus thanks to rising oil prices. Even Georgia's deficit narrowed to single digits in 2017.

In order to lift up long-term growth trajectories, macroeconomic stabilisation policies in the Eastern Neighbourhood need to be accompanied by ambitious structural reforms aimed at addressing persistent vulnerabilities. In 2017, progress on that front was mixed across the region. In Ukraine, reforms were supported by policy measures agreed with the IMF and other international donors including the EU. Wide-ranging reforms took place in the banking, energy and social sectors (healthcare and pensions). Georgia having strengthened its banking regulation and supervision has turned towards long-term structural reforms, such as education. The Republic of Moldova undertook deep reforms in the field of corporate governance in the financial sector, which helped to restore economic and financial stability in the country.

Nonetheless, there is still substantial scope in the Eastern partners for strengthening institutional capacities and judicial independence, fighting corruption and improving the business climate to attract investment. Other key remaining structural reform challenges across the region include further developing domestic capital markets, fully reaping the opportunities created by the conclusion of trade liberalisation agreements with the EU and other regional partners, improving public service delivery notably through the reform of public administration and of state-owned enterprises, unbundling energy sectors, promoting economic diversification in those countries overly dependent on commodity exports, investing in education and training to enhance labour productivity, and improving social protection systems to reduce poverty. Finally, in line with evidence showing that the SME sector remains financially constrained or even discouraged from applying for loans, access to finance needs to be further enhanced to make the formal SME sector sustainable, integrated and inclusive and to increase its contribution to the value added in the region.

Russia

After undergoing a significant contraction between 2015 (-2.8%) and 2016 (-0.2%) due to the confluence of declining oil prices, sharp rouble depreciation and sanctions, growth prospects in Russia have moved into positive territory. Economic activity recovered in 2017 (+1.5%), amid stabilising oil prices and a more general improvement in the macroeconomic environment. The Central Bank of Russia has been successful in reining in inflation, which fell to 2.9% in April 2018, much below the CBR's 4% target, and stabilizing the financial sector. The use of fiscal buffers throughout the crisis provided a key source of resilience and allowed for stimulus measures targeted at certain sectors (autos, manufacturing).

Although the economy is expected to expand in 2018 and 2019, by 1.7% and 1.6% respectively, growth prospects still remain muted overall in line with subdued domestic demand. Real wage growth, which underwent a severe contraction following rouble devaluation and the ensuing spike in inflation, has moved into positive territory once again as upward price pressures have moderated. Consumption growth is set to benefit from improving household sentiment and pick up in credit supply. Together with moderate investment recovery and growing exports it will support the growth outlook, despite strong growth in imports. Monetary policy is set to loosen marginally providing some support to demand, offset in part by the ongoing consolidation of the government's budgetary position.

The crisis has highlighted the economy's exposure to developments in the oil and gas sector and prompted efforts towards diversifying the economy's sources of growth, although progress so far has been limited. The Russian economy remains heavily reliant on the energy sector, with energy products accounting for over one-half of merchandise trade and one-third of fiscal revenues. In addition, despite the authorities' ambitions to diversify the economy towards alternative sources of growth, progress appears to have been very slow thus far: in Gross Value Added terms, extractive industries and agriculture have marginally increased their share of economic activity over recent years, while the manufacturing industry is currently still below 2013 levels. Although numerous plans have been announced over recent months for further assisting in the economy's diversification, progress in implementing structural reforms is expected to be slow, particularly given Russia's poor record in this area. However, the major reform the pension system, announced in June 2018, should have a positive impact on potential growth and fiscal sustainability going forward.

4.4 EU regional policy framework

The EU regional policy framework is set by the reviewed European Neighbourhood Policy (ENP). The ENP Review, initiated in 2015, was based on a wide consultation process involving partners and EU Member States, and drawing on their inputs. It introduced a new approach that encompasses greater respect for the diverse aspirations of the EU's partners; more effective pursuit of areas of mutual interest; new working methods to support a greater sense of ownership by the partners and greater involvement and shared responsibility by the Member States; as well as greater flexibility in the way the EU conducts its policies and its development funds. A Joint Report (HRVP/Commission) on the implementation of the reviewed ENP was adopted in May 2017.[23]

The Union for Mediterranean (UfM) brings together EU Member States, the Southern Neighbourhood and other countries of the Mediterranean region. The UfM has a unique potential to deliver direct benefits to the region particularly in the areas of youth employment, entrepreneurship, environment, water and infrastructure.

In 2009 the EU and Eastern Partners[24] launched the Eastern Partnership (EaP) as a specific dimension of the ENP to support partner countries' sustainable reform processes with a view to accelerating their political association and deep economic integration with the EU. The pace of reforms varies from country to country. Cooperation with Georgia, Moldova and Ukraine is based on Association Agreements with the EU, including Deep and Comprehensive Free Trade Areas, which provides basis for a very advanced engagement with the EU. With Armenia, the EU has negotiated a Comprehensive and Advanced Partnership Agreement, which takes account of Armenia's other international commitments. Negotiations are advancing with Azerbaijan on a new framework agreement.

---

[23] Joint Report from the EEAS and the Commission to the European Parliament , the Council, the European Economic and Social Committee, and the Committee of the Regions - Report on the Implementation of the European Neighbourhood Policy Review, JOIN(2017)18 final, 18 May 2017.

[24] Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine, and Belarus.

The EaP Riga Summit in 2015 decided to further strengthen the implementation of the EaP while focussing the engagement on strengthening the institutions and good governance, economic development and market opportunities, developing interconnections, as well as enhancing mobility and people to people contacts. In preparation for the EaP Brussels summit in November 2017, the EEAS and Commission developed a comprehensive set of 20 deliverables for 2020[25] focussing the EaP cooperation on tangible mid-term results.

EU relations and goals are further advanced through the European Neighbourhood Instrument (ENI), which has replaced the European Neighbourhood and Partnership Instrument (ENPI). The ENI provides financial support for the implementation of the political initiatives shaping the ENP, including the Eastern Partnership and the Union for the Mediterranean, and will provide over EUR 15 billion of support during the 2014-2020 period. The ENI is also the instrument which finances Cross-Border Cooperation programmes and regional cooperation activities with Russia.

The Neighbourhood Investment Platform (NIP), which forms part of the External Investment Plan (EIP), plays an important role for blending EU budget funds for the region with loans from financial institutions, and contributes to regular exchange amongst financial institutions and EU/EEAS on project pipelines and policy issues.

4.5 EIB cooperation with the Commission, EEAS and other International Financial Institutions

Cooperation with the Commission and the EEAS should continue to form the basis for the EIB's activities with the EU's Southern and Eastern neighbours, including Russia. Synergies and complementarities between EIB financing and EU funds from the ENI, both at regional and country level, to support EU policies have been exploited via several avenues. Some of them have been institutionalised, as in the case of the FEMIP Committee, where the Commission is represented.

Another avenue of cooperation is the "Charter for Enterprise", an initiative supported by the Commission and adopted by the Euro-Mediterranean Industry Ministers in 2004. This represents a platform for Euro-Mediterranean cooperation, to which the EIB is contributing through its “access to finance” thematic area, which covers the credit environment and financial facilities for enterprises.

Synergies between the EU and EIB have also been created in many areas related to horizontal activities such as Horizon 2020 Initiative for a cleaner Mediterranean, the Maritime and Land Highways and the Mediterranean Solar Plan and climate action, all priority areas of the Union for the Mediterranean (UfM) – for which EIB signed an MoU with the UfM Secretariat in 2011. In the maritime field, the Commission, the International Maritime Organisation (IMO) and FEMIP are cooperating through the elaboration of a study which builds upon the experience of the three institutions. The EIB also plays a crucial role in depollution of the Mediterranean, inter alia through direct contribution to the Mediterranean Hot Spot Investment Programme (MeHSIP). As regards to the Mediterranean Solar Plan (MSP), the EIB and the Commission support the elaboration of the MSP Master Plan led by the Secretariat of the UfM and will actively participate in the working group on the MSP financial implementation, paving the way for the financing of concrete renewable energy projects through different financial mechanisms.

The EIB’s operations in Russia during the recent years were focused on projects contributing to the P4M initiative (all seven EIB operations in Russia signed in 2013 received the P4M

[25] Joint Staff Working Document SWD(2017)300 of 9 June 2017.

label from EEAS) or supported the Northern Dimension Policy, including its various Partnerships.

Building on existing cooperation with other IFIs and other partners, the EIB should continue to take further steps towards solid and sustainable partnerships: with EU neighbours that share common values; the EBRD who expanded its geographical scope to the Mediterranean; the UfMS, which complements the Euro-Mediterranean institutional architecture; and European financial institutions to ensure complementarity, coherence and effectiveness. On top of informal coordination already on-going within the Luxembourg Group (WB/IFC, IMF, EIB, EBRD, Commission/EEAS), the EIB should seek systematic cooperation for co-financing with other International Financial Institutions (especially under the G8 Deauville Partnership).

The EIB is active in the NIP, formerly the NIF: of the EUR 753m approved by the Operational Board of the NIF during the previous ELM period, approximately EUR 230 m (30% of the total) was blended with EUR 1.5 billion of EIB resources, mainly in support of the energy, transport, water and sanitation sectors, in both Neighbourhood regions.

In the Eastern Neighbourhood and Russia (before the introduction of the restrictive measures), EIB and EBRD had a long tradition of cooperation as demonstrated by the high percentage of EIB operations structured as co-financing with EBRD: excluding intermediated lending operations, 77% of the EIB lending operations over the previous mandate have been co-financed with the EBRD.

Following the signature of the Tripartite MoU on 1 March 2011 between the Commission, the EIB and the EBRD, a framework for cooperation in particular in the Eastern Neighbourhood[26] has been established in order to better organise the co-operation between the EIB and the EBRD, focusing on complementarity, additionally, and efficient use of their respective resources with the view to enhance the combined impact of the two Banks' respective operations, in the interest of beneficiary countries and of the respective Banks' shareholders.

The new framework of cooperation is based on distinct and complementary mandates and business models of each Bank, and areas of cooperation were clearly identified on that basis. In the spirit of the Deauville Partnership that calls on IFIs to deliver coordinated support to the EU Southern Neighbourhood, the Commission, the EBRD and the EIB have extended the existing tripartite MoU to the Southern Mediterranean region and are for example coordinating in technical assistance initiatives in the fields of Energy and PPPs.

The Mutual Reliance Initiative (MRI) between the EIB, AFD and KfW has been established to promote efficient project co-financing by various financing institutions through the mutual recognition of procedures. It is successfully applied in a number of operations in the Southern Neighbourhood. On the basis of MRI and beyond, the EIB has been exploring the potential for cooperation with KfW and AFD where relevant also in Eastern Neighbourhood countries. In addition, coordination meetings have been and should continue to be held on a regular basis, both at operational and senior management levels between the EIB and its peers. The EIB should also aim to deepen its cooperation with the other IFIs active in the region, in particular the World Bank group, the African Development Bank, the Asian Development Bank (in Southern Caucasus countries) and the Nordic Investment Bank.

4.6 Operational Focus 2014-2020

4.6.1 Southern Neighbourhood

[26] The MoU has been extended to cover the Pre-Accession region.

Sector July 2014 – December 2017	ELM (EUR m)		%	Facility (EUR m)	%	Total (EUR m)	**%**
Credit lines	2,331		48%	4	1%	2,336	42%
Transport	1,065		22%	-	0%	1,065	19%
Energy	918		19%	371	52%	1,289	23%
Water, sewerage	236		5%	-	0%	236	4%
Urban development	135		3%	-	0%	135	2%
Education	53		1%	-	0%	53	1%
Industry	64		1%	169	24%	233	4%
Services	17		0.3%	64	9%	81	1%
Solid waste	10		0.2%	-	0%	10	0.2%
Telecommunications	-		0%	100	14%	100	2%
Grand Total	**4,829**		**100%**	**708**	**100%**	**5,537**	**100%**
	ELM		**87%**	**Facility**	**13%**		

Local private sector development, in particular support to SMEs

In the current context, the EIB should continue promoting employment and growth, including supporting the SMEs and the creation of an enabling environment as main priorities for the future. Transactions consisting of loans to central banks and ministries for on-lending to commercial banks to further on-lend to final beneficiaries (also known as "Apex Loans") should be exceptional and should only be considered when strong justifications and safeguards can be demonstrated, in the spirit of the joint note referred to in section 1.2. In particular, EIB should continue to actively cooperate with local financial intermediary institutions in the Mediterranean countries, provide value added compared to other sources of finance, support sustainable and equitable development and facilitate the creation of new financial products (e.g. to facilitate local currency lending), to unlock the potential of the smallest SMEs to grow.

These operations should complement FEMIP private equity operations carried out with budgetary funds and FEMIP Trust Fund roles which aim both at financing Micro, Small and Medium-sized Enterprises (MSMEs) and improving the financial practices implemented in the Mediterranean partner countries. Risk capital resources could where possible be deployed through a combination of direct investments, co-investments with pre-selected local intermediaries and investments in microfinance institutions, in order to target small operations with high value added.

In order to avoid as much as possible the risk of market distortion that could be potentially caused by EIB intervention covered by EU budgetary guarantee, the added value of the EIB's intervention should receive the EIB's careful attention. This is particularly important when studying possible operations in sectors and countries where there is strong competition and/or market or close-to-market conditions.

Development of social and economic infrastructure

As part of its goal to improve the economic environment of the partner countries, EIB should help to set up an integrated and effective Euro-Mediterranean transport system, with specific focus on the improvement of the extension of Trans-European Transport Networks (TEN-T) interconnections, including at sub-regional level (e.g. in Maghreb). This would also be part of the "Maritime and Land Highways" initiative, identified as a UfM priority. The EIB should also further support rails and road interconnection development in the region which are key elements of further regional integration. Implementation by the private sector or through public private partnerships should be promoted whenever feasible.

The EIB should also consider supporting urban development projects, since the creation of new towns to address problems of housing stress, which was seen as a solution by many governments in the region, has important environmental and social implications that need to be given adequate attention.

Furthermore, the EIB should consider support to the energy sector, with regards to the security of energy supplies, renewable energy (including solar and wind), energy efficiency as well as coordinating the financing of the MSP. As energy demand is expanding fast in most of the Mediterranean countries, there is a need to invest substantially to develop energy infrastructure, including the development of gas and electricity distribution infrastructure. Southern Mediterranean is strategically important for the EU in terms of security of gas and oil supplies from some of the countries but also more broadly in terms of transit from the region and beyond. Beyond security, energy infrastructure can be beneficial to the economic development of the region.

As regards environmental infrastructure, in particular water and sanitation and solid waste, the EIB's operations should aim to follow three main strategic axes: (i) the prevention and reduction of pollution in the Mediterranean, (ii) improved water security and resources management, including treated effluent reuse and climate action adaptation through the implementation of policies of the Union for the Mediterranean, in particular on water and (iii) climate action (with a special focus on adaptation to water-related climate impacts and reduction of greenhouse gas emissions from landfills).

To address the shortcomings of the current ICT infrastructure, the EIB should endeavour to focus on: (i) bridging the digital divide by supporting network expansion in rural and poorly served areas; and (ii) promoting open competition between mobile and fixed line services operators to increase the efficiency of markets and bring down the end-consumer prices.

Finally, EIB should continue to finance projects in the field of education and health in the Mediterranean countries, when appropriate and in line with EU policies. In the education sector, the EIB should seek to support national school-building programmes, with the emphasis on rural areas where possible. In the health sector in particular, the primary objective should be to contribute to the optimisation of the allocation and use of scarce healthcare resources to improve the health of the population of a particular region or country, to help promote access to safe, appropriate and effective healthcare interventions.

Climate change mitigation and adaptation

The Mediterranean region, in particular its Southern and Eastern rims, is expected to be one of the regions most affected by climate change. Considering the high costs of not taking action, specifically in relation to agriculture, tourism, infrastructure, and urbanised coastal areas, investing in this field is expected to generate substantial economic benefits.

As far as EIB financing climate action in the region is concerned, the EIB will pursue climate action projects in a broad range of sectors further specified in the ELM Climate Strategy. Investments in renewable energy should include efforts for the implementation of the MSP, sustainable use of energy and other resources should target industry and key economic sectors, as well as transport and urban development; forestry should include national parks and afforestation, water basin management should be coupled with erosion control and biodiversity, and adaptation and resilience building should in particular target coastal zones and carbon markets. EIB should systematically screen projects in these areas for their climate action potential, and implement project including through the Union for the Mediterranean Climate Change Expert Group (UfMCCEG) and corresponding to its agreed priority areas.

4.6.2 Eastern Neighbourhood

Sector July 2014 - December 2017	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	%
Credit lines	1,421	30%	4	58%	1,425	30%
Transport	1,342	29%	-	0%	1,342	28%
Energy	781	17%	-	0%	781	17%
Water, sewerage	311	7%	-	0%	311	7%
Industry	231	5%	3	42%	234	5%
Urban development	224	5%	-	0%	224	5%
Agriculture, fisheries, forestry	196	4%	-	0%	196	4%
Composite infrastructure	96	2%	-	0%	96	2%
Solid waste	48	1%	-	0%	48	1%
Services	42	1%	-	0%	42	1%
Education	9	0.2%	-	0%	9	0.2%
Grand Total	**4,701**	**100%**	**7**	**100%**	**4,708**	**100%**
	ELM	**99.8%**	**Facility**	**0.2%**		

Local private sector development, in particular SMEs

The EIB should extend its support to the region's SMEs sector as one of the main priorities for the future. Operations might also be dedicated to specific areas like the promotion of a green economy, e.g. by encouraging investments in more sustainable and resource efficient production processes in industry, constructions, agriculture and food processing. In addition to intermediated financing support, the EIB could also support, on a case by case basis, investment projects carried out by the local private sector in Eastern Neighbourhood countries (including local subsidiaries of EU companies, locally-owned companies as well as local Midcaps). This could include projects that contribute to economic integration between EaP countries and the Union, as well as projects that have a strong potential to achieve sustainable growth and job creation.

The EIB should look in priority to support investments arising from the signature of the Association Agreements/ Deep and Comprehensive Free Trade Areas between the EU and Georgia, Moldova and Ukraine, respectively. This could include in particular: support to the private sector to finance the necessary investments and adaptations to ensure that full advantage can be taken of the opportunities offered by the AAs/DCFTAs and to comply with the DCFTA provisions, support to the private sector to further develop trade with the EU and improve the business climate in particular for SMEs, investment in quality infrastructure equipment (e.g. testing equipment, laboratories) related to the implementation of DCFTAs.

Support to the private sector may include innovative financial mechanisms where possible, and aim at enhancing and sustaining jobs creation, including among young / female entrepreneurs. The EIB should aim at facilitating SME development, modernisation and innovation, improving resource efficiency, setting-up and/or improving support networks for SMEs, sustainable production and consumption patterns in various sectors, support to development of the social economy, in particular in less developed areas (microfinance, agriculture, etc.), with a view to integrating them into the global value chain. In this context, the support of the EIB should contribute to the implementation of the Eastern Partnership SME Flagship. Transactions consisting of loans to central banks and ministries for on-lending to commercial banks to further on-lend to final beneficiaries (also known as “Apex Loans”) should be exceptional and should only be considered when strong justifications and safeguards can be demonstrated, in the spirit of the joint note referred to in section 1.2.

In order to avoid as much as possible the risk of market distortion that could be potentially caused by EIB intervention covered by EU budgetary guarantee, the added value of the EIB’s intervention should receive the EIB’s careful attention. This is particularly important when studying possible operations in sectors and countries where there is strong competition and/or market or close-to-market conditions.

Development of social and economic infrastructure

For the transport sector, EIB should focus in particular on financing projects that are on the Eastern Partnership regional transport network map, aiming at the modernisation and interconnectivity of infrastructure. Within the Eastern Partnership transport network, priority should be given to projects on the ‘list of priority projects’. Another focus area is enhancing infrastructure and/or equipment of jointly operated border crossing points, to facilitate movement of goods, customs clearance and security enhancement of borders (ports, airports or terrestrial links), particularly on the priority transport network; and equipment to enhance security at green/blue borders. The EIB should also consider further supporting secondary (municipal) roads including road safety enhancement and urban transport projects. Furthermore, it should continue to support the municipal sector, including within the framework of the EU initiative of the Covenant of Mayors.

The EIB should focus its support to the energy sector on financing operations that contribute significantly to the energy security of the EU and of the Eastern Partnership countries, in accordance with the European Energy Security Strategy; projects of common interest identified in the framework of trans-European energy infrastructure and networks (TEN-E) and Projects of Common Interest (PCI) as well as projects of Energy Community Interest (PECI) or identified as candidate PECI; projects directly contributing to meeting the requirements and the objectives of the Energy Community Treaty; and projects in line with and contributing to meeting partner countries' national policies and targets, in the area of power generation from renewable energy sources; energy efficiency and energy savings (as for instance projects included in National Energy Efficiency and Renewable Energy Action Plans).

In context of environmental infrastructure, the EIB should primarily address the investments which bring the most benefits in terms of the number of population concerned and in terms of reduction of pollutants released to the environment (hot-spots). The EIB should take into account the priorities of ENP and should be fostering action undertaken in the Eastern Partnership framework. The EIB should focus on public sector wastewater and waste management projects (including development of integrated solid waste management systems and upgrades of solid waste treatment and disposal facilities, and the cleaning up of legacy pollution and other hazardous waste, in particular - but not exclusively - those having an impact on the coastal waters / river basins flowing into the coastal waters, taking into account the strategies of HELCOM and the Baltic Sea Strategy). The EIB should also focus on water management projects, to improve water quality, supply and sanitation, taking into consideration EU projects on environmental monitoring, and on environmental infrastructure projects supporting nature protection, biodiversity conservation and land degradation, as well as the forestry sector. Further focus areas are infrastructure projects reducing air and noise pollution, and other environmental infrastructure projects under the Northern Dimension and in the Black Sea region or more generally benefiting from EU grant assistance.

In support of reform and modernisation of the education sector, the EIB should explore the potential to support investments related to the education infrastructure (including in the context of regional initiatives), provided that EIB financing of such projects has a clear added value, and if such projects meet the EIB's requirements. A similar approach should be applied for the health sector.

Finally, the EIB should support the development of modern information and communication technology infrastructure subject to adequate conditions and market demand.

Climate change mitigation and adaptation

As far as EIB financing climate action in the region is concerned, it should actively support national climate change strategies (mitigation and adaptation) of the respective countries, and should seek cooperation with other international organisations active in this field, such as the Commission and the EBRD. While a broad range of climate action investments further specified in the ELM Climate Strategy might be pursued, energy efficiency; renewable energy; sustainable transport; urban infrastructure, and water are viewed as high priorities by the partner countries. The EIB should seek to address environmental challenges in the region, in particular by financing projects focusing on prevention and reduction in the main pollution hotspots of the Eastern Partnership countries.

Activities should also aim at supporting the establishment of the enabling conditions to invest in more sustainable and resource efficient production processes in industry, constructions, agriculture and food processing, which is often involving the private sector. Companies are aware of the necessity of improving the environmental performance of their operations and production processes but many of them cite the lack of financial resources for environmental investments and overall regulatory and policy uncertainty as a primary constraints for adopting more sustainable production methods. Access to affordable financing and appropriate technology and management systems are then needed to start a virtuous cycle of sustainable production investments, while overall policy and fiscal frameworks can provide the enabling conditions to encourage green private investment.

At the same time, afforestation, prevention of forest fires and water basin management coupled with erosion control and biodiversity will gain in importance also within the climate change debate. The EIB should also support projects implemented in these areas.

4.6.3 Russia

The EIB has recast its operational strategy vis-à-vis Russia in view of the Ukraine conflict. It has sought to ensure that its financing operations with Russian and Russian-related counterparts are in full compliance with the EU's strategy towards Russia.

Looking ahead, the EIB should continue to act in full compliance with the EU's strategy, including its restrictive measures. The EIB should eventually re-engage with Russian counterparts only upon request of the EU, adapting its operational approach towards Russia to ensure full and timely alignment with the prevailing EU strategy and with strategic priorities that would be set in that context.

5. GUIDELINES FOR EIB FINANCING IN ASIA AND LATIN AMERICA

5.1 GENERAL CONTEXT OF EU RELATIONS

Central Asia

The political system in Central Asia remains stable. The EU has strengthened its relationship with the Central Asian countries since the adoption of "The EU and Central Asia: Strategy for a New Partnership" by the European Council in June 2007. The EIB is active in three Central Asian countries, Tajikistan (since 2009), Kazakhstan (2010), Kyrgyzstan (2013) and, more recently relations have improved with Uzbekistan. Negotiations of the Framework Agreement with Turkmenistan are continuing.

Asia and Latin America

Due to their growing political and economic weight, partnerships with emerging countries in Asia and Latin America continue to feature high on the EU political agenda. Although some still fall in the category of developing countries, the EU's relationship with those countries in the two regions is quite different. At the same time, the large and incredibly diverse Asia, Central Asia and Latin America regions encompass also less developed countries, with needs closer to the ones of classical aid recipients in other parts of the world. Despite the regions' vast needs and the EU interests, available financing volumes for economic infrastructure, especially beyond the promotion of global public goods, such as climate action, will be limited due to resource constraints.

The European Union and Latin America have established a Strategic Partnership since the first bi-regional Summit in Rio de Janeiro (Brazil) in 1999, which encompasses also the Caribbean. Both regions are natural allies linked by strong historical, cultural and economic ties. They cooperate closely at multilateral and global level and have established political dialogue and cooperation mechanisms at all levels, including at bilateral and continental level. The EU has concluded an extensive web of association and other agreements with individual Latin American countries and regional groupings. The EU is the leading investor in the region with an accumulated FDI stock amounting to EUR 826 billion in 2016 and the second trading partner of Latin America.

Asia is characterised by a high diversity in terms of terms of political, economic, social, security and environmental systems. Asia has surpassed North America by becoming the EU's main trading partner, accounting for 17.9% of the EU's total trade. The EU and China alone trade more than Euro 1 billion a day. EU-Asia relations are expanding, and the EU is seeking an increasingly close relationship, going beyond traditional cooperation, to encompass economic integration and political cooperation – including looking for synergies and exploring cooperation opportunities with new institutions such as the Asian Infrastructure Investment Bank (AIIB). Four of the EU's strategic partners are from Asia: China, India, Japan and South Korea. Furthering strategic dialogues with key partners is a central priority, as well as facilitating Partnership and Cooperation Agreement (PCA) and Free Trade Agreement (FTA) negotiations and their implementation across the region.

5.2 Overview of EIB activity over the period 2007 – June 2014

Cooperation in the area of global public goods (e.g. climate action and environment), support of FDI and maintaining a strong strategic relationship are clearly areas of common interest between the EU and these regions. Own risk operations have been carried out by the EIB in investment-grade countries and/or private sector structures where the financial value added of the Political Risk Guarantee is low, in order to focus the EU guarantee on operations where its value added is higher.

5.2.1 Central Asia

After a first operation of EUR 7m in Tajikistan in 2011, the EIB has launched its activity in Central Asia in 2013 and 2014 with a total of six operations approved. The EIB has utilised all of the previous ELM's portion assigned to Central Asia (EUR 227m).

The EIB is undertaking efforts to blend its resources with EU grants in the framework of the Investment Facility for Central Asia (IFCA). Under the previous ELM period two grants totalling EUR 4.3 m were blended with EIB financed projects.

5.2.2 Asia

Sector 2007-June 2014	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	**%**
Energy	667	44%	1,229	70%	1,896	58%
Credit lines	270	18%	-	0%	270	8%
Transport	241	16%	-	0%	241	7%
Others	164	11%	29	2%	193	6%
Industry	100	7%	135	8%	235	7%
Agriculture, fisheries, forestry	59	4%	368	21%	427	13%
Grand Total	**1,501**	**100%**	**1,761**	**100%**	**3,261**	**100%**
	ELM	**46%**	**Facility**	**54%**		

In line with the ELM's general objectives and regional priorities, EIB lending under the EU guarantee focusses on energy and transport, and to a lesser degree, on industry, forestry and credit lines. The energy sector accounted for the largest share of activities by investment value, also reflecting strong demand for renewable energy projects.

Also in line with ELM objectives, the EIB has made climate change mitigation a priority and there has been a drive to focus on projects which contribute to climate change mitigation and adaptation. During the previous ELM period, 85% of EIB financing in Asia was classified as Climate Action (mitigation and adaptation). Where appropriate, the EIB aims to blend its resources with grants provided by the Asian Investment Facility (AIF), sourced through EU budget. By the end of the ELM period, one EIB loan of EUR 80 m was blended with a technical assistance grant in support of an energy project in Bangladesh.

5.2.3 Latin America

Sector 2007-June 2014	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	%
Telecommunications	814	32%	-	0%	814	22%
Transport	637	25%	-	0%	637	17%
Energy	532	21%	1,194	98%	1,726	46%
Industry	319	13%	11	1%	330	9%
Credit lines	169	7%	-	0%	169	5%
Other	72	3%	16	1%	88	2%
Grand Total	**2,543**	**100%**	**1,220**	**100%**	**3,763**	**100%**
	ELM	**68%**	**Facility**	**32%**		

The sector focus of EIB financing under EU guarantee in Latin America has been mainly on telecommunications (predominantly in Brazil), transport and energy. Lately there has been a drive to focus primarily on projects which contribute to climate change mitigation and adaptation, mainly in the transport and energy sectors. Across the overall programming period Climate Action lending (mitigation and adaptation) represented 42 % of EIB lending in Latin America.

Furthermore, the Latin America Investment Facility (LAIF) provides grants in support of EIB lending activities. During 2010–13, three EIB financed projects were blended with LAIF grants for an amount of EUR 25 m, 13% of the total LAIF amount.

5.3 Regional macroeconomic situation

Central Asia

The fall in oil (and other commodities) prices and the recession in Russia resulted in significant income losses, exacerbated by weakening currencies, increased fiscal pressures and undermined the stability of the financial sectors in Central Asian countries. Average annual real GDP growth fell from 6.5% over 2010-2014 to below 3% in 2015-2016, before rebounding to 4.7% in 2017, as economic activity recovered in Kazakhstan, by far the largest economy in the region.

Economic activity in Central Asia is expected to expand by an average of 4.4% over the next two years. Rebounding oil prices and improving economic situation in Russia are likely to fuel exports, while stabilising exchange rates should curtail inflation, leading to a gradual recovery of private consumption. The rebound is forecast to be supported by the increased public investment spending and the expansion of capacities to extract commodities that are likely to fuel exports. Fiscal policies are expected to support growth, but fiscal space is likely to be constrained by ongoing restructuring of the financial sectors (Tajikistan, Kazakhstan).

Growth in the Central Asia has been traditionally driven by commodity exports and remittance flows leaving it vulnerable to swings in their prices and situation in the neighbouring countries (Russia, China). The business environment and investment climate are weak, but some vital reforms notably in Uzbekistan (e.g unification of the exchange rate) have been recently introduced, indicating some improvement in reform momentum. Foreign direct investments are low, hampered by the unfriendly administrative regimes and a high State interference in the economy. Most of them are directed into the extractive sector with almost no linkages to domestic firms limiting positive effects of FDI (e.g. technology and skills transfer). The banking sectors remain underdeveloped and their fundamental problems (high concentration, weak oversight, reliance on State-backed deposits and lending, strong personal links between banks' owners and political elites, high concentration of risks) hinder effective repair of balance sheets and necessary resolution of weak banks.

Asia

Asia has consistently been the fastest growing region in the world, expanding on average by 5.6% annually between 2012 and 2017 versus average global growth of 3.5%. Three of the world's four largest economies (measured in purchasing power parity terms) are in Asia (China, India and Japan), representing 30% of the world economy according to the IMF's 2017 GDP data. Recent economic performance has been driven by resilient growth in China and the ASEAN region, and gradual acceleration in India.

Asia is also currently benefitting from some recovery in global trade, with Asia having high trade openness and participation in global supply chains. Macroeconomic policies across the region should remain accommodative and underpin domestic demand while cushioning the expected impact of tightening global financial conditions as monetary policy in advanced economies normalizes. The Asian economy is expected to continue expanding at a steady pace of around 5.5% over the next few years as gradual deceleration in China is partly offset by stronger growth in India.

China is undergoing an impressive economic transition towards a more domestically oriented growth model. In China growth is expected to remain at a relatively high level underpinned by supportive macroeconomic policies, slowing gradually as structural constraints start to bite. While risks to the outlook remain balanced over the short run, both rapid credit growth and high levels of corporate indebtedness will remain important medium term risks unless addressed via policy reforms. An excessive focus on investment in the past has led to mounting signs of overcapacity.

India is expected to be the fastest-growing G20 economy in the near future thanks to buoyant consumer demand, public infrastructure investment, growth-enhancing structural reforms, and continued support from low energy prices. However stronger employment creation will be necessary to fully reap the demographic dividend and underpin domestic demand over the medium term.

A renewal of weakness in global trade, possibly triggered by a more protectionist stance by key trading partners and heightened geopolitical tensions, remains an important downside risk. Heterogeneity between Asian economies is also significant, and many economies face specific structural challenges in the future. The Asian Development Bank estimates the infrastructure investment gap that needs to be filled in developing Asian countries over the period 2016 to 2030 to maintain growth, reduce poverty, and address climate change at € 22 trillion. Rapid population ageing and slowing productivity growth across the region should also warrant structural efforts to raise labour force participation and lift potential growth.

On 6 June 2018, the Commission adopted a delegated act to move Iran to the list of countries eligible under the ELM. Possible future EIB activities in the country depend on the approval of the EIB Board of Governors and the signature and ratification of a framework agreement. The 2012 sanctions and the oil price drop after 2014 aggravated the economic problems of

Iran. After the lifting of the sanctions, real GDP recovered from recession in 2015/16 (-1.3%) and grew by 9.8% in 2016, boosted by the swift recovery in oil production and exports. This performance could not be replicated in 2017/18 as oil production reached its capacity limit. In addition, the non-oil sector growth remained sluggish reflecting continued difficulties in access to finance, weak business environment and high interest rates. Medium-term growth rates are expected to be much lower as Iran's difficult relations within the region and the re-introduction of US sanctions pose risks to Iran's external position and economic prospects. In Iraq, neither reserves nor growing oil exports sufficed to buffer the fiscal impact of the oil price decline. The fight against the "Islamic State" brought non-oil growth into negative territory, though rebounding oil prices resulted in economic activity expanding by 11% in 2017. Going forward, the growth outlook is set to brighten further amid rebounding oil prices and increased government revenues.

Latin America

Growth in the Latin America region remains weak compared to other emerging markets. The region grew at 1.4% in 2017, which followed 2 years of a cyclical downturn. While a welcome reprieve, the 2017 growth rate was significantly lower than in other emerging economies, even excluding China. The region is also very diverse, with the aggregate numbers mostly driven by the South America's performance (above 70% of the aggregate), and in particular by the economic situation in the regional giants, Brazil and Argentina and the continuing deep crisis in Venezuela. In contrast, Mexico, the Central America and the Caribbean avoided contraction in 2016 and continued growing at a relatively healthy pace in 2017, despite the latter region having been hit hard by two hurricanes in 2017.

The economic outlook for the region is one of subdued growth with elevated downside risks and continuing differences across countries. Growth is expected to accelerate modestly in the near-term, as the commodity-exporting countries benefit from still robust growth in trade as well as from rebounding commodity prices, in particular oil, natural gas, soybeans and copper. Nevertheless, external economic environment is becoming less favourable, with the effect of firmly shifting the risks to the growth outlook to the downside. Ongoing tightening of global financial conditions is already affecting more vulnerable countries in the region, particularly Argentina and to a lesser extent also Brazil. Continued outflow of capital from the region may destabilize local currencies further and would put negative pressure on public finances. Moreover, the rise in the US protectionism is a direct risk factor for several countries, especially in Mexico, the Central America and Caribbean. The mounting obstacles to immigration may dent remittance flows to these countries, while the rising trade barriers will likely lead to decreased exports. On the other hand, the conclusion of the renegotiation of NAFTA (now renamed the "US-Mexico-Canada Agreement" or "USMCA") has eliminated an important source of uncertainty for Mexico.

Domestically, the Latin American countries have for a long time suffered from a set of interconnected problems. The fiscal situation remains fragile, with several important countries in the region (Brazil, Argentina and Venezuela) running large fiscal deficits. While a gradual tightening of the fiscal policy has been taking place across the region, many governments continue to rely on external financing to cover their spending needs. This exposes the budgets to the changes in the international investors' sentiment. Given that the fiscal multipliers in the region tend to be large, governments also have to tread a fine line between too slow an adjustment, which may be insufficient for reversing the build-up of the public debt, which has reached 80% of GDP in several countries of the region, and adjustment that is too fast, and hence may negatively affect growth (and deepen social inequalities). Furthermore, political uncertainty in the region has recently increased. The region is also marred with corruption scandals, weak governance, rampart crime (particularly in Central America and Venezuela) and social inequality. All these factors are likely to bear negatively on growth. Finally, the region is lagging along several structural indicators, including the level of human capital development, infrastructure and efficient allocation of resources. These bottlenecks weigh on the medium-term outlook of Latin America and hinder the growth potential of the region.

5.4 EU regional policy framework

Central Asia

The EU regional policy framework for Central Asia is outlined in "The EU and Central Asia: Strategy for a New Partnership"[27] by the European Council in June 2009. The strategy strengthens relations in all areas of cooperation, including through the reinforcement of EU-Central Asia political dialogue with regular meetings of EU and Central Asian Foreign Ministers, reinforcement of dialogue on human rights, cooperation in the areas of education, rule of law, energy and transport, environment and water, common threats and challenges (including border management and combating drug trafficking), and trade and economic relations. The strategy is supported by a significant increase in EU assistance from 700 million (2007-2013) to 1.1 billion (2014-2020) under the Development Cooperation Instrument (DCI).

The EU and Central Asian countries have since confirmed their commitment to the strategy and the state of implementation of the Central Asia Strategy is well under way, as reviewed most recently in a Progress Report in June 2017[28].

Asia

Asia comprises high-income industrialised partners and dynamic emerging economies but is also home to two thirds of the world's poor. Development cooperation therefore remains high on the EU's agenda with Asia, with more than EUR 6.6 billion allocated at regional and country level to Asia in the DCI for 2014-2020. Strengthening partnerships also with the more advanced developing countries and emerging donors is a priority to jointly promote the effective implementation of the 2030 Agenda for Sustainable Development in the region and beyond. Policies are being put in place jointly to address common challenges, such as climate change, sustainable development, water resource management, security and stability, governance and human rights, as well as the prevention of, and response to natural and human disasters. Connecting Europe and Asia in particular in the areas of transport, energy, digital economy and people to people contacts has emerged as a guiding theme to promote a European vision and approach to sustainable connectivity, multilateralism and globalisation while providing a platform for engagement with other regional connectivity initiatives.

The EU is stepping up its support to regional integration through the Asia-Europe Meeting (ASEM), and intensifying cooperation with the Asian sub-regions, notably with the Association of South-East Asia Nations (ASEAN) and the ASEAN Regional Forum (ARF).

Latin America

The European Union and Latin America have established a Strategic Partnership since the first bi-regional Summit in Rio de Janeiro (Brazil) in 1999, which encompasses also the Caribbean. Leaders of both regions meet indicatively every two years. Both regions are natural allies linked by strong historical, cultural and economic ties. They cooperate closely at multilateral and global level and have established political dialogue and cooperation mechanisms at all levels, including at bilateral and continental level. The EU has concluded

[27] http://eeas.europa.eu/central_asia/docs/2010_strategy_eu_centralasia_en.pdf
[28] Council conclusions on Central Asia - Foreign Affairs Council meeting of 26 June 2017

an extensive web of association and other agreements with individual Latin American countries and regional groupings.

The EU policy framework for relations with Latin America is defined in the 2009 Communication "EU-Latin America: Global players in Partnership"[29] that updates the 2005 Communication on a "Stronger Partnership between the European Union and Latin America"[30]. Issues such as macroeconomic and financial matters; environment, climate change and energy; science, research and technology; migration; and, finally, employment and social affairs; figure prominently in bi-regional dialogues. These priorities have been complemented and further developed by the decisions taken at different Summits, namely the bi-regional action plan adopted in the EU-LAC Madrid Summit in 2010 and updated in the Summit in Santiago (Chile) in 2013, which was the first EU-CELAC Summit[31], followed by the IIEU-CELAC Summit in Brussels (June 2015).

New priorities for cooperation at both regional and bilateral level have been established under the DCI for 2014-2020, for a total indicative allocation of EUR 2.4 billion.

5.5 EIB cooperation with the Commission, EEAS and other International Financial Institutions

EIB cooperation with EU Delegations in Asia, Central Asia and Latin America is very important. Close interaction promotes synergy, shared know-how, and ultimately allows the EIB to support EU objectives and, with the substantive and logistical support to EIB missions, to achieve its lending targets in a more efficient way.

The EIB is participating in the regional blending mechanisms (IFCA, LAIF, AIF), promoting additional investments and key infrastructures with a priority focus on energy, environment and climate change, transport, SMEs and social infrastructure sectors.

Excluding credit lines, more than 40% of the EIB operations in Asia, Central Asia and Latin America have been co-financed in cooperation with other IFIs during the previous mandate. The EIB has traditionally worked with other IFIs such as the World Bank Group, the Asian Development Bank and the Inter-American Development Bank, with which it shares very similar project due diligence procedures and performance standards. The EIB also works closely with EU National Promotional Banks such as KfW and AFD. Mutual reliance is expected to gradually lead to additional investments by promoting a more efficient allocation of workload and resources among co-financiers. It also works closely with EBRD in line with the Memorandum of Understanding signed between the EIB, EBRD and the Commission. Notably the first EIB operation in Tajikistan was co-financed with the EBRD.

5.6 Operational focus 2014-2020

5.6.1 Central Asia

Sector July 2014 – December 2017	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	**%**
Energy	140	77%	-	0%	140	29%
Agriculture, fisheries, forestry	22	12%	-	0%	22	5%
Water, sewerage	15	8%	-	0%	15	3%
Solid waste	5	3%	-	0%	5	1%

[29] COM(2009) 495/3
[30] COM (2005) 636 final
[31] CELAC - Community of Latin American and Caribbean States (acronym in Spanish)

Credit lines	-	0%	300	100%	300	62%
Grand Total	**182**	**100%**	**300**	**100%**	**482**	**100%**
	ELM	**38%**	**Facility**	**62%**		

In view of the very limited amount earmarked for Central Asia under the ELM, the EIB should utilise this amount for Tajikistan, Kyrgyz Republic and Uzbekistan. In Kazakhstan, which is an investment grade country, the EIB should envisage to finance operations exclusively using the ORF.

Local private sector development, in particular support to SMEs

This is a general objective for the EIB's activities in the Central Asian countries. The access to credit for SMEs remains a major hurdle for the further development of the SME sector, which would contribute to the inclusive sustainable economic and social development.

Considering the current regional context, the EIB could aim at extending its support to the SME sector as one of the main priorities for the future. The EIB could cooperate with local financial intermediary institutions (including subsidiaries of EU banks), while ensuring an effective transmission of the financial benefits of EIB lending to their clients and providing value added compared to other sources of finance. In this context, the financial intermediaries' activities in support of SMEs would be fully transparent and reported regularly to the EIB.

Development of social and economic infrastructure

The energy sector of Central Asia is strategically important for the EU and the EIB should continue to explore the potential for supporting the development of new oil, gas and hydro-power resources, the upgrading of the existing energy infrastructure as well as the development of additional pipeline routes and energy transportation networks. Another important objective is to support the development of low carbon energy projects (notably energy efficiency and renewable energy projects).

In the area of environmental infrastructure, the EIB could enhance its cooperation with the Commission to develop appropriate frameworks for facilitating the financing of water related infrastructure projects through attracting other IFIs' and public-private partnership funds.

In the transport sector, the EIB could focus on progressive integration of the transport markets, the gradual approximation with the EU's legal framework and standards and effective implementation of international agreements in the transport sector, including safety and security; the improvement of rail and road safety; the improvement of air communications, aviation safety and air traffic management, and of maritime and aviation security to international standards; the improvement of inland waterway transport; and the introduction of EU inter-modal concepts.

Climate change mitigation and adaptation

As far as EIB financing climate action in the region is concerned, the EIB will pursue climate action projects in a broad range of sectors further specified in the ELM Climate Strategy. Among those areas, energy efficiency investments related to existing energy networks (electricity and gas networks) and sustainable transport (railway infrastructure and urban transport) are viewed as high priorities, also by the Central Asian countries. Also, afforestation and water basin management coupled with erosion control and biodiversity gain in importance, also within the climate change debate, and can be targeted for EIB financing.

5.6.2 Asia

Sector July 2014 – December 2017	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	%
Energy	224	35%	389	30%	613	32%
Transport	222	35%	810	62%	1,032	53%
Credit lines	145	23%	-	0%	145	7%
Water, sewerage	50	8%	90	7%	140	7%
Services	-	0%	16	1%	16	1%
Grand Total	**641**	**100%**	**1,305**	**100%**	**1,946**	**100%**
	ELM	**33%**	**Facility**	**67%**		

Local private sector development, in particular support to SMEs

When considering operations supporting the development of the local private sector (notably SMEs, Independent Power Producers, and other local actors), the EIB should give priority to operations that have a high relevance with regards to EU objectives, strategies and national priorities – including job creation.

Development of social and economic infrastructure

The EIB financing of social and economic infrastructure should focus primarily on energy and associated infrastructure as well as environmental infrastructure, including waste recycling, water and sanitation, agriculture and forestry. Priority should be given to projects that minimise land take and land conversion (especially of forests and agricultural land). As a rule, drainage of peat lands should be avoided. Other sectors such as sustainable transport may be considered but should have direct climate mitigation, adaptation or environmental benefits or a particularly high relevance with regards to EU objectives, strategies and national priorities, including the wider 2030 Agenda on Sustainable Development or the wider Europe-Asian connectivity priorities. The two newly added economies, Iran and Iraq have huge infrastructure investment needs, which might exceed their financial capacity despite of their oil revenue but also their institutional capacity for international project management. In Iran the modernisation of transport infrastructure and environmental protection are particularly important for agricultural production and exports. In Iraq international and national investment for the necessary reconstruction could benefit from technical assistance in transparent and efficient procurement and project management.

Climate change mitigation and adaptation

The EIB should consider climate action projects in sectors further specified in the revised EIB Climate Strategy. Among those areas, the EIB could scale-up debt financing for the development and diffusion of low-carbon technologies with significant potential for long-term, transformational GHG emission savings. This product would focus on: i) renewable energy installations, fuel switch to less carbon intensive technologies, single to combined-cycle projects in the power sector and associated infrastructure; ii) energy efficiency in industry and buildings; iii) reducing deforestation, forest degradation and land take, through “climate-smart” land use, sustainable agricultural intensification, and green infrastructure; iv) urban transport projects, as well as environmentally sustainable railway infrastructure.

In addition, the EIB could seek opportunities for blended products with a higher concessionality element suitable for smaller-scale projects that promote low-carbon climate-resilient growth in lower income countries or regions. Examples could include off-grid solar or biogas home systems for the rural poor; prevention of peat lands drainage and rewetting of already degraded peat lands; small hydro and biomass mini-grids; flood control, drainage, sanitation, and watershed management; small-scale afforestation and reforestation, agroforestry and permaculture, etc.

5.6.3 Latin America

Sector July 2014 – December 2017	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	**%**
Transport	444	32%	-	0%	444	23%
Credit lines	241	17%	-	0%	241	12%
Industry	239	17%	-	0%	239	12%
Energy	226	16%	503	90%	729	38%
Water, sewerage	139	10%	42	8%	181	9%
Education	70	5%	-	0%	70	4%
Urban development	19	1%	-	0%	19	1%
Services	-	0%	16	3%	16	1%
Grand Total	**1,378**	**100%**	**561**	**100%**	**1,939**	**100%**
	ELM	**71%**	**Facility**	**29%**		

Local private sector development, in particular support to SMEs

When considering operations supporting the development of the local private sector (notably SMEs), the EIB should give priority to operations that have a high relevance with regards to EU objectives, strategies and national priorities. Additional value would be derived from a 'pro poor' focus, increased efficiencies through the cooperation with other IFIs/Bilateral FIs, the use of blending as an innovative way of using public funds (e.g. to facilitate local currency financing), or the provision of guarantees to leverage private capital.

Development of social and economic infrastructure

The EIB could focus its activities on energy and associated infrastructure, municipal infrastructure in particular transport and environmental infrastructure. Other projects should have direct climate mitigation or environmental benefits or a particularly high relevance with regards to EU objectives, strategies and national priorities. Projects responding to development objectives, e.g. in the area of social infrastructure, could also be considered.

Climate change mitigation and adaptation

In order to successfully pursue climate action objectives in the region as further specified in the ELM Climate Strategy, the EIB intends to focus in particular on operations in the areas of renewable energy (development, grid connection and back-up of renewable energy sources, both large and small-scale); energy efficiency (e.g. in industry, demand-side); sustainable urban transport, as well as environmentally sustainable railway infrastructure; environment: water, waste-water, solid waste and forestry and agriculture (including carbon sequestration through afforestation and reforestation, in line with UNFCCC REDD+ and the Declaration on Forests), reducing (GHG emissions from) deforestation and degradation through climate-smart land use and sustainable intensification; and adaptation measures.

6. Guidelines for EIB Financing in South Africa

6.1 General context of EU relations

EU-South African relations have flourished since the first democratic elections in South Africa in 1994, and both sides entered in May 2007 into a Strategic Partnership, the sole concluded by the EU with an African country. The Strategic Partnership has two strands:

enhanced political dialogue and cooperation on regional, African and world issues, and stronger cooperation in a number of economic, social and other areas.

South Africa is the EU's largest trade partner in Africa, and likewise, the EU is South Africa's largest trade partner. Two-way trade amounted to EUR 47 billion in 2017. Although the second largest African economy (after Nigeria, accounting for one fifth of Sub-Saharan Africa's GDP in 2016), South Africa still faces many development challenges, not least in fighting AIDS, poverty and high unemployment.

The EIB has been active in South Africa since the country's transition to a democratic government in 1994. Following the conclusion of the EU-South Africa Trade, Cooperation and Development Agreement, the EIB has been entrusted with four successive mandates reflecting a total lending volume of EUR 2.5 billion.

6.2 Overview of EIB activity over the period 2007 – June 2014

The previous ELM provided the EIB with a guarantee for lending up to a ceiling of just under EUR 1.1 billion including additional resources made available in the second half of the programming period.

Sector 2007-June 2014	ELM (EUR m)	%
Energy	335	31%
Urban development	335	31%
Water, sewerage	165	15%
Credit lines	120	11%
Transport	120	11%
Others	11	1%
Grand Total	**1,086**	**100%**

EIB's lending priorities have been aligned with the overriding objectives identified in the Country Strategy Paper between the EU and South Africa. Private sector support played an important role, while in the infrastructure area the main sectors receiving support were water, social housing and transport. In order to contribute to the objectives of the EU-South Africa Partnership, eligible operations may also avail of the EIB's own risk facilities in addition to the activity under the ELM in South Africa. Climate financing reached EUR 585 m, representing 47% of the total volume signed on EIB own resources.

6.3 Regional macroeconomic context

South Africa has experienced a protracted economic downturn in recent years. Real GDP growth has decelerated markedly from around 5% in the run-up to the financial crisis to 0.6% in 2016, the slowest pace since 2009. The slowdown was due to a combination of factors, including falling commodity prices, electricity shortages, droughts and domestic political and policy uncertainty. Growth remained weak in 2017 (at 1.3%) with private consumption constrained by persistently high unemployment and investment affected by low confidence and uncertainty. Concerns about the country's governance and deteriorating fiscal position lead to credit rating downgrades of two ratings agencies to below-investment grade in November 2017. Growth is expected to increase modestly over 2018-2019 but the overall growth outlook is likely to remain subdued on the back of less favourable external environment and domestic constraints, including slow progress in structural reform agenda and continuing fiscal challenge.

The fiscal situation has deteriorated and fiscal pressures are expected to increase going forward. The general government deficit increased from 3.9% of GDP in 2016 to 4.6% of GDP in 2017 on the account of sizeable revenue shortfalls. In the new budget proposal presented in February 2018, the National Treasury proposed tax increases and spending cuts that would narrow the deficit and stabilise the public debt-to-GDP ratio by 2023/24. Nonetheless, the risks to the fiscal outlook remain elevated and include uncertainty in the pace of economic recovery, public-service wage pressures, the precarious financial situation of the state-owned companies, as well as a severe contraction in the agriculture sector: drought in the Western Cape Province and severe hailstorms in Mpumalanga. Inflation has been easing in the first quarter of 2018, allowing the Central Bank to cut the policy rate to 6.5% in March but weaker rand, higher oil prices and monetary policy normalisation in the US have intensified inflationary pressure in recent months.

In the absence of policy space on the monetary and fiscal side, structural reforms remain key. Persistently high unemployment, poverty and inequality, labour market rigidities and a difficult business environment are among the most severe structural challenges. Deep social and political cleavages have so far hindered implementation of key structural reforms. Policy shifts in several key areas by the new political leadership has had some positive confidence effect initially but implementing deep structural changes is proving to be more challenging. On the external side, South Africa remains vulnerable to sudden changes in risk sentiment and capital outflows. Monetary policy normalisation in the advanced economies and tightening of global financial conditions represent a significant risk for the South African economy, not least because its current account deficit (currently above 2% but expected to increase in the coming years) is financed predominantly from portfolio flows and the external sector holds a large share of public debt.

6.4 EU regional policy framework

The EU-South Africa political dialogue, which includes annual Summits and ministerial level meetings, has recently been focusing on issues of mutual interest such as peace and security in Africa, global governance, climate change. The Summit of July 2013 focused on employment creation as one of the greatest challenges facing both sides at present, especially as regards young people. In today's world, the European Union and South Africa are key like-minded strategic partners committed to strengthen multilateralism, peace, sustainable development, climate change and environmental degradation, a free and fair trade, human rights and democracy.

South Africa and the EU, in consultation with its Member States, have drawn up a Multiannual Indicative Programme (MIP), guiding their development cooperation over the period 2014-20. Its main objective is to reduce poverty and inequality, while promoting social stability and environmental sustainability in South Africa. The MIP is aligned on South Africa's National Development Plan 2030. The amount of the MIP, that was initially of EUR 241 million, has been brought to EUR 268 million through a recent addendum. The MIP focuses on three priority sectors: (i) employment creation; (ii) education, training and innovation; (iii) building a capable and developmental state. The objectives of EU-South Africa development cooperation remain, as in the past, firmly anchored in the view that the real value added of ODA is not the finance itself, but what comes with it, namely value added activities involving innovation, pilot programmes, capacity development, the sharing of skills and knowledge, and risk taking.

6.5 EIB cooperation with the Commission, EEAS and other International Financial Institutions

The EIB should continue to cooperate closely with the EU Delegation in South Africa, including through regular coordination meetings on strategic and operational issues. Both sides should continue to build, for example, on their cooperation in the design and implementation of the two Risk Capital Facilities for South African SMEs in the context of South Africa's Black Empowerment Strategy (RCF I and II). Additionally, the EIB is one of four participating development financial institutions in the Infrastructure Investment Programme for South Africa (IIPSA) and therefore closely involved in the review of infrastructure projects for which an IIPSA grant component may be used to achieve bankability. The EIB is regularly invited to Country Team Meetings organised by the EEAS in Brussels.

The EIB should also continue to work closely with EU National Promotional Banks such as AFD and KfW, including under the Mutual Reliance Initiative (MRI).

Regular contact should continue to be maintained with other IFIs on the ground, such as the World Bank and African Development Bank both for sector coordination and co-financing of specific projects.

6.6 Operational focus 2014-2020

Sector July 2014 – December 2017	ELM (EUR m)	%	Facility (EUR m)	%	Total (EUR m)	%
Credit lines	200	100%	-	0%	200	93%
Services	-	0%	16	100%	16	7%
Grand Total	**200**	**100%**	**16**	**100%**	**216**	**100%**
	ELM	**93%**	**Facility**	**7%**		

In South Africa, the EIB should give priority to projects that have a significant development and social impact while contributing to increase the growth potential of the country and the region. Special regard should continue to be given to the historical disparities between different segments of the population and the need to improve the living conditions and economic empowerment of historically disadvantaged persons.

Local private sector development, in particular support to SMEs

EIB should continue to support the local private sector in South Africa, either directly or in cooperation with local financial intermediaries (commercial banks or development finance institutions). In line with its lending objectives, the EIB's focus for South Africa should be to support improved access to medium to long term finance for SMEs, for instance through the development of a scheme involving investment grade commercial banks and development finance institutions to support capital investments by SMEs. The EIB should seek to complement the Commission's programmes with the common objectives of developing private sector SMEs and job creation. EIB support should also focus on renewable energy and energy efficiency projects, including through private sector and in particular SMEs.

Consideration should also be given to the possibility of contributing to innovation projects, including the South African components of Square Kilometre Array (SKA).

Development of social and economic infrastructure

Particular attention should be paid to support for improved municipal infrastructure and delivery of basic services. Furthermore the EIB should continue to focus on key economic infrastructure projects with a high developmental impact.

Following the successful implementation of EIB's first two affordable and social housing programmes in South Africa, further support to this key sector could be envisaged. Consideration should also be given to the possibility of contributing to improved health and education infrastructure.

Climate change mitigation and adaptation

As far as financing climate action is concerned, the EIB should pursue projects in sectors further specified in the ELM Climate Strategy, and in line with respective initiatives of the South African Government. The EIB's activity should thus focus on renewable energy, energy and water efficiency and urban infrastructure investments carried out by both public and private sector developers. In addition, since South Africa is expected to experience more extreme weather impacts due to climate change in the future, adaptation measures should become increasingly important as part of the climate action portfolio.

Annex: EIB - Economic Resilience Initiative - Results chain

Objective of the ERI:
Rapidly mobilising additional financing in support of sustainable growth, vital infrastructure and social cohesion in Southern Neighbourhood and Western Balkans countries

Inputs: EUR 6 billion of additional financing

- **BB1:** EUR 2 billion more for private and public sector under existing mandates
- **BB2:** EUR 1.4 billion mainly of public sector vital infrastructure lending
- **BB3a**: EUR 2.3 billion mainly of private-sector, higher commercial risk absorption financing
- **BB3b:** EUR 300 million of impact finance for private sector projects
- EUR 90m of TA and advisory services
- Additonal EIB Staff resources

Outputs: Leveraging total investments of EUR 15 billion

- New or improved **social and economic infrastructure and services**
- **Improved access to finance** particularly for midcaps, SMEs, microenterprises and for underserved groups e.g. women, youth, refugees/IDPs /migrant
- **TA and advisory services delivered** in a timely, effective and cost efficient manner

Outcomes

- **Improved access to quality infrastructure and services** where is it needed the most
- **Private sector enterprises** growing and sustaining jobs
- **Improved capacity in promoters** and beneficiaries to propose and implement high impact projects better able to create and sustain employment

Impacts: Strengthened economic resilience

- **Improved capacity for economies to absorb and respond to crises and shocks while maintaining growth, social cohesion and progress towards acheiving the SDGs**
- **In so doing improve the long -term economic resilience of refugees, migrants, host and transit communities and communities of origin as a strategic response to addressing root causes of migration**

Assumptions: The ERI's outcomes will contribute to achieving the desired Impacts. However achieving the Impacts is dependent on other interventions also being undertaken for example: strong and committed counterparts; a relatively benign global economic environment and strong financial and programmatic commitments from other international and national actors such as other MDBs and the donor community

Cross-cutting results: Contributions to gender equality and women's empowerment, enhanced opportunities for young people in particular, support for refugees and other vulnerable population, contributions to climate change