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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE EVALUATION

of

Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union

{SWD(2019) 333 final}

As requested by the European Parliament and the Council, this evaluation assesses the implementation in 2014-18 of the EU budgetary guarantee to the European Investment Bank ('EIB') against losses under financing operations supporting investment projects outside the Union.¹ The EU budgetary guarantee underpins the External Lending Mandate ('ELM') of the EIB. This evaluation also aims to help design future EU budgetary guarantees after 2020, particularly in the context of the Neighbourhood, Development and International Cooperation Instrument ('NDICI') proposed by the Commission.² The evaluation examines the ELM's effectiveness, efficiency, relevance, coherence and EU added value as compared to the expectations originally expressed by the European Parliament and Council in the 2014 ELM Decision.

The overall ceiling of the EU budgetary guarantee for the EIB's external operations in 2014-20 is EUR 32.3 billion, with 64 countries eligible. By end-2018, the guarantee had enabled the EIB to sign EUR 17.6 billion of loans and other financing operations in 38 countries, with EUR 5.8 billion disbursed. The EU guarantee has also indirectly helped the EIB to undertake additional investments in many of the ELM-eligible countries under the EIB's own-risk facilities.

In geographical terms, the ELM's implementation as of end-2018 varies per region:

- In the Pre-Accession region, the EIB has utilised about 41% of the guarantee ceiling for this region by end-2018. The EU guarantee has been indispensable for the EIB to finance operations in the Western Balkans. However, EIB activities in Turkey have been scaled down in view of the post-2016 political situation and economic slowdown.
- In the Southern Neighbourhood, the EIB has used about half of the guarantee ceiling by end-2018. It has often relied on the *comprehensive guarantee* (covering not only political but also operational risk) even for private sector operations (which are otherwise only covered by a political risk guarantee). Implementation of public infrastructure projects in this region has often incurred delays.
- In the Eastern Neighbourhood, the EIB has relied almost exclusively on the ELM to cover its financing operations, with almost no lending at its own risk. It has utilised most of the regional guarantee ceiling (78%), especially to support Ukraine in the context of Russia's illegal annexation of the Crimean peninsula in 2014 and on-going destabilising action. However, the implementation of many ELM operations is yet to start and the disbursement rate remains very low (23% of net signatures as of end-2018).
- ELM implementation is most advanced in Latin America and South Africa, which however account for only one-tenth of the ceiling of the EU budgetary guarantee. For Asia and Central Asia, the utilisation rate of the EU guarantee is high, but implementation in terms of disbursement levels is rather low.

1 The legal basis is Decision No 466/2014/EU ('the ELM Decision'), amended upon mid-term review by Decision (EU) 2018/412. The guarantee is provided through a guarantee agreement between the Commission and the EIB, the most recent version of which was concluded on 3 October 2018.

2 COM(2018) 460 final.

The **efficiency** of the EU guarantee corresponds to the legislators' expectations. This is also the case regarding the EU **added value** of the guarantee, namely the fact that the provision of the guarantee by the EU brings value compared to a scenario of Member States acting on their own (without an EU guarantee). The provision of an EU guarantee enables the EIB to provide about 11 times more financing to beneficiaries than the amounts set aside from the EU budget to guarantee these operations, and to mobilise twice as much total investment.³

Thanks to the EU guarantee, beneficiaries enjoy lower cost of EIB financing, provided for longer periods. This is beneficial for public sector investments, but raises concerns about the creation of possible market distortions by putting at a disadvantage banks and companies that receive financing from other institutions on less favourable terms.

The ELM's disbursement rate of 33% of net volumes signed as of end-2018 suggests somewhat lower overall **effectiveness** compared to the 2007-13 mandate. The main reasons appear to be external, including developments in Turkey, Ukraine and the Southern Mediterranean. Room for improvement has also been identified through the ongoing internal review of the EIB's incentive structures.

Climate-related financing signed in 2014-18 is above the ELM target of 25%.

The ELM plays a **relevant** role in supporting the EU's external policy objectives. However, most of the ELM guarantee is currently allocated in support of operations in Upper Middle Income Countries, and only few operations have been financed by the EIB in Least Developed Countries. This can be perceived as a shortcoming in terms of the ELM's relevance vis-à-vis EU development cooperation policy, to be addressed in the design of future EU guarantees, while taking into account limitations in terms of debt sustainability.

Coherence and alignment of ELM operations with EU policy and Member States' interventions could be improved, including by ensuring a stronger policy steer from the EU and greater sharing of information between the EIB and Commission services throughout the project cycle. Actual results and impacts of the EU intervention remain largely unknown, as the EIB Results Measurement Framework relies heavily on upfront estimates and data on results achieved arrive with a long time lag.

Key recommendations for improvements in the implementation and/or design of the ELM are:

- To explore options for timelier reporting and evaluation of actual results achieved, and greater analysis of actual impacts.
- For the EIB to share more information with the Commission on the effective application of contractual clauses enabling the EIB to suspend disbursements in cases of projects' non-compliance with environmental, social, human rights, tax and transparency standards.

³ The provisioning rate is set at 9% of the amounts outstanding under the guarantee. EIB financing usually covers up to 50% of the project's total investment costs.

- For the EIB, Commission services and the EEAS to work better together in defining the optimal size of envisaged investment operations, tailored to the beneficiary countries (also to ensure debt sustainability), and to help beneficiary countries make faster use of approved ELM financing.
- To pay consistent attention to minimising the risks of market distortion in the financing of private sector companies. In particular, to envisage stricter constraints for the use of the EU comprehensive guarantee, for instance by limiting its scope to public sector investments only and/or requiring appropriate remuneration of the EU guarantee. To ensure the effective implementation of the recently agreed *Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations*.
- To strengthen alignment of ELM operations with EU policies through stronger policy steer from the EU and closer coordination between the EIB, the Commission and the EEAS. The latter includes early-stage coordination, more substantial information to be provided by the EIB in ‘Article 19 consultations’ before financing operations are approved, and joint monitoring of project implementation.
- To adapt the geographical coverage of possible EU external investment windows post-2020 and the allocation of the EU guarantee across the various regions based on the EU’s external policy priorities post-2020 and the needs of partner countries.
- To seek stronger synergies between the strengths of the EIB in terms of low borrowing costs, and other financial institutions’ strengths in terms of ground presence, sectoral expertise and development impact.

The strengths and weaknesses of the current ELM are relevant for the broader debate on the post-2020 European financial architecture for development. High-volume, low-cost financing of public sector infrastructure investments could continue to be supported through an EU budgetary guarantee dedicated to this specific type of operations but with stronger policy steer from the EU institutions. For private sector financing, increased preference for attracting private co-investment may warrant a differently designed guarantee, less focused on volumes and with pricing closer to market levels.