**Complementary EIB explanatory note (AHWP NDICI meeting, 19/07/2018)**

## *Background*

### EIB delivers EU policies with the support of its EU mandates – ELM & ACP-IF

- The **EIB is the EU Bank** – a treaty based EU body, fully owned and governed by the EU Member States and tasked with supporting EU policy priorities both inside and outside the Union. It is the only European Development Finance Institution (DFI) fully dedicated to the implementation of EU policies and safeguards in its operations, and in accordance with EU rules and best practice. In contrast, the EBRD has a far wider shareholder base, where EU MS will shortly lose their majority.
- The EIB has a **long-standing role in furthering EU external action in EU partner countries**, **governed and supported through an External Lending Mandate since 1976, and under ACP mandates since 1965.** These flagship mandates for public and private sector financing enable the EIB to support technically, economically, socially and environmentally viable projects with concrete impacts, EU visibility and political leverage in the Union's partner countries. They are key to EIB's ability to deliver outside the EU.
- **All past and recent external evaluations of both the ELM and the ACP-IF have confirmed the effectiveness and relevance of these EIB mandates in the architecture of EU development financing.** In the latest ELM mid-term review (Feb 2018), co-legislators acknowledged the importance of the ELM by boosting its volume and including the long-term economic resilience of refugees, migrants, host and transit communities and communities of origin as an additional objective. The next ELM independent evaluation, to be published end-July 2018, describes the mandate as relevant, effective in achieving objectives, and complementary to other EU external instruments.
- The **ELM** is a comprehensive budgetary financing instrument with a seven-year horizon, which provides operational continuity, a long-term perspective and stability in strategic operations. This in turn generates long-term credibility with partners and ensures visibility of EU external action. At the same time, the EIB, through the ELM, has been proven to be highly responsive to existing and emerging EU priorities, including:
    - Ukraine package – doubling of EIB lending to EUR 3 billion in 2014-2016 as part of a wider EU package following the Ukraine crisis in 2014;
    - Migration – setting up the Economic Resilience Initiative for the Southern Neighbourhood and Western Balkans, and the ACP migration package. The EIB co-leads the MDB Coordination Platform on Migration and Forced Displacement together with the World Bank.
    - European Economic Diplomacy (EED): Strong cooperation and collaboration with EEAS and EC in implementing EED Guidelines since their adoption in July 2017.
- The **ACP Investment Facility (IF)** is a unique EU instrument, providing financially sustainable, cutting edge, development banking instruments such as impact and local currency financing.
- **OECD DAC currently fully recognises EIB as the EU's bilateral development bank** counting relevant EIB financing as EU Official Development Assistance (ODA). EIB accounts for 32% of all ODA reported by EU institutions.

## *MFF NDICI proposal – EIB observations & recommendations*

### How can EIB continue to further EU external action?

*"If it ain't broke, don't fix it"*

1. ***EU mandates: Need to ensure continuity and impact of EIB's external activity, at marginal cost to the EU budget***

   - *Public sector:* In the same way that all **Financing Institutions rely on their primary mandators**, EIB needs to preserve an exclusive mandate backed by the EU budget for sovereign risk operations outside the EU. In order **for EIB to continue to deliver on EU external and development policies, such a mandate should be at least of a similar size to the current mandate**.

     **A dedicated and global EIB mandate for sovereign and public sector would be fully complementary to an enlarged private sector oriented EFSD+ guarantee facility.**

     - ➢ *With a dedicated global public sector guarantee of EUR 38bn, the EIB* ***could mobilise over EUR 100bn*** *of investment over the next MFF, at a cost to the EU budget of* ***less than EUR 3.4bn***.

   - *Private sector:* Whether or not the EDF is budgetised**, it must be ensured that the ACP-IF is preserved as a revolving fund capitalised from previous EDFs**. Reflows should be re-invested through the IF, whose current structure should be maintained, preserving the sustainability of the instrument. As a sustainable banking instrument, the IF is fully complementary to the depleting guarantee model of the EFSD.

     - ➢ ***Without any additional resources*** *from the EU budget, the continued use of reflows will allow the IF to mobilise close* ***to EUR 20bn of investment*** *over the next MFF. Additional capital contributions could be considered to scale-up well-tested high impact investments* ***globally****.*

   - **Provided EIB-dedicated mandates will be maintained in the next MFF, EIB will continue to complement mandate-supported activity with own risk lending.** A dedicated subsidiary with the appropriate governance structure could further enhance the implementation capacity for these operations.

     - ➢ *The EIB plans to provide around EUR 17bn of own risk financing outside the EU under the next MFF,* ***mobilizing over EUR 40bn of investment****, at* ***no cost to the EU budget****. Additional capital contributions could be considered to scale-up own risk financing.*

2. ***Governance: fundamental shift from EU MS Bank to EC Bank outside the Union?***

   - By proposing that the use of the new External Action Guarantee (and therefore current ELM and ACP-IF activity) is decided as part of its own geographic programming process, the **EC takes full control over the new investment framework.** The direct consequence is that the current co-decision procedure whereby MS and EP together provide the EU policy and budgetary steer for ELM activities, as well as the ACP-IF committee where MS alone decide on Cotonou activities, would both disappear. They would be replaced by a standard comitology procedure and the (biannual) EFSD+

strategic board. Neither of these are likely to have the same level of Member State involvement and influence.

- **Governance arrangements for a dedicated EIB mandate should be commensurate with the EIB's treaty-based role, existing governance, and the current roles of co-legislators**.
- **Governance arrangements of EAG should include EIB as part of the decision-making process including beyond any dedicated EIB envelope**, thus ensuring coherence and consistency across the instrument. A legally robust, balanced and appropriate model will be essential.

### 3. *Ensure adequate resources for technical assistance and concessional finance: a fundamental element of EIB activity outside the EU*

- Technical assistance is essential for the majority of projects outside EU. To ensure maximum impact and efficiency, a programmatic approach to technical assistance should be foreseen. Many operations also need a concessional element, for example operations in countries under an IMF program.

- To ensure seamless bundling of investment finance and technical assistance, making the best use of grant funding, it is important that dedicated envelopes remain available and that a programmatic approach (not a project-by-project approach) be applied to support EU policy objectives.

    - *A **dedicated grant envelope for EIB's use** of up to EUR 1 billion **to replace and expand the current Cotonou envelope** is needed. This TA envelope would be subject to the **same governance as the investment mandate**.*

### 4. *Provision of adequate risk management services and banking expertise for EFSD +*

- In order to protect the EU budget from undue risks and to ensure that the EC's policy steer is complemented by much needed banking and risk assessment expertise, **co-legislators included in the current EFSD legislation a requirement for the provision of banking expertise by EIB and the implementing partners.**

- The EC's proposed **EFSD+ governance framework no longer foresees a continuation of this support even though EFSD+ continues with the same ambitious aim** of promoting very high-risk private sector investments in LDCs and fragile states but on a larger and possibly more leveraged scale. There is also no indication of how the essential support currently provided by EIB and its partners could be replaced.

- Against this background, it will be crucial ensure the provision of banking-related expertise by the EIB Group and collaborating finance institutions, to **avoid a duplication of roles and an undue contingent exposure on Member States budgets.**

5. ***Asset management: An independent evaluation, as legally required by the ELM and EFSD regulation, should establish who is best placed to perform future asset management functions in relation to the EU budget***

   - The EIB, **already entrusted with the task of administering the implementation of EU budget funds**, is the natural partner for managing EU funds, public money, member states and local authorities' assets. It is well equipped with all required in-house capacity and infrastructure. Other institutions might build up similar capacities, nevertheless, the EIB has a long-term track record regarding the management of assets as part of its policy driven activity in line with best market practice.
   - On 25 November 1994, the EU, represented by the European Commission (EC), entrusted the EIB with the implementation of the Guarantee Fund, including the management of its assets (the "Guarantee Fund Agreement"). This relationship between the EU and the EIB **developed over the last twenty-four years**. Several other budget implementation instruments were entrusted to the EIB including the management of assets linked to those instruments, which **generated a positive contribution to the EU budget.**
   - In the context of the most recent inter-institutional negotiations concerning the ELM mid-term review and the EFSD regulation, co-legislators decided to grant asset management functions for the newly established EFSD guarantee fund to the EC, while maintaining asset management responsibilities of the (ELM) Guarantee Fund with EIB.
   - At the same time, **co-legislators clarified in both the EFSD and ELM regulations that an independent evaluation should assess, by 30 June 2019, the advantages and disadvantages of entrusting future asset management mandates for the EU budget to the EC or the EIB.**
   - Given this legal requirement, and in the absence of any independent evaluation results, the EIB maintains its view that it has all required in-house capacity and infrastructure in place in order to perform this important banking activity also in the next MFF. In the view of EIB, **the independent evaluation (mid-2019) should inform future decisions on asset management.**

*"Learn from what hasn't worked"*

6. ***Use EIB's untapped potential to efficiently boost the collective capacity of European development finance institutions in the next MFF:***

   - **EFSD** is an untested instrument that has **not yet supported any investments**. While it is true that there has been a lot of demand for the subsidised and largely undefined guarantees on offer, the risk profile of this demand is currently such that the envisaged primary leverage of the allocated EUR 750m cannot be achieved. The instrument is weakened by its very long lead-time, in terms of submitting proposals, having them approved and concluding corresponding agreements with the EC, and the complexity of the financial structures proposed which are not adapted to their target markets.
   - Learning from this initial attempt, we should **build on the political idea underlying the original EFSD guarantee** but do so in a partnership which appropriately draws on

the respective experience, capacity and roles of the EC, the EIB and the EU-based internationally active DFIs.

- To this end, more can be done by the EIB under the next MFF to **provide a common and level platform for European bilateral development banks and agencies** – including those of smaller Member States - in order to boost the collective capacity of European development finance actors.
- **Provided the continuity of EIB's external activities is ensured in the next MFF** as outlined above, EIB's pan-European and institutional set-up could potentially be used to **strengthen the operational capacity of European development finance** actors through collaborative instruments such as exposure swaps and enhanced contractual reliance.

## *Outlook*

**Without EIB-dedicated mandates and appropriate governance arrangements** incorporated in the external investment framework, **EIB may lack the operational prerequisites to maintain its entire lending activities outside the EU**, including under its own risk.

**EIB stands ready to present concrete MFF/NDICI suggestions.**