

# EIB loans for Europe, Asia and Latin America countries: EC guarantee to the EIB against losses

1996/0278(CNS) - 30/08/2007 - Follow-up document

This report describes the lending operations for South-Eastern Neighbours (SEN), in the Mediterranean countries (MED), in Asia and Latin America (ALA) and in the Republic of South Africa (RSA). It also gives a brief summary of the borrowing activities undertaken in order to finance the lending activities, of the macro-financial assistance provided by the Community to third countries and of the interest subsidies and guarantees associated with Community loans. In addition, it provides information on Euratom lending activities.

**Borrowing activities in 2006:** total borrowing by the EC and the EIB decreased in 2006 by 3.8% to EUR 48.1 billion, against EUR 50.0 billion the previous year. More than 99% of this amount has been borrowed by the EIB. The decrease in borrowing activities can be explained by a marginally reduced borrowing activity of EIB following a somewhat slower pattern of loan disbursements and treasury liquidity considerations as well as by the absence of new Decisions concerning Euratom, macrofinancial assistance and the balance of payments loans.

Taking into account repayments, cancellations and exchange-rate fluctuations, the total amount of borrowings outstanding at 31 December 2006 was EUR 248.4 billion, 0.7% down on 2005. The breakdown of borrowings by currency stays at the same level of 37.9% in the share of EUR-denominated borrowings in 2006 of all issues. Issues in other Community currencies decreased from 23.0% to 16.6%. Non-Community currencies took a higher share of borrowing, increasing from 39.5% to 45.4% of the total. Issues in USD were up from 27.9% to 30.4%. In 2006, after swaps, 94.5% of the loans were on a variable rate as compared to 97.3% in 2005.

**Lending in non-Member States:** financial support for non-member States that have concluded cooperation agreements with the Community generally takes the form of bilateral loans (macro-financial support or balance-of-payments support), where the Community helps to re-establish a country's macro-economic balance. The Commission administers these financial operations under decisions of the Council. In other cases loans are granted by EIB on its own resources either in the form of direct financing for individual projects or of global loans to banks, which then allocate funds to smaller-scale local projects. Some of these loans benefit from a guarantee of the Union budget.

**Macro-financial assistance (MFA):** the Community's assistance focuses on neighbouring regions, such as the Western Balkans and the Caucasus. Grants and loans disbursed under this instrument show that in 2006 an amount of EUR 19 million has been disbursed under existing MFA decisions. No new MFA decisions were taken in 2006.

With regard to **EIB Lending in 2006** in the **South-Eastern Neighbours**, the report states that the Bank was active in 2006 in both the acceding and candidate States to help these countries to prepare for accession, in particular by financing investment aimed at integrating their infrastructure with that of the EU and by assisting SMEs. The EIB continued also to support investments in the other countries of the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro and Serbia) with the aim of facilitating their ongoing integration process into the EU. The EIB gives priority to upgrading, modernising and developing the communications and energy sectors, with particular emphasis on Trans-European Networks (TENs) on the basis of the road and rail corridors. Environmental issues related to EIB projects, as well as environmental projects, are given priority in the framework of the gradual adaptation of the legislation of the countries concerned to that of the EU. The EIB also supports private sector development

(SMEs), in particular Foreign Direct Investment (FDI), either directly or through its global loan instrument, in particular when involving EU partners.

In the **Mediterranean region**, the Bank's lending is carried out under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) mainly within the framework of the Euro-Mediterranean Partnership. FEMIP focuses its activities on support for the private sector and on creating an investment-friendly environment, mainly by financing enabling infrastructure for economic development. Furthermore, FEMIP supports sustainable energy development, competitiveness and security of supply. In November 2006, the Ecofin Council decided to reinforce FEMIP and marked two specific priority areas: private sector development and reinforcement of partnerships.

In **Asia and Latin America**, the Bank finances projects that are of interest to both the Community and the countries concerned – co-financing with EU promoters, transfer of technology, cooperation in the fields of energy and environmental protection. The EIB also supported reconstruction efforts in the aftermath of the Tsunami disaster of 2004. In this context, the geographical scope of the ALA mandate was broadened to include the Maldives.

In **South Africa**, the Bank has been mandated to focus on infrastructure projects of public interest and private sector support, including SMEs. The Bank's operations have further to be complementary to the Community assistance policies, whose overriding objective is the reduction of poverty and inequality.

**Risk sharing:** at end-2006 the Bank had achieved a level of 18% of risk-sharing as a proportion of cumulative lending under mandate against the risk-sharing objective of 30%. This figure does not include the Community guarantee coverage under the Pre-Accession and Mediterranean Partnership Facilities. On a regional basis, the risk-sharing objective was met and exceeded in **Asia and Latin America**, where 72% of loans were signed under the risk-sharing regime. Both in **South Eastern Europe** and in the **Mediterranean**, risk-sharing operations represented 11% of lending under mandate. In accordance with the programming procedures of the countries concerned, most projects financed by the EIB under mandate are in the public sector and therefore outside the scope of risk-sharing. In **South Africa**, 10% of loans were risk-sharing. Under the First General Mandate, a level of 24% of risk-sharing of total lending was reached against a target of 25%. In terms of lending compared to the regional ceilings, the levels were 81% for ALA, 26% for Central and Eastern Europe Countries (CEEC) and 3% for the Mediterranean.

Total EIB **lending in the ACP/OCT** amounted to EUR 745 million in 2006, of which EUR 167 million from the Bank's own resources and EUR 578 million funded by the European Development Fund (EDF).

The **Community guarantee** is restricted to 65% of the aggregate amount of the credits opened, plus all related sums (compared with 70% under the First General Mandate). During 2006 (the seventh year of the Second General Mandate) the EIB signed loan agreements for a total of EUR 2 805 million, bringing total lending under this mandate to EUR 18 280 million corresponding to 96% of the ceiling.