EIB loans: Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community

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As required under Decision 633/2009/EC, this report from the Commission reviews EIB financing operations carried out in 2008 ("operations under mandate") as well as the contribution of EIB financing operations to the fulfilment of the external policy objectives of the Community, taking into account the operational objectives of the EIB. Outside the Union, the Bank also lends from its own resources and at own risk under the framework of Article 16 of its Statute. The report provides a summary of these operations, in order to complete the picture of EIB activity in the regions covered by the Decision. Moreover, it reports on cooperation between EIB and the

Commission, and between EIB and other International Financial Institutions (IFIs) and bilateral donors. The Commission notes that a substantive mid-term review of the EIB external mandate will be carried out by 2010.

Overview of EIB financing volume in the regions covered by the Decision: total EIB lending signatures in the regions covered by the Decision – including both operations under mandate and EIB own risk operations – remained stable at around **EUR 5.5 bn in 2007 and 2008**. An increase of 9% under the mandate was offset by a corresponding decrease of own risk operations.

As regards **operations under mandate**, 2008 was the first full year of implementation of the current external mandate as the first loans under the Decision were signed in the second half of 2007, following the signature of the guarantee agreement between the Commission and EIB in August 2007. EIB lending under the Decision reached **EUR 4 bn in 2008**, with cumulative signatures under the Decision attaining EUR 5.9 billion. However, particularly in Eastern Europe and Russia, planned investment projects suffered from the consequences of the financial and economic crises. Moreover, the conflict with Russia in Georgia and the political/economic instability in Ukraine prevented certain projects from being pursued. The Commission and EIB are currently assessing the reasons for the slow progress of implementation in this region, including possible constraints and limitations inherent to the mandate itself. In 2008, 64% of the loans signed under mandate were covered by a Comprehensive Guarantee, while 36% benefited from Political Risk Guarantee cover. In terms of volume, Pre-Accession countries (EUR 915m) were the most significant beneficiary region of the Political Risk Guarantee.

EIB lending at its own risk in the regions covered by the Decision amounted to **EUR 1.5 bn in 2008**, compared to EUR 1.9 bn in 2007. This represented 27% of EIB's overall financing activities – mandate and EIB own risk facilities combined - in these regions. Own risk operations in the Pre-Accession countries, for which the Decision specifically encourages EIB to increase its operations without recourse to the Community Guarantee, increased by 23%.

98% of operations at EIB's own risk were carried out under the EIB Pre-Accession Facility. Turkey was by far the largest recipient with 82% of lending under this facility, while 12% were signed in Croatia and 6% in Serbia. The focus of EIB activity was on private sector operations, with credit lines (notably for SMEs) representing 64% of total signatures. In the Mediterranean region, two own risk loans totalling EUR 33 mn were signed in favour of private pharmaceutical research projects in Israel under the Risk Sharing Finance Facility, a joint Commission-EIB initiative.

Contribution to EU policy objectives: support for **energy security and the protection of the environment** are common objectives throughout the regions covered by the Decision. EIB investments promoted diversity with regard to energy suppliers and energy transportation routes. In this context, the extension of Trans-European Energy Networks to third countries is a clear priority as well as the rehabilitation of existing and development of new infrastructure and networks in producer and transit countries. More generally, for all the projects it finances, EIB pays special attention to the issue of environmental sustainability, focusing on the environmental impact assessment of the investments proposed and the adequacy of mitigation measures. Overall, the commitment of EIB to good practice based on EU principles has been strengthened, especially in the field of climate change, social standards have been more explicitly linked to human rights, the common approach of EIB across all regions of activity has been highlighted, and generally the requirements of EIB have been clarified.

Sectoral breakdown: constituting 34% of total financing under the mandate, **the energy sector** was the largest recipient of EIB loans in 2008. Transport, including rail, road, port and urban transport infrastructure, represented 29% of total lending under the mandate in 2008. The majority (71%) of the loans in **transport sector** was granted in Turkey, for the financing of large urban public transport projects. **Urban infrastructure** was the third largest sector and benefited from EUR 500 mn EIB financing in 2008 (corresponding to 12% of total lending).

The report details the **EIB's cooperation with the Commission**, noting particularly that the Commission and EIB are actively cooperating in instruments where EIB financing is blended with EU budgetary resources, notably through the Instrument for Pre- Accession Assistance (IPA) and the European Neighbourhood and

Lastly, the report discusses the **EIB's cooperation with international financing institutions** (IFIs) It notes that internal reflection has started in the EIB on how to promote the implementation of "mutual reliance" among IFIs cofinancing the same project, in order to maximize synergies and efficiency for the benefit of borrowers.