European Bank for Reconstruction and Development (EBRD): subscription by the EU to additional shares in the capital

2011/0014(COD) - 04/02/2016 - Follow-up document

In accordance with Decision No 1219/2011/EU concerning the subscription by the European Union to additional shares in the capital of the European Bank for Reconstruction and Development (EBRD), this Commission report **assesses the effectiveness of the existing system of European public financing institutions in promoting investment in Europe and its Neighbourhood -** including recommendations on the cooperation between the respective banks and the optimisation and coordination of their activities.

To recall, the Commission actively supports European and neighbouring countries through a wide range of financial programmes and instruments which are also channelled through International Financial Institutions (IFIs). These involve, amongst others, the EBRD and the European Investment Bank (EIB) Group, which comprises the EIB and the European Investment Fund (EIF). The cooperation between the Commission, the EIB Group and the EBRD is framed by the Memorandum of Understanding on activities outside the EU.

The analysis covers the period of 2010-2014 and focuses on those EU countries where EBRD is active and on the European Neighbourhood ("the Region") which for the purposes of this report are divided into the following distinct geographical areas: Eastern and Central European EU Member States (EU-11); Southern and Eastern Mediterranean; South Eastern Europe; Eastern Europe and Caucasus; Central Asia; Russia and Turkey.

In the report preparation, the Commission was assisted by an external consultant in the collection and analysis of the data.

EBRD and EIB: the two IFIs have **different shareholders, distinct mandates and particular business models**. Based on the EBRD's and the EIB Group’s different mandates, the two institutions follow distinct pricing policies in the financing of their operations.

In terms of **loan origination** of the two IFIs, the EBRD has very strong focus on direct lending (86% of its commitments, EUR 45 billion in absolute terms). Also the EIB Group finances most of its operations in a direct manner (72% of its commitments, EUR 67 billion in absolute terms).

The loan size is an aspect which differentiates EIB's and EBRD's lending model. For the period 2010-2014, for EBRD the average loan size was **EUR 19 million per operation, while for EIB this was EUR 66 million per operation**.

In terms of regional split (in total for the examined period), EBRD's lending in non-EU countries amounted to EUR 34.1 billion in the Region and EUR 9.6 billion in the EU-11, whereas EIB Group financing reached EUR 27 billion in non-EU countries of the Region and EUR 49.4 billion in the EU-11.

Conclusion and recommendations: the Commission believes that the existing system of European public financing institutions in promoting investment in Europe and its Neighbourhood is effective: a wide range of market needs are being well served with significant positive effects, and accompanied by the efforts of the IFIs to leverage private financing.

The two institutions **strive to avoid duplication of efforts** particularly in the project appraisal and due diligence procedures, in negotiations, financing and monitoring of financed operations. Furthermore, on an institutional level, a formal information exchange was also observed.

The two institutions **co-finance on a project-by-project basis and through joint facilities or funds** whenever it makes sense from an investment and policy perspective. This includes in particular large projects (e.g. energy, transport and municipal infrastructure) where the investment costs and risks are high and each institution can leverage its own comparative advantage, and operations where the two institutions' policy objectives and interests are perfectly aligned (again, energy, transport and municipal infrastructure projects can be mentioned but also projects with a focus on the positive climate change impact).

In conclusion, both IFIs are well aware of their comparative advantages in terms of their respective mandates and in general make good use of them. The Commission makes the following recommendations in order to further enhance the effectiveness of the IFIs' interventions:

- **Recommendation 1**: although there is already an existing and close high-level inter-institutional dialogue in the framework of EU financial instruments, the EBRD and the EIB Group could still **enhance the cooperation at operational level**. When cooperating, the IFIs should consider using a more standardised or systematic approach and minimise the creation of ad-hoc instruments. In those cases when they decide to cooperate with the Commission and/or Managing Authorities of various Member States, they should preferably use the existing structure of EU financial instruments and/or financial instruments under ESI Funds.
- **Recommendation 2**: there may still be potential for **enhanced mutual reliance** especially in terms of joint contract negotiations, coordination and sharing of market assessments and further alignment of reporting requirements, in particular with EU objectives when EU resources are used.
- **Recommendation 3**: the EBRD's and the EIB Group’s lending objectives in terms of volume should be accompanied by **ambitious targets** for the additionality/transition impact, quality and soundness of operations. One important additional consideration in this regard is that the EBRD and the EIB Group should each strengthen their emphasis on the **crowding-in of private financing**. EU blending facilities could provide support in order to pave the way for more private sector financing.
- **Recommendation 4**: the cooperation between the two IFIs could be further increased through **EBRD's involvement in the Investment Plan for Europe**, a flagship EU initiative. EBRD could get engaged, in particular, via Investment Platforms which are foreseen by the European Fund for Strategic Investments (EFSI) Regulation.
- **Recommendation 5**: the two IFIs should increase their efforts to pro-actively involve institutional investors such as pension funds and Sovereign Wealth Funds (SWFs) in co-financing projects in infrastructure in their common countries of operation.
- **Recommendation 6**: the Commission should encourage the two banks to be instrumental, in particular, in the **development of capital-based products and in policy dialogue**. The EBRD could step up its engagement with the Commission and countries of operation to deliver on mutually-beneficial policy initiatives. Within the EU-11 for example, both IFIs could assist national governments in developing policies which would help them move towards a common capital market in Europe.