

EU guarantee to the European Investment Bank (EIB) against losses under financing operations supporting investment projects outside the Union (2014-2020)

2013/0152(COD) - 12/03/2020 - Follow-up document

This report summarises the Commission's evaluation of the implementation in 2014-2018 of the EU budgetary guarantee to the European Investment Bank ('EIB') against losses under EIB financing operations supporting investment projects outside the Union.

Main objective of the evaluation

The evaluation aims to provide input for a possible new decision on the coverage of the EIB financing operations by the EU guarantee post-2020. In particular, it aims to help design future EU budgetary guarantees in the context of the Neighbourhood, Development and International Cooperation Instrument ('NDICI'), proposed by the Commission in June 2018.

As from 2021, the External Lending Mandate is envisaged to be replaced by a broader instrument, the European Fund for Sustainable Development Plus ('EFSD+'), making EU budgetary guarantees available to the EIB as well as to other International Financial Institutions ('IFIs') or Development Finance Institutions ('DFIs') in the context of an 'open financial architecture'.

The evaluation examined the effectiveness, efficiency, relevance, coherence and EU added value of the budgetary guarantee underpinning the current External Lending Mandate.

Main findings

The report highlighted that a key limitation of the Commission's evaluation is linked to the fact that the implementation of investment operations under the ELM takes a number of years, especially as regards infrastructure projects.

In accordance with the ELM Decision, 64 countries outside the EU are currently eligible for EIB financing operations under the EU budgetary guarantee. The EIB has entered into Framework Agreements with – and is thus currently able to undertake financing operations in – 57 of those countries. In the period under evaluation, the EIB signed financing operations under the ELM in 38 countries and under its own-risk facilities in six additional countries.

The overall ceiling of the EU budgetary guarantee for the EIB's external operations in 2014-2020 is EUR 32.3 billion.

At the end of 2018, cumulative net signatures of EIB financing operations under the ELM 2014-2020 amounted to EUR 17.6 billion, i.e. approximately 54% of the overall guarantee ceiling as revised during the mid-term review. During 2014-18, 189 operations were financed under the ELM, with an average size of approximately EUR 90 million. The EIB's relatively limited utilisation of the ELM 2014-2020 guarantee ceilings can be partly attributed to developments in Turkey since 2016 and the war in Eastern Ukraine since 2014. Moreover, the guarantee ceilings allocated by the current ELM Decision to the EU Neighbourhood (Eastern and Southern) are altogether EUR 6 billion higher than the ceilings of the

previous mandate, while absorption capacity has been reduced by the war in Syria and political volatility in several other countries. Taken together, these external factors largely explain why the EIB used the available guarantee ceilings by end-2018 to a lesser extent than at the same stage of the previous external mandate.

Effectiveness

The EIB disbursed EUR 5.8 billion under the ELM 2014-2020 by the end of 2018, representing 33% of net signatures, whereas at the end of 2011, the EIB had disbursed EUR 8.5 billion or 44% of the net amounts signed under its external mandate for 2007-2013.

The slower pace of disbursements under the ELM 2014-2020 compared to the previous mandate appears to be explained mainly by external factors, such as weak regulatory frameworks, fragmented legislation, government instability, low institutional capacity, staff turnover and slow and inefficient procedures in recipient countries.

A majority of ELM operations consists of loans to the public sector for infrastructure development. As of end-2018, these accounted for nearly EUR 11 billion of operations signed. Operations financing private sector development but benefitting from the comprehensive guarantee represented approximately one-quarter of signatures under the ELM in 2014-2018. Finally, operations under the political risk guarantee made up about one-tenth of ELM volumes signed.

Efficiency and added value

The efficiency and the added value of the EU guarantee correspond to the legislators' expectations. Compared to the budgetary amounts set aside in the guarantee fund, about 11 times more EIB financing is provided to beneficiaries at any given time, and more than 20 times as much total investment is mobilised. To date, no calls on the EU budgetary guarantee have occurred on operations under the ELM 2014-2020.

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 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

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. The report noted that information sharing between the EIB and the Commission on the application of such clauses could also be improved.

Conclusions

In order to maximise the additionality of EU budgetary guarantees under the NDICI Regulation post-2020, several lessons can be learned from the ELM 2014-2020:

- for the purpose of policy design, it is useful to distinguish more clearly between the desired impact of the EU guarantee on the financial advantage transferred to beneficiaries (i) in the public sector, and (ii) in the private sector. While there may be policy reasons to minimise the costs of financing operations with certain types of public sector counterparts, this is not necessarily the case for private sector financing;

- consistent attention to reducing the risks of market distortion is warranted and a more explicit policy could be formulated for the use of key mitigating measures, such as upward modulation of interest rates in order to reflect local market conditions in private sector financing;
- the rationale for the use of comprehensive guarantees in the financing of private sector development deserves careful scrutiny;
- provision of local currency financing could be further encouraged.

Recommendations

The evaluation identified the following key recommendations for improvements in the implementation of the ELM, also relevant for the design of post-2020 EU budgetary guarantees in the context of the NDICI Regulation:

- to explore options for timelier reporting and evaluation of actual results achieved, and greater analysis of actual impacts;
- for the EIB, Commission services and the EEAS to work better together in defining the optimal sizes 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 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;
- 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.