



EUROPEAN
COMMISSION

Brussels, 23.5.2013
SWD(2013) 178 final

COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

**Proposal for a Decision of the European Parliament and of the Council
on granting an EU guarantee to the European Investment Bank against losses under
financing operations supporting investment projects outside the Union**

{ COM(2013) 293 final }
{ SWD(2013) 179 final }

COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a Decision of the European Parliament and of the Council on granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union

The European Investment Bank (EIB) undertakes operations outside the EU in support of EU external policies partially with an EU budgetary guarantee allocated in the framework of each Multi-annual Financial Framework (MFF). Since more than 30 years, the EU has been providing a budgetary guarantee to the EIB, limited to certain ceilings and other conditions, covering risks of a sovereign and political nature in connection with its loan and loan guarantee operations carried out outside the EU in support of EU external policy objectives. Over the years, this guarantee has been granted through a series of Decisions. The overall scope and general conditions of the EU guarantee coverage for EIB external operations are set out currently in Decision 1080/2011/EU (the "current Decision"). The latter expires on 31 December 2013.

The need for an EU budget guarantee stems from EIB's obligation under its Statute to ensure adequate security for all its lending operations and, more broadly, from the need to safeguard the EIB creditworthiness in order not to compromise its task of contributing to the balanced and steady development of EU Member States. The EU guarantee has been the key instrument ensuring the compatibility between the EIB's highly leveraged financial structure, the significantly higher inherent risk of lending to third countries, the need to avoid a deterioration of the Bank's AAA rating whilst limiting the EIB capital consumption. The EIB does not remunerate the EU for this guarantee.

EIB operations should be carried out in eligible countries (as defined in the current Decision) in support of any of the following objectives: (i) local private sector development, in particular support to SMEs; (ii) development of social and economic infrastructure, including transport, energy, environmental infrastructure and information and communication technology; and (iii) climate change mitigation and adaptation.

The geographical coverage of the EU guarantee is divided into regions: Pre-Accession region, Neighbourhood and Partnership Countries, ALA region (Asia and Latin America) and South Africa.

The current Decision establishes a general ceiling of EUR 27.484 bn and a Climate Change envelope of EUR 2bn for the period 2007-2013. The general ceiling is broken down into regional ceilings, while the climate change envelope is global and does not present any regional pre-allocation.

Article 16 of the current Decision states that the Commission shall present a new proposal for the next financial framework (2014-2020). The current Decision also further requests the Commission to examine various issues when developing this proposal. In doing so, the Commission took into account the budgetary mechanism underpinning the EU guarantee, as this has implications on some of the options analysed in the Impact Assessment (IA).

A Guarantee Fund (GF) aims to shield the EU budget against shocks due to possible default mainly from the EIB external financing operations and other external actions. The GF is endowed by one annual payment from the EU budget. The provisioning mechanism of the GF which aims at maintaining the GF at a level of 9% of outstanding loan disbursements creates therefore de facto a limit in the size of the EU budget guarantee. Based on expected patterns of disbursements and reimbursements of operations covered by the GF, the amount foreseen in the technical input from the European Commission to the negotiation of the individual programmes implementing the next Multiannual Financial Framework sent by the Commission on 27 March 2013 (which foresees EUR 1.193 billion for the 2014-2020 Financial Framework in current prices for the provisioning of the GF) would allow for an fixed mandate ceiling of around EUR 25 billion.

The regional ceilings were increased by Decision 1080/2011/EU compared to the previous Decision¹. The legislator clearly stated in the recitals of the Decision that these increases were temporary and exceptional with the view to deal with the Arab Spring and account for EIB increased support to EU partners in the 2009-10 crisis context. This shows the legislator's intention to maintain the overall regional balance that was negotiated with difficulty in 2009 and was the outcome of a delicate policy compromise. Hence, it is assumed that the 2009 regional balance should form the basis for the new legislative proposal.

1. PROBLEM DEFINITION

The context in which the EIB operates has significantly evolved and the new legislative proposal for the EU guarantee under the next MFF has been drafted in a fundamentally more difficult context than the one prevailing a few years ago. In particular, the financial crisis had a significant impact on the funding conditions of EIB and entailed possible threats to the EIB's AAA rating. Against this backdrop, the Corporate Operational Plan (COP) 2012-2014 endorsed end 2011 envisaged a significant reduction in lending volumes back to pre-crisis levels in particular in the external field. While the recent endorsement of an EIB capital increase would allow increasing EIB lending inside EU, EIB external activity should not be affected.

This strategic shift has been incorporated in the reflections on the proposal for a new EU guarantee, together with other elements such as inter alia the current economic and financial context which is having an impact on the quality of the external lending portfolio, EIB risk absorption capacity and the extension of the European Bank of Reconstruction and Development (EBRD) geographical scope to the Mediterranean region where it could eventually reach an annual business activity of up to EUR 2.5 bn (which would be more than total combined EIB financing in the region – with the EU guarantee and at EIB's own risk).

In this context, the IA report highlights four main problems:

- **The risk of sub-optimal use of the EU guarantee.**
- **The impossibility for EIB to finance all type of microfinance operations with the EU guarantee.**
- **The insufficient level of funding for climate action and the difficulty for EIB to increase its lending in this area.**
- **Unclear EIB positioning as a key delivery tool of EU external financial support.**

¹ Decision 633/2009/EC

2. ANALYSIS OF SUBSIDIARITY AND JUSTIFICATION FOR EU ACTION.

The proposal falls under the exclusive competence of the EU. The subsidiarity principle therefore does not apply.

The specific legal bases for EU action in granting an EU guarantee to the EIB against losses under loans and loan guarantees for projects outside the EU are Articles 209 and 212 of the Treaty on the functioning of the EU. The EIB is established under Article 309 of the Treaty and its Statute is laid down in a Protocol annexed to the Treaties.

3. OBJECTIVES OF THE NEW EU GUARANTEE TO EIB EXTERNAL FINANCING OPERATIONS:

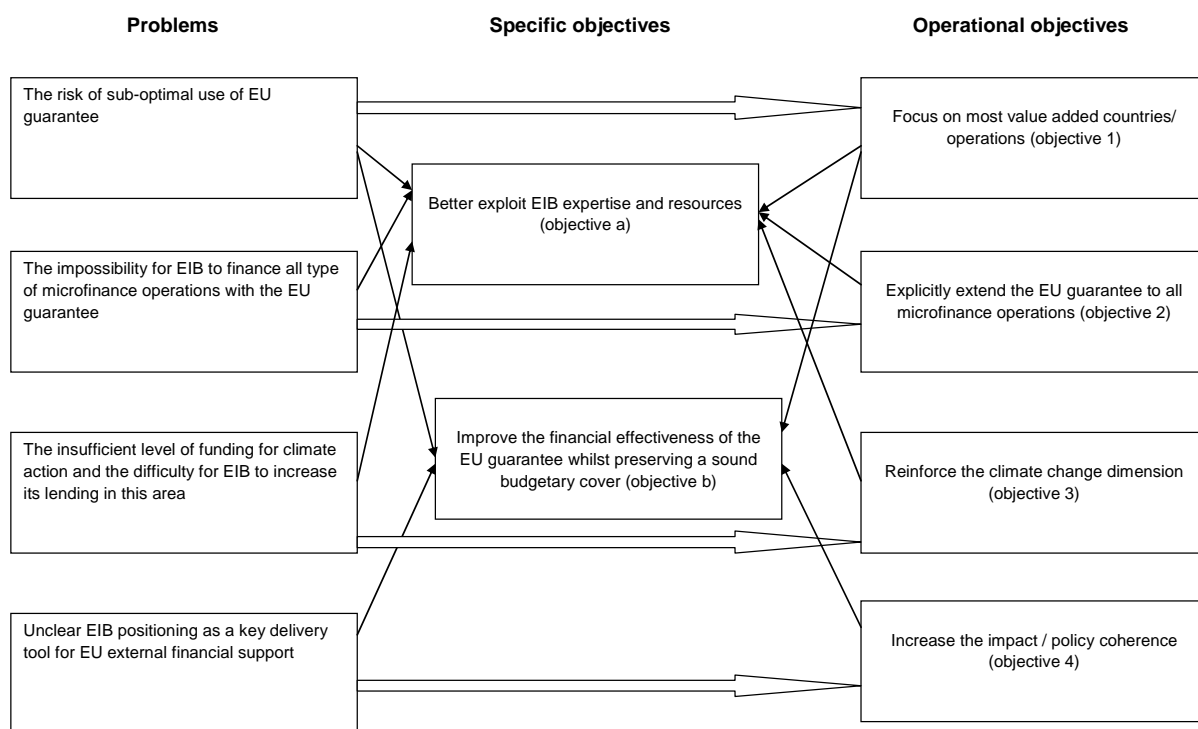
The general objective of EIB activity outside the EU under the EU guarantee should be to support the Union's external policies by financing relevant projects in partner countries through the combination of EU budgetary funds (via the provisioning of the Guarantee Fund for external action which backs the EU guarantee) with EIB own resources.

Through its financing operations outside the EU under the EU guarantee, the EIB should support the economic, social and environmental sustainable development of EU partner countries, and their partnership with the EU. Moreover, EIB financing operations under the mandate shall be consistent with the wider Union regional policy framework.

Other specific objectives of the new mandate should include to: (i) better exploit EIB expertise and resources, and (ii) improve the effectiveness of the EU guarantee whilst preserving a sound budgetary cover.

In this context, the operational objectives of the new EU guarantee should be to:

- **Focus the geographical scope of the EU guarantee on beneficiaries where its use would display the highest value added** (objective 1).
- **Explicitly extend the EU guarantee to all microfinance operations** (objective 2) to reach out the poorest.
- **Reinforce the climate change dimension of the EU guarantee in order to incentivise EIB operations in this key sector of EU external action** (objective 3).
- **Increase the impact of EIB financing** through better alignment with EU policies and coherence and synergies with EU instruments (objective 4) to more satisfactorily mirror policy developments in a timely manner.



4. POLICY OPTIONS

In light of the problem identified and in order to achieve the specific policy and operational objectives, the Commission considered the following options for the future EU guarantee to EIB external financing operations:

Option 0: no new decision – this option was not analysed in detail.

Option 1: no change (as specified in Decision 1080/2011/EU but extended until 31/12/2020) – base line scenario.

Option 2: amend the existing guarantee. This option has been developed according to three sub-options. Each of the three sub-options has been defined as an articulated combination of 4 types of amendments with the view to address the 4 operational objectives on the basis of the mutual interaction and spillover of the modifications of each parameter. The main features of each sub-option are presented in the table below:

Main differences between the retained policy options compared to the "baseline - no change" policy option

Responses to the operational objectives	Option CLOSE	Option MICRO	Option FOCUS
(i) focus on most value added countries/ operations	Exclusion of ALA and South Africa	No change	Focus on less creditworthy beneficiaries (in a dynamic way)
(ii) provide explicit guarantee for all microfinance operations	All microfinance operations specifically eligible but no commercial risk	Pre-allocated envelope of EUR 2bn for microfinance operations with	No change

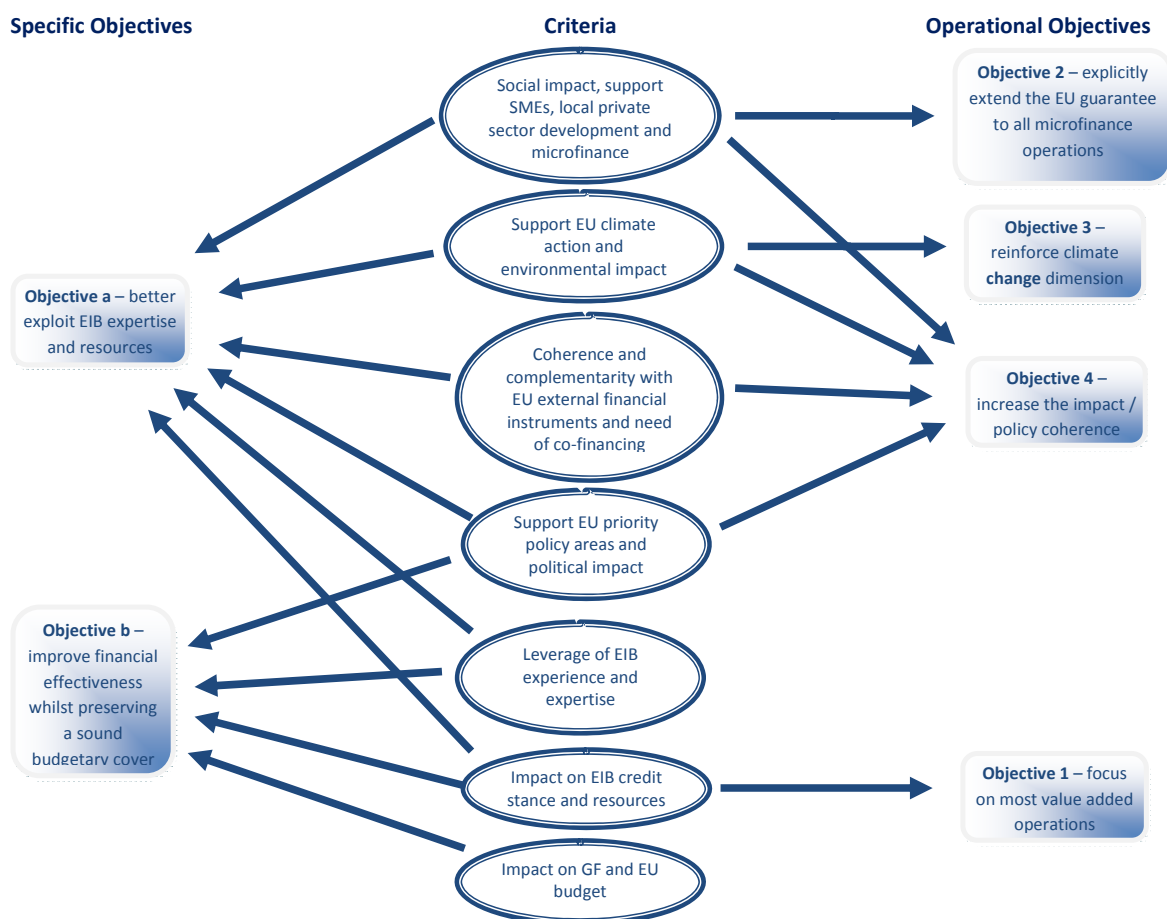
	borne by the EU guarantee	comprehensive EU guarantee	
(iii) reinforce the climate change dimension	Increase of the pre-allocated envelope for climate change operations to EUR 4bn	Setting up of regional targets and absorption of the pre-allocated envelope into the general ceiling	Overall lending volume target + tracking GHG emission reduction
(iv) Increase the impact / policy coherence	Drafting of annual country strategy papers	Update of technical operational regional guidelines in line with MIP of EU external financial instruments	Update of technical operational regional guidelines in line with MIP of EU external financial instruments

Option 3: provide the guarantee to other financial institutions. This option was not analysed in detail.

5. ASSESSMENT OF IMPACTS

It should be noted that it is not possible to provide throughout quantitative estimates of the impacts of each option as the latter will depend on the implementation of the Decision by the EIB. Indeed, the regional ceilings are indicative; they do not represent target volumes. While the implementation of the Decision heavily depends on EIB governing bodies decision and on the absorption capacity of the beneficiaries, at project level, EIB activity will also particularly depend on the identification of sound and bankable projects, grants-loans blending opportunities, level of indebtedness of the beneficiary countries, risk analysis, economic and political context, quality of project preparation, capacity of the project promoters, etc. Nevertheless, a qualitative analysis on main impacts of each option has been carried out while references to data and figures have been provided where possible.

The main impacts have been defined in relation to the operational and specific objectives of the new EU guarantee. The main impact assessed were (i) support priority policy areas of the EU, including enlargement, neighbourhood and the development of third countries and political impact, (ii) coherence and complementarity with EU external financial instruments and need for co-financing, (iii) leverage of EIB experience and expertise, (iv) social impact, support to SMEs, local private sector development and microfinance in partner countries, (v) support to EU climate action and environmental impact (vi) impact on the Guarantee Fund and on EU budget, (vii) impact on EIB credit risk stance/rating and resources. It should be noted that the last two criteria (Impact on the GF and on EU Budget and Impact on EIB credit risk stance and resources) are probably the most important ones as they de-facto set the boundaries within which the Decision can be implemented.



On the basis of the analysis, the report provides an assessment of the impact of each option in terms of effectiveness, efficiency and coherence in comparison with the baseline scenario. The different options have been qualitatively assessed based on the Commission Services' qualitative appreciations of the likely impact.

From the Commission's side, the administrative cost of implementing the options analysed should be equivalent to that of implementing the baseline scenario.

The assessment showed that, combined together, the likely impacts of option CLOSE and MICRO would not be significantly higher than the status quo. On the other hand, option FOCUS would bring more positive impacts and ranked better than the other options analysed, in particular in terms of budgetary impact and coherence and complementarity with EU policies and instruments.

	BASE LINE	CLOSE	MICRO	FOCUS
Support priority policy areas of the EU, including enlargement, neighbourhood and the development of third countries and political impact	0	<u>Efv:</u> - <u>Efc:</u> 0 <u>C:</u> +	<u>Efv:</u> - <u>Efc:</u> - <u>C:</u> +	<u>Efv:</u> + <u>Efc:</u> + <u>C:</u> +
Coherence and complementarity with EU external financial instruments and need for co-financing	0	<u>Efv:</u> 0 <u>Efc:</u> - <u>C:</u> +	<u>Efv:</u> - <u>Efc:</u> - <u>C:</u> -	<u>Efv:</u> + <u>Efc:</u> 0 <u>C:</u> +

Leverage of EIB experience and expertise	0	<u>Efv:</u> - <u>Efc:</u> + <u>C:</u> +	<u>Efv:</u> 0 <u>Efc:</u> - <u>C:</u> -	<u>Efv:</u> + <u>Efc:</u> + <u>C:</u> +
Social impact, support to SMEs, local private sector development and microfinance in partner countries	0	<u>Efv:</u> - <u>Efc:</u> 0 <u>C:</u> -	<u>Efv:</u> + <u>Efc:</u> - <u>C:</u> 0	<u>Efv:</u> + <u>Efc:</u> 0 <u>C:</u> 0
Support EU climate action and environmental impact	0	<u>Efv:</u> + <u>Efc:</u> - <u>C:</u> 0	<u>Efv:</u> + <u>Efc:</u> 0 <u>C:</u> +	<u>Efv:</u> + <u>Efc:</u> + <u>C:</u> +
Impact on the Guarantee Fund and on EU budget	0	<u>Efv:</u> - <u>Efc:</u> - <u>C:</u> -	<u>Efv:</u> - <u>Efc:</u> - <u>C:</u> -	<u>Efv:</u> 0 <u>Efc:</u> 0 <u>C:</u> 0.
Impact on EIB credit risk stance/rating and resources	0	<u>Efv:</u> 0 <u>Efc:</u> + <u>C:</u> n.a.	<u>Efv:</u> 0 <u>Efc:</u> - <u>C:</u> n.a.	<u>Efv:</u> 0 <u>Efc:</u> 0 <u>C:</u> n.a.
Overall average impact	0	- "+": 6 "0": 5 "-": 9	- "+": 4 "0": 4 "-": 12	+ "+": 10 "0": 10 "-": 0

6. COMPARISON OF THE OPTIONS

On the basis of qualitative ratings provided, option FOCUS emerged clearly as the preferred option. It should be noted that under the option, the objective 3 would not be achieved as the assessment has shown that the EU budgetary guarantee is not the appropriate instrument to cover EIB financing of all type of microfinance operations in the regions covered by the EU guarantee.

No stakeholder expressed any opposition to the option retained. Notably, option FOCUS is in line with the opinion expressed by most of those consulted. In particular, the NGOs consulted, the MEPs and the Member States as well as the Steering Committee of Wise Persons (set up at the time of the mid-term review of the current Decision) pointed out to the need to clarify when the value added of EIB financing under the EU guarantee was the highest and to find ways to incentivise the EIB to focus the use of the guarantee on those situations. The NGOs consulted questioned the need to expand the scope of the EU guarantee to all type of microfinance operations given the existence of several other actors in the field, while this was a request from some MEPs. In addition, the NGOs consulted were requesting for a mechanism for EIB to track carbon emission of EIB financing operations.

7. MONITORING AND EVALUATION

In the new legislative proposal, monitoring and evaluation arrangements will be reinforced in comparison to the current situation. In particular, the operational monitoring indicators recently developed by the EIB (REsults Measurement framework - REM), will be maintained and further reinforced.

Moreover, progress towards the specific objectives will be monitored through core indicators covering the following areas: i) amount signed by region, ii) amount disbursed by region, iii)

progress in achieving a balanced distribution of activity by country, iv) breakdown of activity across the various objectives, v) volume of climate change lending, financing and impact on absolute and relative GHG emission reductions, vi) number of projects assessed against climate risk, vii) number and amount of operations blended with EU grants, and viii) number and amount of operations co-financed with other IFIs.

In addition, a more detailed set of performance indicators will be drawn from the three-pillar methodology developed by the EIB under the REM framework. The latter serves to show how EIB loans generate outputs, which enable outcomes and, over time lead to impacts, which are in line with the Bank's mandate objectives.

As regard the financing for projects that promote climate action, eligibility for climate change operations would be clarified against agreed criteria building on - and if needed tightening - existing EIB definitions to track climate change expenditure. The EIB will explore reinforced methodologies to include carbon and to improve climate resilience of its investments, as well as climate risk in project appraisal. In parallel the EIB should keep developing methodologies to assess climate risk in order to reinforce the climate resilience for all relevant operations, and integrate carbon pricing in economic cost benefit analysis. Restrictive eligibility and criteria for carbon-intensive projects should also be improved in relevant sector policies.

Moreover, regular reports will be envisaged in the legislative act as in Decision 1080/2011/EU. The Commission will annually report on the implementation of the mandate by the EIB to the European Parliament and the Council. This report will also be published on the Commission's website.

Finally, a mid-term evaluation will be carried out after three years from the start of the mandate.