



By E-mail

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Европейска инвестиционна банка
Evropská investiční banka
Den Europæiske Investeringssbank
Europäische Investitionsbank
Euroopa Investeeringuspank
Ευρωπαϊκή Τράπεζα Επενδύσεων
European Investment Bank
Banco Europeo de Inversiones
Banque européenne d'investissement
Banca europea per gli investimenti
Eiropas Investīciju banka

Europos investicijų bankas
Európai Beruházási Bank
Bank Europew sa' i-investiment
Europese investeringsbank
Europejski Bank Inwestycyjny
Banco Europeu de investimento
Banca Europeană de investiții
Európska investičná banka
Euroopska investicijska banka
Euroopan investointipankki
Europeiska investeringsbanken

Secretary General

Luxembourg, 1 March 2013

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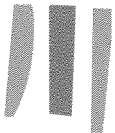
Dear Balance of Competencies Review,

The Response of the European Investment Bank to the Call for Evidence for the Balance of Competencies Review: Development Cooperation and Humanitarian Aid Report

The European Investment Bank (EIB) is responding to the issue of Future Options and Challenges, and in particular the issue posed in Questions 1 and 6 within the review, namely, the comparative advantage of the UK working through the EU, and the future challenges or opportunities the UK might face in the area of development cooperation.

First, a very brief introduction to the European Investment Bank: The EIB is the European Union's bank. We are the only bank owned by and representing the interests of the European Union Member States. The UK is one of the four largest shareholders of the Bank. We work closely with other EU institutions to implement EU policy. We are the largest multilateral borrower and lender worldwide by volume, and provide finance and expertise for sound and sustainable investment projects which contribute to furthering EU policy objectives. Approximately 90% of our activity is focused on Europe, but the Bank also supports with its financing the EU's external policies, including enlargement, regional integration, international development and climate action. The vast majority of our financing is through loans, but we also offer guarantees, microfinance, equity investment, etc. Our involvement in projects also helps unlock financing from other sources, including the private sector, and helps to leverage funds from the EU budget, which are blended together to form an integrated and coherent financing package. The largest proportion of our activity is to provide long-term financing for infrastructure projects, and very importantly, this is in both the public and the private sectors – that is, the EIB is not restricted to only working on one or the other sector.

Outside the EU, the Bank operates on the basis of decisions of its Board of Governors (i.e. the Ministers of Finance of the EU Member States), either within the framework of specific mandates decided by the EU Council of Ministers and the European Parliament, or at its own-risk. In the ACP (Africa, Caribbean, and Pacific), the Bank operates under the framework of the ACP-EU Partnership Agreement. The Bank supports EU cooperation policies through a wide range of



financial products (loans, equity, guarantees or quasi-equity instruments), and through financing sound and productive investments with a clear economic and environmental benefit.

The EIB is bound to follow and implement EU external policies, and to promote the application of EU standards as appropriate. The EIB is accountable to other EU Institutions and subject to the relevant controls of the EU, such as the European Court of Auditors when EU budget funds are concerned (which is the case for the majority of operations outside the EU).

Our lending to middle and low-income countries outside the European Union was approximately €7.2bn in 2012, out of a total lending volume of approximately €52.5bn. The EIB fully draws upon the experience of its EU operations for its operations in developing countries, including, for example, sharing of technological expertise.

The Bank's lending operations are complementary to those of the European Commission which uses grant funding to finance - either through budget support or through specific programmes - non-revenue generating types of investments, or investments tackling more basic social needs in the social, educational and small-holder agricultural sectors. This activity is carried out alongside the bilateral aid from the individual EU Member States.

It should also be noted that the EIB is never a sole-funder of an investment, and frequently co-finances with other international partner and financial institutions, providing additional finance and technical expertise. For instance, in 2009-2011 the EIB cofinanced about 60% of its activity under the External mandate with other IFIs (International Financial Institutions) or with European bilateral institutions. More generally, the EIB has structured cooperation agreements with other IFIs or Development Finance Institutions (DFIs). The EIB has a well-developed tripartite Memorandum of Understanding with the EC and the European Bank for Reconstruction and Development (EBRD) for all its activities outside the EU, which has proven to foster synergies and cooperation with EBRD, and promote opportunities for cofinancing. Other examples include the "mutual reliance initiative" with the French Agence Française de Développement and the German KfW Bank, in the spirit of the Paris Declaration, a collaboration agreement with the International Finance Corporation and European Financing Partners, and the "Interact Climate Change Facility" with European DFIs. The EIB also cooperates closely with the World Bank Group and other IFIs at the institutional level, including participation in joint meetings of the Heads of the Multilateral Development Banks (MDBs), in the International Finance Corporation's (IFC) Private Sector Roundtable, and in multiple working groups of these financing institutions.

Overall, the EIB's work thus complements the development assistance of Member States. In the case of the UK, this is both the predominantly grant-financing that is provided principally through DFID, and the equity and debt investments and equity funds supported by the UK's CDC, albeit at a much smaller scale and a smaller geographic range than the EIB's. It would be very challenging and costly for a Member State to replicate the EIB's scale, volume and geographic coverage of lending for development.

There are many examples that therefore demonstrate the comparative advantage for the UK of working through the EU via the European Investment Bank, of which the following are a select few:

- The EU-Africa Infrastructure Trust Fund, to which the UK is the largest bilateral contributor, alongside significant grant contributions from the Commission. This fund, which is managed by the EIB, supports implementation of regional infrastructure projects in Sub-Saharan Africa, and leverages lending in the ratio currently of 1 to 12.6, greatly enhancing the impact of scarce grant funds. These projects facilitate regional integration and trade,



complementing softer Aid-for-Trade measures by Member States. For example, the Great East Road rehabilitation is a critical link for the North-South African road corridor network, and benefits from EIB lending, subsidised by Trust Fund grants. Such operations underpin the aims of the Infrastructure Consortium for Africa, which was established following the G8 Gleneagles summit in 2005 to facilitate infrastructure investment in Africa.

- The Global SME (Small and Medium Enterprises) Guarantee Facility, launched in 2012, which is the first global platform of its kind to blend donor grants, with funding from international development institutions to expand lending to small businesses in emerging markets. The UK DFID's contribution is allowing the IFC and EIB to jointly support SME finance in Africa. Project pipeline permitting, the EIB expects that \$30m of DFID grant will help leverage \$200m of EIB-IFC guarantees (which reduces the cost and risks of lending to SMEs), which in turn will allow local (i.e. within the developing countries) banks and financial institutions to lend \$400m to SMEs – this represents a leverage of over 1 to 13 for the DFID grant.
- The European Financing Partners S.A. (EFP), which is a private limited liability company, the funding capacity of which is provided by the European Investment Bank (EIB) and by 12 members of the European Development Finance Institutions, including the UK's CDC. EFP provides funds for private sector projects (to date in financial intermediation, energy, communications, agro-industry, manufacturing and healthcare) located in ACP (African, Caribbean and Pacific) states. Through the EFP, the EIB and the EDFI's have provided €321m, of which €16.4m has come from CDC. This has supported a total €2.39bn of private investment. The EFP leverage ratio is about 1 to 8.

The future challenge for any Member State (including the UK) in terms of development cooperation is that this is a time when there are considerable downward budgetary pressures on development assistance, while the needs for financing for development are growing, including the added challenges of a changing climate. Thus, it is clear that grant aid increasingly will have to leverage other forms of development assistance, such as loans, equity investments and other financial instruments. This is precisely the core strength of EIB operations outside Europe. The EIB is helping to deliver sustainable growth and poverty reduction, as mandated by the EU's Agenda for Change published in 2011, which, inter alia, gives a high profile for economic growth and a strong focus on leveraging in private sector money.

Various independent evaluations, publicly available, have confirmed that the EIB conducts this task in an efficient, effective and transparent manner, and in a way which provides complementarity to other financing institutions. The most recent comprehensive review of the EIB's work was an independent external review over 18 months, concluded in February 2010¹, that was supervised by a Steering Committee of "wise persons", including Richard Manning (former chair of the OECD Development Assistance Committee), appointed by the EIB Board of Governors. Whilst making a number of recommendations, most of which have been subsequently adopted, they concluded that: "The EIB is a powerful instrument to serve the EU external policies and related objectives, which has served the EU well so far." Similar conclusions emerge from the mid-term review of the Investment Facility and EIB own resources activities in the ACP under the Cotonou Partnership Agreement.²

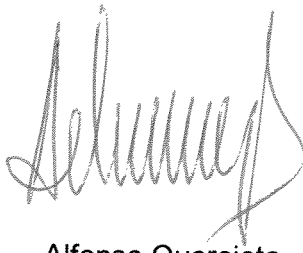
¹ www.eib.org/attachments/documents/eib_external_mandate_2007-2013_mid-term_review.pdf

² http://ec.europa.eu/transparency/regdoc/rep/eims/AIDCO/136982/Eval%20EIB%20ACP-OCT%20-%20Final%20Report%20-%20VOL%20I%20Main%20_EN.pdf

The EIB has also a comprehensive Results Measurement framework to track and provide evidence of how its operations outside of the EU contribute to the EU's and to recipient's strategies, deliver expected development outcomes, and demonstrate EIB additionality.

These development outcomes could not be met at such scale and with such an efficient business model except through the EIB as the EU financing institution able to operate under EU mandate outside of Europe.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Alfonso Querejeta', with a stylized, flowing script.

Alfonso Querejeta