



EUROPEAN INVESTMENT BANK

*Supporting European Objectives in Eastern Neighbourhood
Countries and Central Asia*

**First TRACECA Investment Forum
Brussels, 12 October 2010**

Long-term finance promoting European objectives



- **European Union's long-term lending bank set up in 1958 by the Treaty of Rome**
- **Owned by the 27 Member States of the European Union**
- **A policy-driven public bank:** in synergy with the other EU institutions, the EIB contributes to the realisation of investment projects that further the economic, social and political cooperation priorities of the EU
- **A non-profit maximizing** financial institution
- **Supports investment projects both within the EU and outside the EU**
- **EIB is the largest International Financial Institution**
- Subscribed capital: EUR 232 bn
- Total Group's assets at end-2009: EUR 386 bn
- Lending amounting to EUR 79 bn in 2009, of which around EUR 70 bn in the EU and some EUR 9 bn outside the EU



Within the Union:

- ▣ Cohesion and convergence
- ▣ Small and medium-sized enterprises (SMEs)
- ▣ Environmental sustainability
- ▣ Knowledge Economy
- ▣ Trans-European Networks (TENs)
- ▣ Sustainable, competitive and secure energy



Outside the Union:

- **Infrastructure development**
- Private sector development
- Security of energy supply
- Environmental sustainability
- Support for EU presence in Asia and Latin America via Foreign Direct Investment (FDI)



EIB lending outside the EU



- Outside the EU, EIB support the EU's cooperation and development policies, implementing the financial components of agreements concluded under these policies
- EIB financing complement materially the EU budget funds
- Supports investment projects in some 150 non-member countries throughout the world
- The EIB's terms of reference outside the EU are determined by **multi-annual mandates** entrusted to the Bank by the EU Member States
- Each regional mandate has its own priorities, a maximum amount of EIB lending and validity period
- 2007-2013 External Lending Mandate currently under a Mid-Term Review
- To enhance its support of EU development aid and cooperation policies, the EIB can lend **outside and in addition to the mandates** at its own risks.



Operations under External Mandate (EUR 27.8 bn during 2007-2013)

- Pre-Accession
 - Candidate Countries: Croatia, **Turkey** and Former Yugoslav Republic of Macedonia
 - Potential Candidate Countries – Western Balkans
- European Neighbourhood
 - Mediterranean Partner Countries
 - **Eastern Europe, Southern Caucasus** and Russia
- Asia and Latin America, including **Central Asia**
- South Africa

TRACECA Member Countries: Eligibility to EIB financing



Bulgaria	EU Member State
Romania	EU Member State
Turkey	Candidate country. Eligible to EIB financing under the EUR 8.7 bn Mandate for Pre-Accession countries and EUR 19.5 bn Pre-Accession Facility
Armenia	Partner countries eligible to EIB financing under: (1) EUR 3.7 bn Eastern Europe, Southern Caucasus and Russia Mandate; (2) EUR 1.5 bn Eastern Partners Facility to support EU FDI; and (3) EUR 3 bn Energy Sustainability Facility
Azerbaijan	
Georgia	
Moldova	
Ukraine	
Kazakhstan	Partner countries eligible to EIB financing under: (1) EUR 1 bn Asia Mandate; and (2) EUR 3 bn Energy Sustainability Facility
Kyrgyzstan	
Tajikistan	
Uzbekistan	
Iran	Not eligible to EIB financing



- In **Eastern Europe, Southern Caucasus and Russia**: Focus on **projects of significant interest to the EU in transport**, energy, telecoms and environmental infrastructure, and SMEs.
- Priority to projects on extended major **Trans European Network** Axes, projects with **cross-border implications** for one or more Member States and major projects favouring **regional integration through increased connectivity**.
- In **Central Asia**: Focus on major **energy** supply and energy transport projects with cross-border implications.



- Core product: **medium- and long term loans**
- Equity investment through **infrastructure funds** under the EPF (up to EUR 150 M)
- Typical **direct loans** are in the order of **EUR 25-100 million**; larger amounts are possible
- **Intermediated loans**: For smaller projects, the EIB can lend indirectly through **credit lines** to local financial intermediaries (sub-loans of between EUR 0.1 and EUR 12.5 million)

Benefits of EIB loans



- Benefits of **low cost of funding** passed on to clients:
 - Large amounts
 - Broad range of currencies
 - Long maturities (up to 25 years and tailor-made grace periods)
 - Attractive interest rates
 - Low fees
- **Catalyst for participation of other financial partners**, and the **European Commission** under the **Neighbourhood Investment Facility**, which provides for grant financing. Combination of grants and loans to achieve optimum financing packages
- Coverage of political risks (possible for private sector financings under Mandate)

General Operational Considerations



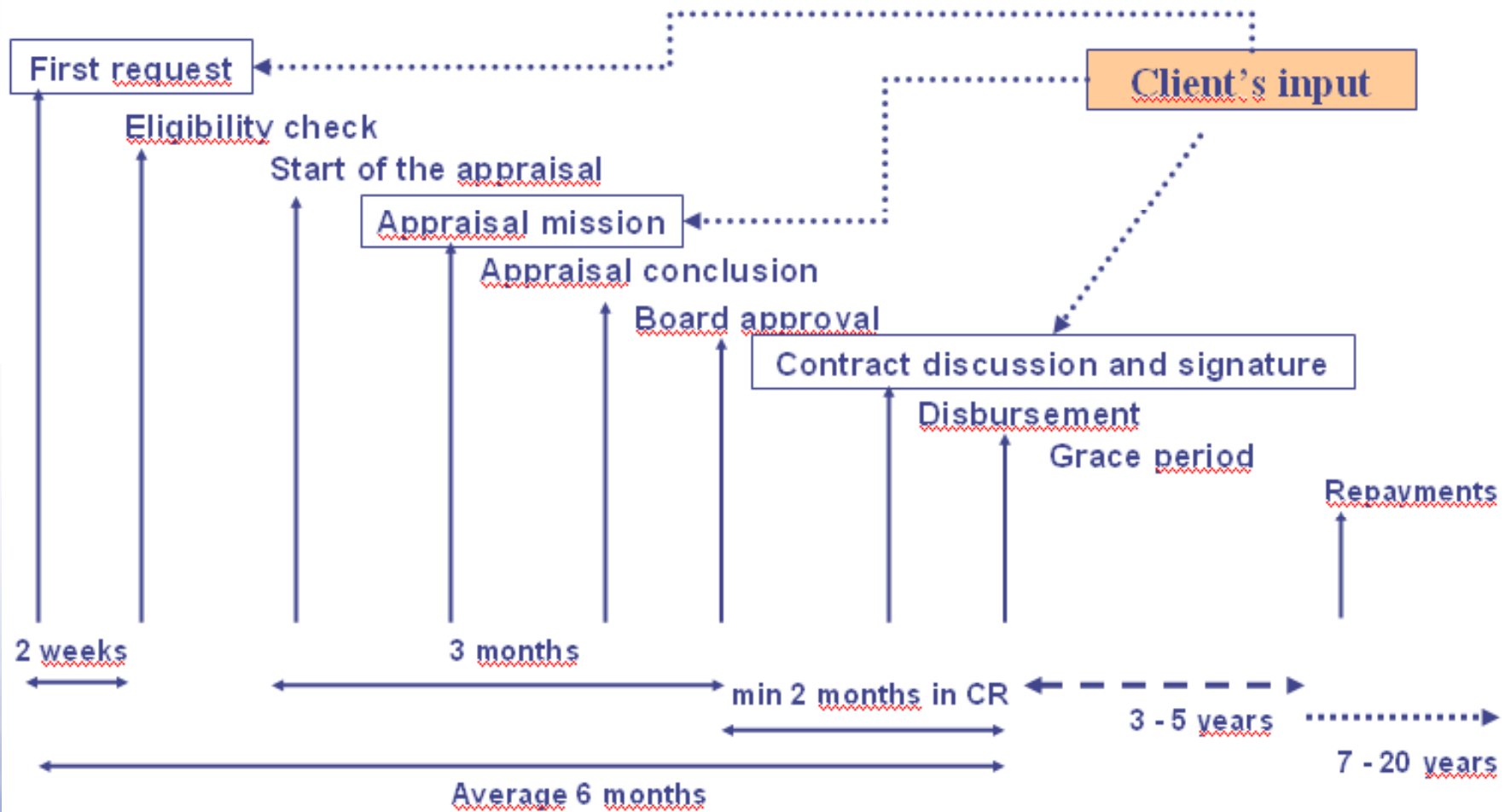
- Beneficiaries of EIB loans: State, Central Government, Regions, Municipalities, Utilities, Private Companies, Project Finance Structures and PPPs.
- EIB Financing Operations in the region are carried out in close cooperation with the **EBRD** in accordance with the tripartite Memorandum of Understanding signed between the Commission, the EIB and the EBRD in December 2006.
- Close cooperation with the **European Commission**, including under the Neighbourhood Investment Facility
- Cooperation with the **other IFIs** and European Development Financial Institutions to exploit synergies and optimise financing packages (World Bank group, Nordic Investment Bank, Asian Development Bank)



- EIB loans are **project-linked**, oriented to the financing of the fixed asset component of an investment;
- EIB loans can finance **up to 50% of total project costs**
- Projects financed by the Bank are duly assessed to ensure they meet the Bank's standards in terms of **quality and soundness**. Projects must be:
 - economically justified
 - technically viable
 - financially self-supporting and
 - environmentally sound
- Appropriate **procurement procedures** are required (International Competitive Bidding when appropriate)



TIMING CYCLE FOR WELL PREPARED PROJECTS





The EIB loan has to be covered by an appropriate security:

- for **public sector borrowers**: normally, sovereign guarantee
- for **private sector projects**, first-class bank or corporate guarantee (rated at least BBB+/Baa1)
- **Risk sharing under the Mandate**: For private sector projects in the energy, environment, transport, telecommunication and SME sectors, the guarantee provided by third parties covers essentially the credit risk of the borrower; political risks are carved out of the obligations of the guarantors (fosters cooperation between EIB and commercial banks).
- **Comprehensive, first-demand guarantee under the EPF and the ESF**. Generally, guarantee by an acceptable corporate or bank. The security structures have to be such that their credit quality would be the same as that acceptable for lending in Member States.
- The EPF provides for a window for higher risk operations, amounting to EUR 150 m (Structured Finance Facility -SFF).

EIB lending in Eastern Partners to date



		Amount (EUR mns)
ARMENIA		5
	Yerevan Metro Rehabilitation	5
GEORGIA		120
	High Voltage Transmission Lines	80
	Water Infrastructure Modernisation	40
MOLDOVA		60
	Moldova European Roads	30
	Moldova Chisinau Airport	20
	Water Sector	10
RUSSIA		468
	St Petersburg Vodokanal I	25
	St Petersburg Vodokanal II	20
	St Petersburg Flood Barrier Project	40
	St Petersburg Vodokanal III	18
	MTS Mobile Broadband	115
	OGK 5	250
UKRAINE		466
	European Roads	200
	Rivne-Kyiv High Voltage Line	150
	Forumbank	100
	Mykolayiv Vodokanal	16
TOTAL		1,118

Sectoral breakdown

Energy	480	43%
Transport	255	23%
Environment	168	15%
Telecom	115	10%
Credit lines	100	9%

Operational Prospects



➤ **Current strategy for 2010-2013:**

- Step up the implementation of the EUR 3.7 bn External Lending Mandate and jump start the use of the EUR 1.5 bn EPF to support the EU's cooperation policy with its Eastern Partners.
- Focus on investment projects that will help **modernise economic infrastructures**, improve the **environment** and promote the **integration** with the EU economy, including through better physical linkages and FDI.

➤ **Progress made in implementing this strategy:**

- Signatures to date under the current Mandate: EUR 803 m, of which EUR 401 m so far in 2010.
- Operations approved by Board of Directors and awaiting signature, or under appraisal: 16 operations totalling over EUR 1½ bn; this includes selected TRACECA projects.
- Large pipeline of identified operations and significant potential, including for TRACECA projects (subject to further project review and acceptable financial structuring)



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