The European Investment Bank: supporting the European Union's external activities

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Set up under the Treaty of Rome, the European Investment Bank (EIB) has since its inception been charged with the foremost task of financing investment projects furthering the Union's political objectives. This means first of all strengthening what the Treaty calls "economic and social cohesion", which justifies the EIB's priority focus on projects in less developed or declining regions; it also means supporting projects involving a common interest among the Member States, such as trans-European networks and protection of the environment; and finally it entails contributing to certain specific policies and objectives, such as fostering innovation.

The EIB's primary remit and, therefore, most of its operations lie within the enlarged Union. All the same, its activity outside the Union is on the rise – in volume, in quality and in varieties of operations – on the basis of mandates conferred on it by treaty or by Council decision.

1. The EU Policy on International Development

At the end of March 2002 in Monterrey, the international community expressed its commitment to help developing countries by mobilising international and domestic resources, increasing international commercial, financial and technical cooperation, and addressing systemic issues such as coherence and consistency of the global economic system. Although international conferences are organised and statements or consensus are adopted, one could ask if a really new initiative which could act as catalyst to eradicate poverty, diseases, corruption and conflicts in developing countries, exists.

Interdependencies and increasing inequality describe today's world. The socio-economic and technological gap between industrialised countries and developing countries grows, as the number of least developed countries increases. At the same time, cooperation among countries leads to the creation of regional alliances, the only valid instrument until now, to affront challenges coming up with globalisation.

Development policy constitutes an important dimension for international relations. The main actors are the governments and the people of the developing countries themselves, international and multilateral organisations, developed countries, multinational companies and non-governmental organisations (NGOs). In this framework, international cooperation for development should, first of all, define priorities, given that funding is limited, and, secondly, invent and integrate innovative practices.

As far as the European Union is concerned, development is one of the three aspects of its external relations, together with the trade policy and political relations. Just like other international donors, the EU faces the challenge of presenting concrete and positive results. The EU is today one of the key players in development cooperation. In total, the EU (27 Member States and the European Commission) provides more than 55% of international public assistance (ODA). The European Commission alone is responsible for over 10% of total public assistance, and at the same time is the most important humanitarian aid provider in the world.

EU aims at the integration of poor Countries in the world economy and at the encouragement of internal institutional reforms. Globalisation is extending very quickly because of liberalisation of trade and technological evolution. The international community is called upon to adopt regulatory mechanisms in order to provide this process with social substance and a humanitarian dimension.

For the successful outcome of programmes in developing countries, the EU decided to put more emphasis on the three "C": Coherence, Complementarity and Coordination of actions and programmes. This framework promotes sustainable development at international level. The bilateral assistance of each Member State, despite national priorities, should be linked to agreed international targets.

The EU external activities are funded by the Community budget and the European Development Fund (EDF). The Community budget is allocated on an annual basis whereas the EDF, composed of national contributions, has a five-year programme.

The EU's own interests today give priority to the relations with its candidate/potential candidate for EU Membership countries and its immediate neighbours i.e. Central and Eastern Europe, the Black Sea region and the Mediterranean. At the same time, however, the EU has not neglected the existing challenges of development policy. The risk of exclusion for many countries and their economies, the increase of poverty, the need for better management of environmental problems, the consequences of armed conflicts and the tragic situation that exists in the field of health and education are important problems and challenges for all of us.

In the course of the external relations of the EU, regional distribution of its aid has significantly changed, demonstrating its ability to adapt to new developments. New regional cooperation agreements were added to the old ones with a parallel increase in financial resources available. Apart from the specific objectives of development policy, other factors, such as geo-strategic interests, trade and also human rights and environmental concerns, have an impact on the external relations of the EU. This could explain the variety of regional partnerships signed between the EU and countries in all parts of the world (Mediterranean, Central and Eastern Europe, Asia, Mercosur, ACP countries, etc.).

The Council of Ministers and the European Commission have identified the following priority areas:

- Trade and Development: EU trade policy contributes to the economic development of poor countries (opening-up of Community market to their products) and aims at rendering their economy more competitive. It promotes trade liberalisation and seeks the participation of developing countries in multilateral negotiations, projecting the development dimension within the WTO.
- Regional integration: the EU, with its own experience of integration, can promote initiatives for conflict prevention and conflict resolution, support of cooperation on financial issues, regional infrastructures and environmental problems.
- Macro-economic Policy: the EU's political standing and financial instruments could help to improve the macro-economic framework of developing countries. The EU aims to link of these programmes precisely with the poverty reduction strategy and put emphasis on the social sectors (health, education).
- Strengthening of infrastructure and especially transport: the improvement of markets and regional integration depends to a large extent on infrastructure and reliable roads. The Commission has expertise in this field and the financial means required for road construction.
- Strategy for Food Security and sustainable development and combating famine. In this field the EU is one of the most important actors and has led the way for many years now. Main goals: poverty reduction, agricultural development and clean water.
- Institutional Building and democratisation: promotion of good governance, the rule of law and respect for human rights. Within this context, mutual commitments should be made for transparent and responsible management of public funds for development and combating corruption. Finally, special emphasis will be given to issues such as protection of the environment, equal opportunities for men and women, and strengthening of civil society.

2. EIB's support to EU external policies: a geographical overview

For many years now, the Member States have mandated the EIB for supporting the Union's external activities. The EIB is acting as the EU's economic diplomacy arm. The most important of these has been that of financing investment in the EU candidate/potential candidate countries in Europe, including the Western Balkans in order to help them to bridge the development gap and adopt the existing body of EU legislation and regulations known as the "*acquis communautaire*".

But EU is also looking outwards, first and foremost towards the countries in Eastern Europe and the Mediterranean rim who are its immediate neighbours. The EIB has already built up long experience of project financing in this area, where the challenge is to raise standards to levels that pave the way for full participation in trade with Europe and the rest of the world.

The EIB's oldest mandate relates to the African, Caribbean and Pacific (ACP) countries. After two Yaoundé Conventions, and 25 years of successive Lomé Conventions, EIB lending in the ACP is taking place in the framework of the Cotonou Partnership Agreement, which was signed in June 2000. The EIB's role under this Agreement is to contribute to Europe's development policies by providing finance on behalf of the Community for "bankable" projects in the ACP countries, both in the domain of public infrastructure (which is increasingly being managed by private companies) and in the directly productive sectors such as industry and services.

The EIB also operates in Asia and Latin America by supporting projects of mutual interest for the relevant countries and the European Union.

Overall, the EU has entrusted the EIB to promote EU external policy objectives in a total of 168 countries around the globe.

3. Nature of operations and types of financing outside the European Union

Investment projects must be geared to the specific situations of the receiving countries. Because of the development gap compared with the European Union countries, investment in the partner countries in which the EIB operates tends more specifically to support the development process in the broad sense of the term.

An aspect particularly worth highlighting in the case of the ACP countries is the Cotonou Agreement's key focus on promoting schemes that contribute to poverty reduction. EIB attaches importance to the need to act as a true development institution in these countries.

The nature of the EIB's operations outside the EU has implications for the type of resources that can be used. The EIB has two facilities or "windows". As with all its mandates, the EIB can draw on its own resources. These are funds which the Bank, with the benefit of its top AAA rating, raises on the capital markets and then on-lends adding an intermediation margin. Such loans carry a partial guarantee from the EU Member States but the EIB will only invoke this as a last resort, in quite exceptional cases. It consequently requires its borrowers to provide a solid guarantee. However, to the extent that the borrowers, particularly in a large part of the ACP countries but also in certain other countries outside the EU, are not in a position to do this, the scope for using the Bank's own resources remains limited.

The second window offers what is known as "risk capital". This instrument is specific to the mandates for the ACP countries and, to a lesser extent, the countries of the Mediterranean. Its specific character reflects two things: first, the fact that these are less developed countries, where the risks involved are unusually high both politically and also commercially because of the difficult environment; and secondly, the nature of the mandate (which is to contribute to development policy). While the funds for the ACP countries come directly from the budgetary resources of the Member States, the funds for the Mediterranean countries are made available to the Bank from the Community budget.

These risk capital funds give the EIB great operational flexibility. For instance, loans extended from these resources do not have to be covered by first-class guarantees, although various other forms of security are required. Moreover, when using such funds the EIB has the option of consciously taking part of the project risk or a stake in a company. For example, it can take equity participations in companies either directly or via investment funds that themselves invest in local company equity. In other cases, the risk capital is deployed through participating or conditional loans where the remuneration - and sometimes repayment of the principal – is linked to performance of the project concerned. By such risk-sharing, the EIB seeks to encourage the development of projects which their own promoters or other lenders would, on their own, have found too risky. It thereby acts as a catalyst in that it attracts investors or co-financiers by reducing their risk both through its financial input into the project and through its status as a multilateral institution. The assistance to the Mediterranean countries is mainly in the form of equity participations whereas in the ACP countries it tends rather to take the form of participating or conditional loans.

4. The volume of EIB's forthcoming activities outside the Union

At the December 2006 EU Council Meeting, all EIB's main external mandates have been reviewed and extended for the period 2007-2013.

For Pre-Accession countries: EIB is authorised to lend EUR 8.7 bn with a European Union guarantee in candidate countries (Croatia, Turkey and the Former Yugoslav Republic of Macedonia) and potential candidate countries in the Western Balkans.

EIB loans and guarantees, complemented by resources to be made available under the Instrument for Pre-Accession (IPA) will support projects contributing to the priorities defined in agreements between these countries and the European Union (Accession and European Partnerships as well as Stabilisation and Association agreements).

More specifically, in candidate countries, EIB will support the incorporation and implementation of the "acquis communautaire" on the road to accession. In potential candidate countries, EIB operations will continue to shift where relevant from reconstruction to pre-accession support in line with EU priorities.

EIB will continue and further strengthen its close cooperation with the European Commission and the other International Financial Institutions active in these countries.

EIB loans and guarantees under mandate will be complemented by EIB operations under its own Pre-accession facility (created in 1998), which will be renewed and extended at the beginning of 2007 for candidate countries. This facility will be made available over time to the potential candidate countries in line with the progress of their accession process.

EIB in these countries is by far the largest source of external public finance. Initially, priority focused on the major public works projects (rail, road and water) essential to close the infrastructural gap and improve communications with the rest of Europe. While this still remains an objective, it is now flanked by assistance to enable the future Member States to comply with the Union's policies and standards, notably with regard to the environment. Global loans to assist SMEs are also very much on the increase.

An aspect worth stressing is that the terms and conditions for the Bank's financing in the Candidate States have been progressively harmonised with those applied in the Union. To cite just two examples, the margin to cover administrative costs is the same now, and loans to local authorities can be considered using the single-signature arrangement. Another important point is the role which the EIB now plays on local capital markets. The EIB was the first borrower to launch an issue programme on the Polish and Hungarian markets, and today is the leading non-sovereign issuer on the various markets of Central and Eastern Europe.

In this region, EIB will also develop operations under its Structured Finance Facility, which enables the Bank to support projects presenting a higher risk profile with financial instruments going beyond its traditional senior loan (mezzanine and subordinated debt, derivatives and equity-type instruments).

For European neighbor countries: with an invitation to lend up to EUR 12.4 bn in Europe's Eastern and Mediterranean neighbors over the period 2007-2013 with European budget support, Member States have provided the EIB with the biggest mandate in its history for operations outside the Union.

This increase recognises the contribution the EIB has already made in support of the European Union's external policies, particularly in the Mediterranean, and within the recent mandate in Russia, Ukraine and Moldova. Building on the results already achieved, the EIB will continue to promote regional integration, economic modernisation and social stability in the region. In a nutshell, it will continue to support the European model and help to make true partners of its geographical neighbours.

The new mandate also takes into account the moving borders of the Union and has an expanded geographical scope covering the Southern Caucasus.

EIB loans and guarantees, coupled with resources to be made available under the ENPI, as well as contributions from other European and International institutions, will provide the means to finance a significant number of projects in the region, resulting in sustained growth, investment and job creation.

Whilst Eastern and Mediterranean neighbours fall within a common neighbourhood policy, the overall mandate of EUR 12.4 bn has been split to take into account the specific characteristics and priorities of each region:

For the **Mediterranean countries,** financing is carried out by EIB's the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) in October 2002. Aiming at supporting the Mediterranean countries strengthen their economic ties with the European Union and to combat unemployment and poverty, its funding ceiling has been set at EUR 8.7 bn. This doubles the loan resources available to the 9 active partner countries compared to the previous mandate. Within this framework, support for the private sector, which has tripled in absolute terms in the period from 2000-2002 to 2003-2005, will remain FEMIP's number one priority. FEMIP will also support partner countries in their quest to create a business environment more conducive to private sector development by investing in infrastructure. Support to integrated transport, energy and telecommunications networks, including extension of the Trans-European networks to the Mediterranean and investment in human capital will be part of this.

Working within the framework of the different agreements concluded over the recent years, FEMIP will implements its loans in close cooperation with the other institutions operating in the region (the European Commission, European national institutions, the African Development Bank, the World Bank Group).

The EIB started operating in the region as far back as 1974. Its portfolio exceeds today EUR 15 billion in financing spread across all the countries on the Mediterranean rim, progressively raising the Bank to a leading role in fostering stability and economic development in the region. The EIB's major presence in the Mediterranean countries reflects not only the need for companies in the region to catch up with prevailing standards, but also the importance which the Euro-Mediterranean partnership attaches to the creation of a free-trade area by 2010.

Despite the resource input from the EIB and the donor community, it has to be acknowledged that results have not matched expectations. Economic growth rates in the Mediterranean countries have been insufficient to satisfy job demand on the labour market and as a result unemployment has continued to burgeon, climbing in some countries to over 30%. Poverty is also very widespread, affecting nearly 30% of the population. Additionally, a deep and indeed growing gulf in living standards remains between the Mediterranean countries and the European Union, with a ratio of around 1 to 10.

Enhancing the region's prospects requires pressing ahead with economic reforms, improving governance and adopting additional measures designed to help the region's countries integrate into the world economy. To attain these objectives, financial support measures need to be taken, particularly targeting the private sector so as to unleash its potential as an engine of economic growth. The EIB, as the financial arm of the partnership between the European Union and the countries of the Mediterranean, is ideally placed to provide this financial backing.

For **Eastern Europe, the Southern Caucasus and Russia**, the ceiling will be EUR 3.7 bn. The EIB started to operate in the Russian Federation in 2003 with an envelope of EUR 100m to support selected environmental projects in the Baltic Sea rim area. It was followed by a second mandate for Russia – as well as Ukraine, Moldova and Belarus – for an amount of EUR 500 million for projects in the environmental sector as well as transport, telecommunications and energy infrastructure on priority Trans-European Network (TEN) axes having cross-border implications for a Member State. Accordingly, the new mandate represents a novel challenge for the Bank by extending its competencies to new partners in Southern Caucasus.

With an extended geographical reach, it will further allow EU's Eastern neighbours to benefit from the EIB's experience in supporting economic transition and integration. Cooperation with the EBRD will be reinforced. Following the terms of the MoU recently negotiated, both institutions will work together with the Commission to identify projects that meet the EU's priority of financing major infrastructure developments. Against this background, transport, energy, telecommunications and environmental infrastructure will continue to be the focus of EIB activity in this region. Particular precedence will be given to projects on extended major TENs axes, projects with cross-border implications for one or more Member States and major projects favouring regional integration through increased connectivity. In the environmental sector, the EIB will in Russia give particular priority to projects within the framework of the Northern Dimension Environmental Partnership. In the energy sector, strategic energy supply and energy transport projects are of particular importance. In all sectors, transactions will be closely coordinated and, as a general rule, co-financed with EBRD.

Hitherto, the EIB's operations in Russia have been limited to a small 100 million mandate focused on environmental projects around the Baltic Sea (St Petersburg and Kaliningrad), within the "Northern Dimension" framework. However, in December 2003 the Ecofin Council decided in principle to broaden this mandate to the whole of Russia and to the "new neighbours" (Ukraine, Moldova, Belarus) for investment in other sectors of common interest, particularly extension of the trans-European networks towards these countries. This fits in well with the "Wider Europe – Neighbourhood policy" proposed by the Commission; this explicitly mentions "the extension to these countries of the Union's transport, energy and communications networks" as a key element of this policy.

For the ACP countries: The EIB has been involved in these countries since 1963. As already indicated at the beginning of my speech, the Cotonou Agreement, which follows on from the successive Yaoundé and Lomé Agreements, establishes the template for the Bank's operations. The principal objectives of the Cotonou Agreement are to:

- promote growth and help reduce poverty;
- encourage integration of the ACP countries into the world economy;
- invest in the private sector as a driver of economic growth.

To achieve its objectives in the ACP countries, the EIB can use up to -1.7 billion of its own resources, plus -2.2 billion in "risk capital" furnished by the Member States. These risk capital funds feed the new Investment Facility which was set up under the Cotonou Agreement for the principal purpose of financing private sector projects as well as "bankable" public sector works – mostly infrastructure projects enjoying a high degree of management freedom and run on commercial lines. Being crucial for development of the true private sector, such projects continue to have priority status.

An important corollary of the "private sector" slant of this Facility is that the EIB is expected to manage it with the aim of ensuring a sufficient return for it to become self-sustaining in the long term. In other words, the Member States have put up the initial stake, to which additional contributions will doubtless be added over coming years pending repayment of the initial financing. In the long term, however, reflows of funds and the profits garnered by the Facility must be sufficient to finance its new operations. Given the risky nature of projects in the ACP countries, this objective presents a real challenge: considerable pitfalls lie ahead, and how this Facility will eventually perform in financial terms is hard to predict.

The financial instruments that the Investment Facility can offer are broadly similar to those available under the Lomé Convention: conventional loans, quasi-equity financing and equity participations. The only really new element is that are able also to furnish guarantees and other forms of credit enhancement. The big difference with this Facility lies in the terms on which these instruments are made available to borrowers, since the Cotonou Agreement stipulates that the Facility's operations are to be carried out at market-related rates. It is, however, possible for concessionary terms (in the form of an interest subsidy of up to 3%) to be granted in certain well-defined cases, notably for public infrastructure works in the least advanced countries. Nevertheless, such cases will remain few and far between because of the very limited funding allocation for interest subsidies.

On the other hand, the creation of the Investment Facility means some broadening of the range of eligible operations, because there will be no sectoral limitation and it is also envisaged that the Facility will be able to participate in privatisation-related restructuring operations.

For South Africa: EIB is entitled to lend EUR 900 million with European budget support in the Republic of South Africa over the period 2007-2013. This represents a small increase compared to the previous EUR 825 million mandate for the period 2000-2006.

The South African government's Accelerated and Shared Growth Initiative (AsgiSA) aims to increase real GDP growth to about 6% per annum in the period up to 2014 in order to effectively reduce unemployment and poverty. This will require a substantial rise in the investment rate from currently 18% to about 25% of GDP, reflected i.a. in the planned significant public sector investment programme in infrastructure. As a result domestic savings will need to be complemented by capital imports to finance these investments.

In this context, as well as in view of the expectations created by the Trade and Development Cooperation Agreement between the EU and South Africa, the Bank' support to South African economy will be reviewed as part of the mid-term review of all the external mandates to be carried out in 2010.

In the light of the clear focus on infrastructure projects of a public interest and private sector support of the new mandate, the Bank will shortly enter into discussions with the South African authorities to determine how best to support the country's development strategy.

The EIB will strengthen its policy dialogue and its operational cooperation with the European Commission, the other IFIs and European bilateral institutions to ensure that synergies are exploited and complementarity with the other institutions is maintained.

For Latin America and Asia: EIB is entitled to lend EUR 3.8 billion with European budget support for EIB Financing Operations in Latin America and in Asia (ALA) over the period 2007-2013. This represents a substantial of 53% increase compared to the previous mandate for the period 2000-2006. This regional ceiling is broken down into indicative sub-ceilings of EUR 2.8 bn for Latin America and EUR 1.0 bn for Asia.

The mandate implemented by the Bank aims to strengthen the international presence of European companies and banks. In its operations in Asia and Latin America, the EIB provides financing out of its own resources, with the political risk being covered by the Community budget.

This is in reality a very unusual mandate, being limited in terms of both amount and "eligibility". Its purpose is to finance projects of common interest to the Union and the beneficiary States. To date, this common interest has been interpreted in a relatively restrictive way as meaning European investments in these countries. The volume of this mandate is relatively small compared with the large number of eligible countries. Both the amount of funding set aside and the limited eligibility of operations are such that the Bank cannot play a very big role matching the Union's political ambitions in these parts of the world.

The terms of reference given to the Bank for its activities in ALA and the geographical coverage will complement the EU cooperation strategy with these regions. This will enhance the EIB's capacity to support the partnerships between the EU and Latin America, South-East Asia and in the Strategic Partnerships between the EU and China and India.

In sectoral terms, the lending objectives for Asia and Latin America were clarified and broadened. EIB lending in those regions will continue to support EU presence in those regions (through Foreign Direct Investment, transfer of technology and know-how) but will also include the protection of the environment (including climate change mitigation) and projects that contribute to the energy security of the EU.

The geographical scope of the Bank's activities in ALA was also broadened to include less prosperous countries and up to 10 additional countries from Asia.

The EIB will strengthen its policy dialogue and its operational cooperation with the European Commission, the other IFIs and European bilateral institutions to ensure that synergies are exploited and complementarity with the other institutions is maintained.

5. The international framework

Outside the EU, the EIB operates as part of the international financial system aiding development countries. This system has to be revisited in order to take into account the development dimension. In this framework, there is a need to re-examine policies and the role of actors in order to increase benefits for the citizens and for communities in developing countries as well as in countries in transition. Developing countries do not usually have the means or the expertise to take advantage of their natural resources and human capacities in order to ensure sustainable development. So, conditionalities put forward by donors and international organisations should be well targeted and facilitating the evolution of institutions towards an open society. A big part of responsibility lies with the governments who are not in a position to profit from international aid or to take initiatives in order to restore credibility for the management of aid.

I would like to stress certain tendencies and describe the context in which international development policy operates today.

- Insufficient financial flows: international public aid amounts to $ US 53 billion annually, which is not sufficient to cover the basic needs of the developing countries.
- Poverty: half of the world population, i.e. 3 billion people, lives in poverty, while demographic developments foresee a world population of 8 billion by 2050.
- Uncontrolled use of natural resources in all countries, environmental damage and grave consequences for the Eco-system such as climate changes, global warming, etc.
- Armed conflicts in many parts of the world, thousands of victims, violent displacements of people, violation of human rights and destruction of infrastructure.
- Increased inequalities at international level in investments, trade, technology and growth.

Up-coming challenges such as terrorism, organised crime, drugs, women and child trafficking, illegal economic immigrants, corruption, etc.

While the State's role is recognised in defining policies and managing finances, new emphasis is being placed on other actors, such as the private sector and civil society. The evolution of the modern social model is being formulated more and more with the active participation of civil society. This is the European experience.

At international level, private investments (FDI) are much higher than public international aid (0-DA). Thus, private investments today are mostly absorbed by developed countries. Developing countries are not able to attract a big part of FDI for reasons such as lack of political stability, inadequate environment for enterprise, fragmented markets, etc.).

At European level, NGOs, the visible and dynamic expression of civil society, intervene in almost all aspects of social activity.

They work on a voluntary basis and are non-profit-making. These main characteristics, along with the acceptance of the principles of transparency, independence and social responsibility, create the proper framework for undertaking and implementing humanitarian and development programmes.

6. Conclusion

EIB's operations outside the EU need to take account of beneficiary countries' specific features. The economic and political situation of the developing countries has direct implications for the type of financing provided. In the first place, it is necessary that the operations financed will be able to contribute to growth and poverty reduction. Furthermore, the EIB must remain flexible and tailor its financing to the objectives set in the mandates. That is why, for example, new instruments have been introduced, such as the Reinforced FEMIP in the case of the Mediterranean countries and the Investment Facility in the case of the ACP countries. In short, no single development assistance approach will suit Bulgaria, Morocco and Benin alike.

More fundamentally, it needs to be stressed that development objectives can prove elusive and that the past thirty years' experiences with many Mediterranean countries and above all the ACP countries have been somewhat disappointing. While theory and economic models for meeting the complex challenge of development continue to evolve, from the operational point of view, EIB financing is meaningful only if the following conditions are met:

If the financial support in the countries concerned reaches a sufficient volume to enable them to attain their objectives. In this regard, the resources available to the EIB under its mandates continue to grow. The EIB can also play a catalytic role, and has a duty to facilitate coordination with the other international financing institutions and with the lenders.

If the EIB offers the broadest possible range of financial products to assist productive investment. Although the range has already been substantially widened, there are still various limitations and constraints. These stem mainly from the Bank's Statute, which is an annex of the 1958 Treaty and does not always permit to adapt to changing needs, technologies and markets. For example, the Statute closely restricts the Bank's scope for taking risks even where these could be adequately managed with present-day techniques. It also debars the Bank from taking strategic or development-promoting participations in the capital of other entities, leaving the cumbersome procedure of treaties as the only way of doing this. An update of the Statute could possibly enable the Bank to take on more risk and play to the full its role of supporting EU policies in the future. Such proposals to this effect have been put forward to the Intergovernmental Conference and have received the unanimous backing of the EU Finance Ministers, who are EIB's Governors.

If the principal target of EIB's financing is the private sector, given its capacity to spur economic growth. Nevertheless, "bankable" public projects, especially infrastructure schemes, remain vital for development of the private sector, providing a favourable and enabling framework.

If EIB's financing genuinely leads to reforms in the partner countries. This is the delicate and key issue of conditionality. As ex EU-Commissioner Lamy has stated, the European Union's financial instruments as a whole should enable it to exert "a more powerful leverage effect to bring about reforms and sound policies geared to sustainable development in the partner countries".

However, this means increasing the effectiveness of these financial instruments. Here it has to be acknowledged that these instruments, including those of the EIB, are not fully effective, because they are sometimes slow and unwieldy and especially because they are insufficiently harmonised, consistent and integrated with each other and with those of the Member States. Even within the Bretton Woods institutions, the absence of a single European voice contrasts with Europe's role as leading aid donor and reduces its influence in framing and implementing development policies.

On this point, comparison with the role played by the World Bank group spotlights the dispersion and potential duplication of the Community's endeavours, which are pursued through diverse institutional structures that have developed over the course of history: the EIB and its subsidiary the EIF, the EBRD, the BDCE and finally the Aidco Office for the grant element. These institutions nowadays operate increasingly in the same geographical and sectoral sphere, albeit each with its own experiences, remits and procedures. In order to forge an effective conditionality lever, agreements of cooperation have been formalising long standing efforts to harmonise the policies and activities of institutions of the Member States, the European Union, as well as other multilateral IFIs.

Effectiveness and consistency of the EU's financial instruments in supporting external policies takes into account experience with co-financing between the Commission and the EIB and all forms of financial products combining the resources of the European budget and the EIB: mandates for the management of special loans and risk capital, Community guarantees on EIB loans, interest subsidies, loan/grant co-financings (examples: SME facility and municipal finance facility in the Candidate States, interest subsidies for the environment in the Mediterranean, risk capital and technical assistance out of MEDA funds in FEMIP, etc).

All these forms of joint action enable the EU's initiatives to be presented in a coordinated way, so increasing visibility and political impact. They likewise make it possible to benefit from the EIB's access to the capital markets by leveraging scarcer budgetary resources, thereby maximising the resulting overall financial impact. In this regard, one should sometimes be wary of "economic theologies" favouring or opposing certain approaches and look more at the practical effect on the ground. Ways also need to be found to escape from the mentality of jealously guarding the ownership of resources.

In this domain, work is already under way and well advanced within the internal EU sphere to improve the linkage between the structural and cohesion funds and the EIB Group's resources. Similar efforts are made with regard to the Union's external activities.

That a mismatch exists between the Union's economic weight and its political weight on the world stage is no secret. Better coordinated and more consistent external action should enable the EU to increase its influence well beyond what its Member States can achieve by acting separately or indeed by pursuing parallel courses of action. EIB, as the EU's economic diplomacy arm, has an increasingly important role to play.

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