



Session 6

Funding Agency Rules and Procedures – EU/EIB, by Stefan Enzelberger

THE EU'S NEIGHBOURHOOD POLICY

In the context of the EU's 2004 enlargement, the Union developed its European Neighbourhood Policy (ENP) with the objective of avoiding the emergence of new dividing lines between the enlarged EU and its neighbours. The ENP covers the MEDA countries, plus other countries close to the EU.

A key element of the ENP are the bilateral ENP Action Plans, mutually agreed between the EU and each partner country. These Action Plans set out an agenda of political and economic reforms with short and medium-term priorities. So far, Action Plans have been agreed with and adopted by Israel, Jordan, Morocco, the Palestinian Authority and Tunisia. A key element of the Action Plans is the commitment from the EU to *"provide substantial financial support via an appropriate range of financial instrument"*.

Until the end of 2006, funding comes from the MEDA programme, with a total budget (2000-2006) of EUR 5.3 billion. From 2007 onwards, MEDA (and TACIS, for countries from the ex-USSR) will be replaced by a new instrument – the European Neighbourhood and Partnership Instrument. For the next budgetary period (2007-2013), the Commission has asked for an increase in funding to EUR 14.93 billion. Implementation will be handled by the Commission's delegations in the countries, as well as sectoral specialists in the headquarters.

The EU funds will be grant money, but the EIB is also expected to get a new, enlarged mandate to operate in the MEDA countries.

THE EIB

The EIB can be considered to be the financing institution of the EU. It was created simultaneously with the EU by the Treaty of Rome. The members of the EIB are the member states of the EU, who have all subscribed to the bank's capital. The EIB's mission is to further the objectives of the European Union by providing long-term finance for specific capital projects in keeping with strict banking practice.

FEMIP

The EIB's operations in the Mediterranean partner countries have been brought together under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) since October 2002.

FEMIP is the culmination in the partnership between the EU and its Mediterranean neighbours which goes back more than thirty years. In line with the *Wider Europe Neighbourhood Policy*, FEMIP aims to help the Mediterranean partner



countries meet the challenges of economic and social modernisation and enhanced regional integration, particularly in the run-up to the creation of a customs union with the EU by 2010.

FEMIP gives priority to financing private sector ventures, whether local initiatives or foreign direct investment. In order to create an enabling environment for the development of private enterprise, FEMIP also supports:

- infrastructure projects;
- investment in human capital; and
- schemes specifically targeting environmental protection.

To this end, FEMIP operations primarily involve three types of product:

- loan;
- investment capital (equity and quasi-equity); and
- grant aid for Technical Assistance.

FEMIP also endeavours to promote greater dialogue with all those involved in the Euro-Mediterranean financial partnership, both on the institutional front and with the representatives of the private sector and civil society.

FEMIP has its own eligibility criteria and in transport the following projects can be financed: airports, air transport, air traffic control, roads and highways, ports, bridges.

In order for the EIB to finance any project, the project cycle has to be followed.

EIB's Project Cycle

Within the EIB, project appraisal is carried out by the bank's teams of engineers, economists and financial analysts.

1. Step: Approach to the EIB

Projects can be submitted to the bank, officially or informally, by:

- potential promoters (private or public companies);
- commercial banks wishing to involve the EIB in their finance plans;
- public authorities, international or national development finance institutions.

It is advisable to present potential projects to the bank as soon as possible, especially in the case of infrastructure schemes and public-private partnerships.



2. Step: Examination of projects

If a project appears to meet the bank's criteria, the bank will officially launch the appraisal procedure. The bank's senior management will be informed of the main features of the planned project and has to agree to the commencement of the appraisal process.

Once the senior management gives the go-ahead, an appraisal team composed of representatives of different departments is set up. This team will carry out the appraisal. The team normally consists of a banker, an engineer and an economist. Usually, the engineer also deals with environmental issues and with the procurement. If the project is complicated, an environment and/or procurement specialist will also be part of the team.

The team will visit the promoter (note that the EIB uses "promoter", instead of client, borrower, etc.) and visit the site of the project. During the mission, the team will discuss the project with the promoter.

The appraisal is based on the information provided by the promoter.

3. Step: Information provided by the promoter

It is advisable for the promoter to provide the bank with the necessary information as soon as possible. The promoter has to provide the following data:

- a) General and legal information about the borrower
- b) Financial data of the promoter and the project
- c) Technical data: general design and technical description of the project; detailed estimate of investments; operation proposals.
- d) Environmental data: environmental design of the project; measures taken to comply with or exceed applicable national, European and international standards; Environmental Impact Assessment as well as measures taken to ensure public consultation; where appropriate, planned provisions of an "Environmental Management Plan" for the project.
- e) Economic data: the project's economic rate of return, in particular: market data, traffic and revenue forecast, expected benefits.

It is important for the promoter to recognise that the EIB is much more hands-off during the project preparation than the World Bank. Whereas the World Bank is usually deeply involved in the project design, the EIB expects the client to prepare the project with only minimal input from the bank.

4. Step: Project appraisal

The EIB appraisal team prepares an appraisal report which is passed on to the bank's senior management and then to the Board of Directors for decision.

The following sections are part of the report:



- a) Rationale for bank financing: eligibility, value added of the operation
This describes the project's contribution to the EU's objectives and how the bank's input brings value to the project (in financial terms and/or in the improvement of the project's technical specifications).
- b) Market and sector
This describes the sector's background and how the project would fit into the overall strategy.
- c) Technical description, capacity
Analyses the project's technical soundness and the promoter's ability to implement the technical solutions adopted. It also examines the technical risks and the measures taken to mitigate them.
- d) Investment cost
Quantifies the total investment cost, the main project costs compared with those of similar schemes financed by the bank, contingencies and price inflation adopted and the impact of taxes on the project and promoter.
- e) Implementation
The bank's analysis covers the following points:
The technical description of the project which will be appended to the loan contract. It will also serve as a basis for future monitoring.
Description of how the procurement rules will be complied with, and the acceptability to the bank of envisaged procedures.
- f) Operation
Describes how the project, once it is completed, will be operated and the measures taken to meet particular risks. It also includes an evaluation of operating costs and of employment impact.
- g) Environmental impact
Describes the environmental situation with and without the project and reviews any studies of alternative solutions. The project's impact on the natural and human environments are described and the measures adopted to prevent, reduce or mitigate any adverse effects.

The report will include a statement on the compatibility with current or proposed environmental legislation; on the existence of an environmental management plan and the promoter's ability to implement and manage it.

The team will also comment on the project's compatibility with sustainable development objectives - including prevention of climate change - to which the EU is committed.

In performing the environmental part of its appraisal, the bank will make use of the variety of studies carried out by or on behalf of the promoter (EIAs, SEAs, SISs, etc.).
- h) Prices, tariffs and financial return from the project
This section includes the calculation of the expected project cash flow, an analysis of the tariff policies, and the sensitivity analysis.



i) Economic benefits

The team will judge the economic justification of the project and will calculate the project's Economic Rate of Return.

j) Financial and credit risk analysis

The bank's credit department describes the financial risks and the guarantees in place.

5. Step: Project approval

Assuming that the project team, the bank's senior management and the board are satisfied with the project, the bank will approve the project, sometimes with conditions.

6. Step: Signature of the Finance Contract

It should be noted that the EIB calls the loan agreement officially "Finance Contract". Once all conditions are fulfilled, such as a positive opinion from the country in whose territory the project is located and from the EU, the promoter and the EIB will sign the Finance Contract.

7. Step: Monitoring

The project will be monitored during implementation from financial, technical and environmental points of view. Depending on the complexity of the project, the bank may visit the promoter once a year during the implementation phase. Once the project is finished, the EIB produces a project completion report, exclusively for its internal use.

8. Step: Ex-post evaluation

Some projects are subjected to ex post evaluation by the EIB's Operations Evaluation Department upon completion. The aim of this procedure is to review certain EIB-financed operations, both within and outside the EU, which have reached their operational phase.

MEDITERRANEAN TRANSPORT INFRASTRUCTURE NETWORK PROJECT (MTIN)

FUNDING AGENCY RULES AND PROCEDURES - EU/EIB

Stefan Enzelberger
Istanbul, Turkey - May/June 2006



MEDA Transport Infrastructure Network Project



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EU's NEIGHBOURHOOD POLICY

- Adopted in 2004
 - Avoid new division between EU and neighbours
 - Covers East-European, some CIS, Balkan and MEDA countries
- Bilateral ENP Action Plans
 - Between EU and individual countries
 - Agenda of political and economic reforms
 - Commitment from the EU to *"provide substantial financial support via an appropriate range of financial instrument"*
- Budget proposal 2007-2013: EUR 14.93 billion



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EIB's FEMIP

- since October 2002 - *Facility for Euro-Mediterranean Investment and Partnership (FEMIP)*
- to help MEDA countries meet the challenges of economic and social modernisation
- priority to financing private sector ventures
- finances infrastructure as enabling investment:
 - loans
 - investment capital (equity and quasi-equity)
 - grant aid for Technical Assistance
- own eligibility criteria



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EIB's PROJECT CYCLE 1/5

1. Approach to the EIB by
 - Potential promoters (private or public companies)
 - Commercial banks wishing to involve the EIB in their finance plans
 - Public authorities, international or national development finance institutions
2. Examination of projects
 - Preliminary evaluation
 - Establishing an appraisal team
 - Mission to meet the "promoter"



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EIB's PROJECT CYCLE 2/5

3. Information provided by the promoter
 - General and legal information about the borrower
 - Financial data
 - Technical description
 - Environmental data (European and international standards, EIA);
 - Economic feasibility

- EIB more hands-off than World Bank!



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EIB's PROJECT CYCLE 3/5

4. EIB team prepares appraisal report (part 1)
 - Rationale for bank financing (eligibility, value added of the operation)
 - Market and sector (sector background and strategy)
 - Technical description, capacity
 - Investment cost
 - Implementation (procurement provisions)
 - Operation (including operating costs and employment impact)



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EIB's PROJECT CYCLE 4/5

4. EIB team prepares appraisal report (part 2)

- Environmental impact (review of studies of alternative solutions, project's impact on the natural and human environments, statement on the compatibility with current or proposed environmental legislation)
- Prices, tariffs and financial return from the project (expected project cash flow, analysis of the tariff policies)
- Economic benefits (Economic Rate of Return)
- Financial and credit risk analysis (financial risks and guarantees in place)



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EIB's PROJECT CYCLE 5/5

5. Project approval

- Senior management and Board approve the project and its terms and conditions

6. Signature of the "Finance Contract"

- assuming no objection from EU, loan documents will be signed

7. Monitoring

- Regular monitoring mission by bank staff

8. Ex-post evaluation

- Some projects are reviewed by Operations Evaluation Department



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