Consular Corps of Greece

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How the European Investment Bank is responding to the global economic crisis using its mandate for the development of projects.

Excellencies,
Ladies and Gentlemen,

It is a pleasure to be here today and to talk to you about the European Investment Bank's activities in Greece and in the African, Caribbean and Pacific (ACP) countries at a time of extreme pressure to react to the crisis and to deliver more, better and faster.

EIB objectives: inside and outside the EU

First, allow me to say a few words about the broader objectives pursued by the Bank and its response to the financial crisis.

The EIB was established in 1958 as the "house bank" of the European Union, offering long-term lending to projects promoting EU policy objectives. The projects it funds aim to support the integration, balanced development and economic and social cohesion of its Member States, adapting its lending activity in line with shifting EU priorities. Recently, as part of the EU Recovery Plan, the Bank has provided an additional 50 billion EUR lending inside the EU, to focus notably on support to SMEs, climate change and infrastructures.

Whilst the bulk of our lending activity is focused in the EU, the EIB also supports the EU's development and cooperation policies outside the European Union. The Bank's region-specific mandates for the African, Caribbean and Pacific (ACP) countries date as far back as 1963. Outside the EU, the Bank concentrates its efforts on fostering private sector-led initiatives that promote economic growth and contribute to reducing poverty, as well as public sector projects that are critical for private sector development and the creation of a competitive business environment.

EIB activities in ACP countries

EIB can use funds from its own resources as well as from EU Member States' budgets, managed by the EIB through the Investment Facility. Through these two channels, the Bank can provide a range of financial instruments tailored to the specific needs of each individual investment project. These range from senior secured loans to flexible risk-bearing mechanisms such as junior loans, equity, quasi-capital and guarantees which can be complemented, in particular cases, by interest rate subsidies. A recent but important addition to the Bank's product range is the availability of technical assistance grants, which can be used to support projects in which it intends to invest or in which it has already invested.

Since its inception in April 2003, the Investment Facility has provided funding of 2.3 billion EUR to 118 projects in 46 countries. About 27% of that amount went to infrastructure projects, 17% to industry or services and 56% to financial intermediaries.

Under its "own resources" the Bank has provided 1.1 billion EUR of loans to 31 projects in 20 countries, of which 41% to infrastructure, 38% to industry and services and 21% to financial intermediaries.

These figures show that the infrastructure and the financial sectors have been the focal areas of EIB operations which remain our core strategic priorities. With about 700 million EUR of new lending per annum, the EIB remains a modest but nevertheless significant player in the ACP market.

The EIB: a long-term partner for ACP countries

The EIB has an obligation to manage the Investment Facility in a responsible way. The Member States of the EU, who provide the funding for the Investment Facility in the first place, expect the Facility to become a revolving fund, which requires the Bank to be risk conscious: risk must be properly assessed and mitigated or priced in a reasonable manner in order to ensure the financial sustainability of the Investment Facility.

However, the Bank is not present in ACP countries to make a short term profit but to contribute to their development in the long run. The Bank has sound risk management guidelines, but its policy is not to avoid risk. On the contrary, the Bank stands ready to support good projects even in difficult environments, where institutions may be weak and risk high. The EIB, as the Bank of the EU, truly has a long term interest in the development of ACP countries and wants to make a contribution in the areas where it has the remit, the expertise and the appropriate instruments to operate.

ACP countries and the crisis

In many ACP countries, the impact of the crisis has probably not been as deep as in the developed world. This is because most ACP countries and their banking sectors are fortunately much less exposed to the high-risk financial products that the crisis turned into so called "toxic assets".

However, many ACP countries are suffering from the crisis. Even a limited down turn is more harmful in low income countries than more advanced economies. In low income countries many people live below the poverty line and social safety nets are much weaker than in more advanced economies where social safety nets are often better established. The downturn is difficult to escape. Three important factors have been at work: first, the global economic slowdown, which had a negative impact on commodity prices and export volumes, second, the reduction in capital flows (FDI and debt) which puts a constraint on investment, and third the contraction in domestic credit, particularly due to the behaviour of foreign-owned banks, but also, more broadly, because of the negative impact on the liquidity of local banks, which have less trade and investment opportunities.

The EIB's support to ACP countries during the crisis

Allow me also to say a few words about the constraints within which we operate. First of all, EIB finance must be used to support long-term capital investments. Second, the Bank operates with a predetermined amount of financial resources, set in the relevant financial protocol of the Cotonou Agreement. This means that any increase in lending volumes in the short run will have to be offset by a corresponding reduction in the longer run. Third, while the EIB actively looks for the best projects to finance, it cannot be the promoter of new projects. Any project must be fully supported and prepared by an acceptable sponsor (a public or private entity), which stands behind the project and can provide a reasonable share of own funds. This has two main implications: (i) it takes time to develop a project and bring it to a stage where it can be considered as bankable and (ii) the current crisis and the heightened uncertainty it generates may quite naturally result in certain projects being delayed or even set aside. Finally, it is important to realise that the EIB is a lean institution, which delivers impressive lending volumes with relatively limited human resources.

The factors I just outlined largely explain why we do not expect to see this year an increase in the volume of our commitments and disbursements. Many projects are being revised or delayed and new initiatives only come to maturity gradually. Some new initiatives have been taken over the past few months, but their impact will only be seen over time. A very significant development is the decision recently made by the European Commission, with the support of EU Member States, to substantially increase by 200 million EUR the amount of grant resources allocated to the EU-Africa Infrastructure Trust Fund (ITF). This Fund is managed by the EIB and provides concessional funding to support much needed regional or cross-border infrastructure projects in Africa. Discussions are also under way to broaden eligibility to national projects of regional significance. In addition to managing the Trust Fund, the EIB has been able to draw on the ITF to support a number of important projects.

An example of this complementarity is the Beira Corridor project, the signature ceremony of which I, myself, took part in during a visit to Mozambique in April of this year. The Bank is lending 65 million EUR to the Republic of Mozambique for the rehabilitation of the Beira corridor, including improvements to the Sena railway line and the restoration of the Beira port access channel. The loan will be complemented by a 29 million EUR interest rate subsidy from the ITF. The project is emblematic for Mozambique, restoring efficient links to other countries in the region and facilitating international trade. By improving Mozambique's transport services by sea to international ports and by rail to the landlocked countries of southern Africa, the project will catalyse local and regional economic growth and contribute to overall poverty alleviation.

The Trust Fund is an area in which we cooperate very closely with other development institutions, notably KfW and AFD. We also expect the African Development Bank to soon join the group of IFIs (what we call the "project financiers group") that cooperate on the implementation of the ITF. A similar initiative is currently under discussion for the Caribbean. Other important Commission-sponsored instruments are the EU Water and the Energy Facilities, which play an essential role in providing technical assistance or grant finance to important projects in their respective sectors.

In Nigeria, a country with considerable needs, we are working on a novel approach to infrastructure finance through our first ever “framework loan” in Africa. Working with some local banks, we hope to speed up the funding of much needed infrastructure by relying on the market presence and knowledge of the local banks, with which we will share the financial burden and risks.

In the financial sector, we have noted that the traditionally highly liquid position of many commercial banks has been partly reversed as a result of the crisis. In that context, we feel that the lines of credit we extend to provide funding to SMEs have become even more important. And indeed, the take up on our lines of credit in some countries (e.g. Rwanda) has recently increased. A new line of credit was actually signed with several banks in Niger at the end of 2008, right at the peak of the financial crisis. By the same token, we are looking into the possibility of strengthening the capital base of one large African bank, together with other financial partners. Very recently, we have been called upon to provide a significant capital injection to a number of systemically important banks in the context of a major banking sector overhaul launched by the Governor of one country’s central bank.

In the area of microfinance, in 2009 the EIB has approved close to 90 million EUR of new investments in ACP countries. The largest initiative was a 50 million USD contribution to the Microfinance Enhancement Facility (MEF), which was created by IFC and KfW to support commercially viable microfinance institutions (MFIs) facing temporary refinancing difficulties because of the crisis. The Bank’s specific value added was to direct its funding at MFIs operating in ACP countries, a region previously not actively targeted by the Fund.

Another significant multi-donor initiative, in which EIB is a major technical partner and contributor, is the Regional MSME Fund for Sub-Saharan Africa (REGMIFA), which was originally conceived as a source of medium to long-term funding in Africa. As a result of the financial crisis, the concept of REGMIFA was adjusted to accommodate new financial and economic realities (e.g. stronger local currency component, TA support, local presence of the manager). The EIB has approved a 15 million EUR investment in REGMIGA, as well as 70,000 EUR to finance the FX study. In addition, the EIB plans to provide up to 2 million EUR in TA support for capacity building activities undertaken by REGMIFA.

The withdrawal of private sources of funding, especially commercial banks and specialized private equity funds, meant that microfinance holding companies could no longer rely on private investors to support their growth and expansion in developing markets. As part of a joint effort of international donors and funders, the Bank responded by contributing additional capital to three important microfinance holding companies to help them both to expand existing operations and to launch new activities in sub-Saharan Africa.

As part of its continuous support for successful microfinance operations, the EIB is also making a 15 million USD investment in a specialized private equity fund, which targets microfinance institutions and SME banks in Africa and Asia.

Last but not least, the EIB has also put in place this year substantial amounts for Technical Assistance support of capacity building activities of microfinance institutions in sub-Saharan Africa.

I would like to underline that in many, if not most, of the activities I just described we are working very closely with other financial partners. It is in that context that we joined forces with several institutions, notably AfDB, IFC, AFD and KfW, to support a Joint Action Plan for Africa that was announced at the annual meetings of the AfDB last May in Dakar and a few weeks ago in Istanbul where we signed a Memorandum of Understanding with IFC, Proparco and DEG on the Infrastructure Crisis Facility.

The EIB a long standing partner of Greece

As mentioned during my introduction, the EIB has a prime objective, vested interest and active role in the social and economic development of the European Union, where we devote annually some 90% of our activity. In the midst of this global financial and economic crisis, it is self-evident that we have to play an even more important role within the Union.

With a balance sheet exceeding 300 billion EUR and annual operations totalling 70 billion EUR, we are well equipped to meet the challenges and make a practical contribution to building a mutually more supportive and outward-looking Europe. In doing so, we draw on a long-standing relation with partners such as Greece and its economic actors.

We started our cooperation long before the country's accession, back in 1962, when Greece was the first ever non-Member country to get an EIB loan. Since then, we have been a solid partner supporting the country into accession and the Euro zone. We have extended a total of over 19 billion EUR in loans to private and public projects in Greece.

All our activities are well exemplified here in Greece. With a new, annual lending average of more than 1 billion EUR over the last five years, we promoted all productive sectors of the economy, bolstering at the same time the key European objectives: economic and social cohesion; a competitive and innovative European economy; efficient and easily accessible trans-European transport networks; support for smaller companies; the "climate change" and overall environmental protection; as well as the objectives of efficiency, diversification and security in the energy sector.

We are, however, mainly known in Greece as infrastructure financiers, especially after stepping up our financing around the remarkable Athens Olympics. We have supported all major projects, which dramatically improved the quality of life and facilitated investments providing an enabling environment.

At this turning point, and looking into the future, we endeavour to adjust our activity to the current priorities of the country. Our aim is to balance lending between private and public sector, through larger sectoral diversification and the support of the rapidly expanding services sector.

Our activity in supporting countries of the region, has also a positive spill over to Greece, which is physically, economically and culturally a key cross-roads in Europe, serving as the linkage between Europe and the Union's neighbours in the East and in the South. Our activity supports strong and good neighbourhood links, and the preparation for accession of new member countries.

Conclusion

We will continue to focus on European growth and welfare and at the same time use our tools and experience for our operations outside the European Union. This means investing in technology, innovation, and energy as well as environment, in order to be as competitive and dynamic as we can in a sustainable way. This approach will enable us to be highly proactive, both in coming up with ideas and putting them into action with the projects, products and solutions that anticipate coming trends.

We stand ready to further support our ACP partner countries and our clients there, with the full range of resources and instruments at our disposal. We are prepared to innovate and adjust our financial products (within the constraints we have to work with) and we will continue to operate, despite the risky environment, in a true spirit of cooperation and solidarity with our ACP partners.