European Investment Bank
The EU bank

The EIB Economic Resilience Initiative for Europe's Southern Neighbourhood and the Western Balkans

As the EU bank, the EIB has been called upon by the European Council to intensify its support for the EU's neighbourhood, including many of the countries in the Southern Neighbourhood and Western Balkans, in pursuit of economic growth and the achievement of the sustainable development goals (SDGs). This call has been made in the context of the migration crisis, which has compounded the development challenges in these regions and has brought into question the economic resilience of a number of countries.

Boosting economic resilience requires upgrading and developing social and economic infrastructure and stimulating private sector-led growth and job creation. This calls for a concerted effort in a manner that promotes social cohesion, inclusion and peaceful community relationships.

Recognising the magnitude of the challenges, the EIB is launching the Economic Resilience Initiative (ERI) in support of our neighbourhood. The ERI involves a step change in EIB support for the two regions by increasing its financing by EUR 6bn over a five-year period starting in late 2016 – over and above the EUR 7.5bn already envisaged – to catalyse up to EUR 15bn of additional investments.

In order to achieve this ambitious investment target and to ensure that support reaches those who need it most, we are seeking EUR 730m of funding from the donor community[1] to blend with EIB financing. These resources will allow the EIB to support investments that generate positive social and economic returns but may otherwise not be funded, due to fiscal constraints, poor financial returns or high risk.

EUR 6bn
over **five years**

EUR 15bn
of **additional investments**

> **"Boosting economic resilience requires upgrading and developing social and economic infrastructure and stimulating private sector-led growth and job creation.**

[1] Contributions can also take the form of loans, guarantees or other forms of returnable capital.

The migration crisis and its impacts in the region

The Syria conflict has led to an estimated 4.7 million refugees fleeing the country, as well as over 6 million people being internally displaced. This crisis, alongside significant inflows of refugees and economic migrants from around the developing world, is putting pressure on the social and economic resources of the EU's neighbouring countries – with social, economic and political implications for the EU. Over 2 million refugees are currently hosted in the Southern Neighbourhood, while the Western Balkan countries have acted as one of the main migratory routes to Europe.

The EU and other international organisations have led the institutional response to the humanitarian crisis within and outside Syria. However, over the medium to long term greater action is also required to enhance the resilience of countries affected by high migration flows or vulnerable to their impacts, and to support sustained progress towards achieving the SDGs.

The ERI is the EIB's primary migration-focused response in the Southern Neighbourhood and Western Balkans region. As the only International Financial Institution (IFI) operating in the EU, the EU Neighbourhood and Sub-Saharan Africa – comprising countries of origin, transit and destination – the EIB is well placed to provide a coordinated approach to supporting countries vulnerable to large migration flows. The ERI complements other EIB migration-focused initiatives in places such as Turkey and Sub-Saharan Africa.

We have a strong track record of blending donor funds with our own, in support of sustainable development, using a range of tailored and innovative financial and technical instruments.

The ERI builds on our long-established networks with clients and partner financial institutions, and our comparative advantage in public infrastructure and private sector development investments in the Southern Neighbourhood and Western Balkans. Over the last ten years, the EIB has signed financing operations in the two regions amounting to EUR 13.7bn and EUR 6.6bn respectively.

Our projects are demand-driven and based on extensive consultation with beneficiaries in national and local government, and the financial and private sectors. As the EU bank we work closely with EU Member States, the European Commission and other IFIs to ensure our operations are well coordinated and complementary.

As the EU bank, the EIB has a unique role to play in the implementation of the EU's external policy objectives, mobilising resources for economically sound projects with high social and environmental returns that promote sustainable and inclusive growth.

"Building Block 2 responds to needs in the two regions to scale-up investments for critical public infrastructure, some of which has come under significant strain as the consequence of an increase in the migrant population.

What is the Economic Resilience Initiative?

The ERI consists of three building blocks:

Building Block 1

Doing more with current resources

Utilising an extra **EUR 2bn** of EIB financing under existing funding frameworks for the two regions

Building Block 1 entails prioritising resources in support of infrastructure and private sector development for the two regions under existing funding envelopes. In the public sector the Bank will focus on operations reinforcing and developing critical infrastructure, promoting an improved and equitable delivery of basic services, and supporting social protection for resident populations, thus promoting job creation by expanding opportunities. In the private sector, the Bank will continue to provide funding through intermediation by commercial banks to SMEs and mid-caps in the regions.

Building Block 2

Investing in critical infrastructure

EUR 1.4bn[2] of additional lending supported by **EUR 430m** of grant resources to be deployed alongside EIB financing and Technical Assistance (TA)

Building Block 2 responds to needs in the two regions to scale-up investments for critical public infrastructure, some of which has come under significant strain as the consequence of an increase in the migrant population. Strengthening the infrastructure resilience of countries potentially vulnerable to future migration flows either as host communities or transit routes will safeguard against future pressures should flows increase or change direction.

[2] We allow for the possibility of a limited reallocation of resources between Building Blocks 2 and 3, depending on demand.

Results of EIB public sector projects in the regions

Jordan – The EIB has provided a loan blended with EU investment grants, in favour of the Wadi Al Arab Water System II project aimed at addressing water scarcity in the country, which is further exacerbated by the significant influx of Syrian refugees. The system will provide an additional 30 million m³ of potable water per year to the Northern Governorates and areas estimated to have an urban non-refugee population of around 1.47 million people and to be housing around 163,000 refugees.

Egypt – The Kafr El Sheikh Wastewater Treatment project involves the construction of two wastewater treatment plants and the expansion of a further three, as well as the laying of 697 km of sewers. It will improve sanitation services for some 65,000 households, or an estimated 227,500 people, with an additional 25 million m³/year of wastewater treated to acceptable standards. It will also reduce the discharge of untreated sewage into the environment, including the Mediterranean Sea, by 67,700 m³/day.

Tunisia – The EIB is providing a EUR 70m loan to support a programme targeting a quarter of all secondary schools in the country as well as some primary schools and other facilities for improvement. In total, 59 new schools will be built and a further 310 renovated, creating 36,000 new places for students and increasing the number of teachers and support staff by 3,350. As well as expanding access to education, the programme will provide better facilities for teachers and students, enhance safety, and enable more children with special needs to attend normal schools. Particular attention will be paid to schools in disadvantaged areas. The ultimate goal of the programme is to ensure that young people leave school with better skills in order to help tackle the high youth unemployment in the country.

Why are donor resources needed to support Building Block 2?

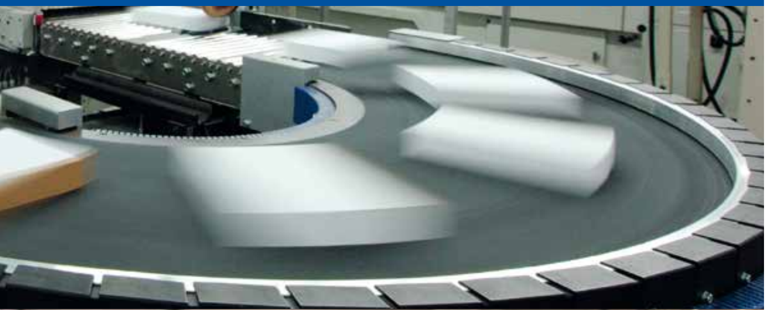
Investment in public infrastructure is critical to building economic resilience, but many of the affected countries lack the funds to invest and face constraints on their capacity to borrow. By blending grants with EIB investments we can lower the overall cost of these investments, allowing national and local authorities to increase the pace of developing and implementing much-needed investments while ensuring fiscal sustainability.

The availability of grant contributions will also improve the financial viability of investments with significant economic and social returns but where there is limited scope to increase user fees to finance these investments. This can be particularly important for leveraging investments in economically weaker regions or for critical social infrastructure such as in health, education, water supply and sanitation, and waste management – all coming under increasing pressure from the local community and sometimes exacerbated by significant migration inflows.

In addition, limited administrative and technical capacity, and other institutional constraints such as out-of-date legislation, impede the rate at which many of these countries can absorb investments and thus slow down the pace of development. These capacity constraints present a substantial bottleneck to scaling up financing in the region. They can be alleviated through targeted deployment of grant-funded TA in support of the identification, preparation and implementation of public sector projects.

Furthermore, where social risks related to the investments are identified, TA may be provided to build the capacity of the counterpart to ensure compliance with the EIB's environmental and social standards. In addition, opportunities to enhance positive social impact through improved social cohesion, youth inclusion and women's empowerment will be sought.

> **Under Building Block 3, the EIB will focus on ensuring adequate access to finance for SMEs and mid-caps given their critical role as the backbone of economies and source of employment creation.**



Building Block 3

Resilience through private sector-led growth

EUR 2.6bn[3] of additional lending including EUR 300m of donor-funded Impact Finance

Building Block 3 focuses on supporting private sector-led growth, key to generating economic growth and employment. The EIB will focus in particular on ensuring adequate access to finance for SMEs and mid-caps given their critical role as the backbone of economies and source of employment creation. Corporate lending will focus on projects with high potential for job creation and social impact.

[3] We allow for the possibility of a limited reallocation of resources between Building Blocks 2 and 3, depending on demand.

Results of EIB private sector development projects in the regions

Morocco – The EIB is funding EUR 15m of the EUR 31m investment cost for the Europac group, a Spanish paper and board manufacturing company, to establish a factory for the production of cartonboard packaging materials in Tangiers, Morocco. This will improve the ability of the company to supply local customers and respond to demand from the Moroccan automotive and agro-industrial sectors. The investment will contribute to generating employment and value added in the industrial sector in Morocco, a target of the country's national industrial strategy. Morocco is currently faced with high unemployment rates, particularly among young people (nearly 35% of 15-24 year olds are unemployed). The construction of the plant is expected to generate 305 person-years of employment, while the factory will employ 115 full-time staff when it becomes fully operational. Furthermore, having a global packaging company based locally will provide increased opportunities for local companies in a range of sectors to develop and expand export-oriented businesses in Tangiers.

Egypt – Utilising EU-funded risk capital resources, the EIB is a cornerstone investor in the Euromena Fund, which amongst others has invested in an Egyptian company that provides IT solutions, including e-learning for Syrian refugees that has been successfully implemented under a pilot phase in a refugee camp in Lebanon.

Former Yugoslav Republic of Macedonia – In 2012 the EIB provided a EUR 100m loan to the Macedonian Bank for Development Promotion (MBDP) to improve access to finance for the country's SMEs. It enabled this national promotional bank to on-lend to local banks and provide funding to 446 SMEs and four mid-cap companies. Loans averaged EUR 222,000, with an average tenor of 5.5 years, a significant improvement on the loan tenors typically available to SMEs in the local market. This lending has helped to sustain 16,542 jobs in the beneficiary companies and created over 2,000 new jobs. It has helped to finance investments by beneficiary companies worth EUR 171m in total.

Why are donor resources needed to support Building Block 3?

We will utilise guarantee mechanisms to lend for riskier private sector projects with potentially high financial returns. We will also go further and use donor-supported **Impact Finance** to fund riskier operations where there is significant potential for high social and economic returns, based on risk-sharing or similar financing structures with local banking partners or potentially lending through intermediaries with high risk profiles. Examples of operations are projects that promote financial inclusion and female and youth entrepreneurship. The Bank may finance such operations through subordinated debt, junior equity tranches, guarantees or other forms of risk-sharing instruments, thus mobilising additional private sector capital which, without the additional risk-bearing capacity that the donor funds provide, would not have materialised.

Impact Financing instruments

The EIB has a solid record in delivering Impact Finance to the private sector, in both the Southern Neighbourhood and ACP regions, where it has implemented several types of operation, in particular to tackle the root causes of migration and address the consequences of the refugee crisis. We broadly use four types of instrument:

Social impact equity funds promoted by an emerging population of private equity fund managers who put the alleviation of social or environmental issues at the core of their funds' investment strategy but still target sustainability at the levels of both the fund and its investee companies.

Loans to financial intermediaries, particularly in support of projects with a high developmental impact undertaken by micro and small enterprises (MSMEs) in key sectors such as energy, social services, agriculture, health and education.

Risk-sharing facilitating instruments, which will take the form of instruments including first loss guarantees ("first loss pieces"), subordinated debt, junior equity tranches, and guarantees that will facilitate risk-sharing operations of the EIB with local financial intermediaries (commercial banks) for the benefit of underserved MSMEs.

Direct financing through debt or equity investments in projects delivered by sound and experienced promoters and with high developmental impacts, but which will nevertheless also entail higher expectations of losses and difficulties to recover the investment (equity-type risk with higher than usual expectation of losses). The EIB will apply strict selection and eligibility criteria for this instrument.

Supporting the Economic Resilience Initiative

The ERI presents an opportunity for donors, in particular EU Member States, to leverage the full range of instruments, networks and expertise at the EIB's disposal to maximise the development impact of our collective finance in the affected regions and work towards achieving the SDGs.

A total of EUR 730m of donor resources is needed to catalyse the EUR 15bn in new investments envisaged by the ERI. The most immediate requirement is to raise the donor resources needed for the 2017 project pipeline. This requires a commitment from donors amounting to EUR 110m by mid-2017. Indicative funding requirements are presented in the table below.

Economic Resilience Initiative – indicative annual funding requirements

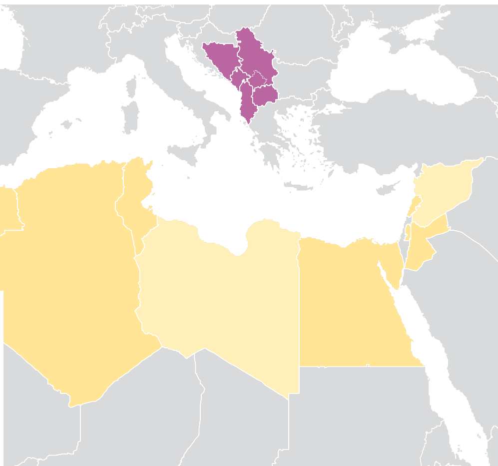
	Phase 1	Phase 2			
Donor resources necessary to implement the ERI	2017	2018	2019	2020	Total
- Impact Finance	40	70	90	100	300
- Investment Grants	50	60	110	120	340
- Technical Assistance and Advisory Services	20	20	20	30	90
Total	110	150	220	250	730

What is the geographical scope of the Economic Resilience Initiative?

Eligible countries are:

Southern Neighbourhood
Algeria, Egypt, Gaza/West Bank, Jordan, Lebanon, Libya*, Morocco, Syria* and Tunisia

Western Balkans
Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo**, Montenegro and Serbia



This map is for illustrative purposes and is without prejudice to the status of sovereignity over any territory.

* The EIB will start operating in Libya after it signs a Framework Agreement with the country – currently under preparation. Following EU sanctions in November 2011, the EIB has suspended all loan disbursements and technical advisory contracts for projects in Syria.

** This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence. Hereafter referred to as Kosovo.

The EIB is committed to managing the ERI in the most efficient, transparent and effective manner possible. It will establish a dedicated trust fund – the Economic Resilience Initiative Trust Fund (ERITF) – to channel donors' contributions in support of the initiative's objectives and to provide a framework for facilitating donor engagement and coordination.

Results and impact

The Bank will employ its Results Measurement Framework to track the results of projects under the ERI, using baselines and tracking progress against expected values to capture economic, social and environmental outcomes of ERI operations throughout the project cycle. All EIB projects must comply with the policies, principles and standards of the Bank, including in the areas of human rights, gender, conflict sensitivity, biodiversity and climate change, as well as its Anti-Money Laundering and Combating Financing of Terrorism Framework.

The EIB Economic Resilience Initiative

Economic Resilience and the Sustainable Development Goals

A key aim of the ERI is to contribute to achievement of the SDGs in the region. The EU has acknowledged the important role of the EU bank in delivering on the SDG targets and the EIB has made global commitments regarding the implementation of the SDGs. The EIB is working to develop a consistent and coherent system to map the contribution of its activities, including those under the ERI, to achieving the SDGs. This approach will underline the relevance of the ERI to the SDGs. Based on the preliminary pipeline, the ERI is expected to contribute in particular to: SDG 6, clean water and sanitation; SDG7, affordable and clean energy; SDG 8, decent work and economic growth; SDG9, industry, innovation and infrastructure, and; SDG 11, sustainable cities and communities. Climate issues are already mainstreamed across all EIB operations, allowing the EIB to track the ERI's significant expected contribution to SDG 13, climate action, with a high degree of robustness. Finally, by working in partnership with the private sector, the public sector and other development partners where possible, the ERI will be strongly in line with SDG17, partnerships for the goals.

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