

THE PROJECT CYCLE AT THE EUROPEAN INVESTMENT BANK

INTRODUCTORY INFORMATION

The purpose of this publication is to present to the public the project cycle at the EUROPEAN INVESTMENT BANK (EIB).

Project promoters, the financial and banking sectors, Community and national authorities and members of the general public will find in it an explanation of the Bank's decision-making mechanisms as well as information on the appraisal and monitoring of projects by the EIB's teams. This process can be summarised as follows:

- meeting between the promoter and EIB staff in order to examine the project;
- project appraisal by the EIB's multidisciplinary teams from the technical, economic, environmental and financial points of view;
- lending decision by the Board of Directors in the light of the appraisal results and opinions of the Member State concerned and the Commission;
- legal and financial structuring of the loan and guarantee contracts;
- project monitoring during loan servicing and the implementation and operational phases.

As far as practical implementation is concerned, these standard procedures are tailored to the specific characteristics of each project for which a loan is requested. Likewise, the EIB adapts its working methods to keep constantly abreast of best professional practice and make due allowance for changes in the economies of the countries in which it operates.

The following document is published by the EIB in electronic form on its website (www.eib.org) in three languages: English, French and German. It refers to the Bank's governing and decision-making bodies and different Directorates, whose roles and composition are described in greater depth on the EIB's website, which the reader is invited to consult for a continuously updated version (www.eib.org/struct./htm and www.eib.org/pub/report00/fr-og-1.htm). Details of the financial products offered by the EIB, a list of financial intermediaries deploying its global loans in support of small and medium-scale capital projects and brochures outlining EIB operations in different countries and regions can also be found on the Bank's website (www.eib.org/loans/htm and www.eib.org/pub/divers/htm).

This publication forms part of the EIB's policy of public information and transparency. The details of this policy and corresponding texts are available and continuously updated on the Bank's website (www.eib.org/policy/index/htm).

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INTRODUCTION:

The mission of the European Investment Bank is to further the European Union's objectives¹ by granting long-term loans in support of viable capital investment. The Bank's lending :

- has grown to an annual volume of nearly EUR 36 billion, committed in support of almost 300 operations;
- is accomplished with a workforce remaining stable at around 1 000;
- is set against a background of increasing complexity and diversity of operations, both within and outside the Union.

Geared towards the long-term financing of productive projects, of both a tangible and intangible nature, the Bank performs its remit:

- in direct contact with the market, including a growing number of private enterprises;
- after careful analysis of projects, borrowers and guarantees.

As a bank, the EIB:

- assesses the viability of projects from four points of view: **economic, technical, environmental and financial**;
- evaluates each capital project and follows it through to completion;
- subjects each project, both within and outside the Union, to a process of appraisal and monitoring designed to ensure that its operations are in line with its role as the Union's financing institution and contribute value added in conjunction with other lenders;
- for projects outside the Union, fosters the transfer of the existing body of Community legislation and regulations.

This information brochure aims to set out the different stages in this process, which is underpinned by a high level of multidisciplinary know-how deployed by the Bank's own teams for more than forty years. **The standard procedures described are, of course, tailored to each individual project.**

2. INITIAL 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 desirable for projects to be presented to the Bank at the earliest possible stage, especially in the case of infrastructure schemes and projects mounted under public-private partnerships.

¹ See list of EIB lending objectives appended.

In all cases, the EIB gives promoters a rapid response based on its knowledge of each country's economic and financial context. At this stage the Bank checks whether the project envisaged meets its fundamental criteria, notably regarding eligibility, scale, sources of additional finance (the EIB acts as a complementary source of finance) and economic sector.

This initial examination may already lead the Bank to:

- suggest improvements to the technical, economic or environmental specifications of the capital projects submitted for financing;
- draw the promoter's attention to certain procedures to be followed (award of contracts, compliance with environmental requirements, etc.);
- request modifications to the loan application.

3. EXAMINATION OF PROJECTS:

If a project appears to meet the Bank's criteria and the EIB's financial involvement seems likely to generate value added:

- the appraisal procedure is launched by the Directorate General for Lending Operations, on the basis of a file compiled by the promoter (see section 4);
- the **Management Committee is informed** of the main features of the planned project and the principal aspects on which the appraisal will focus;
- an **appraisal team** composed of representatives of all Directorates concerned is set up to prepare the appraisal. A timetable is established;
- a **site visit** to the promoter is organised by the Directorate General for Lending Operations. Depending on the project, an engineer and/or economist may join the loan officer in discussing in detail with the promoter the project's parameters and the Bank's potential support.

4. INFORMATION PROVIDED BY THE PROMOTER:

The form and content of documents in the project file submitted to the EIB are the responsibility of the borrower, who may, if necessary, seek internal or external technical assistance with their preparation.

The diversity of projects makes it difficult in practice to standardise the documents needed for the appraisal. For this reason, the Bank does not require potential borrowers to complete set forms or questionnaires. **The following list is therefore intended as a guide** since during the appraisal the EIB will liaise closely with the enterprise or administrative body concerned in order to identify jointly the main problems likely to arise before and after commissioning of the project.

The documentation submitted to the Bank (**which must of course be tailored to the nature of each individual project**) should cover the following points:

- General and legal information about the borrower.
- Financial data.
- Technical data: general design and technical description of the project; study and implementation; detailed estimate of investments; operation.

- Environmental data: environmental design of the project; measures taken to comply with or exceed applicable national, European and international standards; where necessary, environmental impact assessment as well as measures taken to ensure public consultation; where appropriate, planned provisions of an “Environmental Management Plan” for the project.
- Economic data: for calculating the project's economic rate of return, in particular: market, sales policy and organisation, impact on employment, etc.

5. PROJECT APPRAISAL:

After returning from the site visit, if its findings are positive, the Bank's team conducts a detailed project appraisal, following which the Management Committee examines the financing proposal and passes it on to the Board of Directors for decision.

Each project is also referred by the EIB to the Member State concerned and the Commission for their opinions. These opinions are a precondition for the signing of the finance contract. The Commission has a period of two months to make its opinion known to the EIB.

The following criteria form the basis of a standard EIB appraisal but are tailored to each individual project. These points are all covered by the report submitted to the Board of Directors for a financing decision:

5.1. Rationale for Bank financing: eligibility, value added of the operation.

The project's contribution to European Union objectives supported by the EIB² is ascertained. The analysis also reveals how the Bank's input brings "**value added**" to the project: this may be apparent in the financial terms offered, in the EIB's active and "catalytic" role in structuring the finance plan, or in the improvement of the project's technical specifications.

5.2. Market and sector:

This analysis is based on the information gathered during project appraisal and on the **sectoral studies** regularly carried out by the Projects Directorate. It looks at the sector in question, establishes worst and best-case scenarios based on reasonable projections and assesses the promoter's qualities in relation to the project and the project's ability to meet existing demand.

5.3. Technical description, capacity:

The Bank's analysis looks at the project's technical soundness and the promoter's ability to implement the technical solutions adopted. It also examines the technical risks and measures taken to attenuate these.

5.4. Investment cost:

The EIB examines the total investment cost, the main project costs compared with those of similar schemes financed by the Bank, the margins for contingencies and price inflation adopted and the impact of taxes on the project and promoter.

5.5. Implementation:

The Bank's analyses cover the following points:

- Technical: establishment of a “technical description” of the project, to be **appended to the contract** and serve as a basis for future monitoring.
- Procurement: compliance with current procedures; percentage of project cost subject to international competitive bidding; acceptability to the Bank of procedures envisaged.

² See list of EIB lending objectives appended.

5.6. Operation:

Management; measures taken to meet particular risks; evaluation of operating costs; employment.

5.7. Environmental impact:

Environmental situation with and without the project; where appropriate, review of studies of alternative solutions; project's impact on the natural and human environments; definition of the measures adopted to prevent, reduce or mitigate any adverse effects; compatibility with current or proposed environmental legislation; existence of an environmental management plan and promoter's ability to implement and manage it; examination of environmental aspects over the life of the project; project's compatibility with sustainable development objectives - including prevention of climate change - to which the European Union is committed.

In performing the environmental part of its appraisal, the Bank makes use of the variety of studies carried out by the promoter or by independent consultants on its behalf (EIAs, SEAs, SISs, etc.). The Bank examines the mitigating measures proposed, reserving the right to ask for further studies to be undertaken by competent external consultants. **In any event, the EIB ensures compliance with adequate project-related conditionality.**

5.8. Prices, tariffs and financial return from the project:

- Calculation of the expected cash flow in real terms.
- Where appropriate, the forecasts and analyses of certain financial ratios may serve as a basis for formulating appropriate tariff policies.
- Sensitivity and/or risk analysis.

5.9. Economic benefits:

Economic justification of the project; economic appraisal of value added of the project and the Bank's input; calculation of the project's economic rate of return; estimation of external costs/benefits, such as environmental protection, regional development, etc; sensitivity analysis.

5.10. Financial and credit risk analysis:

The Directorate General for Lending Operations performs a **detailed financial analysis of the borrower** - as well as of **the guarantor** if the operation is backed by a commercial guarantee. This can of course be simplified for the EIB's repeat borrowers.

Where public borrowers promoting infrastructure projects are concerned (e.g. regions or municipalities), a different type of financial analysis is performed, based on documents of a budgetary nature.

The Credit Risk Department casts an objective eye on the **financial viability of the borrower and guarantor**, with whom it has no business relationship.

Appraisal of global loans:

Global loans are credit lines which the EIB makes available to financial intermediaries for financing small and medium-scale projects, either ventures mounted by SMEs or small-scale infrastructure schemes. This type of loan enables the Bank to contribute indirectly to the long-term financing of projects which, because of their size, are not eligible for direct EIB funding. The volume of such lending varies from country to country. In total, both within and outside the European Union, the Bank has dealings with nearly 400 banks and financial institutions, which are or have been its partners in deploying this type of instrument.

The appraisal of global loans essentially entails an examination of the intermediary bank from two main angles:

- *Financial robustness and ability to enter into a lasting relationship with the EIB;*
- *Ability of the financial intermediary to channel EIB funds swiftly to customers targeted by the global loan (SMEs or promoters of small-scale infrastructure): specialisation, size of portfolio, appraisal methods for this type of project, procedures for monitoring borrowers and projects, etc.*

The appraisal team seeks to define precise criteria in discussions with the intermediary, so as to optimise the impact of the long-term resources made available by the EIB.

6. PUBLIC INFORMATION AND TRANSPARENCY:

In accordance with the Bank's disclosure policy, the **list of projects for which EIB finance is sought** has since the beginning of 2001 been published on the Bank's website. Projects are placed on this list at a stage when discussions with the promoter and the project appraisal work by the Bank's teams give reasonable grounds to assume the EIB's financial involvement. Although the consent of the project promoter is sought, the latter may only oppose publication on grounds of confidentiality.

As a general rule, the project is placed on the list before the financing decision is taken by the Board.

The Bank's disclosure policy is set out in a dedicated section of the EIB's website (www.eib.org) entitled "**Information Policy**". This brings together all documents governing the EIB's relationship with the public, a range of publications concerning its policies and procedures, and information on projects which have been the subject of inquiries by the general public.

7. PROJECT APPROVAL:

The overall results of the appraisal are summarised in a report to the Board of Directors. The Management Committee conducts a prior examination of this report and its various annexes covering technical, environmental, economic, financial, legal and credit risk aspects.

Once the draft report is approved, it is passed on to the Board of Directors for decision.

The Board decision may be taken while there are still a number of points to be finalised (e.g. in the case of a public-private partnership project). Approval by Directors, conditional upon the resolution of any outstanding issues, thus plays a decisive catalytic role and speeds up the project's launch. The Board's decision to approve the loan does not take effect until the finance contract is signed.

The **financing decision is subject to:**

- the opinions of both the EU Member State on whose territory the project will be located and the European Commission;
- receipt of a formal loan application from the promoter;
- contractual finalisation of any points still unresolved when the financing decision was taken by the Board.

Projects attracting Community grant aid or assistance:

Under mandates handed down within the framework of Community development aid and cooperation policies in support of non-member countries, the Bank may be called on to lend Community or Member States' budgetary resources (risk capital operations in the Mediterranean region; operations under the Lomé Convention and Cotonou Agreement with the African, Caribbean and Pacific States). Certain Community policies also provide for the granting of interest subsidies financed from the Community or Member States' budgets (environmental projects in the Mediterranean region, the European Economic Area financial mechanism, etc.).

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The abovementioned projects are not treated any differently by the Bank, which applies its normal procedures throughout the cycle. However, in addition to regular reports to the Council and Commission, the management of such budgetary resources imposes two requirements on the EIB:

- *before being put to the Bank's Board of Directors, projects attracting budgetary funds located in non-member Mediterranean or ACP countries are submitted to a **Committee of Member States** for its opinion.*
- *all projects attracting budgetary funds (including a guarantee from the Community budget) are subject to possible control by the **Court of Auditors of the European Union**.*

8. FINANCE CONTRACT SIGNATURE:

Responsibility for this process lies with the Legal Affairs Directorate, working in conjunction with all other Directorates concerned.

The **finance contract** incorporates all the key elements forming the basis for the Bank's decision and studied during appraisal. It includes an appended technical description and any necessary technical, economic or environmental conditions. Where appropriate, it is supplemented by one or more guarantee contracts.

Draft contracts are also submitted to the Credit Risk Department, which has to endorse the main financial clauses.

The approval is valid for one year. Where duly warranted, however, this period may be extended.

Following contract signature, the project is usually announced in a press release. Information on all projects financed by the Bank is **published on the EIB's website** (www.eib.org) as well as in the statistical supplement accompanying the Bank's Annual Report.

9. PROJECT MONITORING:

9.1. Disbursements:

These may be made immediately following contract signature, in one or more instalments, depending on the project's financing requirements at the time, provided of course that the disbursement conditions laid down in the finance contract (including those of a pricing, technical or environmental nature) have been met.

The disbursement procedures are monitored by the Credit Risk Department and Finance Directorate.

9.2. Monitoring during the implementation phase:

The project is monitored during implementation from financial, technical and environmental points of view. The Directorate General for Lending Operations is responsible for relations with clients and coordinates all project-related data. When the project is finished, the Bank produces a **project completion report**, exclusively for its internal use.

9.3. Contractual amendments:

The Legal Affairs Directorate may, if necessary, amend the contract during the project implementation phase (for example: modification of the guarantee structure or profile of the borrower; amendments to the project's economic, technical or environmental specifications, where duly justified). Any substantial modifications to the characteristics of the project financed are decided by the Board of Directors.

9.4. Monitoring during the operational phase:

Monitoring of projects, borrowers and loan servicing continues during the operational phase and the repayment period. All the Bank's Directorates are involved in this process, which is coordinated by the Directorate General for Lending Operations.

10. 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 with total impartiality certain EIB-financed operations, both within and outside the Union, which have reached their operational phase. The ultimate objective is to frame recommendations serving to:

- improve current and future operations in the light of past experience;
- enhance transparency, notably as regards the contribution to implementation of EU policies.

The reports of the Operations Evaluation Department are published on the EIB's website (www.eib.org).

In order to strengthen its ability to assimilate experience acquired in the course of operations, the EIB has also set up a **self-evaluation system**. Thus, every project completed is subjected to *ex post* analysis by the Projects Directorate aimed at comparing the project's actual results and impact with the projections made during appraisal. The results of these individual analyses are solely for the EIB's internal use and are not made public.

Annex

PROJECTS ELIGIBLE FOR BANK FINANCING

WITHIN THE EUROPEAN UNION, projects considered for EIB financing must contribute to one or more of the following objectives:

- Balanced economic development of the Union and its less favoured regions;
- Enrichment of human capital: health and education;
- Information technology and communications networks;
- Research and development;
- Diffusion of innovation;
- Transport, telecommunications and Trans-European Networks (TENs);
- Environment: protection and improvement of the natural and urban environment, projects with a positive impact on the regional or global environment (sustainable development and prevention of climate change);
- Increasing the competitiveness and integration of European industry;
- Development of small and medium-scale enterprises (venture capital funding aimed at stimulating innovation by SMEs and entrepreneurship is undertaken by the **European Investment Fund**).
- Securing the energy supply base and conserving energy.

In the **ACCESSION COUNTRIES**, the EIB underpins development of basic infrastructure, the creation of new activities, protection of the environment and transfer of the existing body of Community legislation.

OUTSIDE THE UNION, the Bank participates in implementing the Union's development aid and cooperation policies through long-term loans from own resources or subordinated loans and risk capital from EU or Member States' budgetary funds. It operates in:

- the **non-member Mediterranean countries** by helping to attain the objectives of the Euro-Mediterranean Partnership with sights set on the establishment of a Customs Union by 2010;
- the **African, Caribbean and Pacific States (ACP), South Africa and the OCT**;
- **Asia and Latin America**, where it supports certain types of project of mutual interest to the Union and the countries concerned;
- the **Balkans**, where it contributes to the goals of the Stability Pact by directing its lending specifically towards reconstruction of basic infrastructure and projects with a regional dimension.