

# THE ANALYSIS OF EUROPEAN INVESTMENT BANK'S ACTIVITIES IN ROMANIA

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## Abstract:

*The European Investment Bank is the European Union's long-term lending institution established in 1958 under the Treaty of Rome. A policy-driven bank, the EIB supports the EU's priority objectives, especially European integration and the development of economically weak regions.*

*Its shareholders are the 27 Member States of the Union, which have jointly subscribed its capital. The EIB's Board of Governors is composed of the Finance Ministers of these States.*

*Outside the EU, the EIB is active in over 150 countries (the pre-accession countries of South-East Europe, the Mediterranean partner countries, the African, Caribbean and Pacific countries, Asia and Latin America, and Russia and other neighbours to the East), working to implement the financial pillar of EU external cooperation and development policies (private sector development, infrastructure development, security of energy supply, and environmental sustainability).*

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**JEL Classification:** G24, F02, E61

## 1. Introduction

The EIB Group consists of the European Investment Bank and the European Investment Fund (EIF). The EIB is owned by the EU Member States. The EIF has several shareholders, the EIB being the majority shareholder:

- EIB: 66%
- European Commission: 25%
- Other European Financing Institutions: 9%

The principal area of cooperation between the EIB and the EIF is in support of small and medium-sized enterprises (SMEs). Their relationship encourages a productive sharing of expertise in support of SMEs.

The EIB provides long term loans to large capital investment projects. In addition, the Bank promotes SMEs through:

- Medium and long-term credit lines to intermediaries in the banking sector
- Venture capital activities in FEMIP and ACP
- The EIF concentrates on:
  - Investment in innovative SMEs in the EU and Enlargement area through venture capital funds
  - SME guarantee operations involving own resources or those of the EU budget

## 2. Objectives of EIB

Within the EU the EIB has 6 priority objectives for its lending activity which are set out in the Bank's business plan, the Operational Strategy (OS).

- Cohesion and Convergence
- Support for small and medium-sized enterprises (SMEs)
- Environmental sustainability
- Implementation of the Innovation 2010 Initiative (i2i)
- Development of Trans-European Networks of transport and energy (TENs)
- Sustainable, competitive and secure energy

The OS is approved by the Board of Directors and defines medium-term policy and operational priorities for objectives given to the Bank by its Governors. It is also an

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instrument evaluating the EIB's activities. This rolling plan spans three years, with the strategic projections adapted annually to take account of new mandates and changes in the economic climate.

### **3. Organization of EIB**

The EIB is governed by the:

- Board of Governors - usually the Finance Ministers of the Member States
- Board of Directors - 28 members representing each Member State and the European Commission. There are 16 Alternates, meaning that some of these positions will be shared by groupings of States. The Board also has the right to co-opt a maximum of 6 experts (3 Directors and 3 Alternates), who will participate in the Board meetings in an advisory capacity, without voting rights.
- Management Committee - the President of the EIB and 8 Vice Presidents
- Audit Committee - 3 members and 3 observers appointed by the Board of Governors

*The Board of Governors* comprises Ministers designated by each of the 27 Member States, usually Finance Ministers. It lays down credit policy guidelines, approves the annual accounts and balance sheet, and decides on the Bank's participation in financing operations outside the European Union as well as on capital increases. It also appoints the members of the Board of Directors, the Management Committee and the Audit Committee.

*The Board of Directors* has sole power to take decisions in respect of loans, guarantees and borrowings. As well as seeing that the Bank is properly run, it ensures that the Bank is managed in keeping with the provisions of the Treaty and the Statute and with the general directives laid down by the Governors. Its members are appointed by the Governors for a renewable period of five years following nomination by the Member States and are responsible solely to the Bank.

The Board of Directors consists of 28 Directors, with one Director nominated by each Member State and one by the European Commission. There are 18 Alternates, meaning that some of these positions will be shared by groupings of States.

Furthermore, in order to broaden the Board of Directors' professional expertise in certain fields, the Board is able to co-opt a maximum of six experts (three Directors and three Alternates), who participate in the Board meetings in an advisory capacity, without voting rights.

Decisions are taken by a majority consisting of at least one third of members entitled to vote and representing at least 50% of the subscribed capital.

The President of *the Management Committee* or, in his absence, one of the Vice-Presidents, shall preside over meetings of the Board of Directors but shall not vote.

As the Board of the Directors is non-resident, members do not receive a remuneration from the Bank. For each meeting day of the Board (normally ten per year) in which they participate Members and Alternates of the Board of Directors receive an indemnity of EUR 600. In addition the Bank pays a per diem of EUR 200 as a lump-sum reimbursement for hotel and related expenses to be covered by individual Board Members and reimburses travel expenses.

The Management Committee is the Bank's permanent collegiate executive body. It has nine members. Under the authority of the President and the supervision of the Board of Directors, it oversees the day-to-day running of the EIB, prepares decisions for Directors and ensures that these are implemented. The President chairs the meetings of the Management Committee. The members of the Management Committee are responsible solely to the Bank; they are appointed by the Board of Governors, on a proposal from the Board of Directors, for a renewable period of six years.

According to the Bank's Statute, the President is also Chairman of the Board of Directors.

Since the beginning of the Bank's activities, the emoluments of the members of the Management Committee (President and Vice-Presidents of the EIB) have been modelled on those of the President and Vice-Presidents of the European Commission respectively. As decided by the Board of Governors, social benefits for members of the Management Committee follow the same principles of analogy as applied to Commissioners; as a result, certain benefits are the same as for the Staff of the Bank, especially as regards medical insurance.

*The Audit Committee* is an independent body answerable directly to the Board of Governors and responsible for verifying that the operations of the Bank have been conducted and its books kept in a proper manner. At the time of approval of the financial statements by the Board of Directors, the Audit Committee issues its statements thereon. The reports of the Audit Committee on the results of its work during the preceding year are sent to the Board of Governors together with the annual report of the Board of Directors. The Audit Committee is composed of six Members, appointed by the Board of Governors for a non-renewable term of office of six consecutive financial years.

As the Audit Committee is non-resident, members do not receive a remuneration from the Bank. For each meeting day of the Committee (normally ten per year) in which they participate Members and Observers of the Audit Committee receive an indemnity of EUR 1050. In addition the Bank pays a per diem of EUR 200 as a lump-sum reimbursement for hotel and related expenses to be covered by individual Committee Members and reimburses travel expenses.

The EIB, the largest international non-sovereign lender and borrower, raises the resources it needs to finance its lending activities by borrowing on the capital markets, mainly through public bond issues. Its AAA credit rating enables it to obtain the best terms on the market. As a not-for-profit institution, the EIB passes on this advantage in the terms it offers to the beneficiaries of its loans in both the public and private sectors.

#### **4. Activities of EIB**

##### ***How does the EIB differ from commercial banks?***

The EIB is a non-profit, policy-driven public bank.

The EIB does not:

- take deposits
- manage savings accounts to fund its assets
- have private customers
- manage personal bank accounts
- conduct over-the-counter transactions
- provide private investment advice
- manage stock portfolios
- provide overdraft or short term lending facilities.

The EIB operates like a development bank, raising its resources on the financial and capital markets, mainly through bond issues or other specialised capital market operations.

The EIB makes long-term loans for capital investment projects (mainly fixed assets) but does not provide grants. At a European level grants are managed by the European Commission.

##### ***What are the benefits of an EIB loan?***

The EIB is able to raise funds at advantageous rates due to:

- An excellent AAA credit reputation
- The Bank's position as a major international borrower on the financial markets.

Being a non-profit-motivated institution, the Bank passes on the benefits to its clients in the form of loans at fine rates.

Interest rates are based on EIB's borrowing cost with a small margin to cover administrative expenses and other costs.

The EIB can offer large loan amounts over long maturities in practically all major currencies.

The EIB never finances more than 50% of the total project cost, but the involvement of the EIB can act as a catalyst, encouraging other banks, financial institutions and the private sector to participate in an investment.

As a rule, the Bank lends up to 50% of the investment costs of a project.

The EIB has two main financing facilities:

- Individual loans: provided to viable and sound projects and programmes costing more than EUR 25 million which are in line with EIB lending objectives.
- Intermediated loans: credit lines to banks and financial institutions to help them to provide finance to small and medium-sized enterprises with eligible investment programmes or projects costing less than EUR 25 million. Microfinance has also been provided by the EIB in some countries.

#### ***Individual Loans***

Individual loans (direct loans) are granted to projects where the total investment cost exceeds EUR 25 million (EUR 10 million in the case of ACP).

The EIB may finance a maximum of 50% of the total cost of any project.

Individual loans are available to promoters in both the public and private sectors, including banks.

Conditions:

The conditions of financing are adapted to the investment type. Adequate security is needed, such as that provided by a bank or banking syndicate, a financial institution, or a large diversified parent company with a good credit rating.

Interest Rates:

The Bank can offer:

- fixed rates
- revisable fixed rates
- convertible rates (allowing for the change of interest rate formula during the life of the loan at predetermined dates or periods.)

Fees:

The EIB does not normally charge commitment fees or non-utilisation fees. Fees for a project's appraisal and required legal services may be applicable in certain cases.

Currencies:

The EIB Group's financial accounts are in Euro (EUR). In addition, the Bank can lend in:

- UK Sterling (GBP)
- US Dollar (USD)
- Japanese Yen (JPY)
- Swedish and Danish Crowns (SEK and DKK)
- Swiss Franc (CHF)
- Currencies of Candidate Countries and other EIB partner countries

Repayment:

Repayment is normally on a semi-annual or annual basis. Grace periods for capital repayment may be granted for the construction phase of the project.

#### ***Intermediated Loans***

EIB Intermediated loans are lines of credit or indirect loans designed to permit the financing of projects with a total investment cost of less than EUR 25 million (EUR 10 million in the case of ACP).

An EIB credit line may finance up to 50% of the total cost of any project or, in certain case, the 100% of the loan granted by the intermediary bank.

Credit lines are granted to intermediary banks and financing institutions in the country in which the project is based. These institutions pass on the EIB funds to the promoters, generally SMEs and local authorities.

To qualify as an SME, a company must normally have fewer than 250 employees.

Conditions:

The conditions of financing (interest rate, grace period, loan period etc) are determined by the respective EIB partner bank. Maturities typically range between 5 and 12 years.

Lending decisions under these schemes remain with the financial intermediaries.

Promoters are requested to apply directly to one of the intermediary banks and financing institutions, which operate on a national, regional or local level.

### **Microfinance**

The EIB Group has a longstanding record in microfinance. Since 2000, it has supported Microfinance Institutions (MFIs), fund providers and other industry stakeholders in addressing specific market failures and promoting financing solutions for Micro, Small and Medium Enterprises (MSMEs) and low income self-employed.

As of end 2009, the EIB group has committed EUR 654 million to around 30 microfinance projects or intermediaries, including EUR 26 million in grants for technical assistance. Operations are financed from the EIB's own resources or under the European Union's mandates and uses a combination of financial and non-financial instruments.

The EIB Group is to date active in microfinance in three regions: in Sub-Saharan African, Caribbean and Pacific countries (ACP region); the Mediterranean partner countries and in Europe.

Created in 2008, the Microfinance Centre of Expertise (MCE) acts as the knowledge-sharing platform for EIB professionals from a variety of backgrounds for exchanging and capitalising on experiences, best practices and industry developments. Through this joint resource, the EIB participates in various initiatives of the microfinance sector. Financed projects by regions

Some of the first EIB microfinance operations took place in the African, Caribbean and Pacific countries. They have gradually been extended to the Mediterranean Countries and Europe (including the European Union but also Eastern Europe and the Candidate Countries). Each region is characterised by the type of intervention (instruments) and the origin of the financial resources used (own resources, EC, etc.). Some 75% of the amounts committed to microfinance is for operations in Europe while 75% of the number of microfinance operations relates to counterparties outside the European Union.

#### **• In Africa, the Caribbean and the Pacific (ACP)**

The ACP region accounts for the lion's share of the EIB's microfinance portfolio with a total of approximately EUR 129 million committed in debt and equity in both microfinance investment vehicles (MIVs) and microfinance institutions. Since 2005, the geographical focus of ACP microfinance operations has shifted from the Caribbean to Africa, where EIB's portfolio stands at about EUR 102 million in twelve microfinance operations. Almost 75% of the ACP portfolio (EUR 96 million) consists of investments in ten MIVs, with either a regional or global scope, and only a small proportion is earmarked for MFIs in ACP countries.

#### **• In the Mediterranean Region (FEMIP)**

With the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) Trust Fund, the EIB is the third largest microfinance lender in the Mediterranean region and has provided EUR 29 million in direct local currency funding to microfinance institutions in Egypt, Lebanon, Morocco, Syria and Tunisia since 2003. Technical assistance affords further support for the establishment of new well-governed microfinance institutions or for helping existing ones to fully integrate into their local financial sector by obtaining financing from local banks. *FEMIP's microfinance resources have one very important advantage: the fact that loans can be provided in the local currency.* The EIB bears, in exchange for a premium, the foreign exchange risk against the euro.

### • *Inside Europe*

In the European Union, the European Investment Fund (EIF) conducts most of the microfinance operations, as it is the main source of risk capital and guarantee products for small and medium businesses. EIF's operations range from investing in microfinance funds/vehicles to participating in risk sharing arrangements, and guarantee and securitisation operations. The European Commission has commissioned the EIF to implement a series of initiatives promoting the development of microfinance activities: the Joint Action to Support Microfinance Institutions in Europe (JASMINE, which is designed to develop microcredit in the European Union) and the Joint European Resources for Micro to Medium Enterprises initiative (JEREMIE), which is intended to enhance access to finance for small and medium-sized enterprises.

More recently, the European Commission and the EIB Group launched the European Progress Microfinance Facility, a EUR 100 million facility aimed at refinancing and guaranteeing financial intermediaries that target individuals who want to start or further develop their own micro-enterprise, including for self-employment. Intermediaries may include commercial banks, microfinance institutions, guarantee institutions and community development finance institutions. Financing instruments will take the form of guarantee products and funded instruments.

At a wider level, the EIB Group funds microfinance activities under EC-financed mandates or from its own resources, in EU Member States, as well as in EU Candidate and Potential Candidate Countries (the Western Balkans and Turkey). The EIB is one of the early investors in the European Fund for South East-Europe (EFSE), which is intended to foster economic development mainly in the Western Balkans as well as in Bulgaria, Romania and Moldova through the provision of loans to micro and small enterprises and low-income households.

### **5. The projects of EIB**

The EIB finances projects across most sectors. These projects must contribute to the following EU economic policy objectives:

- Cohesion and convergence promotes developing regions within the EU and is key to the integration objectives of the Union.
- Support for small and medium sized enterprises (SMEs) is central to the EU's economy and employment.
- Environmental projects play an important role for the EIB, protecting and improving the natural environment, and promote social well-being in the interest of sustainable development.
- Innovation supports the goal of establishing a competitive, innovative and knowledge-based European economy.
- Trans-European Networks (TENs) are large infrastructure networks of transport, energy and telecommunications underpinning the developmental and integration goals of the European Union.
- Promoting sustainable, competitive and secure energy sources.
- Support for human capital, notably health and education.

### **6. The European Investment Bank's activity in Romania**

Although most of the European Investment Bank's loans are given to the government in order to improve the infrastructure of the country, there are other sectors which benefit from funding. We will take all of them one by one in order to see what Romania improved with this money.

#### • **Infrastructure**

The Municipality of Bucharest has initiated the project "Bucharest urban infrastructure", consisting of a number of civil works and urban rehabilitation investments to enhance the environmental situation and improve the infrastructure in Bucharest. This project was co-financed by the EIB with a sum amounting to 110 mil euro.

The Bank provided also a total of 550 mil euro to implement short term reconstruction measures as well as medium-term prevention projects to reduce the impacts of natural disasters and to reconstruct damages caused by the recent devastating floods.. EIB granted Romania a loan with a total value of 397 mil euro for five urban and national transport projects, for a 15-year period with a five-year grace period. This project's aim was to improve the efficiency of the activity, safety and comfort of passengers and drivers on national roads, of those who make use of the harbor infrastructure and of those who use common transport means in Bucharest.

- **Telecommunications**

Two loans were given for upgrading the national telecommunications network, amounting 120 mil euro in order to finance the company's investment program ( new switching and transmission equipment and optical fiber cables) for achieving a higher telephone density and introducing new telecommunications services.

- **Heating system**

Radet R.A., received a loan of 35 mil euro as to finance the rehabilitation of the heat distribution grid of Bucharest.

- **Environmental protection**

Substantial investment is needed in environmental protection and improvement in Romania, notably to help the country achieve EU environmental standards in terms of air quality, drinking and wastewater management, and solid urban and industrial waste processing. The EIB plays an important role in this area.

In 2013 the Bank supported the construction of the Bucharest Glina Wastewater Treatment Plant ( 25 mil euro). In addition, in 2013, the EIB provided 41mil euro for the rehabilitation and expansion of sewerage systems in six Romanian municipalities.

- **Health system**

The public healthcare is financed from the state budget, local budgets, social health insurance and other sources. The state and local budgets are mainly sustaining health programs and investments in buildings, appliances, endowment etc., while the health insurance covers mainly the healthcare services, the drugs reimbursement and the „per capita” wages of the general practitioners.

For investments, external loans were obtained, from the World Bank and the European Investment Bank.

Two phases of a Health Management Information System project was realized, with a World Bank loan and from the state budget. The main beneficiaries were the Ministry of Health, the County Health Authorities and a small number of pilot healthcare units.

- **Banks**

The European Investment Bank has provided a first 10 mil euro tranche under a 30 mil global loan for ABN AMRO Bank S.A. The bank will use the funds for financing small and medium-scale projects undertaken by Romanian companies and utilities. Investments in energy, telecommunications, industry and tourism schemes are expected to absorb the largest share of this credit line.

In 2012, the EIB provided intermediated loans to Banca Comerciala Romana (50 mil euro) and Bancpost (20 mil euro).

Other banks that received loans are Citibank Romania (20 mil euro), HVB Bank Romania (20 mil euro) and the Romanian Bank for Development (50 mil euro).

## **7. Conclusion**

The shortage of money from the budget can be counteracted by accessing structural funds, in which the grant ranges from 70 percent to 85 percent, and the EIB is one of the institutions to have products meant to cover co-financing. The EIB is not interested to

know whether the project comes from the Government, from the local administration or from the corporate area, it is concerned with the quality of the project.

The involvement of the EIB in combating the effects of the global crisis is reflected by the increase in the value of the loans given to Romania, from 1.1 billion euro in 2012 to 1.5 billion euro in 2013, everybody knowing that it is difficult to get funds during a crisis.

Projects in the field of the knowledge based society (research and design in computers and some testing technologies) got 15 mil euro as funding and 25.3 mil euro were allocated for environment protection. The EIB signed a 200 mil euro contract on designing and making equipment, building and exploiting some energy producing units near Ploiesti (southern Romania).

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