Disclosure Statement
Operating Principles for Impact Management
European Investment Bank

The European Investment Bank (the EIB or “the Bank”) is a founding signatory to the Operating Principles for Impact Management (the Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This Disclosure Statement affirms that EIB’s processes and practices are aligned with the Principles. The affirmation applies to EIB’s direct lending activity\(^1\) outside the European Union from 2012 to 2019, from both own and third party resources, in the form of debt financing and provision of guarantees\(^2\). The total portfolio of active projects in alignment with the Principles is USD 32 992 million as of 31 December 2019.\(^3\)

Werner Hoyer
EIB President
24 March, 2020

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\(^1\) Direct investment loans and direct framework loans

\(^2\) Projects in alignment with the Principles currently exclude intermediated lending and equity-type investments, mainly in the form of participations in investment funds. In these operations, the EIB relies largely on the financial intermediary for the implementation of and compliance with its financing standards and practices. In such cases, EIB’s due diligence focuses on the appraisal of the intermediary and its implementing capacity and not that of the final beneficiary projects.

\(^3\) This includes outstanding loans in the amount of USD 12 412 million and commitments linked to undisbursed loans and guarantees of USD 20 580 million.
**Principle 1 – Define strategic impact objective(s), consistent with the investment strategy:** The manager shall define strategic impact objectives for the portfolio or fund to achieve measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and / or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- The European Investment Bank, whose shareholders are the Member States of the European Union (EU), supports the implementation of EU policy inside and outside of the Union. Outside the Union, it uses its financial capacity and technical expertise to complement EU action and the development efforts of EU countries, playing a vital role in the Union’s efforts towards the achievement of the UN’s Sustainable Development Goals.

- By providing the financial conditions and technical support rarely available elsewhere in the market under similar conditions, the Bank is catalysing finance for projects that support one of four Public Policy Goals (PPGs) or primary policy objectives: Innovation & Skills, finance for small and medium-sized businesses and mid-caps, Infrastructure and Environment. The Bank sets separate annual lending targets for each of these objectives.

- In addition, much of EIB’s finance supports two cross-cutting objectives: Climate Action, which covers climate change mitigation and adaptation, and Cohesion, which addresses economic and social disparities. In particular, the Bank is stepping up its activities as the “EU Climate Bank” and setting increasingly high targets for its Climate Action lending, as climate and environmental sustainability have risen to the top of the global political agenda.

- The Bank grants finance to the extent that funds are not available from other sources on reasonable terms. Although precise definitions of additionality vary between public financing institutions, the basic premise is that interventions should contribute something socially valuable that would not otherwise happen. Additionality and impact, i.e. “making a difference” when markets fail to address investment gaps and structural deficits, are thus key drivers for EIB’s business planning.

- Whilst impact means the difference that the EIB projects make in the wider economy, notably in terms of job creation and GDP growth, additionality means using the EIB’s unique status as the EU’s financing institution to facilitate and strengthen investment projects through financing and advice. In practice, this means: addressing investment needs resulting from market failures, thereby improving the quality, scope, timing or scale of an investment; and being complementary to financing available from commercial sources.

- In its operations, the Bank aims to provide additionality and demonstrate impact. At a portfolio level, these efforts are measured through several key performance indicators which set minimum annual targets with respect to: the degree of alignment of EIB financing with policy priorities; the project’s quality (including its environmental and social sustainability); and the level of EIB’s contribution to the project.
Principle 2 – Manage strategic impact on a portfolio basis: The manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognising that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- All direct EIB investment projects are in principle subject to a common appraisal methodology and social and environmental standards, as laid out in the ‘EIB value added framework’4. This framework applies throughout the project lifecycle, beginning with the project initiation and appraisal phase and following through until the time of project completion and, for projects outside the EU, 3 years thereafter.

- As part of the EIB’s project appraisal methodology, expected impacts are specified ex-ante and serve as a basis for systematic monitoring following project completion and beyond. Project ‘success’ is thereby defined as much in terms of financial performance as it is in terms of socio-economic impact, both of which are an integral part of the project appraisal.

- The Bank measures impact at an operational level through a set of common and sector-specific indicators. Consequently, the type of impacts sought in the context of a specific project also manifest themselves on a portfolio basis.

- In addition, some strategic objectives, such as the impact on climate change, are directly defined on a portfolio basis, requiring a certain proportion of all EIB investments to contribute to this objective, thereby allowing to continuously measure the achievement of the respective objective.

- Throughout the year, the EIB monitors progress made towards the annual targets set for each of its lending objectives and formalises it during a mid-year review of its annual business plan. The year-end assessment of staff performance takes into consideration the degree of achievement of the annual individual and Bank-wide lending objectives.

- The Bank continuously assesses its operations outside the EU to determine the impact EIB involvement can have on achieving not only policy objectives but also the UN Sustainable Development Goals. An analysis of project results is included in the annual report on "The EIB outside the European Union"5. The report details the expected results of new EIB-supported projects outside the EU in a given year and reviews older projects completed during the year, to examine their actual results.

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Principle 3 – *Establish the Manager’s contribution to the achievement of impact:* The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and / or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- All EIB investments must demonstrate “additionality”, which refers to the unique contribution that the EIB brings to an investment project that is not typically offered by other sources of finance available on the market. The EIB currently uses its value added framework to measure the additionality of its lending operations.

- EIB’s project appraisal documentation, organised around its value added framework, lays out in detail:
  
  - a project’s contribution to policy objectives (‘eligibility’) (Pillar 1);
  - the quality and soundness of the project, with the main dimensions relating to economic growth, employment, environmental and social sustainability and governance (Pillar 2); and
  - EIB’s technical and financial contribution to the project, focusing on the value originated by the Bank itself (Pillar 3).

- Applying this framework ensures that EIB operations address investment needs resulting from market failures and EIB support should thereby influence the overall investment in terms of scale, scope, structure, quality and / or time. In this context, EIB financial support should be complementary to what is available from other sources of financing.

The resulting conclusions therefore establish the additionality and impact of EIB’s financing and are an integral part of the project documentation, which is submitted for approval to the Bank’s governing bodies. They follow a standardised structure and addresses the expected positive impact of the project, as well as possible risks and negative impacts that may result.

Principle 4 – *Assess the expected impact of each investment, based on a systematic approach:* For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The manager shall also seek to assess the likelihood of achieving the investment’s expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager’s strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.
For projects outside the EU the EIB assesses additionality and impact using the “Results Measurement framework” (ReM)\(^6\) - a value added methodology developed internally in line with recognised best practice. This tool allows the Bank to estimate the expected additionality and development impact of its interventions ex-ante, i.e., when projects are still being shaped and to select projects that have the greatest potential for development impact, environmental, social and economic sustainability and that will meet the development targets that the Bank aims to achieve\(^7\).

At appraisal stage each new EIB investment is assigned ex-ante ReM scores under three Pillars that reflects the Bank’s assessment of the project’s potential for delivering on the outcomes:

- Pillar 1 checks the project’s eligibility for EIB financing and rates its contribution to policy objectives and country development priorities.
- Pillar 2 rates the quality and soundness of the operation, its financial and economic sustainability\(^8\) and, in case of projects financed directly by the EIB, its environmental and social sustainability\(^9\). The rating relies on both the nature of the impacts and the size of the risks. It includes an underlying assessment of promoter capabilities, governance, and the robustness of arrangements to mitigate risks. It also establishes the expected project results, using a combination of common and sector specific indicators.
- Pillar 3 rates the EIB’s financial and non-financial contribution, beyond the market alternative: the EIB provides not only finance, but also a package of support that covers advantageous financing conditions and technical advice to improve promoter capacity to implement and operate the project, both of which can be crucial in attracting further finance to the project.

Ratings rely on guidelines and a series of objectively measurable indicators, while a process of quality control ensures consistency across operations.

The assessment requires the EIB to articulate the additionality of the investment and its contribution to environmental, social and economic sustainability, the associated intended impacts (which can be both positive and negative), the expected results and indicators to measure the actual impacts and results of the investment. The justification for financing a project frequently also refers to additional expected impacts. Environmental and social impacts are systematically recorded in the ESDS.

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\(^6\) https://www.eib.org/en/projects/cycle/monitoring/rem.htm. It is the Bank’s intention to further align over the coming years the value added frameworks for projects inside and outside the EU into a single Additionality and Impact Measurement Framework (AIM).

\(^7\) Projects originated before the introduction of REM in 2012 were appraised using a simplified value added system.


\(^9\) Environmental and social impacts are assessed under Pillar 2 for infrastructure and industrial private sector projects (typically excluding framework loans for smaller projects where the exact final project impact cannot be specified at appraisal).
Principle 5 – Assess, address, monitor, and manage potential negative impacts of each investment: For each investment, the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- EIB’s Environmental and Social Framework sets out the Bank’s approach to environmentally and socially sustainable development and is fundamental to achieving the desired outcomes in EIB operations.

- The following are key environmental, climate and social (ECS) EIB documents:
  - an overarching EIB Statement of Environmental and Social Principles and Standards which articulates the Bank’s commitments towards sustainable development and inclusive growth; as well as
  - a comprehensive set of specific Standards called EIB Environmental and Social Standards for key areas of environmental and social sustainability that operations are required to meet and that define the EIB clients’ responsibilities for managing the environmental and social risks and impacts of their operations.
  - a set of Environmental, Climate and Social (ECS) procedures (or ‘Handbooks’) that set out the due diligence requirements of proposed operations proportionate to the nature and potential significance of the ECS risks and impacts related to the respective operation.
  - the EIB Climate Strategy, adopted in 2015 following a comprehensive review, including a formal public consultation, and structured around three strategic action areas: i) reinforcing the impact of EIB climate financing, ii) increasing resilience to climate change, and iii) further integrating climate change considerations across all of the Bank’s standards, methods and processes.
  - as part of its climate strategy, an EIB List of eligible sectors and eligibility criteria for climate action. This list has been aligned with the Joint Methodologies For Tracking Climate Finance developed by the Multilateral Development Banks (MDBs), and the Common Principles for Climate Finance Tracking developed by the joint climate finance group of MDBs and the International Development Finance Club (IDFC). As stipulated in the strategy, this list will be regularly reviewed to take account of internal EIB developments, including the Bank’s work on high impact investments, which is part of the implementation of the EIB Climate Strategy; and the further joint work with other MDBs and members of the IDFC to align climate finance tracking with the goals of the Paris Agreement.
  - the EIB Group Transparency Policy, which spells out the EIB Group’s commitments to transparency and disclosure.

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- The EIB carries out an environmental, social and governance due diligence in all of its operations, assessing the counterpart’s capacity and commitment to achieve outcomes that are consistent with the EIB Environmental and Social Standards, which are aligned with good international industry practice. Internally the Bank screens its projects for the level of environmental, social and climate risks and impacts which will determine the allocation of resources and the due diligence requirements for the specific project. An E&S acceptability rating is allocated to all operations based on the significance of the E&S residual impacts and risks after impact management and mitigation measures have been applied. The project appraisal process which includes the E&S due diligence is subject to multiple elements of quality control.

- The EIB publishes the summary of its E&S due diligence in the form of the *Environmental and Social Data Sheet (ESDS)*. Where relevant, the Bank also discloses the Environmental and Social Impact Assessment (ESIA) documentation associated with a specific project. The EIB will monitor the environmental and social performance of the project in accordance with the requirements of any EIB finance contract entered into and any related project implementation agreement and the environmental and social conditions that have been set out in the ESDS.

- Further governance assessments include, among others, the appraisal of the capabilities of the promoter to implement and operate the project (see above), and a comprehensive integrity due diligence, to analyse the promoter’s ownership structure and corporate governance, addressing potential gaps in current investee systems, processes, and standards.

**Principle 6 – Monitor the progress of each investment in achieving impact against expectations and respond appropriately:*** The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

- The key purpose of EIB’s project monitoring is to regularly observe and measure project performance to identify variances from the description and conditions as laid down in any EIB finance contract and/or project implementation agreement entered into with a promoter. This covers the servicing of the loan (financial monitoring), appropriate use of funds as well as developments around the project and its promoter (physical monitoring). It allows the Bank to identify potential problems in a timely manner, so that corrective actions can be taken where needed.

- EIB monitors its projects from the signature of the EIB finance contract and any related project implementation agreement (where necessary) through the project implementation and operation phase, for physical monitoring, and until the end of the contractual relation with the project, for financial monitoring. The detailed monitoring requirements will depend on the characteristics of the individual project.

- Physical monitoring comprises all project related post-signature activities aimed at ensuring that the physical execution of the project is in accordance with the EIB finance contract, project implementation agreement or other such related agreements that may be entered into and operates as planned. After full implementation, mostly followed up
on by Project Progress Reports (PPRs), during the first year of operation the project’s actual results and its overall impact (Economic Rate of Return) are evaluated in a Project Completion Report (PCR) against the levels estimated ex-ante. For projects outside the EU, monitoring covers three additional years of operation followed by another evaluation of ex-post outcomes in order to draw lessons for future appraisals and technical assistance if applicable. Since 2014 for projects outside the EU, information from the PCR is also published externally\(^\text{14}\).

**Principle 7 – Conduct exits considering the effect on sustained impact:** When conducting an exit, the Manager shall, in good faith and consistent with fiduciary concerns, consider the effect, which the timing, structure, and process of its exit will have on the sustainability of the impact.

The EIB portfolio covered by the Principles includes solely direct investment loans and direct framework loans, in the form of maturing instruments and self-liquidating investments, without exit-decisions\(^\text{15}\). Equity-type investments, largely in the form of participations in investment funds, are currently excluded from the portfolio, together with other forms of intermediated lending.

**Principle 8 – Review, document, and improve decisions and processes based on the achievement of impact and lessons learned:** The Manager shall review and document the impact performance of each investment, compare expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as the management processes.

- Reviewing the results achieved by the time the project is completed allows the EIB to draw lessons from past project experiences and to continuously refine the tracking of expected and achieved results throughout the project cycle. Lessons learned during project implementation are documented as part of EIB’s monitoring process, alongside the project’s performance and impact, namely in the PCR. They are internally documented and fed in the appraisal process for future projects in the respective sector or country.

- In addition, EIB has an independent Evaluation division that periodically conducts thematic reviews of the EIB’s financing. These can be sector-focused or product-focused, with the resulting reports being submitted to the Management Committee and subsequently to the Board of Directors, thereby facilitating discussion of the EIB’s investment approach with the governing bodies. Evaluation reports may contain recommendations for adapting certain aspects of the investment process, whose subsequent implementation is monitored.

\(^\text{14}\) Specifically for projects covered by the ELM.

\(^\text{15}\) The EIB portfolio covered by the Principles, which includes the EIB’s direct lending activity outside of the EU from 2012-2019, represents approximately 42% of the total EIB exposure outside of the EU. Overall, maturing instruments and self-liquidating investments make up 97% of total EIB exposure outside of the EU.
Principle 9 – Publicly disclose alignment with the Principles and provide regular independent verification of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Note re-affirms the alignment of EIB’s procedures with the Principles and will be updated annually.

- As part of its annual reporting practices, EIB seeks independent verification of claims made in this Disclosure Statement. Independent verification is provided by an external auditor on an annual basis.

- This assurance report on the alignment of EIB with the Operating Principles for Impact Management is available at https://www.eib.org/attachments/principles-impact-management-en.pdf. Independent verification will be replicated every year.

Information on the current independent verifier is as follows:

Name and address: KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Qualifications: KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 147 countries and territories and have more than 219,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

KPMG in Luxembourg is a leading provider of professional services including audit, tax and advisory. We work closely with our clients, helping them to mitigate risks and grasp opportunities.

Most recent review: 24 March, 2020

Next planned review: March 2021

We have been engaged by the Management of the European Investment Bank (hereafter “EIB” or “the Bank”) to provide a limited assurance on the alignment of the EIB’s impact management system, as described in its policies and procedures, and summarized in the Disclosure Statement (hereafter the “Statement”) of the Bank dated December 2019, with the Operating Principles for Impact Management, an initiative launched by a group of 60 investors in April 2019, dated February 2019 (hereafter the “Principles”), as at and for the period ended December, 31 2019.

Management’s responsibility for the Statement

The Management of EIB is responsible for the preparation and presentation of the Statement, for the information and assertions contained within it, in accordance with the Principles; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Responsibility of the Réviseur d’Entreprises agréé

Our responsibility is to perform a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, as adopted for Luxembourg by the Institut des Réviseurs d’Entreprises. That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the information contained in the Statement is free from material misstatement.

We have complied with the independence and other ethical requirements of the Code of Ethics as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier.

We implement quality control procedures that are applicable to the individual engagement in accordance with the requirements of International Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements (ISQC 1).
Summary of work performed
A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Statement, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

— Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Statement;
— Inquiries to gain understanding of the Bank’s processes for determining its alignment with the Principles;
— Inspection of supporting documents and recalculations of figures for supporting evidence of the information in the Statement;
— A media analysis and an internet search for references to the EIB during the reporting period.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with International Standards on Auditing and Assurance Engagements, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Our limited assurance engagement is not designed to detect all internal control weaknesses or errors in the Statement in meeting the requirements of the Operating Principles applicable to the EIB, as the evidence has been obtained on a sample basis. Accordingly, we do not express an audit or a reasonable assurance conclusion on the Report as a whole.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion
Based on the limited assurance procedures performed, as described above, nothing has come to our attention that causes us to believe that the information in the Disclosure Statement of the EIB for the year ended 31 December 2019 is not aligned, in all material respects, with the Operating Principles for Impact Management, an initiative launched by a group of 60 investors in April 2019.

Luxembourg, 24 March 2020

KPMG Luxembourg,
Société coopérative
Cabinet de révision agréé

Stanislas Chambourdon
Partner