

# Lending Overlap in Europe's Financial Architecture: A Comparative Analysis

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Abstract:

*Europe's financial architecture has long been criticized as fragmented, notably because its two main multilateral public banks, the European Investment Bank and the European Bank for Reconstruction and Development, have increasingly engaged in lending overlap. This overlap, it is assumed, creates inefficiencies and duplications, undermining the banks' fulfilment of their missions. However, little is known about this overlap and its consequences. This article comparatively assesses the lending policy of both banks, while focusing on this overlap. It explains how and why bank lending policies initially led to uncoordinated lending overlap, but then shifted, ultimately moving towards a greater coordination of continued lending overlap.*

**Keywords:** Multilateral public banks; Comparative lending policy; performance; Europe; European Investment Bank; European Bank for Reconstruction and Development.

## INTRODUCTION

Today's challenges facing Europe are evident, including climate change and the need for sustainable development, post-COVID economic recovery, and the ongoing war in Ukraine and future reconstruction requirements. Public finance, well targeted, can do much to alleviate these crises. It is, therefore, of major concern that the European financial architecture has been long deemed fragmented, over-complex, and potentially inefficient, in a number of high-profile reports and policy documents (European Commission, 2006, 2011, 2012; European Parliament, 2009; France and Germany, 2018; Wieser *et al.*, 2019). One of the main, persistent, concerns is that the two multilateral public banks at the heart of this system—the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD)—have increasingly engaged in significant

lending overlap which, it is assumed, tend to be uncoordinated, creating inefficiencies and duplications and, in consequence, lead them to under-perform in terms of achieving their missions (Wise Persons Group, 2010; Wieser *et al.*, 2019). To tackle this and, in a broader effort to bolster the European financial architecture, the Wieser Report recommended a profound reorganisation of the system, including the creation of a new European Climate and Sustainable Bank—which would be accompanied by a significant scaling back of specific functions of both the EIB and the EBRD (Weiser *et al.*, 2019).

Shortly after the report's publication, however, the COVID pandemic broke out and, as policymakers, and multilateral and national public banks focused on the urgent need for huge amounts of additional finance in Europe, the recommendations on restructuring Europe's financial architecture were put aside. Now that the worst of the COVID crisis has passed, the time is ripe to revisit these important critiques. The main objective of this article is to comparatively assess the two main European multilateral public banks' lending policies with a view to better understand the evolution of their growing lending overlap, to probe the extent to which this has been coordinated over time and to assess the consequences that this lending overlap has had on the delivery of their respective missions.

Researching lending overlap by the EIB and EBRD is a challenge because, despite their being major International Financial Institutions (IFI), the EIB—created in 1958 as the bank of the European Union (EU)—and the EBRD—established in 1991, to promote transition to market-oriented economies and multi-party democracies—have attracted surprisingly little research (Robinson, 2009). It is only recently that scholarship on the two banks has started to grow (see, for example, Griffiths-Jones and Tyson, 2013; Erforth, 2020; Clifton *et al.*, 2021; Kavvadia, 2022; Piroska and Schlett, 2023; Tawakkol, 2023; Bougrea, 2024; Erforth and Keijzer, 2024; Spielberger, 2024). Most of these studies, however, focus on either one bank or the other — although Hodson and Howarth (2023) is an important exception. Hence, scholars have little insight into how the banks behave in relation to each other in general, nor do we have detailed knowledge of their overlapping lending. Whilst multiple official reports, including the Wieser Report (Wieser *et al.*, 2019:4), critiqued the European financial architecture, we lack detailed knowledge on the evolution, magnitude and geography of EIB/EBRD lending overlap. Despite the fact that most of these official reports assumed growing lending overlap was

uncoordinated and to be discouraged, they did not delve into whether, how or why coordination efforts may have changed over time.

To address the objective of this article, we comparatively assess EIB and EBRD lending policies, focusing on the banks' lending overlap. To capture the evolution and magnitude of lending overlap, we compile an original database of all EIB and EBRD overlapping loans between 1991, the year the EBRD was established, and 2021. We focus specifically on the geography of lending overlap, capturing this by constructing common country group classifications. A comparative analysis of lending policy at the sectoral level is beyond the scope of this article. Though this data provides quantitative information about lending overlap, it does not tell us about the extent to which overlapping lending may, or may not, be coordinated, and how this affected the ability of each bank to fulfil their lending missions. Capturing the extent to which the banks coordinated with each other or not when lending overlapped, and how this impacted on bank mission, is not possible to assess from the database alone. To understand and comparatively assess the extent to which lending overlap was coordinated, and what this meant for the respective bank's fulfilment of its mission, we conducted twenty semi-structured interviews with senior officials of, and experts on, the EIB and EBRD, between May 2023 and April 2024.<sup>1</sup> We combined this quantitative and qualitative data and used it to determine what lending overlap meant for the banks' coordination and fulfilment of their respective missions using a framework designed specifically to assess IFI performance (Gutner and Thompson, 2010).

The rest of this article is organised as follows. In the second section, we present the framework to comparatively analyse IFI performance; in the third section, we propose

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<sup>1</sup> To identify relevant interviewees, an initial meeting was held with a senior official of the EIB and EBRD, who provided a list of potential interviewees covering the major areas of each bank's activity, including directors of corporate strategy, planning and lending, as well as directors of technical departments, including economics, public procurement, the environment, and so on. A list of fifteen open-ended questions on the respective bank's mission, lending activities, relationship with the other bank, EIB/EBRD overlapping lending and its coordination, was prepared. Interviews were conducted face-to-face in Luxembourg and London and online, and lasted at least one hour. Notes were taken by a second interviewer. The final interview transcript was agreed upon by both interviewers afterwards. Interview material was anonymised and stored in password-protected files.

criteria, based on the framework, to conduct the analysis. In the fourth section, we comparatively analyse the evolution and magnitude of lending overlap, and explain the extent to which both banks attempted to coordinate these, and assess the extent to which they met their respective missions using performance criteria. Conclusions follow.

## **I: COMPARING THE PERFORMANCE OF INTERNATIONAL FINANCIAL INSTITUTIONS**

The extent to which an IFI such as a multilateral public bank fulfils its mission can be captured using performance criteria. The literature on comparatively analysing IFI performance is relatively small (Lall, 2017), nonetheless, of the available academic works, Gutner and Thompson (2010) is particularly suitable for this study for three reasons. First, the authors developed a framework specifically to assess IFI performance, used to analyse IFI such as the International Monetary Fund (Gutner, 2015) and the World Bank (Gutner, 2005). Second, the framework is well-suited to comparatively assessing IFI, particularly, where their activities are quantifiable, as in the case of their lending policy. Third, the comparative analysis of IFI lending policy permitted by this framework allows scholars to propose a set of nuanced policy recommendations. Although lending overlap by EIB/EBRD is a result of their collective lending activity, a comparative analysis of the extent to which individual bank's lending policy involved in this overlap fulfils (or not) its respective performance criteria allows scholars to suggest potentially distinct policy recommendations to each individual bank to improve the common challenge of lending overlap. In a future study, a greater number of IFI—even all IFI—involved in lending overlap, could feasibly be included, with a view to extract a broader degree of generalizability about lending policy by multilateral public banks.

Gutner and Thompson (2010) present a sequence of steps to follow when assessing IFI performance. First, it is important to decide upon the *type* of performance for assessment. “Performance” refers to two, distinct, inter-related, issues: first, whether a task is *done* or not (performance as verb), and, second, the *manner* in which the task is done (performance as noun). Whilst the first concerns “outcomes” produced, the second refers to “processes” (effort, skill, efficiency) by which goals are produced. “Process performance” is captured by studying *how* tasks are conducted, and focuses on specific

tasks delivered. Thick in detail, this approach works best for single case, qualitative studies. “Outcome performance” captures IFI activities that can be captured in quantitative terms and facilitates comparison. Given we seek to comparatively assess EIB and EBRD lending policies, we adopt the concept of outcome performance.

Next follows identification of how to assess outcome performance. Outcome performance is deemed “positive” when IFI activity achieves previously agreed-upon goals, reflected in its “mission”, less positive performance being the opposite. Two explanations for less positive performance are given: the first is internal to the IFI, associated with “agency slippage”; the second, external, associated with “mission complexity”. Regarding the first, poorer performance may be explained by issues inside the IFI, such as the quality of leadership, or the prevalence of a specific, deleterious bureaucratic culture. This approach also includes principal-agent theory, which, when applied to IFI, assumes that poor performance is explained by the fact that agents are engaged in slippage—that is, the pursuit of self-interested behaviour (inter alia, career success, greater discretion, bureaucratic expansion) instead of the principals’ goals. An obvious policy recommendation in this case is to steer IFI activities more closely in line with the principals’ terms of delegation. As for the second explanation, IFI may perform less well due to external factors, such as having been assigned incoherent terms of delegation, or be subjected to irreconcilable political demands of member states. Here, sub-optimal outcomes are not attributable to staff, but rather to external factors related to problems associated with member states—“principal problems” (Thompson, 2006). The obvious policy recommendation in this case is to identify mission incoherence and, if possible, render this coherent.

To assess IFI performance, Gutner and Thompson (2010) propose establishing a baseline to capture the IFI mission, to reflect what states intended when they created the IFI, and then compile data to assess activity against mission. Bank mandates are a suitable proxy for organizational mission (Gutner and Thompson, 2010). Hence, this article uses the EIB and EBRD mandates to capture their respective mission. Based on these mandates, criteria are derived to comparatively assess performance.

## **II: FROM MISSION TO PERFORMANCE CRITERIA**

Since both the EIB and EBRD underwent one major reform of their mandate, we establish four criteria to assess outcome performance. Because translating complex bank mandates into an indicator to assess mission must be simplified, we use in our performance criteria the country to which we would expect the banks to lend as a proxy. The performance criteria will then be used in the next section to assess the extent to which the banks coordinated their lending and fulfilled their respective missions.

### *THE EIB: FROM AN EU FOCUS TO EUROPE AND THE WORLD*

In 1991, the EIB was still governed by its original founding statute (EIB, 1957). Though this statute had been updated several times, it was not until 2006 that significant reform occurred. The 1957 statutes established that the EIB's mission was to promote the "balanced and smooth development" of EU Member States<sup>2</sup> (Article 20b, EIB, 1957). This would be achieved through granting loans and guarantees on a non-profit basis to three kinds of projects, associated with less-developed regions; modernisation or conversion of enterprises, or the creation of new activities deemed necessary for the EU, or, projects of common interest to several EU Member States (Article 130, EIB, 1957). Hence, all lending policy was directed to the EU, with one exception: the EIB was also allowed to lend to projects outside the EU. However, this required unanimous authorization by the Board of Governors, and it was necessary to demonstrate that this lending served the interest of the EU (Article 18, EIB Statute 1957). Essentially, then, the EIB could lend to projects in EU Member States, future Member States, and, more exceptionally, the former colonies of Member States.

*Performance criteria 1: EIB lending (1991-2005) should focus on EU Member States, with lending to non-EU countries much more of an exception, and of this, most targeted to countries that will join the EU.*

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<sup>2</sup> This article uses the contemporary term, European Union (EU), rather than previous terms, such as European Economic Community and European Community, for convenience.

The reformed statute (EIB, 2006) should be understood in the context of a more mature EU, with a strengthened foreign policy. Behind this reform was a shift in thinking among EIB strategists that the bank's former business model had become obsolete, its lending conditions were not sufficiently attractive, and its additionality had been questioned (interview 7). Expansion beyond EU current and future Member States was designed to increase riskier lending, directed towards more non-European countries, as well as increased lending to the private sector (interview 2). From its creation, the EIB's lending outside the EU was funded principally by voluntary Member State capital contributions to the European Development Fund (EDF). Although subject to its own financial rules and procedures, the EDF was managed by the EIB and the European Commission. Increasingly, from the 2000s, a larger portion of this share of non-EU lending was granted by the EU budget (OJEU, 2006). The EDF was incorporated into the EU budget from 2021. Effectively, as well as being able to lend to the same countries as the first period, the EIB could now also lend to countries that lay "within the framework of the principles and objectives of the Union's external action" (Article 208, EIB Statute, 2006). Which precise countries this would involve was rather vague, since lending also had to support the development cooperation policy of different EU Member States.

*Performance criteria 2: EIB lending (2006-2020) will still prioritize the EU and to a lesser extent, future EU Member States. However, as a novelty, lending will also go to countries prioritized by EU Member States with the objective of "development cooperation".*

#### ***THE EBRD: FROM TRANSITION TO BROADER ECONOMIC DEVELOPMENT***

The founding Agreement of the EBRD stated its mission was to "foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative" (Article 1, EBRD, 1990) with a set of clearly defined countries in Central and Eastern Europe. Here, the EBRD was to forge both economic and political transition, with lending going to countries "committed to and applying the principles of multiparty democracy, pluralism and market economics" (Article 1, EBRD, 1990). In particular, the bank was to assist countries to implement structural and sectoral economic reforms through the promotion of private sector activity, the mobilization of domestic and foreign capital, the fostering of productive investment, and the stimulation of capital market

development, to support projects involving more than one recipient member country, and to promote environmentally sound and sustainable development (Article 2, EBRD, 1990). Essentially, then, EBRD lending would focus on Central and Eastern European countries making a transition from central-planning to democratic political systems and market-oriented reform.

*Performance criteria 3: EBRD lending (1991 to 2013) will focus on countries in Central and Eastern Europe, with the objective of facilitating structural reform from central-planning towards a market economy and multiparty democracy.*

In 2013, however, the EBRD Agreement was reformed, which explains the selection of this date to bookend the period analysed. The reform was adopted principally to adapt to the bank's new circumstances. After over a decade of transition in the 1990s, and two waves of EU enlargement in the 2000s, the continued relevance of the EBRD was questioned (interview 8, 20). Many of the Central and Eastern European countries that the bank had supported had completed their transition and joined the EU—following from which they could receive EIB loans. Essentially, the EBRD underwent an existential crisis (interview 8). It therefore sought to “re-invent” itself, claiming that its know-how on political and economic transition could be put to the use of other countries that did *not* have central planning legacies. The Arab Spring, in the early 2010s, was compared to the fall of the Berlin Wall by the EBRD and seen as an opportunity for the bank to expand its activities (interviews 9, 10). This ultimately led to the reform of the EBRD Agreement. The revised Agreement broadened the classification of “transition” country (EBRD, 2013b), not only including countries with the legacy of central planning, but also countries undergoing other transition, in addition to countries in the Southern and Eastern Mediterranean area, and Mongolia (EBRD, 2013a).

*Performance criteria 4: EBRD (2013-2021) lending will focus on transition countries in Central and Eastern Europe that have not joined the EU, as well as other countries in specifically designated areas. The central objective remains to facilitate transition, now understood in broader terms, from different political economies to market democracies.*

### **III: OUTCOME PERFORMANCE: COMPARISON AND ASSESSEMENT**

We now apply our four performance criteria to comparatively assess EIB and EBRD lending policies. First, we present the data on overlapping lending, then we comparatively assess this, guided by material from the semi-structured interviews and other secondary material.

### *EXAMINING THE EIB AND EBRD LENDING OVERLAP*

Using EIB and EBRD data on lending, we first compiled a database on all overlapping lending by country from 1991 to 2021 (as presented in Clifton *et al.*, 2024 and available [here](#)). Because the EIB and EBRD classify countries in distinct groupings, we established a common set of country groups to facilitate comparison. Our seven country groupings are designed to help comparatively assess the performance of both banks, as they capture the extent to which the banks' lending fulfilled the lending objectives based on their respective missions. These country groups are: 1) "EU Transition MS" (Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia, which all joined the EU in 2004; Bulgaria and Romania, in 2007, and Croatia, in 2013); 2) "EU Non-transition MS" (Cyprus and Greece) MS; 3) "EU Transition Candidates" (North Macedonia, Montenegro, Serbia, Albania, Bosnia and Herzegovina, Moldova and Ukraine); 4) "EU Non-transition Candidates" (Turkey); 5) "EU Transition Potential Candidates" (Georgia, Kosovo); 6) "Eastern Transition Countries" (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Mongolia, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan); and 7) "South-East Mediterranean" countries (Egypt, Jordan, Lebanon, Morocco, Tunisia). In addition, to facilitate visualising lending trends, annual lending amounts by country were stated as an average over a five-year period (1991-1995, 1996-2000, and so on). We used constant 2015 € Million (€Mill henceforth) for all lending. To facilitate comparative assessment, two figures were created. Figure 1 shows the overall lending overlap by magnitude and bank. Figure 2 shows the same data but presents this as a percentage of the total overlapping EIB/EBRD lending respectively.

Figure 1. EIB and EBRD overlapping lending by country groups  
1991-2020 (constant 2015 € Million)

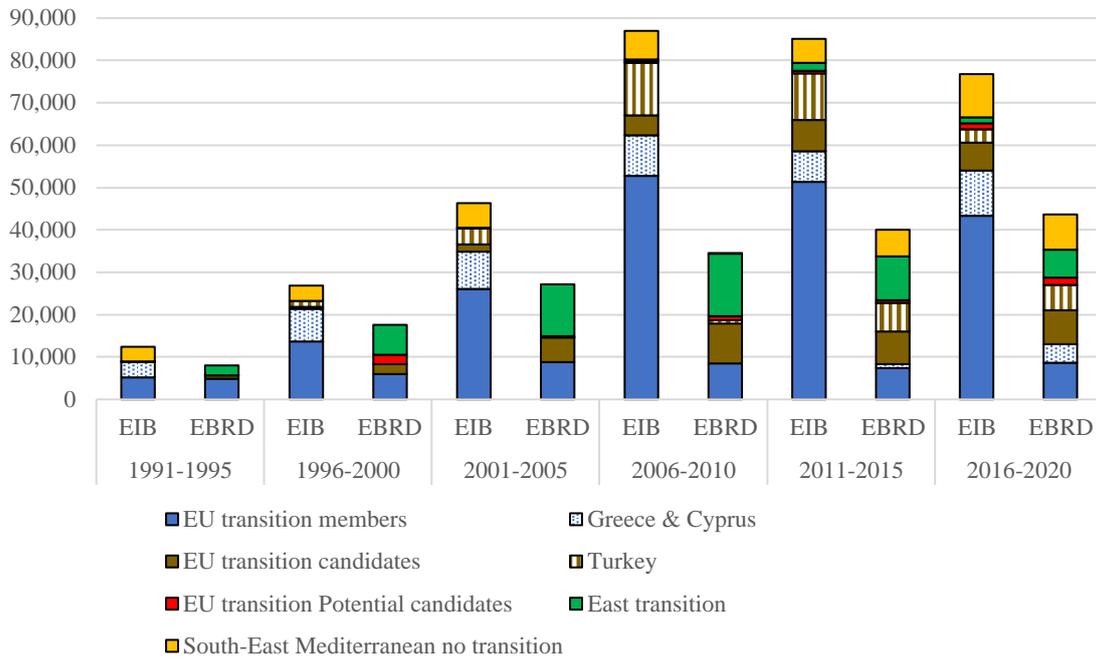
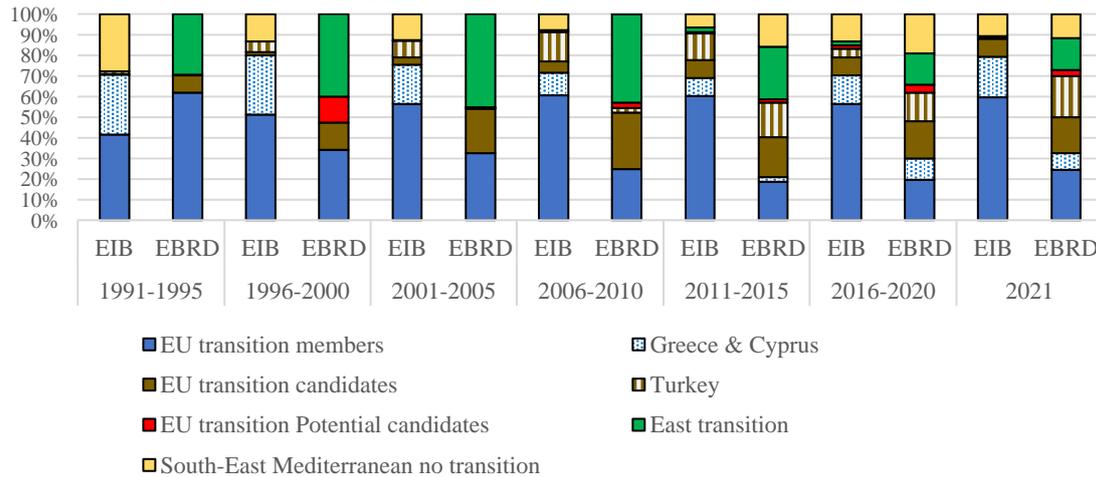


Figure 2. EIB and EBRD overlapping lending  
by country groups  
1991-2021 (as a percentage of total overlapping lending)



EIB/EBRD overlapping lending begins rather modestly in 1991, but grew significantly from 2005 (Figure 1). We first assess the lending by EIB by focusing on lending overlap for both periods, analysing its evolution and magnitude. We then assess the extent to

which the EIB coordinated this lending and the consequences for mission fulfilment using performance criteria, and then repeat the same process for the EBRD.

### *THE EIB: LENDING POLICY AND PERFORMANCE*

The overwhelming majority of EIB lending that overlapped with EBRD lending was destined for EU Transition MS in the first period 1991-2005 (Figure 1). EIB loans to these countries averaged 5,123 €Mill (1991-95), increasing to an average of 26,095 €M (2001-5). This constituted 3.7 percent and 10.1 percent, respectively, of total EIB loans or, some 41.4 percent and 56.4 percent of EIB lending within the context of overlapping lending (Figure 2). Beyond this, EIB lending targeted three other country groups. Lending went to EU Non-transition MS countries Cyprus and Greece (increasing from averages of 3,612 to 8,825 €Mill between 1991-5 and 2001-5); EU Non-transition Candidate, Turkey (134 to 3,805 €Mill from 1991-5 to 2001-5); and South and Eastern Mediterranean countries (from 3,465 to 5,851 €Mill between 1991-1995 and 2001-2005). Indeed, South and Eastern Mediterranean countries represented the second most important country group after EU Transition MS for EIB lending during this period. Meanwhile, EIB lending to EU Transition Candidates was rather modest, and loans to EU Transition Potential Candidates and to Eastern Transition Countries were negligible.

The EIB did not, during this period, prioritise the coordination of lending overlap with the EBRD, essentially, because it saw EBRD lending to EU Transition MS as “transitory” (interview 2, 20). After the Soviet Union collapsed in 1991, top EIB officials had been reluctant for the bank to step forwards as the financial leader in the region. The bank’s then directors feared that such a move would direct the bank away from its traditional business of infrastructure and corporate “big ticket” lending, towards structural reform, where it lacked experience. With hindsight, some senior EIB officials see this as one of the biggest strategic errors the bank ever made (interview 2, 7, 19). This reluctance increased the need for another regional lender, created a sense of potential “rivalry” between the banks, and was the root of EIB/EBRD lending overlap. Because lending overlap was mostly concentrated in the EU Transition MS countries, senior officials assumed that, once centrally-planned countries joined the EU, EBRD loans would discontinue and—most probably—the EBRD would disappear, given that its mission was over (interview 2, 7, 10, 19, 20).

Performance criteria 1 anticipated that EIB lending beyond the EU would focus mostly on future EU Member States. Since the bulk of overlapping loans from the EIB were directed to EU Transition and Non-Transition MS, Turkey, (EU Non-transition Candidate) and countries significant to the EU Neighbourhood area, the bank's lending policy well reflected its mission. A paradox, however, is revealed through this comparative analysis of lending policy using the Gutner and Thompson (2010) framework. When EIB lending policy is assessed individually—as against its own mission—this evaluation is positive. However, once this policy is studied comparatively in relation to lending overlap, it becomes clear that the two missions together produced mission complexity, containing the very seeds of lending overlap, and potential coordination challenges, as we shall see below.

The second period (2006 to 2021) was characterised by a significant increase in lending overlap and a more complex scenario (Figure 1). Again, the bulk (nearly two-thirds) of EIB lending went to EU Transition MS. Lending here was stable, averaging 52,733 €Mill in 2006-10 and 43,360 €Mill in 2016-20.<sup>3</sup> EIB lending remained significant to EU Non-transition MS, Cyprus and Greece. EIB lending to EU Non-transition Candidate, Turkey, increased sharply, initially, averaging 12,462 € Mill in 2006-10,<sup>4</sup> but then fell dramatically, to 3,205 €Mill in 2016-2020.<sup>5</sup> EIB lending to South and Eastern Mediterranean countries increased significantly, averaging 6,836 and 10,350 €Mill in 2006-10 and 2016-20.<sup>6</sup> Lending to both EU Transition Candidates and EU Transition Potential Candidates also increased during this period.

As lending overlap grew and, despite the fact that the EIB and the EBRD signed a Memorandum of Understanding (2006) to facilitate joint financing of projects in Eastern Europe, Russia, the Southern Caucasus and Central Asia, tensions increased between the EIB and the EBRD (interview 2, 19, 20). Previously, the EIB had assumed overlapping lending would disappear since, after transition, they had expected the EBRD to be closed

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<sup>3</sup> Constituting 14.9 percent and 13.5 percent of total EIB lending (60.6 percent and 56.4 percent of EIB lending overlap).

<sup>4</sup> Some 3.7 percent of total lending or 14.3 percent of lending overlap.

<sup>5</sup> Some 1 percent of total lending or 4.2 percent of lending overlap.

<sup>6</sup> Some 2.1 percent and 3.3 percent of its total lending or 7.9 percent and 13.5 percent of overlapping loans.

down. However, it became increasingly evident, even after countries joined the EU, that EBRD lending continued (interview 2, 9). EIB officials opined that the EBRD was resisting closure. Moreover, the EBRD's continued loans to these countries suggested that the bank sought to lower lending risk and balance its portfolio (interview 2, 10). Beyond this, EIB officials stated that the EBRD's move to lend to Cyprus and Greece—both EU MS—in the context of the euro area sovereign debt crisis, was of concern. For some officials, it was feared that the EBRD would use this to expand even further into the EU (interview 3, 5). Tensions with the EBRD escalated and a secret decision was taken at the highest levels of the EIB to try to negotiate an end to lending overlap by enforcing coordination based on a country-based “division of labour”. Between 2010 and 2011, directors of both banks engaged in unofficial, exploratory discussions, which envisaged the EIB would lend to the EU and the EBRD outside the EU, accompanied by a move whereby the EIB would increase its capital in the EBRD (interview 2). Ultimately, however, these negotiations came to nothing — instead, the Memorandum of Understanding (2006) was revised. The revised MoU established a “division of labour” based on geographical areas where the banks did not overlap, areas where they overlapped but had different emphases, and areas where their overlap “should” be managed in a strategic way. The Memorandum of Understanding was revised in 2011 to set out norms to regulate criteria including a “leader-follower” approach to co-finance, given that leadership was a point of contention between the banks (interviews 2, 5, 20). Despite this, tensions increased further when the EBRD started to lend to Turkey, a country to which the EIB had traditionally lent (Figure 1).

These heightened tensions between the EIB and the EBRD constituted the background to the European Council's decision to establish a high-level group of wise people to assess the European financial architecture. The key output, the Wieser Report, published in 2019, recommended the creation of a new development-focused bank in Europe—thus removing some functions from both the EIB and the EBRD (Wieser *et al.*, 2019). The report marked a turning point. EIB officials noted that the publication of this report caused much upset and frustration at the bank, fuelled by the perception that the Wieser Group had not sufficiently investigated the ongoing coordination efforts made by the EIB with the EBRD, but also, other multilateral public banks, nor had it considered the challenges of coordinating lending (interview 4, 5). Indeed, EIB officials stated that the report ignored multiple coordination efforts that had been ongoing for years, particularly within

the technical departments, including public procurement, where formal coordination began in 2014 through the organization of a network of multilateral public banks (interview 3, 5). Coordination challenges included the lack of a set framework or rulebook around the conditions under which either the EIB or the EBRD would lead a project. Hence, an informal “leader-follower” structure for joint projects, which included an “exit clause” where agreement could not be obtained, had emerged, based on previous experiences, which loosely followed the Memorandum of Understanding (as revised in 2011). Often, this approach led to successful joint lending, though admittedly, on occasions, the informality of the approach fuelled rivalry (interview 1, 2, 9).

Though the Wieser Report caused upset, it also focused minds at the EIB, quickly sparking a step change in lending policy. The priority assigned to coordinated lending was raised and EIB directors became increasingly involved in the challenge. Simultaneously, the COVID-19 outbreak from March 2020 meant that a major increase in lending was urgently required (Chen *et al.*, 2023). This urgency was used as an additional rationale to intensify lending coordination (interview, 14). A good example of a change from 2019 is that two annual meetings, one in London, the other in Luxembourg, were held, with top management in attendance, to facilitate lending coordination (interview 15). Further developments included the signing of the Framework of Cooperation Agreement between the EIB and the EBRD, which included joint statements to prioritise lending coordination and avoid rivalries (European Council, 2021). The step change within the EIB was also one of attitude: if previous, failed attempts to coordinate lending with the EBRD had been based on a country “division of labour”, now, it was accepted that “joint lending” with the EBRD was not only inevitable, but it was also necessary, since it was imperative to “share the burden” of the huge financial needs in the context of the pandemic (interview 5, 15). Joint lending coordination would focus from then onwards on reducing project bureaucracy and task replication (interview 2, 5, 15). Old tensions did not disappear, however, the shift in thinking about lending policy was palpable (interview 5).

Finally, performance criteria 2 anticipated that EIB lending would continue to prioritise current and future EU MS, with additional lending going to countries relevant to a loosely defined category, EU MS “development cooperation”. The very fact that this country group was so loosely-defined makes it more difficult to assess performance. On the one

hand, since the bulk of lending focused on EU Transition MS which had successfully transitioned into EU MS, EIB lending can be interpreted as effectively reflecting its mission. The only exception to this is EIB lending to EU Candidate Turkey, which declined considerably.

Beyond these countries, however, the EIB's reformed mandate allowed the bank to lend to a much greater array of countries. In the backdrop of the increased tensions around lending overlap, described above, one EIB official reported that, at times, the EIB risked "losing its compass" (interview 2), because it was trying to do too many different things. At the same time, several officials reported that EIB lending over-prioritized volume at the expense of fulfilling its mandates. The main explanation provided for this was the EIB's governance structure which included a non-resident Board of Directors (officials from EU MS finance ministries) which only held monthly meetings with the politically appointed Management Committee. Current and former officials noted that this structure led to the bank prioritizing volume ("low hanging fruit") rather than rigorously ensuring technical characteristics were adhered to in every project (interview 1, 5, 6, 13). The enhanced coordination of lending following the Wieser Report, however, led to an improvement in performance, not least, because better lending coordination tended to improve the development impact of lending beyond the EU.

### *THE EBRD: LENDING POLICY AND PERFORMANCE*

We now examine the same lending overlap, but from the perspective of the EBRD. In the bank's early years, overlaps must be attributed to EBRD lending policy, however, subsequently, overlap can be attributed to both the EBRD and the EIB.

During the first period of analysis (1991 to 2013), EBRD lending focused heavily on EU Transition MS, specifically, Central and Eastern European countries. Between 1991 and 2007, some 60 percent of its total lending was destined to these countries. From 2007, however, despite the fact that many of these countries had completed their transition and become fully-fledged EU Member States, EBRD lending, albeit flat, persisted (Figure 1). We have already seen how the EBRD's continued lending to these countries caused frustrations in and tensions with the EIB. However, the situation was seen differently at the EBRD. Just as the EBRD saw many of its recipient countries from Central and Eastern

Europe join the EU (and receive increased EIB loans) from 2004, EBRD lending policy shifted and started lending to Turkey. Turkey was a long-standing recipient of EIB loans, so this shift in EBRD lending policy created a second source of overlap. Changing EBRD lending policy created a third area of overlap when the bank started lending to Southern and Eastern Mediterranean countries. Initially, lending was modest, starting with a small loan to Egypt in 2009. However, by 2013, lending also extended to Jordan and Tunisia.

The rest of EBRD lending did not create overlap with the EIB. However, from 2006, the EIB's mandate reform led to increased lending to those country groups that had traditionally been served by the EBRD. Two good examples are the Eastern Transition Countries which, by 2013, had become the main recipient country group for EBRD loans – attracting 30 percent and 40 percent of loans between 1991-1995, and 1995-2010 respectively – and EU Transition Candidates, which initially constituted 8.5 percent of total loans, increasing to 27.6 percent by 2006-2010. EIB lending policy following its mandate reform meant that it was now EIB lending that created overlaps with EBRD lending in both country groups (Figure 1).

Overall, the initial instances of lending overlap were initiated by the EBRD and, from 2006, also by the EIB. The magnitude, geography and volume of overlapping lending increased during this period. However, there is a stark difference with regard to how these overlaps were perceived by EBRD officials, compared to EIB officials, as described in the previous sections. If the increase in lending overlap had been seen by EIB officials as significant, irritating and something to be avoided, from the EBRD perspective, lending overlap was perceived as being less important and, even, inevitable. The reasons as to why the EBRD took this position are multiple and complex but can be largely captured by the “existential threat” to the EBRD's continuation once Central and Eastern European countries entered the EU. The threat of losing its traditional client base when EU Transition MS joined the EU encouraged the EBRD to seek new ways to be relevant to these countries and to seek out new countries for lending. Since the EIB was such a towering, enormous, lending institution, whatever the EBRD did, it was bound to overlap with EIB loans (interview 15). This was not necessarily of concern since, even when lending went to the same country—or, even, project—EBRD lending had fundamentally different characteristics to EIB lending. Thus, EBRD officials perceived that lending overlap could actually be positive for recipients. Indeed, the notion that EBRD lending

was “different” was used by the bank to explain why, when countries from Central and Eastern Europe joined the EU, they continued to demand EBRD loans (interview 9). After EU accession, EBRD lending—which was more agile, smaller as regards lending magnitude, better connected to local networks, and largely focused on private markets—was still in demand. Even when the EBRD created a “graduation scheme” to promote countries’ reduced reliance on the EBRD as they moved to the EIB, this option was only taken up by one country, Czechia, which, after a few years, returned to request EBRD loans again (interview, 8, 20). Essentially, EBRD officials emphasised that its lending occurred in “niche” markets” that EIB lending, seeking economies of scale, did not serve (interview 6). Coordination was perceived as an important issue by the EBRD, but of less concern than the EIB, explained by the fact that EBRD officials saw the bank’s lending characteristics as significantly different to those of the EIB.

Performance criteria 3 anticipated that EBRD lending in this period would focus on lending to Central and Eastern European countries with central planning legacies. Initially, to around 2007, it could be assessed that EBRD lending to countries with these characteristics reflected well its mission of promoting markets and democracies. Starting with the 2004 lending to Turkey, and then to other non-transition countries, as well as continued lending to countries that had completed transition, EBRD lending policy diverged from its original mandate.

In the theoretical literature, including the performance framework applied here (Gutner and Thompson, 2010), this divergence can be interpreted as “agency slippage”. Interestingly, however, from the EBRD perspective, mandates or Agreements are interpreted to be texts in evolution, not documents set in stone. Fundamentally, the EBRD faced an existential crisis as regards its continued existence and, therefore, the bank moved to re-invent itself by shifting lending policy quickly—years before its Agreement was reformed (interview 9, 10, 11, 20). This development had not been without tension inside the bank.

The EBRD’s first loan to Turkey was a controversial development for its shareholders (interview 10). The US and UK government shareholders insisted that the bank stick with its original transition mandate and, once transition was accomplished, end its operations

(interview 20). However, many European shareholders argued that transition—originally only associated with “structural reform” (central planning to capitalism)—could, and should, be understood more broadly (interview 10). The Europeans argued that the EBRD had accumulated vital expertise on lending and could use what it already knew about transition and apply this to many other kinds of economic systems, including Turkey—and beyond. Hence, EBRD directors shifted lending policy early in the 2000s, well in advance of mandate reform in 2013, to extend the bank’s mission to move the original “transition” concept towards a more generic one of promoting market-oriented reform and multi-party democracies from various kinds of political economies (interview 9).

During the second period of analysis (2013 to 2020), EBRD lending is even more diversified and complex than in the first period, in that the bank’s loans were spread across a larger number of country groups (Figure 1). Lending to EU Transition MS remained stable (constituting nearly 20 percent of total lending between 2011-2020); thus, continuing the previous trend of lending overlap with the EIB. At the same time, EBRD lending to Eastern transition countries, previously the most important recipient country group, fell sharply (from 10,285 to 6,647 €Mill or 25.7 to 15.2 percent of total lending) between 2011-15 and 2016-20. Most of this decline can be explained by the fact both the EBRD and the EIB halted lending to the Russian Federation from 2014, following its invasion and annexation of the Crimea (EBRD, 2023).

Beyond this, there are three striking observations about EBRD lending policy, all of which concern non-transition countries. First, as has been previously discussed, new EBRD lending created new, contentious, overlap with the EIB. This occurred when the EBRD started lending to EU Member States Greece and Cyprus (“EU Non-Transition Countries”).<sup>7</sup> Second, the EBRD consolidated lending that overlapped with pre-existing EIB lending that the EBRD had already initiated in the first period. This was the case for Turkey and South and Eastern Mediterranean countries. EBRD loans were significant to Turkey (comprising 17 and nearly 14 percent of total lending, in 2011-5 and 2016-2020, respectively). Additionally, EBRD lending increased to South and Eastern Mediterranean countries, from insignificant volumes to an average of 6,335 and 8,313 €Mill (15.6 and

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<sup>7</sup> Greece received EBRD loans averaging 327, rising to 4,311 €Mill in 2011-2015 and 2016-2020. Cyprus received averages of 557 and 150 €Mill during the same time periods.

19 percent of total lending) in 2011-2015 and 2016-2020. The main recipient in this country group was Egypt. Third, EBRD traditional lending saw increased overlap as EIB lending expanded into countries that had previously received EBRD loans. This was the case for EBRD lending to EU Transition Candidates, which declined in comparison to the previous period, averaging at slightly under 20 percent of total lending between 2011 and 2020, while EIB lending to these countries increased. However, EBRD lending increased to EU Transition Potential Candidates, reaching 1,670 €Mill (3.8 percent of total lending) in 2006-2020. Again, EIB lending to these countries that began during this period resulted in an additional source of lending overlap.

Similar to the first period of analysis, EBRD officials continued to perceive the challenge of coordination differently to the EIB. This also helps explain why EBRD officials interpreted the Wieser Report in a different way to that of EIB officials. Whilst the report upset and frustrated the EIB, it had less of an impact on EBRD officials. From the EBRD's perspective, the report asked the wrong question, in that it set up a "false beauty contest", pitting the EIB against the EBRD, and ended up creating confusion and antagonism (interview 15). Despite this entrenched perspective that EBRD lending differed fundamentally from EIB lending, the EBRD became fully engaged following the Wieser Report in enhanced efforts to work on improving coordination with the EIB. Just as in the EIB, EBRD officials increased the priority assigned to coordination issues, and participated, alongside their EIB peers, in high-level activities designed to reinforce the coordination of both banks described above. At the same time, coordination was reinforced within the EBRD by the EIB representative, who was assigned the role of promoting tighter coordination and better synergies, including "mutual reliance" as part of due diligence. By way of example, if the EIB had performed a technical check on a proposed project, the EBRD could rely on this, thus avoiding duplication (interview 15).

Performance criteria 4 anticipated EBRD lending would focus on transition countries as well as Southern and Eastern Mediterranean and Mongolia, with a broader transition mission when compared to criteria 3. Overall, EBRD lending during this period spread and diversified as never before, across all country groups, even, fully-fledged EU Non-Transition MS, Greece and Cyprus. Between 2011 and 2020, its share of total lending was spread in the following way: Eastern Transition Countries (19.8%); EU Transition MS (19.6%); EU Transition Candidates (18.6%); South East Mediterranean countries

(17.1%); Turkey (15.7%); Cyprus and Greece (6.5%): and, finally, EU Transition Potential Candidates, Georgia and Kosovo (2.7%).

Applying performance criteria 4 produces mixed results. Whilst EBRD performance with regard to facilitating transition in Eastern and EU Transition Countries could be assessed as positive, in terms of reflecting well its mission, much of its other lending demonstrates “agency slippage”. For example, EBRD lending to Greece and Cyprus, strictly speaking, jarred with its mission, despite this being justified by EBRD officials as supporting the banking systems of these two countries during the financial crisis (interview 11). Additionally, despite the fact the EBRD reformed its Agreement, its continued, significant loans to Turkey, a long-term client of the EIB, continued to be a case whereby lending policy did not clearly reflect its core mission. In contrast, EBRD lending to South and Eastern Mediterranean countries did reflect the bank’s reformed Agreement, which now also included promoting democratic processes associated with the “Arab Spring”. However, even the EBRD, when reflecting on the extent to which its lending had promoted democratic transitions in that area, was ambiguous. EBRD officials’ frustration with the slowness of reform in this country group was clear, as seen in its “Stuck in Transition” report (EBRD, 2013), where admissions of challenges were made with regard to progress in these countries (interviews 9; Piroška & Schlett, 2023). In the face of frustration with the slowness of political change, however, the EBRD again reacted quickly, shifting the emphasis of lending policy to this country group away from democratic transition and towards green finance (interview, 9). In particular, the bank linked its lending policy directly to social and green investment programmes (Versal and Sholoiko, 2022). These aims are reflected, albeit rather loosely, in the EBRD’s reformed Agreement.

#### **IV: TACKLING LENDING OVERLAP: DISCUSSION**

This article sought to comparatively assess EIB and EBRD lending policies with a view to better understand the evolution of the banks’ lending overlap, to probe the extent to which this has been coordinated over time and to assess the consequences of lending overlap for the delivery of the banks’ missions. These are all concerns that have been raised by scholars and policymakers over the last fifteen years regarding the performance

of the European financial architecture. The Gutner and Thompson (2010) framework was used to evaluate to what extent the two banks fulfilled their respective mandates in the case of this lending overlap.

It is something of a paradox that the very design of the original EIB mandates and the establishment of the EBRD Agreement contained the seeds of lending overlap within them. Even, in the hypothetical case, that both banks had performed well according to their respective missions—when considered individually—overlap and coordination issues would be inevitable, when considered collectively. It could have been predicted, in 1991, that, as EU Transition Member States joined the EU, there would be a transitory period of overlap. The EIB and EBRD missions, considered collectively, caused complexity, or “principal problems” leading the banks toward lending overlap and coordination challenges. However, it was, perhaps, less obvious that, once the EBRD had achieved its original core mission, it would seek to re-invent itself, by energetically and rapidly embarking on an expanded lending policy to other countries—where EIB lending already occurred. At this time, EBRD lending policy could be characterised as exhibiting “agency slippage”, explained by its efforts to survive. By 2006, the EIB reformed its mandates to lend beyond the EU under a loosely-defined “development mandate”. This led the way for EIB lending to reach countries that were traditionally served by the EBRD, creating additional overlap and further intensifying mandate complexity (“principal problems”).

Heightened tensions generated by increased lending overlap led directors of both banks to meet, secretly, in 2010 and 2011, with a view to impose a “country-based” division of labour to contain tensions between the banks, though these efforts failed, and new agreements were made to try to regulate their joint activities (European Council, 2011). However, both banks continued to expand their lending policy by geography, leading to more overlaps. Despite the fact that the EIB was a much larger lending institution than the EBRD, and was, in addition, a shareholder of the EBRD at 3 percent (as was the European Commission, whilst EU Member States owned 51 percent), the EIB did not manage to “impose” its priorities to shape lending coordination onto the EBRD during this period.

When the EBRD shareholders moved to reform the bank’s Agreement in 2013—which officially expanded the bank’s remit to non-transition countries—we might conclude that its lending policy exhibited less “agency slippage” in that its lending better aligned with the countries in its Agreement. However, because the bank’s expanded lending overlapped increasingly with that of the EIB, collectively, EIB and EBRD lending was affected by “principal problems”, due to the complexities embedded in the banks’ respective missions.

Given this mission complexity, an obvious policy recommendation to improve the challenges of lending coordination by the two banks might be to redesign their mandates, to better coordinate and delimit lending overlap, for example, by including clear country division and functions. To some extent, this is exactly what the secret negotiations between the banks’ directors during 2010-11 and the Wieser Report aimed to accomplish. However, efforts to introduce a geographically-based “division of labour” have all failed so far. The Wieser Report did have an impact, however. Partly because officials from both banks were united in their opposition to the report’s recommendations on restructuring Europe’s financial architecture, the report triggered a united shift in the discourse of both banks about their lending policy—away from lending overlap as a source of tension, to one where lending overlap was inevitable and actually, even, desirable, given the need for investment in the context of the pandemic and other crises. In particular, the report led to an enhanced involvement of both banks’ directors in overseeing a better management of lending overlap. This included efforts to reinforce high-level annual meetings in Luxembourg and London, an enhanced role for the EIB’s representation in the EBRD to promote coordination synergies, and the Framework Agreement (Council of Europe, 2021), all of which focused on improved inter-bank coordination. The background of the pandemic possibly reinforced the urgency of this cooperative approach at the time. Ultimately, the report led to top officials’ prioritization of greater coordination of lending by the banks within the European financial architecture. Nevertheless, the fundamental challenge of mission complexity and “principal problems” remain.

### **List of interviewees (anonymised)**

1. Interview, Official, EIB, 22 May 2023. Luxembourg.
2. Interview, Former official, EIB, 29 May 2023. Luxembourg (online).
3. Interview, official, EIB, 2 June 2023. Luxembourg.
4. Interview, official, EIB, 2 June 2023. Luxembourg.
5. Interview, official, EIB, 2 June 2023. Luxembourg.
6. Interview, official, EIB, 5 June 2023. Luxembourg.
7. Interview, official, EIB, 7 June 2023. Luxembourg.
8. Interview, official, EBRD, 9 June 2023. London (online).
9. Interview, official, EBRD, 23 June 2023. London (online).
10. Interview, official, EBRD, 23 June 2023. London (online).
11. Interview, official, EBRD, 23 June 2023. London (online).
12. Interview, official, EIB, 26 June 2023. London (online).
13. Interview. EBRD official. 26 June 2023, London.
14. Interview. Former EBRD official. 26 June 2023. London.
15. Interview, EIB official at EBRD (EIB). Online. 8 December 2023
16. Interview. official, European Stability Mechanism. 28 November 2023. Luxembourg.
17. Interview. official, European Stability Mechanism. 1 December 2023. Luxembourg.
18. Interview. Former official EBRD. 12 December 2023.
19. Interview. Former EIB director. 12 January 2024.
20. Interview. EIB official. Brussels. 30 April 2024.

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