Overview Report 2009

European Investment Bank • European Investment Bank • European Investment Bank • European Investment Bank • European Investment Bank

Operations Evaluation

EIB activities outside the European Union
2000 – 2009

Overview Report 2009

European Investment Bank • European Investment Bank • European Investment Bank • European Investment Bank • European Investment Bank

Operations Evaluation

EIB activities outside the European Union
2000 – 2009


European
Investment
Bank

Contents

Message from the President

This report has been prepared by Operations Evaluation (EV) and represents a comprehensive overview of the Bank's activities outside the European Union during the last ten years.

All the regions have been considered and the portfolio of operations financed by the Bank has been reviewed almost in full, either through in-depth evaluation or through more specific indicators. In this work, EV has evaluated every sector and every financial product offered by the Bank outside the European Union.

I fully support the recommendations made by EV; lessons must be drawn from previous operations in order to enhance the value added of the Bank's activities and more efforts should be devoted to the dissemination of knowledge and the provision of expertise and technical assistance. All the following actions suggested by EV have been and are being implemented.

The EIB's Board of Directors, when approving EV's new mandates, recognised the importance of its role in improving operational performance, accountability and transparency.

Philippe Maystadt
EIB President

Message from the Inspector General

This report, presented by Operations Evaluation (EV), summarises its views on certain operations evaluated during the last two years.

These two years have largely been dominated by the evaluation of operations financed by the EIB Group outside the European Union and signed mostly during the last ten years.

This Overview Report builds on eight summary reports already published and, as such, covers all regions targeted by the EIB, i.e. where the European Union has a clear policy of supporting development through a wide range of diverse activities.

- Financing prior to accession is covered in two reports:
  - Activities prior to accession in the 12 new Member States; followed by
  - Financing operations in the current Pre-Accession Countries, be they Candidate or Potential Candidate Counties;
- One report evaluates operations in the Neighbourhood and Partnership countries;
- Another one evaluates operations in Asia and Latin America;
- These reports are complemented by a review of the portfolio and strategy of the Bank outside the EU (except ACP) between 2000 and 2009;
- The assessment of operations in the water and sanitation sector provides comprehensive coverage of all regions outside the EU, including ACP countries;
- For ACP countries, two specific reports complete the overview:
  - Evaluation of activities financed in common between the European Development Finance Institutions and the EIB via the European Financing Partners (EFP) instrument;
  - An interesting joint evaluation with KfW and AfD of projects relating to the Manantali dam (irrigation, power generation and distribution, environment management in three countries).

The Overview summarises EV's assessments of the relevance of the operations financed and of their performance, while considering in detail the role of the Bank. As such, the Overview provides illustrations of one of the main objectives of Operations Evaluation: contributing to the operational performance of the institution.

All these reports have been discussed by the EIB's Board of Directors, which has supported the recommendations made.

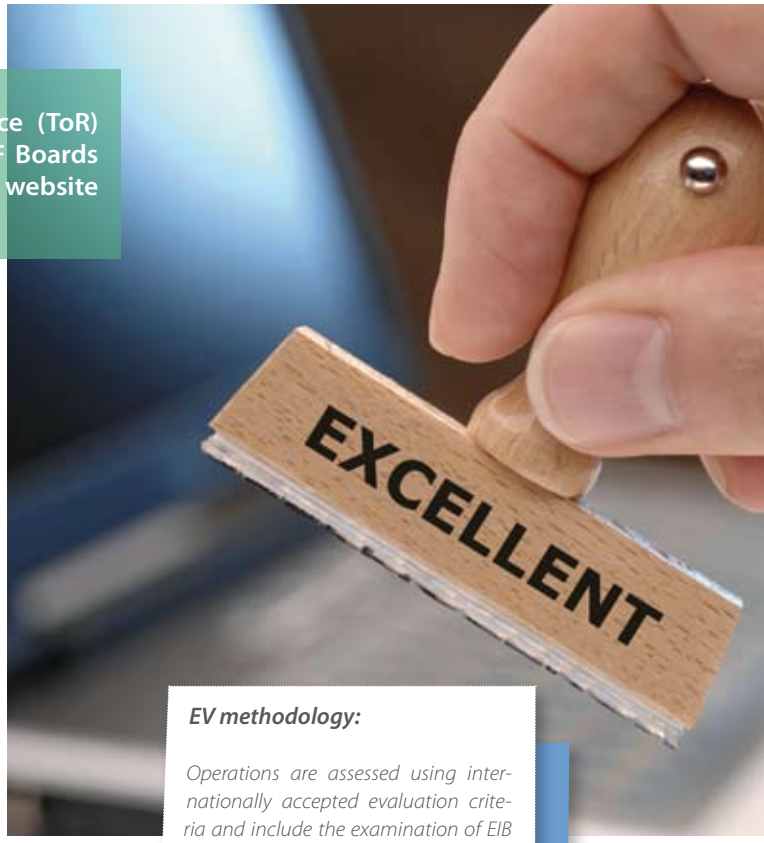
J.W. van der Kaaij
Inspector General

A. Sève
Associate Director
Head of Operations Evaluation

Background

About Operations Evaluation (EV)

In 2009, the revised EV Terms of Reference (ToR) were approved by both the EIB and the EIF Boards of Directors; they are published on the EV website (www.eib.org/evaluation).



These ToR further foster a number of key characteristics pertaining to the role of EV.

The mandate and objectives are clearly stated: Operations Evaluation carries out ex post evaluations with a view to improving operational performance, accountability and transparency. Its activities are extended to all areas of the EIB Group.

The institutional set-up guarantees the independence of EV within the organisation: "In carrying out its task, EV is free to undertake, to report and to publish."

The rules for the **conduct of ex post evaluations** are detailed and clarify the procedures and methodology used. They cover the whole process of EV activities from the establishment of the EV work programme to the publication of its reports. They highlight the respective relations with the EIB Group services, the EIB Management Committee and the EIB Board of Directors.

The EV mandate is based on efficient **cooperation within the EIB Group** – including access to people, data and information. **Dissemination channels for evaluation results** are clarified both within the EIB Group and outside.

EV methodology:

Operations are assessed using internationally accepted evaluation criteria and include the examination of EIB performance. It includes the following indicators: Relevance – Effectiveness – Efficiency – Sustainability – Environment and Social. The role of the EIB is analysed by looking at the EIB's contributions and the management of the project cycle (more details are given in each corresponding section of this report).

In line with good practice, each indicator is rated on a 4-level scale:
Excellent – Satisfactory – Partly unsatisfactory – Unsatisfactory[1]

Based on the findings and the analyses, EV establishes recommendations. The Bank's services comment on these and agree on specific measures that need to be taken.

[1] The denomination of the levels has recently been changed by EV to bring them more in line with those of other multilateral banks (previously: Good – Satisfactory – Unsatisfactory – Poor), but projects remain at the same relative level as before.

Purpose

The 2009 Overview Report summarises the conclusions reached by Operations Evaluation in 2008-2009 in assessing the Bank's activities outside the European Union.

Eight reports were published between November 2008 and November 2009 ensuring a wide review of the Bank's role in these regions during the period 2000-2009. EV has evaluated about 30% of the portfolio available for evaluation at the end of 2009 in all regions, except for ACP (20%). This is considerably above its target of 20%.

Names of the reports	
Contribution to the mid-term review of EIB external mandates	**Simplified reference**
Operations financed in Pre-Accession Countries *	MTR – Pre-Accession
Operations financed in the Neighbourhood and Partnership countries *	MTR – Neighbourhood
Operations financed in Asia and Latin America *	MTR – ALA
Portfolio and Strategy Review	MTR – Portfolio
Thematic evaluations	
Activities prior to accession in the 12 new Member States *	NMS prior to accession
Financing of water and sanitation projects outside the EU *	Water and sanitation
Special evaluations	
Activities under the European Financing Partners Agreement	EFP
Joint evaluation of projects relating to the Manantali dam	Manantali

* Results for those five evaluations – 60 operations – will be combined for statistical purposes in other sections of this report. They include 48 investment projects and 12 lines of credit.

EV work programme 2008-2009 on operations outside the EU

Each year, EV proposes its work programme to the EIB Board, aiming at regular coverage of the operations financed by the Bank. In 2009 this programme was largely influenced by EV's contribution to the mid-term review of the EIB's 2007-2013 external mandates.

EV's contribution was submitted to the Steering Committee in the autumn of 2009, while the Steering Committee's report was edited and presented in February 2010[2]. Through its various contributions, EV has conducted an in-depth evaluation of 30% of the relevant EIB portfolio signed between 2000 and 2008.

[2] http://www.eib.org/about/documents/mtr-external-mandate-report-steering-committee.htm?lang=-en.

EIB Statute: Article 16.1
(as amended by the 12/2009 Treaty of Lisbon)

Within the framework of the task set out in Article 309 of the Treaty on the Functioning of the European Union, the Bank shall grant finance … to its members or to private or public undertakings for investment to be carried out in the territories of Member States (…).

However, by decision of the Board of Governors, acting by a qualified majority on a proposal from the Board of Directors, the Bank may grant financing for investment to be carried out, in whole or in part, outside the territories of Member States.

The EIB operates outside the European Union under the rules defined in Article 16.1 of its Statute. Its activities can take various forms:

- Financing from own resources under Mandates covered by the Guarantee (partial or full) of the Community, available in all regions
- Financing from own resources under Facilities entirely at the EIB's own risk: used in all regions except ACP-OCT countries
- Financing from resources funded by the Member States: the Investment Facility for ACP-OCT countries
- Financing with other funding (mainly EC budget) under special mandates, available in almost all regions.

The report presents the results of all 60 operations evaluated, 87% of which are rated satisfactory or better. It also highlights some important findings, recommendations and their follow-up actions, thus illustrating one of the main objectives of Operations Evaluation: the improvement of operational performance. The eight evaluation reports are available at the following web address: www.eib.org/evaluation.

Decision of the European Parliament and of the Council granting a Community Guarantee to the EIB against losses under loans … for projects outside the Community (13 July 2009).

Art. 9: *The Commission shall present* a mid-term report ... by 30 April 2010.

Annex II: *It will include:*

(a) an evaluation of the EIB's external financing activities. Parts of the evaluation will be conducted in cooperation with the EIB's and the Commission's evaluation departments;

(b) an assessment of the wider impact of the EIB's external lending on interaction with other international financial institutions and other sources of finance.

The evaluation will be supervised and managed by a steering committee … (which) will be supported by the EIB's and the Commission's evaluation departments and by an external expert.

EU Policies and EIB Strategies

Relevance and Coherence

The extent to which EIB strategies are consistent and coherent with EU policies and beneficiary countries' priorities.

Main steps of EIB activities outside the EU* from 2000 to 2008

		2000	2002	2004	2005	2007
ALL OTHER EXTERNAL ACTIVITIES	EU	New Financial Perspectives 2000-2006		Accession of New Member States European Neighbourhood Policy		New Financial Perspectives 2007-2013
	EU/EC	Council decision 2000/24/EC Guarantee on EIB 2000-2006 mandates		Council decision 2005/47/EC Revision of EIB 2000-2006 mandates		Council decision 2006/1016/EC Guarantee on EIB 2007-2013 mandates
	EIB	EIB Pre-accession Facility increase MED Partnership Facility	FEMIP	EIB Pre-accession Facility increase Reinforced FEMIP		EIB Pre-accession Facility increase MED Partnership Facility Energy Facility
ACP OCT		Cotonou Agreement + OCT	2003: entry into force: Investment Facilty + EIB own resources mandate		Cotonou Agreement revised	

* Excluding EFTA countries.

This graph illustrates the policy context in which the EIB developed its activities between 2000 and 2008. Major decisions were taken when establishing the pluri-annual mandates (2000 and 2007) or in relation to major political events (revised policy with FEMIP countries, Cotonou Agreement or accession of new Member States) or natural disasters (earthquake in Turkey).

2000 - 2008 statistics

excluding New Member States
2003 - 2008 for ACP

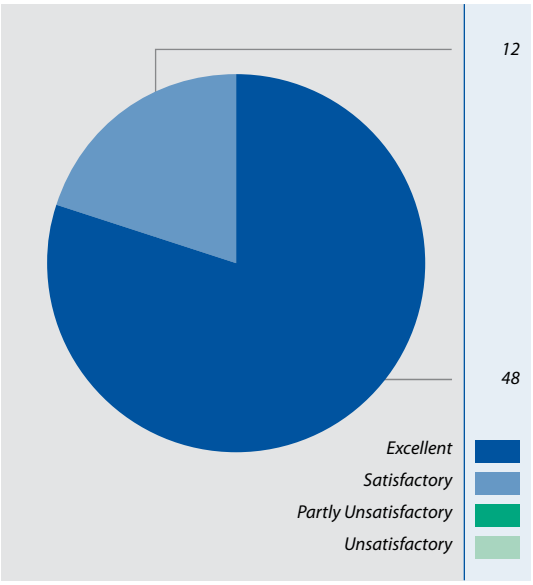
(EUR million)

This graph provides a global illustration of the Bank's activities outside the EU for the period concerned (for countries listed in the 2007 Council decision). It shows the relative importance of Mandates versus Facilities on own resources, the significant amounts committed under the Cotonou agreements and the low levels of volumes financed from other resources.

Net signed amounts total EUR 33.4bn.

The evaluation results of the **mid-term review** relating to strategies and policies are to be found in the Steering Committee's report, which used EV reports as input to their work. The "Portfolio and Strategy Review" produced by EV is of particular interest in this context. Its executive summary is provided in Annex 2 to this report.

Relevance of the 60 individual operations assessed: The results achieved on the relevance criteria for the 60 operations evaluated in depth and grouped in this report demonstrate a high level of consistency with EU policies translated into the Bank's strategy.



The following summaries of two reports (NMS prior to accession; Water and Sanitation) further serve to illustrate a number of specific EV findings regarding relevance.

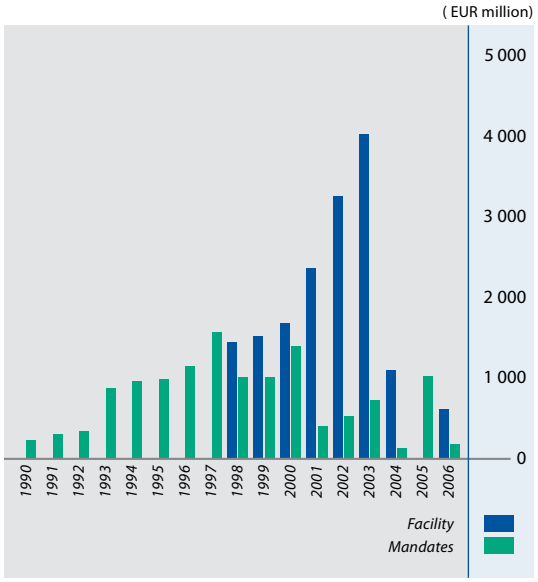
Financing operations in new Member States (NMS) prior to accession:

As for all operations outside the EU, the Bank's activities can be split between Mandate and Facility. The Bank started its activities in this area in 1990. Mandates were covered by the Community guarantee. When (certain) countries graduated to the stage of pre-accession countries, the Bank began financing operations with own resources Facilities at its own risk.

This dual pattern continued up to accession. In the 12 NMS, the Bank signed contracts amounting to around EUR 28bn between 1990 and 1996, which is split roughly 44% within Mandates and 56% within Facilities.

The extent to which the Bank had contributed to assisting beneficiary countries with their pre-accession objectives was identified by EV as a key is-

Signatures in 12 NMS under Mandate and Facility



sue. Some 30 projects were therefore selected for extended scope analysis with the aim of providing a broader view of issues than can be provided by the smaller in-depth sample of projects.

The following indicators were used as the basis for assessing the Bank's contribution to the accession process:

- Supporting Sector Improvement Towards EU Standards
- Supporting the Development of Financial Markets and Products
- Support for the Implementation of EU Directives
- Cooperation with the Commission and IFIs

The final conclusions were as follows: "At project level the Bank's operations had a positive impact on the accession process, but at sector and country level the Bank's positive impact was limited by a number of operational and practical constraints. Given that in most cases the attractiveness of the Bank's funds gave it significant influence during the pre-accession process, it could be argued that the Bank should have done more to develop sectors and institutions which would, in the longer term, have increased the pipeline of bankable projects and allowed it to further improve the alignment of its activities with EU priorities."

Recommendation:

the Bank should increase its efforts to overcome operational constraints that limit the impact of its policies in accession countries.

Follow-up by the Bank:

the Bank has developed a new "value added framework" which provides incentives to focus on core sector policies. An early planning process is under implementation.

For operations financed in the water and sanitation sectors outside the EU, a major factor influencing EIB strategies continues to be the Millennium Development Goals (MDGs).

United Nations

In September 2000 world leaders came together to adopt the United Nations Millennium Declaration, committing their countries to a new global partnership to reduce extreme poverty and setting out a series of time-bound targets - with a deadline in 2015 - that have become known as the Millennium Development Goals (MDGs).

While all eight MDGs are indirectly related to water issues, Goal 7, under the heading of "environmental sustainability", explicitly formulates water supply and sanitation-related targets: "Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation."

European Union

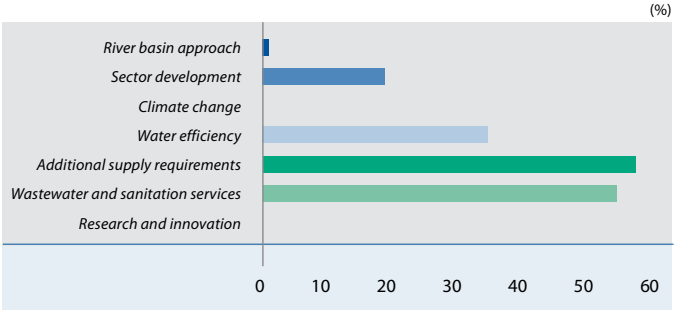
At the 2002 World Summit for Sustainable Development (WSSD) in Johannesburg, the European Union launched a Water Initiative (EUWI).

The EUWI was conceived as a catalyst to trigger future action in achieving the water and sanitation MDGs. In fact, much of the underlying EU policy is rooted in the contribution towards the achievement of these "ambitious" targets.

MDG achievement in the evaluated project sample: the vast majority (82%) of projects analysed in depth made a satisfactory (27%) or excellent (55%) contribution to the MDGs by increasing the population's access to drinking water and improved sanitation. Two projects were considered to be unsatisfactory with regard to their MDG contribution since despite increased water supply the quality of the water provided is still low.

In 2008, the EIB revised its **Water Sector Lending** Policy in order to better support the EU objectives. The relevance of the EIB portfolio (about 70 operations) assessed against these new targets shows that previous actions were in line with this strategy and that new areas are open for development:

Water Sector Lending Policy



Recommendation:

Country/regional orientations, ideally formulated together with EU planning cycles, could clarify the Bank's sectoral approach and raise its sector profile, both internally and externally.

Follow-up:

Building on the new memorandum of understanding signed with the EC (2008), coordination and cooperation will increase while EIB activities and expertise could be more systematically integrated in the EC regional and national strategy documents.

Performance of the investment operations evaluated in depth

This section presents the evaluation results for the 48 investment projects evaluated within the thematic evaluations indicated.

If justified, information will be provided regarding the "special evaluations".

The results are based on the following indicators: effectiveness, efficiency, environment and social sustainability.

Thematic evaluation	Number of investment projects
MTR – Pre-Accession	10
MTR – Neighbourhood	9
MTR – ALA	5
NMS prior to Accession	13
Water and Sanitation	11
Total	**48**

Effectiveness

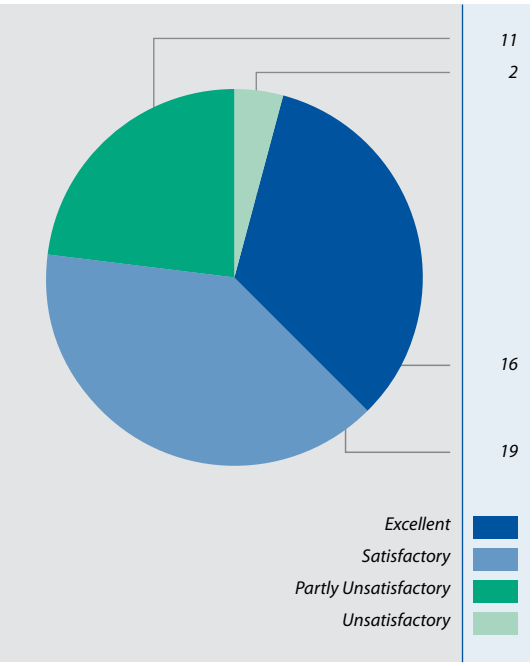
The extent to which the objectives of the operation have been achieved.

The findings confirm that a large majority of the investment projects evaluated achieved their objectives. As the evaluation found, this result goes beyond the mere physical implementation to include the achievement of overarching project objectives such as improving the environmental and safety situation, reducing transmission losses and meeting growing demand, diversifying or securing energy supplies for Europe, supporting liberalisation and EU foreign direct investment.

Technical assistance availability and effective cooperation with other financial institutions contributed to the results (see section 4.1).

Where there were problems in physical implementation, they tended to be the result of poor project structuring, planning and design resulting in considerable time delays in implementation. Apart from the water and sanitation sector (see below), projects were concentrated in the roads and power distribution sectors. They were also located in countries (new Member States prior to accession or Potential Candidate Countries) where institutional development was often relatively immature.

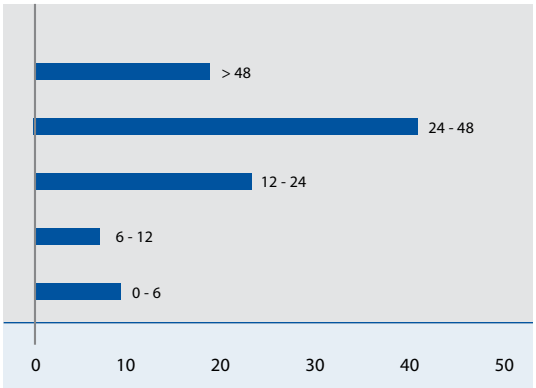
Regarding the water and sanitation evaluation, where more than half of the evaluated projects were rated partly unsatisfactory or unsatisfactory on the effectiveness indicator, EV looked at implementation issues for 42 projects in the EIB portfolio. The graph illustrates that a high number of



projects experience significant delays, which can be explained by a number of key factors:

- For two thirds of the projects, the procurement process (and sometimes even the detailed design) starts after EIB approval.
- Implementation time ranges normally between 5 and 7 years (already long) but one third of the operations have a duration of more than 8 years.

Number of projects (%)



Recommendations:

Where promoters are relatively inexperienced, sufficient allowance should be made for realistic appraisal assumptions, including possible cost and time overruns. Identified risk factors should translate into mitigation actions.

Water sector: critical technology choices should be scrutinised carefully, even if not within the strict EIB project definition. Establish a technical assistance/project management unit to increase institutional capacity building.

Follow-up:

Closer monitoring of delayed projects should be performed (2010). Dissemination of findings (by EV and monitoring units) will be reinforced and will increase staff awareness.

Water sector: procedures have been revised and include EV considerations.

Efficiency

The extent to which project benefits/outputs are commensurate with resources/inputs.

In general, efficiency ratings are fairly positive.

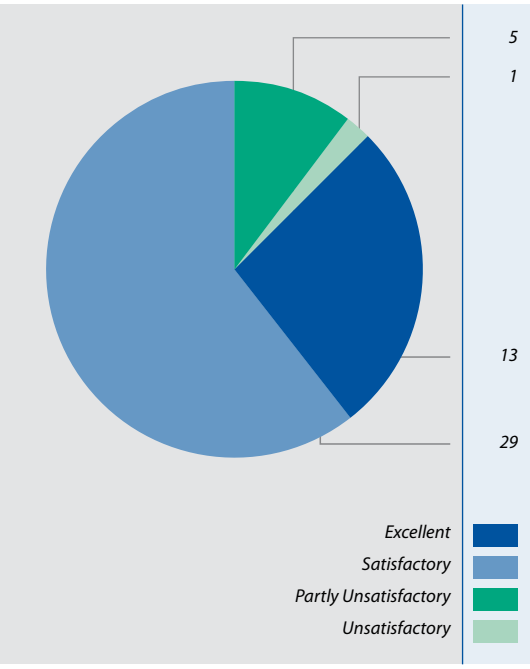
For the new Member States, the report shows improvements between projects signed pre-2000 and projects signed post-2000. The older operations included both good operations and poorer ones, the latter mostly in the transport sector, where difficulties in estimating costs and traffic were the main issues.

Those results are confirmed in the Candidate Countries, where promoters initially identified as weak (public sector) performed less well, often when dealing with multiple investments (see also graph on next page).

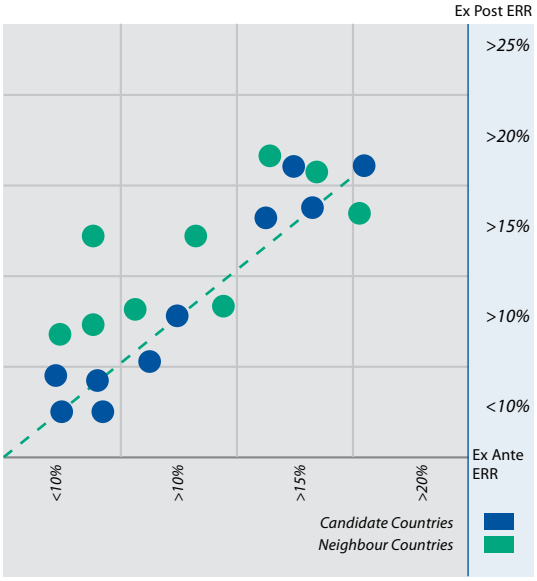
In the water evaluation, the majority of projects had a satisfactory or better rating – water demand development, tariff policy and operational efficiency have improved. For the other projects, the economic impact was lower than anticipated due to low implementation performance, institutional weaknesses, non-reduction of inefficiencies and unsatisfactory tariff increases.

Most of the projects had economic rates of return in line with expectations. The graph shows the results for projects financed in two regions. Projects in Candidate Countries are in line with expectations, while results are better than expected in the Mediterranean region. This is a reflection of higher demand/ capacity utilisation, lower than expected cost, increased availability and use of public services.

The effects of the economic crisis are considered limited for the private sector projects. Although the economic downturn will impact on demand, most promoters have an established market position with favourable production cost, thereby having a competitive edge over competitors



Signatures in 12 NMS under Mandate and Facility



Observation and recommendation:

Whilst on the whole projects demonstrated acceptable economic rates of return ex post, it did appear that the Bank should adopt a more consistent and transparent approach to the benchmarking of rates of return for different sectors and countries.

Follow-up:

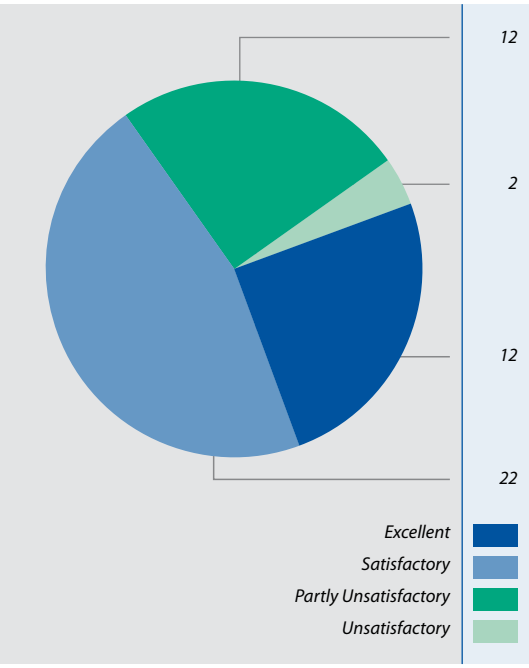
The approach by sector has been reviewed and presented to the Board.

Sustainability

The likelihood of continued long-term benefits and the resilience to risk over the intended life of the project.

Overall, 70% of the projects assessed show a satisfactory or excellent rating for the sustainability indicator. Explanations for the spread in the ratings (from unsatisfactory to excellent) are diverse and a number of main factors can be identified.

Private sector operations show satisfactory or better results on sustainability. In general, the economic downturn will impact on demand, but operators have an established market position with favourable production costs, thereby having a competitive edge over their competitors.



For the transport sector (public), results in NMS and in Candidate Countries are unequal. Road maintenance is recognised as being under-funded in many projects, and remains so. Although the situation could slowly improve, it is not at a sustainable level and it is therefore considered to be a risk that the economic life of the projects may be reduced. Results are satisfactory or better in Neighbour Countries where budgetary limitations are not limiting operational life.

The delivery of essential public services is particularly secure in operations managed by strong entities like some municipalities in NMS or governmental enterprises in Neighbour Countries.

In contrast, the overall rating for this criterion is partly unsatisfactory or worse for a large number of projects in the water and wastewater evaluation. These network services are basic infrastructures, which deliver public goods or services and/or operate in an at least partially regulated environment. Consequently, it can be almost implicitly assumed that financial sustainability will continue, since in most of the cases evaluated governments will continue to support their utility. However, should governmental funding be constrained for any reason, the financial resources to ensure proper maintenance and the replacement of critical network components might be endangered. Some projects also revealed problems with regard to their physical sustainability.

Environment

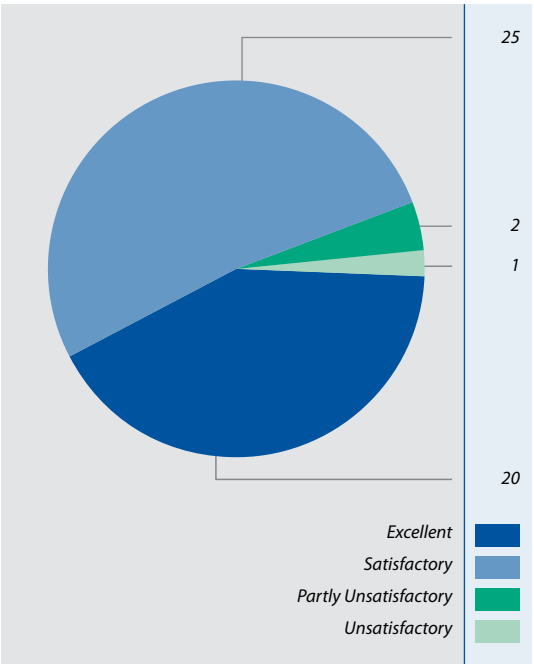
For all thematic evaluations, environmental impact studies were carried out where required by national legislation. For the NMS, whilst the transposition of EU law into national law was by definition in a state of flux during the pre-accession period, from an early stage the Bank took the view that, in addition to making its own environmental assessments, it would apply the principles of EU directives regardless of the progress of particular countries in adopting the *acquis communautaire*.

Observation and recommendation:

Environmental and social due diligence is not consistent across sectors, regions and products (direct operations vs line of credit). This observation made in the context of the mid-term review shows that progress should be made, in particular regarding social due diligence.

Follow-up:

The revision of the environmental and social practices handbook is ongoing, largely based on the new Environmental and Social Policy of the Bank.



In all cases where justified, appropriate measures to minimise, mitigate and/or offset environmental impacts were implemented.

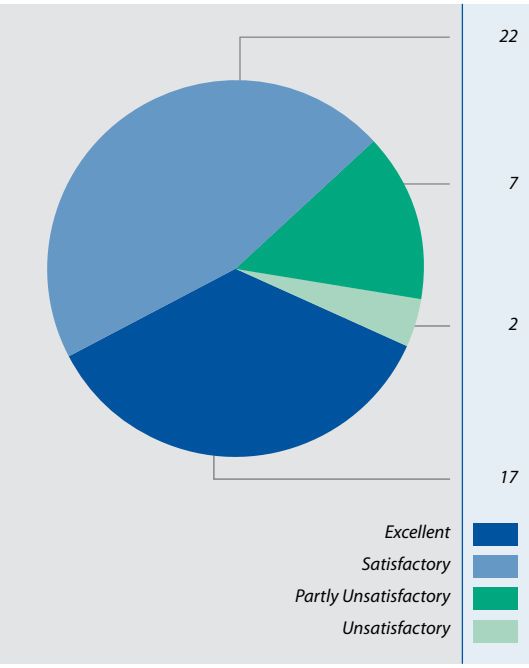
Social impacts were assessed, in particular, for water and wastewater operations; all clearly contribute to achieving MDGs (Millennium Development Goals) by improving the population's access to drinking water and sanitation. Two water supply projects did not achieve an acceptable environmental performance.

Beyond those observations, about 40% of all projects assessed display positive environmental externalities, a share which is common to all sectors.

Overall rating

The performance of all operations assessed reflects the observations made on the criteria presented above.

81% of the direct projects evaluated had a satisfactory or better result. All operations are properly justified and contribute to EU objectives. However, projects in difficulty and/or with weak promoters deserve more support (as further discussed below).



Focus: *learning more through joint evaluation*

In 2007, the evaluation departments of the French Development Agency (AfD), the European Investment Bank (EIB) and the KfW Development Bank (KfW) conducted a joint ex post evaluation of the **regional cross-border Manantali Dam project**.

The construction of the Manantali Dam (1982 to 1988) originally had three objectives: developing irrigation agriculture; supplying the countries with sufficient electric energy; and rendering the Senegal River navigable for shipping. The latter objective was not pursued further in the course of implementation. The hydropower component of the Manantali project was carried out between 1997 and 2003, after the dam's construction.

Although the extension of the irrigation perimeters in Senegal and Mauritania has exceeded expectations at appraisal, the use of the irrigation potential created is less than acceptable. The negative net present value and the capacity for self-financing rule out the ability to finance the infrastructure's maintenance, and production costs for rice are not competitive. Consequently, the justification for the dam remains entirely with the energy component.

The energy project objectives have been partly surpassed. There are, however, some serious concerns regarding payment recovery from the national energy companies, all of which are in financial difficulty. The hydropower solution put in place in Manantali is the most cost efficient in comparison to thermal expansion. Its efficiency expressed in terms of economic profitability is high. However, full cost coverage by the currently applied tariffs is not guaranteed. The risks for sustainability remain high for both the irrigation agriculture and energy supply components. Due to weak performance and the existing economic and financial bottlenecks, public subsidies and donor support will still be needed.

The environmental assessment and remedy measures have, in general, been close to the recommendations of the World Commission on Dams. Nevertheless, certain environmental issues remain important, in particular the reduction of flood agriculture areas, and the proliferation of aquatic plants, which particularly encourages the spread of bilharzia.

Three main indicators demonstrate the developmental impact: self-sufficiency for main food crops, poverty reduction, and reduction of migration. However, progress is still awaited in all of these areas. In Senegal, for instance, self-sufficiency for rice, the main food crop, has worsened slightly. Demographic information and results of household surveys conclude that poverty and migration still persist in the area.

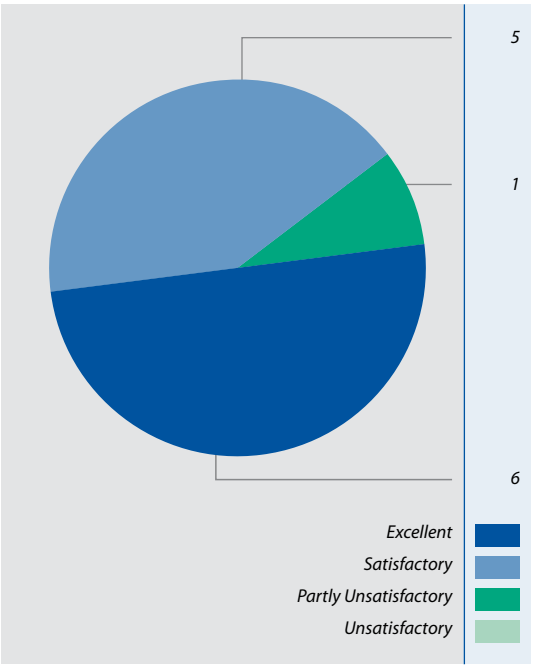
As a supranational organisation, OMVS (Organisation pour la Mise en Valeur du fleuve Sénégal) had a positive impact by initiating and maintaining the regional cooperation and integration of its three Member States. The policy dialogue institutionalised through OMVS performs an important function in trans-boundary cooperation. Nevertheless, the positive impact of the OMVS structure on trans-boundary cooperation cannot compensate for the deficiencies identified in agriculture and energy production.

Performance of the lines of credit evaluated in depth

This section presents the evaluation results for the 12 operations (11 lines of credit and one micro-credit operation) evaluated in the context of the mid-term review; the other major thematic evaluations did not include any of these. Eight lines of credit were mobilised in support of SMEs (Small and Medium-sized Enterprises) – of which two for leasing operations. Three targeted small infrastructure projects.

Thematic evaluation	Number of lines of credit
MTR – Pre-Accession	7
MTR – Neighbourhood	4
MTR – ALA	1
Total	**12**

Overall rating



All operations except one, which is presented in the box below, were rated satisfactory or better. This demonstrates the validity of the choice of financial intermediaries (FIs) with good financial results and which are competent in implementing the programme requested. In general, final beneficiaries complied with requirements and targets, well in line with expectations.

This performance confirms the usefulness of this instrument for supporting small and medium-scale investments.

Effectiveness: all *11 lines of credit* have been fully committed and disbursed and consequently the general objectives of the operations have been met. Most of the operations were disbursed relatively quickly.

Operations have benefited a large range of final beneficiaries. Most of them are small and medium-sized enterprises – or investments. In the Neighbour Countries, the diversity of financial instruments available has enabled innovative schemes to be set up. One operation has benefited two micro-credit organisations and another has supported the creation of a leasing company (one of the first in the country).

The duration of the sub-loan operations was generally shorter than the duration of the EIB loan. In general, conditions for the re-utilisation of the proceeds were explicit, although without reporting guidelines. The visits to final beneficiaries gave some evidence that the benefit of EIB funding was being passed on to them.

The challenge:

Financing EU investments in SMEs via a line of credit (ALA region).

Under this line only one allocation was made, with investments partly originating in the EU, covering 25% of the loan. The remaining loan balance was cancelled. Effectiveness was therefore partly unsatisfactory. Environmental management is satisfactory.

The FI organisation, although satisfactory, has not enabled more suitable allocations to be identified. Its financial position has deteriorated, in particular following the global financial crisis (second change of ownership anticipated): efficiency is partly unsatisfactory.

The only enterprise financed, after the investments were completed, was put under corporate rehabilitation.

The overall rating is partly unsatisfactory.

The *micro-credit* operation has clearly allowed a significant increase in the volume of activity of the two intermediaries, therefore benefiting more people.

Efficiency and sustainability: the 11 *operations* signed with a mix of public and private financial intermediaries, sometimes was one institution, sometimes more (up to 10 in one case). No specific difference in the performance of FIs was observed between the public and private sectors.

Organisation and management is in general satisfactory or better. Improvements since the launch of the operations have been recorded.

Financial results are satisfactory for most FIs, and expectations for the future follow similar lines, even taking into consideration the financial crisis. The only exception is one intermediary for *micro-credit*, which has started to undertake a major management turnover.

Environmental and social performance is positive in all cases. The Bank's standard approach has been taken into consideration by all FIs; procedures were in place to ensure regular assessments at the level of the final beneficiaries. Field visits confirmed these observations. In the new Statement of Environmental and Social Principles adopted by the Bank, increased emphasis is given to social aspects and EIB guidelines for intermediated operations should be updated to include those considerations.

The role of the Bank

EIB contribution

The EIB contribution is assessed from two different perspectives:

- the financial contribution, relating to product offer, financial conditions and also specific catalytic effects;
- the non-financial contribution based mainly on the Bank's transfer of expertise and support through technical assistance.

Financial contribution:

Financial product offering: the diversity of the Bank's financial products is increasing and is quite broad in some regions. Initially centred on the standard loan product offered to eligible borrowers, various initiatives have enabled a wide spectrum of clients to be targeted. The evaluations show that this diversity could still be increased and/or generalised.

A full description of these instruments and their relative importance can be found in the "Portfolio and Strategy Review".

The most diverse offerings can be found in the FEMIP countries (Neighbours). EIB loans can be provided *without recourse* to the Community Guarantee (investment grade operations), with *full recourse* to the Guarantee (main focus on the public sector) or with *partial recourse* to it (eligible private sector operations). The provision of specific guarantees financed from the EIB reserves has opened up lending to riskier borrowers. In certain circumstances, the EIB can also deliver loans in *local currencies*. With the support of the EC budget, risk capital has been widely utilised mainly for SME financing. *Technical assistance* (TA) support is regular – also based on the EC budget. In addition, the Bank is financing TA actions from *Trust Funds* funded by Member States. The blending of all these resources demonstrates significant additionality and enables diversification of targets and improvement of the performance of the operations.

Another example of the diversity of EIB tools is demonstrated by the "European Financing Partners agreement" (EFP). The Bank is providing financing to operations selected and contracted through European development institutions. This is also a remarkable case of mutual reliance as the EIB financing is totally based on the appraisals of the other European partners. The results of this evaluation are shown in the following box.

All reports record a significant or high financial contribution; this is mostly achieved through a combination of low interest rates, long maturities and grace periods. In many cases related to public sector operations the IFIs, and often the EIB alone, were the only source of funding.

In the case of the Water and Sanitation evaluation, almost all projects benefited from an interest subsidy (financed by the EC budget for Mediterranean countries and from the Member States' resources for ACP countries).

Interest subsidies have also supported environmental projects in Neighbour Countries, thereby contributing to the improvement of the financial sustainability of the promoters.

Non-financial contribution:

Catalytic and signalling impacts are recorded in many operations, particularly for innovative projects, such as solid waste handling, a first private cement factory in a partner country, development of leasing activities or development of new markets.

In the pre-accession areas, the main non-financial contribution of the Bank to individual projects tended to be through the enforcement of the Bank's policies on procurement and the environment; to complement this assessment EV also looked at the extent to which the Bank contributed to assisting beneficiary countries with their pre-accession objectives (see box).

EIB contribution: preparation for accession

The extent to which the EIB had contributed to assisting beneficiary countries with their pre-accession objectives was identified as a key issue in the NMS evaluation. Some 30 further projects were therefore selected for extended scope analysis with the aim of providing a broader view of issues than can be done through the smaller in-depth sample of projects. The following indicators were used as the basis for assessing the Bank's contribution to the accession process:

Supporting sector improvement towards EU standards – The projects which the Bank has supported undoubtedly made a positive contribution to the accession process, and in some cases the Bank worked hard to overcome wider operational constraints. However, the impression remains that even better results could be obtained by concentrating more efforts at country and sector level.

Supporting the development of financial markets and products – The availability of disbursements in local currencies made a positive, if relatively small, contribution to the accession process. The Bank was also active in trying to unlock public borrowing constraints through the use of PPP project structures, although these efforts were perhaps less successful.

Support for the implementation of EU directives – The conditions of disbursement enforced by the Bank illustrate the importance attached to technical assistance, Project Implementation Units, environmental expertise, environmental approvals and permits, and international tendering.

Cooperation with the Commission and IFIs – Approximately one third of projects examined were co-financed with the EC. When compared with levels of co-financing within the EU, this could be considered as a relatively high level. However, given common priorities, lower lending volumes and the more limited project pipeline opportunities during the pre-accession period, there would appear to be scope for improved cooperation. The extent to which cooperation took place at country and sector level is more difficult to establish independently as this is not recorded in the project files. There are indications that cooperation in the water sector in particular was more developed than in other sectors.

At project level the Bank's operations had a positive impact on the accession process, but at sector and country level the Bank's positive impact was limited by a number of operational and practical constraints. Given that in most cases the attractiveness of the Bank's funds gave it significant influence during the pre-accession process, it could be argued that the Bank should have done more to develop sectors and institutions which would in the longer term have increased the pipeline of bankable projects and allowed it to further improve the alignment of its activities with EU priorities.

Focus: *European Financing Partners – evaluation of activities developed by the European Development Financing Institutions and the EIB*

The EFP initiative was created in May 2004 with the twin aim of promoting the sustainable development of the private sector in ACP States and strengthening cooperation between European Development Financing Institutions (12 EDFIs have joined EFP) and the EIB.

The EFP initiative is clearly in line with European development cooperation policies and with a number of joint statements on aid harmonisation put forward by the international community. It has also been a concrete step forward in implementing the Framework Agreement on financial cooperation and exchange of services signed by the European partners in 2003.

The evaluation highlighted that, while sharing the common objectives of EFP, its members have their own institutional agendas: larger partners focus on financial leverage and risk sharing while smaller partners focus on the exchange of experience and best practices. These diverse strategic objectives are not only consistent with the objectives of the EFP, but greatly contribute to achieving them.

Through its operation, the EFP has proved to be an effective and efficient instrument in strengthening cooperation among partners. Furthermore, overall the partners are satisfied with the experience and provide concrete examples of reinforced cooperation.

The EFP has, however, yet to confirm the same effectiveness in terms of the use of the funds made available to promote sustainable development of the private sector in ACP States. Initially, the use of funds was very slow (36% of available funds at end-2007), although this increased significantly in 2008 and this trend should be sustained.

The report also highlights the fact that the portfolio involves three main partners: DEG, FMO and PROPARCO, and that this feature is likely to persist as other partners are not likely to increase their participation as promoting partner in the near future. This is not considered to be a problem in itself as long as financial risk is spread (country and client limits should be respected) and all partners are willing to accept this situation.

The evaluation has made an estimation of the financial return (overall for the instrument and for each operation). It has found that returns so far are on the low side for committing partners but not for promoting partners. The difference is basically due to the management fees paid by the committing partners to promoting partners.

Finally, it has been noticed that environmental and social impacts were significant, with some first-class cases.

The report includes seven recommendations – two regarding EFP's strategy, four on the management of the operations and one regarding the visibility of EFP. The EFP's Board of Directors has considered all recommendations, six of which have already been implemented.

The provision of technical assistance can also have a major impact on the performance of the operations. In the pre-accession regions, however, the resources available were too limited and the Bank had to impose conditions for the presence of technical support paid by the promoter. This could be less effective than direct support with grants.

In the Neighbour Countries, grants are available. In recent years, the EIB has significantly stepped up its provision of technical assistance measures to support promoters in project definition, preparation and implementation. This diagram highlights the positive correlation between the provision of technical assistance and the effectiveness rating. Objectives are also better achieved with well-managed cooperation with other IFIs.

Similar observations have been made in the water and sanitation evaluation where, in particular, enhanced sector performance has been requested through the continued presence of the Bank together with other IFIs.

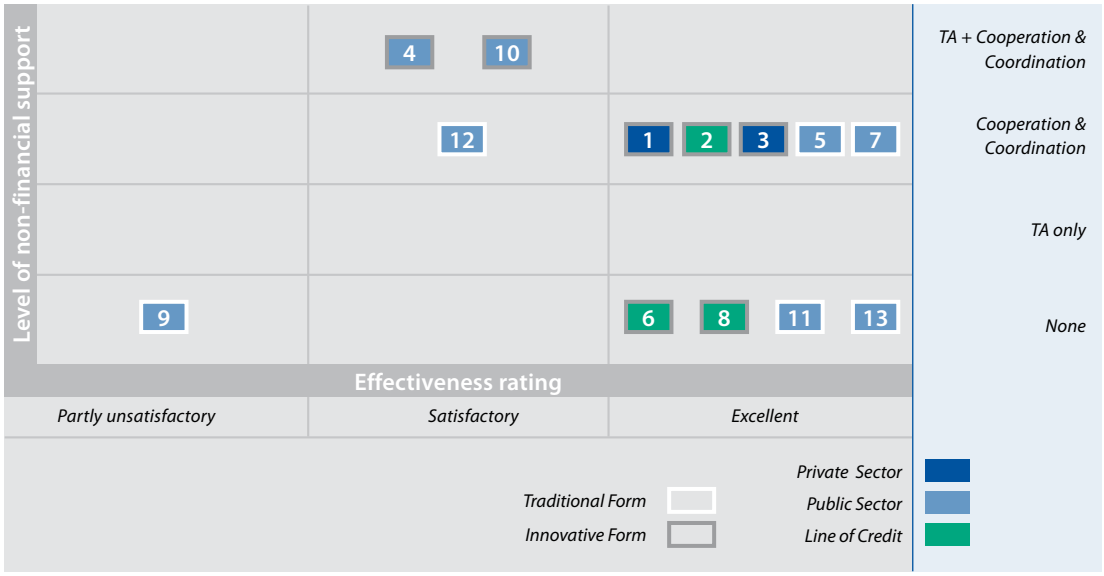
Recommendations:

All reports highlight the value of increased support through technical assistance. Co-financing with better coordination agreements should be developed. It is also suggested to devote more support to sector and/or institutional development.

Follow-up:

New Facilities have been set up by the EC with the EIB and other IFIs in all regions; they are aimed at developing the blending of grants and loans whenever justified in order to improve project performance. In parallel, the Bank has signed memorandums of understanding with the EC and IFIs aimed at developing fruitful cooperation, sometimes based on mutual reliance.

Signatures in 12 NMS under Mandate and Facility



Management of the Project Cycle

EIB project cycle management has been developed over a long period of time and is systematic, structured and well adapted to the vast majority of the Bank's operations.

In the majority of cases projects were well handled from a procedural point of view, in particular at appraisal stage, where the Bank can improve project quality.

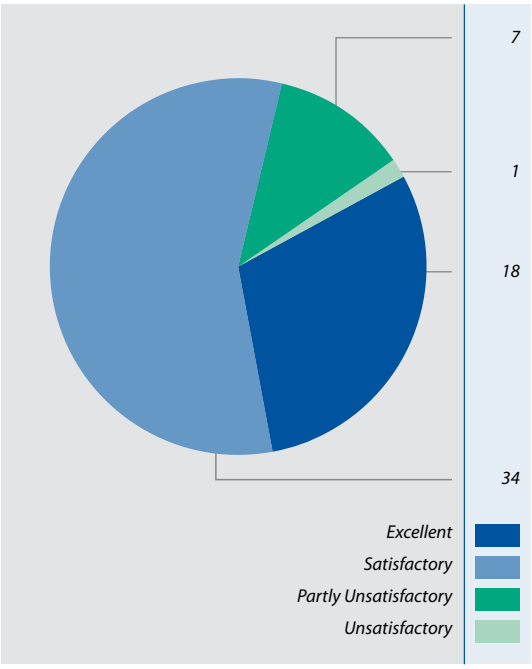
The Bank performs less well in the monitoring of operations. For multi-investment projects, an implementation follow-up of the various components is not always conducted. Resources are not always in place for the monitoring of complex or difficult projects.

Recommendations:

For difficult operations prepare intermediate reviews after three years – reinforce monitoring resources both in Luxembourg and in local offices – complement with technical assistance when justified – develop agreements with other IFIs regarding specifically the monitoring of co-funded operations.

Follow-up:

Staff reinforcement is partly implemented – discussions with other IFIs are ongoing – further actions are under examination.



Annex

A direct contribution from Operations Evaluation to the mid-term review of the EIB 2007-2013 external mandates.

Annex 1 – Summary of the 2000-2009 portfolio and strategy of EIB activities outside the EU

This report presents an exhaustive overview of the EIB's activities in Partner Countries outside the EU from 2000 to 2008. As this review is meant to contribute to the 2010 mid-term review of the EIB's 2007-2013 external mandates, it focuses exclusively on the countries in which the Bank could be currently active, as listed in Council decision 2006/1016. The so-called "2007 Partner Countries" are grouped under four main areas: Pre-accession, Neighbourhood and Partnership, Asia and Latin America, South Africa. The new Member States which joined the EU in 2004 and 2007, as well as ACP and EFTA countries, are therefore not covered in this review.

The review considers all Mandates and Facilities under which the Bank can finance operations in those regions and through which it offers a wide variety of financial products. Various indicators are used to illustrate overall EIB operations in each geographical region, while highlighting the various financial products and their respective contribution to the mission of the EIB.

Framework of EIB activities

The EIB is the financial institution of the EU. Its Board of Governors can authorise the Bank to finance operations outside the European Union in support of the Community's external policies. These activities initially come under Mandates following Council decisions to (partly) guarantee the EIB against losses in connection with loans from own resources.

For the period in question, two Council decisions each covering seven years (2000 to 2006 and 2007 to 2013) are relevant. In addition, the accession of 10 new Member States (2004) and the launch of FEMIP (Facility for Euro-Mediterranean Investment and Partnership, 2002), followed by the reinforced FEMIP (2004) were reflected in a revision of the EIB's external mandates in 2004. The overall guaranteed ceiling reaches EUR 19 460m for the period 2000-2006 (of which EUR 2.8bn financed operations in new Member States) and EUR 25 800m for the period 2007-2013. Council decisions refer to the Community policies in the various regions covered and may add specific targets to the Bank's mandates. These targets are better defined for the ongoing period. Specific ceilings are defined for each of the four regions. Other mandates can be given to the Bank, following political events or natural disasters.

In order to better support the EU external policies, the Bank may decide to provide more financing from its own resources and at its own risk (hereafter called Facilities). The second Pre-Accession Facility (2000) has been regularly increased, with today a cumulative ceiling of EUR 19.5bn (of which EUR 11.1bn financed operations in the new Member States). The Mediterranean Partnership Facilities (EUR 1bn for 2001-2006 and EUR 2bn for 2007-2013) are benefiting the FEMIP countries. A third Facility has recently been added in

order to serve Europe's energy interests, including operations in the context of climate change.

The Bank handles other mandates from EC budget resources (risk capital, interest rate subsidies, technical assistance) as well as those funded by Member States (Trust Fund). The amounts available have been limited.

Policies and strategies

In its conclusions, this report shows that the Bank is following three main business lines where it has established expertise and has developed its competencies through its activities both within and outside the EU:

- support for the development of economic infrastructure;
- support for the development of small and medium-sized enterprises, associated with support for financial sectors;
- support for the development of the manufacturing sector.

The Bank's priorities and objectives may vary from one region to another and may change from one period to another, but it is always building on experience. As an example, working with the private sector may be a priority, which is then developed under one of the above business lines.

The Community policies to which the various Mandates refer are translated into objectives for the Bank mainly via the the Corporate Operational Plan (COP) which covers a period of three years and is revised annually. The COP refers to quantitative objectives established in line with the volumes targets given in the Mandates and Facilities. The COP objectives, established by main region, are split according to sectors and more recently reflect other specific targets defined in the Mandates (e.g. private sector, environment, energy security, reconstruction, pre-accession, etc.).

The Bank has also written specific strategy notes for each region for the implementation of its activities during the period 2007-2013. In general, with the exception of Turkey, the Bank does not establish detailed country objectives, and operates in each country according to priorities co-defined with the national authorities or based on pure market absorption considerations, within a given framework.

Portfolio management

The Bank actively manages its portfolio of operations, screening projects at each stage of the appraisal and approval process. However, the aim is always to ensure the commitment of the maximum amounts available.

Cancellations after signature represent more than 6% of the signed amounts (financial conditions not accepted, overestimated amounts for global loans, undisbursed amounts for various reasons in direct operations and repayments in Algeria). They have partly been offset by additional signatures.

Disbursement rates differ between private and public sector operations. Difficulties are concentrated with weak institutional promoters in various infrastructure projects.

Mandate amounts have been committed, although there is a clear anomaly today for the new Eastern Partnership countries. The amounts foreseen under the Pre-Accession Facility have always been committed, which was not the case for the first Mediterranean Partnership Facility.

Geographical scope

The pattern between the regions is established in the volumes targets, while the country breakdown is influenced first and foremost by the absorption capacity of the countries, i.e. their size and level of development; the latter factor is significant when country development allows easy mobilisation of the Facilities (investment grade countries).

At a global level, it is interesting to correlate the Bank's activity with GDP per capita. This provides an

illustration of the Bank's presence: strong in Pre-Accession Countries, significant in Mediterranean countries and only based on certain specific objectives in South Africa and Asia/Latin America.

Sectors

The Bank's activities are spread over all sectors:

- Support for the development of economic infrastructure represents 63.4% of total Bank activities over the nine years reviewed. Under this heading are grouped: transport (28.1%), energy (23.3%), environmental infrastructure (7.2%) and telecommunications (4.8%). The Bank's financing of environmental infrastructure is increasing with the new targets set for the 2007-2013 mandates.
- Whenever justified or requested, the Bank supports private sector promoters, for example when financing public-private partnerships (PPPs).
- The development of SMEs represents 21.4% of the Bank's activity and has always been a priority, both with public sector banks and, increasingly, with private sector commercial banks.
- Manufacturing operators are the EIB's third target, in particular as the Bank supports the development of EU foreign direct investment, which represents 8% of the Bank's activity.
- Finally, a new sector is being developed on more of a case-by-case basis: 7.2% of the Bank's activities are grouped under social and housing, combining reconstruction efforts after natural disasters and support for social programmes including education and social housing. All are public sector operations financed under mandates.

Financial products

The main financial product offered by the Bank is the long-term loan from its own resources. Financing formulas are based on the Bank's credit risk guidelines which are properly established both for the Mandates and for the Facilities. It is clear from this report that the financing under Facilities is additional to the financing under Mandates and vice-versa (i.e. each is targeting different groups of borrowers).

In general, the Bank's activities in a country start with a mandate, i.e. with full recourse to the Community guarantee. At the end of the 1990s, the "risk-sharing" formula was introduced, under which (simplified presentation) the Bank takes the commercial risk while the Community budget covers the political risk. In this case the Bank has partial recourse to the Community guarantee. This has enabled increased financing of the private sector in countries where private operators are prepared to invest.

Under the Facilities, financing is set up without recourse to the Community guarantee.

The level of development of a country (investment grade or not) is normally the main criterion for deciding to finance public sector operations under a Mandate or a Facility. In the case of the private sector, the credit rating of the operation concerned defines the type of resources which can be used, although some other factors can be considered (see below special reserves for riskier operations).

The respective shares over the full 2000-2008 period are: Full recourse: 61%; Partial recourse: 17%; No recourse: 22%. With the combination of the three formulas, the EIB covers the commercial risk for over 39% of the operations financed.

To further diversify its financial offering, the Bank has mobilised its own funds, the Community budget and also Member States funding.

Where the Bank is covering the commercial risk (partial recourse or no recourse), it has introduced a new financial product under which more risk is taken, setting aside from its reserves (EIB own funds) the necessary provisioning (from the Structured Finance Facility: SFF or SFE: Special FEMIP Envelope). The use of SFF has been significant over the past two years (2007-2008): it accounts for 12% of total signed operations. Given the scarcity of the resources available

under SFF, amounts are limited and the report shows that the level achieved recently is probably not sustainable under the existing procedures and the foreseen amounts for SFF/SFE. This formula enables a different clientele to be targeted and is therefore additional to other financial products.

Under the existing EIB rules, borrowing and lending in one specific currency are disconnected and intermediated through the Bank's overall financial resources management, with the historical exception of the Rand (South Africa). Some attempts to develop financing in local currencies have been made. The report shows that any development is slowed down by both the low financial value added for the borrowers and the high initial administrative cost. The notable exception is South Africa where a different category of clientele can be financed.

To usefully complement its lending from own resources, the Bank has been authorised to mobilise EC budget funding.

The use of interest rate subsidies is valuable for operations in weak financial sectors such as environmental infrastructure or social sectors.

Risk capital operations have the highest impact when the Bank manages directly a specific envelope and uses it both for the development of SMEs and the development of the local financial markets.

Technical assistance funding is a powerful instrument used to support EIB operations in difficult sectors. The future need for this instrument is even higher given the targets set, e.g. reconstruction in the Balkans, environmental infrastructure and climate change in all regions, without forgetting the weak public promoters in many countries.

In order to fully support the development of the Bank's activities towards riskier operations (both in financial terms and sectoral terms), grant resources should be significantly increased in the 2007-2013 period.

Some further observations

The report puts forward several observations regarding the future activities of the Bank in the four areas.

In the Pre-Accession Countries, the commitment of the Mandate is ahead of schedule; it could be justified to rebalance the future portfolio in favour of the Western Balkans, maybe through an increase of the Mandate amount. The Facility will have to be renewed, probably in 2011. Recourse to technical assistance funding is essential in the Western Balkans.

The commitments of both Mandate and Facility have a regular pattern in the Mediterranean countries. Efforts to finance riskier projects should be sustained. Recourse to budget funding is essential for a wider impact under the FEMIP objectives.

The development of a portfolio of operations is facing difficulties in other Partnership countries. Current agreements should be reviewed and the Bank should be allowed to independently increase its pipeline of operations, capitalising on its competencies (financing the development of economic infrastructure) and supporting SMEs as well as EU investments.

In Asia and Latin America, the possibility of committing the mandate amounts before 2013 seems high. The new targets (environment, poorest countries) require technical assistance funding that is currently not available.

The situation in South Africa is similar.

In general, the current financial crisis has increased the demand for long-term funding in all countries, especially in countries where access to funding is difficult and this places greater demand on the Mandates.

Demand on the Facilities is significant only in Pre-Accession Countries, where the private sector is prepared to invest, as well as in China. There is far less visible demand in other regions. The commitment of the new "Sustainable Energy Facility" is on the low side.

Annex 2 – List of evaluations published between 2005 and 2009

EX POST EVALUATIONS

2009	Evaluation of operations financed by the EIB in Candidate and Potential Candidate Countries between 2000 and 2008
2009	Evaluation of operations financed by the EIB in Neighbourhood and Partnership Countries between 2000 and 2008
2009	Evaluation of operations financed by the EIB in Asia and Latin America between 2000 and 2008
2009	Portfolio and strategy review: EIB activities in "2007 Partner Countries" from 2000 to 2008
2009	Evaluation of EIB financing of Water and Sanitation projects outside the EU
2009	Evaluation of Lending in New Member States prior to Accession
2009	Evaluation of Activities under the European Financing Partners (EFP) Agreement
2008	Joint Ex Post Evaluation of the Manantali Dam project (EIB/KfW/AFD)
2008	Evaluation of Renewable Energy projects in Europe
2008	Evaluation of EIB i2i Research, Development and Innovation (RDI) projects
2008	Operations Evaluation Overview Report 2007
2007	Joint Evaluation (EIB-EBRD) of the St Petersburg Wastewater project, Russia
2008	Evaluation of EIF Funding of Venture Capital Funds – EIB/ETF Mandate
2007	Evaluation of EIB Financing in Objective 1 and 2 Areas: Germany, Ireland and Spain
2007	Evaluation of EIB Financing of Health projects
2007	Evaluation of EIB Borrowing and Lending in Rand
2007	Operations Evaluation Overview Report 2006
2007	FEMIP Trust Fund: Evaluation of activities as at 30/09/2006
2007	Evaluation of Cross-Border TEN projects
2006	Evaluation of EIB Financing through global loans under the Lomé IV Convention
2006	Evaluation of EIB Financing through individual loans under the Lomé IV Convention
2006	Evaluation of EIB investments in Education and Training
2006	Operations Evaluation Overview Report 2005
2005	EIB financing through individual loans under the Mediterranean Mandates
2005	Evaluation of SME global loans in the EU
2005	EIB Financing of Railway projects in the EU
2005	Evaluation of PPP projects financed by the EIB
2005	Evaluation of EIB Financing of Air Infrastructure
2005	EIB financing through global loans under Mediterranean mandates

GLOSSARY OF TERMS AND ABBREVIATIONS

ACP	Africa, Caribbean & Pacific
AfD	Agence française de Développement
ALA	Asia & Latin America
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
EC	European Commission
EDFIs	European Development Financing Institutions
EFP	European Financing Partners
EFTA	European Free Trade Association (Iceland, Norway, Switzerland and Liechtenstein)
EIB	European Investment Bank
EIB Group	European Investment Bank and European Investment Fund
EIF	European Investment Fund
ERR	Economic rate of return
EU	European Union
EUR	Euro
EUWI	European Union Water Initiative
EV	EIB Operations Evaluation
FBs	Financial Beneficiaries
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FIs	Financial Intermediaries
FMO	Netherlands Development Finance Company (Dutch EDFI)
GDP	Gross Domestic Product
IF	Investment Facility
IFIs	International Financing Institutions
KfW	Kreditanstalt für Wiederaufbau
MDGs	Millennium Development Goals
MTR	Mid-term review of EIB external mandates
NMS	New Member States
OCT	Overseas Countries and Territories
OMVS	Organisation pour la Mise en Valeur du fleuve Sénégal
OR	(EIB) Own Resources
PPP	Public-Private Partnership
PROPARCO	Société de Promotion et Participation pour la Coopération économique (French EDFI)
RDI	Research, Development and Innovation
SFE	Special FEMIP Envelope
SFF	Structured Finance Facility
SMEs	Small and Medium-Sized Enterprises
TEN	Trans-European Network
ToR	Terms of Reference
WSSD	World Summit for Sustainable Development (Johannesburg, 2002)

Overview Report 2009

European Investment Bank • European Investment Bank • European Investment Bank • European Investment Bank • European Investment Bank

European Investment Bank

98-100, boulevard Konrad Adenauer
L-2950 Luxembourg

(+352) 43 79 - 1
(+352) 43 77 04
EValuation@eib.org

www.eib.org

ISBN 978-92-861-1173-0

© EIB – 06/2010 – EN

QH-AL-10-001-EN-C

ISSN 1830-6799