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European Commission Directorate General Economic and Financial Affairs (DG ECFIN)

Final Report for the External evaluation of the application of the European Union Guarantee for the EIB lending operations outside the European Union

08 June 2016

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For the attention of Mr Paulus Geraedts

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Directorate General Economic and Financial Affairs
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Luxembourg, 08 June 2016

Transmission of the Final Report for the Project "External evaluation of the application of the European Union Guarantee for the EIB lending operations outside the European Union" (ECFIN/2012 017/R)

Dear Mr Geraedts,

We are pleased to attach herewith the Final Report for the External evaluation of the application of the European Union Guarantee for the EIB lending operations outside the European Union.

As always, we remain at your disposal to respond to any queries or comments you might have.

Best wishes,

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Glossary

A2A	Agreement to appraise
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AFD	*Agence Française de Développement*
AFDB	African Development Bank
AFS	Appraisal Fact Sheet
AIF	Asia Investment Facility
AfIF	Africa Investment Facility
BCIE	Central American Bank for Economic Integration
CBA	Cost-Benefit Analysis
CCGT	Combined Cycle Gas Turbine
CCI	Climate Change Indicator
CFE	Carbon Footprint Exercise
CIF	Caribbean Investment Facility
CIF	Climate Investment Funds
COP	Corporate operational plan
EBRD	European Bank for Reconstruction and Development
ECON	Economics Department (EIB)
ECSO	Environment Climate & Social Office (EIB)
EEAS	European External Action Service
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ELM	External Lending Mandate
ENPI-MEDA	European Neighbourhood and Partnership Instrument for Mediterranean Countries
EPAP	Egyptian pollution abatement
EQ	Evaluation Question
ERR	Economic Rate of Return
ETS	Emissions trading system
EU	European Union
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FX	Foreign Exchange
GEEREF	Global Energy Efficiency and Renewable Energy Fund (GEEREF)
GEF	Global Environment Facility
GHG	Greenhouse gas
GCF	Green Climate Fund
IADB	InterAmerican Development Bank
IBRD	International Bank for Reconstruction and Development
IDFC	International Development Finance Club
IDP	internally displaced population
IFCA	Investment Facility for Central Asia
IFI	International financial institutions
IFP	Investment Facility for the Pacific
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contributions
IPA	Instrument for Pre-Accession
IPCC	Intergovernmental Panel on Climate Change
ITF	Africa Infrastructure Trust Fund
JU	Legal Directorate (EIB)
KfW	*Kreditanstalt für Wiederaufbau*
LAIF	Latin America Investment Facility
MDB	Multilateral Development Bank
MDG	Millennium Development Goals

MFA	Macro financial assistance
MoU	Memorandum of Understanding
NIF	Neighbourhood Investment Facility
OCHA	Office for the Coordination of Humanitarian Affairs
OECD	Organisation for Economic Co-operation and Development
OFA	Opinion for Appraisal
OFID	OPEC Fund for International Development
OPS	Directorate for Operations (EIB)
ORF	Own Risk Facilities
PIN	Preliminary Information Note
PJ	Projects Directorate (EIB)
REM	Results Measurement framework
RM	Risk Management Directorate (EIB)
RPA	Recovery and Peacebuilding Assessment
RTOG	Regional Operational Technical Guidelines
SDG	Sustainable Development Goals
SME	Small and medium enterprises
TA	Technical Assistance
TFEU	Treaty on the Functioning of the European Union
ToR	Terms of Reference
UNFCCC	United Nations Framework Convention on Climate Change
WRI	World Resources Institute
WB	World Bank
WBIF	Western Balkans Investment Framework

Foreword

The main purpose of the Draft final report is to re-summarise the evaluation approach, present the institutional framework of the External Lending Mandate (ELM), and describe the data portfolio related to the ELM and the in-depth analysis on 20 case studies in line with the evaluation question, sketching the conclusions and the recommendations of the study.

Thus, the report is organised in the following way:

- The first section recalls of the purpose, the objectives and the characteristics of the External Lending Mandate, and of its intervention logic;
- The second section is dedicated to the outline of the evaluation approach, presenting the scope and the evaluation questions, the judgment criteria and the corresponding indicators;
- The third section presents the institutional framework of the ELM from the policy context to the implementation principles, including a stakeholder mapping, presenting the stakeholders involved in the ELM operations, their roles and responsibilities;
- The fourth section presents and analyses the data on the financing operations that have been running under the ELM from its initiation in July 2014 to December 2015 and draws some preliminary results from the analysis of the data collected;
- Section five presents the in-depth analysis of the ELM operations;
- Section six provides the conclusions and recommendations of the study.

1 Presentation of the External Lending Mandate (ELM)

This section provides a detailed presentation of the ELM rationale, objectives, principles and intervention logic.

1.1 EU guarantee for the EIB ELM financing operations: objectives and characteristics

1.1.1 Overview of EIB operations inside and outside the European Union (EU)

As set out in the Treaty on the Functioning of the European Union (TFEU), the European Investment Bank (EIB) is the financing institution of the EU. The shareholders of the EIB are the member states of the EU. As a policy-driven bank, the EIB uses its financing operations to support economic growth and jobs, thereby aiming to support European integration and social cohesion. The EIB's activities within the EU focus on four priority policy areas together with two cross cutting objectives:

- Innovation and skills;
- Access to finance for smaller businesses;
- Infrastructure;
- Environment;
- Cross cutting: Climate Action and Cohesion (European regional integration).

In addition to its activities within the EU, the EIB undertakes operations in countries outside the EU in support of the Union's external policies. The majority of these operations takes place under one of two separate legal frameworks: either based on a mandate from the EU, the ELM, with an EU budgetary guarantee covering a list of non-EU countries (except African, Caribbean and Pacific group of countries - ACP countries), or at the Bank's own risk, under dedicated facilities created in the EIB, referred to as "Own Risk Facilities" (ORF)[1]. The Bank also has other operations outside the EU – notably in the ACP countries – which take place under a separate framework, the ACP-EU Cotonou Agreement.

Combined, the ORF, ELM and Cotonou Agreement activities have traditionally made up around 10% of the EIB total lending. In 2014, the EIB invested some EUR 8 billion outside the EU (10.4% of total EUR 77 billion signed), of which EUR 4.2 billion were invested under the ELM, EUR 2.6 billion under the ORF and around EUR 1 billion was invested in the ACP/OCT countries.

In 2014, the EIB signed financing contracts for 92 new projects outside the EU. Total approved EIB financing for these new projects is EUR 7.98bn

A fundamental distinction must be drawn between the ORF and the ELM. Unlike for the Own-Risk Facility financing, the ELM operations are covered by the EU guarantee for the comprehensive risk and the political risk dimensions. While all EIB operations outside the EU support EU policies, ELM operations follow the specific EU external policy goals set out in the Decision agreed by the Council and the European Parliament.

[1] Under the ORFs, the Bank has an amount of up to EUR 12 billion at its disposal for the 2014-16 period. This is split as:
- Pre-Accession Facility (PAF): up to EUR 7 bn for financing operations in candidate and pre-accession countries, including all lending priorities.
- Neighbourhood Financing Facility (NFF): up to a total volume of EUR 3 bn for projects in neighbourhood countries.
- Climate Action and Environment Facility (CAEF): provides loans up to a total volume of EUR 1.5 bn, to finance climate change mitigation and adaption projects, protection of biodiversity projects and environment protection projects in all regions outside the Pre-Accession and Neighbourhood countries.
- Strategic Projects Facility (SPF): up to EUR 0.5 bn for financing strategic investment projects identified by EU banks or companies outside the Pre-Accession and Neighbourhood countries.

Under the ORF, the EIB also manages the EFTA (European Free Trade Association) Loan Faclity to support the close economic ties between the EU and EFTA countries.

1.1.2 Legal and strategic framework: Decision 466/2014/EU

ELM 2014-2020

The ELM is established by **Decision No 466/2014/EU** of the European Parliament and of the Council, adopted on 16 April 2014 (further referred to as "the Decision"). The Decision grants an EU guarantee to the EIB against losses under financing operations supporting investment projects outside the EU.

The 2014-2020 ELM became effective on 25 July 2014 following the signature of the **Guarantee and Recovery Agreements** between the Commission and the EIB.

The decision regarding whether an operation shall be financed under the ELM or under an ORF is taken according to an **allocation policy**, established by the Commission and the EIB in the ELM Guarantee Agreement. In line with the Article 8 of the Decision, as a general principle, the EIB should focus its financing under the ELM on those operations where the EU guarantee would generate the highest added value. Operations should be financed at the Bank's own risk whenever the underlying investment projects have sufficient creditworthiness.

The practical measures linking the general objectives of the EU guarantee (see 1.1.3 below) and their implementation via EIB financing operations are set out in the **Regional Technical Operational Guidelines** for EIB financing operations under Decision 466/2014/EU (henceforth "the Guidelines"). These provide a framework to ensure that the EIB financing operations under the ELM are complementary with the overall EU external strategy and specifically with the EU's assistance policies, programmes and instruments in the corresponding regions. The Decision 466/2014/EU also specifies that EIB financing operations should be consistent with the beneficiary country's own strategies.

The **Guarantee Fund**, established by Council Regulation (EC, Euratom) No 480/2009 (1), provides a liquidity cushion for the EU against losses incurred on EIB financing operations (as well as on macro-financial assistance and Euratom loans) outside the Union. Its provisioning is made *ex-post* on the basis of the outturn figures for outstanding guaranteed external lending at the end of year n-2.

The **ELM Climate Strategy**, requested by the Mandate Decision, sets another piece of legislative framework. The update of the ELM Climate Strategy published on 28th December 2015, guides all operations supported by the EU guarantee under the ELM. The Mandate for the 2014-2020 period reinforces support to EU Climate action, by setting an overall quantitative target of at least 25% of total EIB financing operations covering climate change adaptation and mitigation.

The ELM Climate Strategy 2014-2020 sets three overarching objectives:

1) Implementing EIB Climate Action Strategy in non-EU operations;
2) Delivering on the Mandate Requirements;
3) Using new channels and instruments to increase impact, in particular financial instruments and Green Climate Funds.

The second objective presents how the EIB intends to contribute to climate change mitigation and adaptation within the framework of the ELM requirements set in the Decision. Thus, although the ELM Decision sets a target of at least 25% climate action for all operations falling under the Decision, the EIB wants to go further with an increase of the climate action lending target to 35% of all external lending in developing countries by 2020. The EIB will build a climate action portfolio with a focus on high impact climate action projects. These projects are defined as "projects that (i) bring significant mitigation or adaptation gains; and/or (ii) catalyse and mobilise additional climate finance from a range of sources; and/or (iii) reduce financial and non-financial barriers to the investments needed for the transition to a low-carbon resilient economy"[2].

[2] External lending Mandate Climate Strategy, p13.

Stepping up of adaptation and climate resilience in the portfolio will be developed with the introduction of systematic screening for climate risk (already started in 2015) and carrying out climate risk and vulnerability assessments for new investments as required – using Technical Assistance funds as needed. In order to increase the climate adaptation activities in the portfolio, the EIB will also prioritise investments in sectors and activities where climate change impacts are expected to be significant, and where opportunities exist to improve climate resilience of cities, communities and businesses, such as land and water resource management.

Climate change objectives will be also pursued through blending mechanisms, which represented nearly a third of the EIB's commitment under the ELM in 2014[3].

The EIB intends also to strengthen the existing greenhouse gas (GHG) emissions assessment by exploring new approaches, tools and metrics to assess the overall climate impact of operations, and the extent to which they support countries' climate commitments and plans.

Previous ELMs

The current ELM follows similar programmes, which existed in the periods 2007-2013[4] and 2000-2007[5]. The 2014-2020 ELM has maintained most of the key aspects from the preceding programming period (2007-2013). Notably, it maintains the strong alignment between EIB activities outside the EU with the EU's external policies and actions, and retains the previous harmonized high-level objectives for financing in all regions.

The previous evaluation of the ELM was conducted in 2010 and covered loans under the mandates for the period 2000-2006 and the first years of the 2007-2013 mandate. This evaluation provides useful information on the way the ELM has evolved and on the main challenges it faced at that time or/and it could potentially face in the present period.

The most relevant conclusions of this evaluation within the framework of our study are:

- In terms of reporting on operations under the ELM, the 2010 evaluation identified that the reporting did not sufficiently assess the contribution and the consistency of financing operations with EU policy objectives and focused only on EIB objectives and priorities. The current evaluation will therefore account for this critique and assess the fulfilment of reporting requirements as presented in section 3.3.2;

- In terms of allocation of resources, the 2010 evaluation found that the limited staff resources available for mandate loan operations had affected not only the monitoring, but also the effectiveness through the project selection process. This will be another point of attention for this evaluation;

- In terms of the added value to beneficiaries, the evaluation found the main added value relied on the longer maturity of loans, while the added value for shorter maturity loans of the Bank was more limited. In that respect, the assessment of added value of the ELM financing operations has to consider the types of financing offered by the EIB under the Mandate and in particular, how this is reflected once the structuring of the financing operation is considered during the appraisal phase;

- In terms of cooperation and co-financing with other International Financial Institutions (IFI), the level of cooperation and co-financing was deemed significant. A number of cooperation agreements were made, however they focused on operational cooperation rather than strategic orientation. In addition, attention should be paid that IFI cooperation does not imply

[3] External lending Mandate Climate Strategy, p13.

[4] Established by the Decision 2006/1016/EC of 19 December 2006, superseded by the Decision No 633/2009/EC, itself subsequently repealed by the Decision 1080/2011/EU.

[5] Established for the general external lending mandate, in particular the South-eastern neighbours, Mediterranean countries, Latin America, Asia and the Republic of South Africa in Council Decision 2008/580/EC), for projects in Russia, Ukraine, Republic of Moldova and Belarus in Council Decision 2005/48/EC and for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension in Council Decision 2001/777/EC.

duplication of negotiations, reporting requirements, and other forms of administrative burden for the beneficiaries. Within the framework of the present evaluation, the level of cooperation and coordination will be assessed. In addition, the evaluation team will focus on the nature and modalities of this cooperation. In particular, an assessment will be made of whether coordination and cooperation remain at an operational level or whether a strategic alignment with other IFI is also sought. Then, we will investigate the various case of "mutual reliance"[6] to observe the impact of such agreement on joint co-financing of projects.

1.1.3 The purpose and the objectives of the ELM

The guarantee provided under the ELM enables the EIB to conduct financing operations outside the EU without this activity affecting the credit rating of the EIB. In this way, the ELM allows EU budget funds for external regions to be complemented by the financial strength of the EIB, thereby increasing the benefit of the targeted third countries.

The projects financed in the context of the EIB external operations often take place in less developed markets with higher risks and more complex challenges. One of the main strengths of EIB interventions outside the EU is therefore the Bank's ability to mobilise finance on terms that usually are not easily available in these markets (e.g. longer loan tenors, grace period, etc.). This is complemented by a lean business model, which aligns significant financial capacity with technical expertise for the assessment of viable investments, leveraging on the EIB's core experience within the EU. In addition, the Bank brings further added value by providing projects with both an EU and an IFI 'label'. In some of the supported countries, therefore, the overall lack of financing and complex social and political issues increase the relevance of the EIB financing provided under the ELM.

The Decision defines the following high-level objectives for the ELM:

- *Local private sector development, in particular support to Small and Medium Enterprises (SMEs)*: in order for private sector investments to have the greatest development impact, the EIB should try to strengthen the local private sector in beneficiary countries through support to local investment; operations under this objective could also include support to investment projects by local and European SMEs;

- *Development of social and economic infrastructure, including transport, energy, environmental infrastructure, and information and communication technology*: according to the Decision, emphasis should be put on the production and integration of energy from renewable sources, energy systems transformation enabling a switch to lower carbon intensive technologies and fuels, sustainable energy security and energy infrastructure, including for gas production and transportation to Union energy market, electrification of rural areas, environmental infrastructure such as water and sanitation and green infrastructure, telecommunications and broadband network infrastructure;

- *Climate change mitigation and adaptation*: EIB support should cover projects related to climate change mitigation and adaptation contributing to the overall objective of the United Nations Framework Convention on Climate Change. This includes projects seeking to reduce greenhouse gas emissions and related to renewable energy, energy efficiency and lower-carbon transport, and other mitigation activities, and/or projects increasing resilience to the adverse impacts of climate change on vulnerable countries, sectors and communities.

Regional integration among countries, including in particular economic integration between Pre-Accession countries, Neighbourhood countries and the EU, shall be an underlying objective for EIB financing operations within areas covered by the general objectives as outlined above.

In addition, EIB operations must comply with the general principles guiding the EU external action (consolidating and supporting democracy and the rule of law, human rights and fundamental

[6] Mutual reliance is "an agreement between Financial Institutions (FIs) to rely, whenever possible, on the project identification, due diligence (especially environmental and social due diligence, procurement, and disbursement procedures), monitoring and evaluation of and by the Lead Finance Institution". Mid-Term Review of EIB external mandate – Report of the Steering Committee – Feb. 2010, p.32

freedoms) and the implementation of international commitments and agreements to which the Union is a part. In particular, in the case of EIB financing in developing countries (as defined by the OECD), the Bank should indirectly contribute to EU development policy objectives of reducing poverty through inclusive growth and sustainable economic, environmental and social development.

The main purpose of this mid-term evaluation is to assess the extent to which the objectives described above have been, or are likely to be, attained.

A comprehensive analysis of the ELM objectives (at various levels) and chains of effects is presented with the intervention logic in section 1.2.

1.1.4 Financing ceiling: EUR 27 billion plus an optional EUR 3 billion

The Decision fixes at EUR 30 billion the maximum ceiling for EIB operations under the ELM from January 2014 until December 2020. This ceiling is split into a fixed amount of EUR 27 billion and an optional additional amount of EUR 3 billion. The allocation of this optional amount depends, in particular, on the results of this mid-term evaluation.

According to the Decision, the issues considered for the activation of the optional amount include:

- Progress in the implementation of the Decision by the EIB, in particular the results of EIB operations based on information from, *inter alia*, the Results Measurement framework (REM);
- The provisioning needs of the Guarantee Fund taking into account past and future outstanding amounts on all activities covered by the Guarantee Fund;
- The macroeconomic, financial and political situation of the eligible regions and countries at the time of the mid-term review.

Other factors include the operational environment (e.g. legal restrictions to EIB investment); new EU priorities and commitments, particularly those related to the Sustainable Development Goals (SDGs) and COP 21 objectives; and developments in EU external policy and the required flexibility to operate efficiently and reactively to challenges facing the EU.

1.1.5 Geographical breakdown of the financing under ELM

The Decision defines the geographical areas covered by the ELM[7] and establishes ceilings on the budgetary guarantee for each. These ceilings represent the maximum amounts and do not induce an obligation to meet that target. According to the Decision, the distribution of regional ceilings is to be addressed in this mid-term evaluation, notably in light of possible changes to the list of countries eligible for EIB financing.

The Guidelines provide also guidance on the way to implement ELM operations in the various geographical areas. In particular, it presents the general context of EU external relations, an overview of EIB activity over the period 2007-2014, the regional macroeconomic situation, the EIB cooperation with the Commission, European External Action Service (EEAS) and IFI, and finally the operational focus for 2014 2020 for each area.

The countries currently covered by the ELM are represented in the following figure:

[7] The full list of eligible countries is given in Annex III of the Decision.

Figure 1: External Lending Mandate: geographical coverage

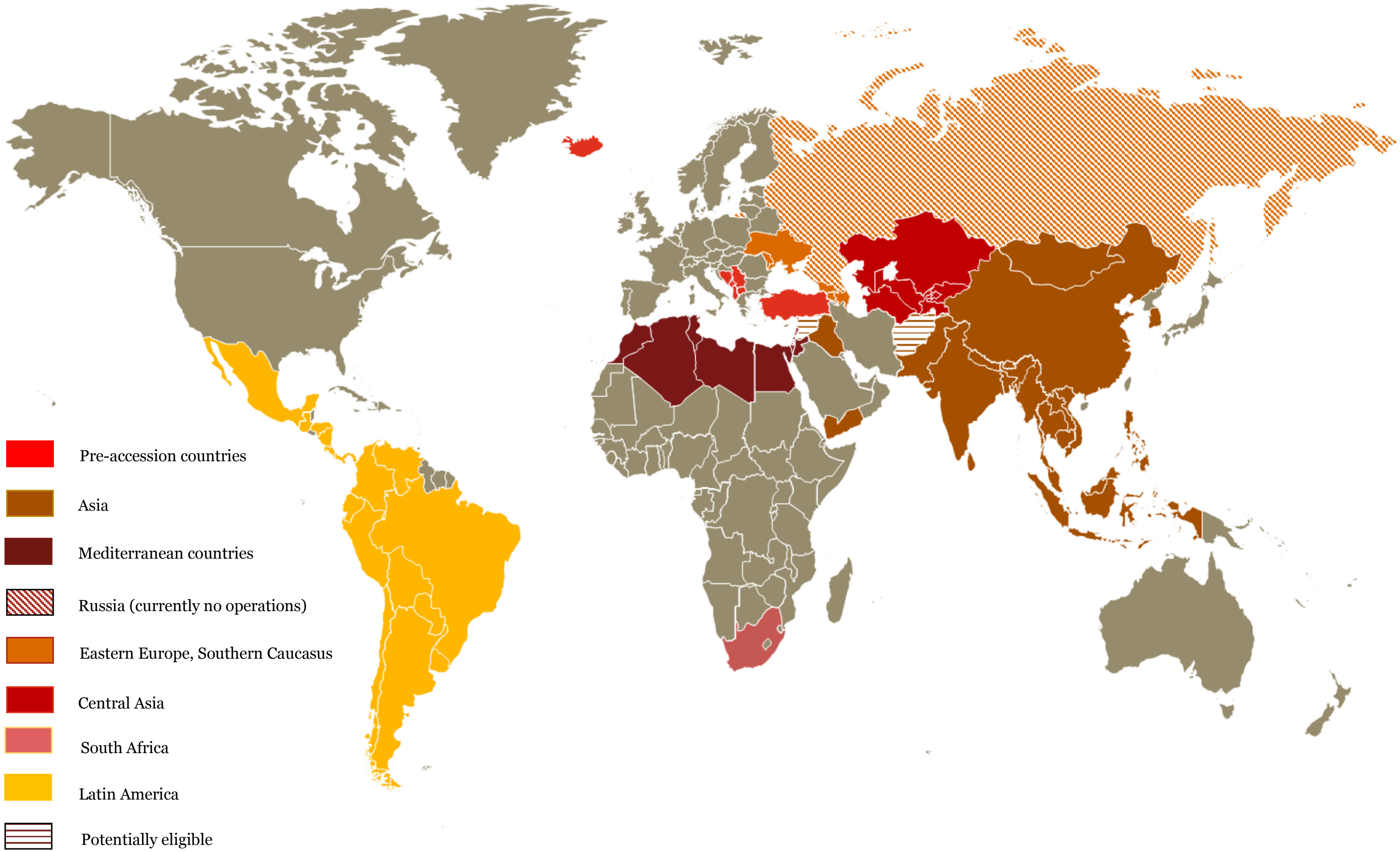


Table 1 below shows a detailed statement of the ceiling on the volume of loans potentially covered by the EU guarantee by region, in amounts and in percentage. The Pre-accession countries together with the Neighbourhood and Partnership countries are the main priorities under the ELM, with the ceiling of more than EUR 23.1 billion of guarantees for financing operations in these countries.

Table 1: Regional ceilings, in EUR billion and in percentage of the total

	Candidate and Pre-candidate countries	Neighbourhood and Partnership countries		Asia and Latin America		Central Asia	South Africa	TOTAL
		Mediterranean countries	Eastern Europe, Southern Caucasus, Russia	Latin America	Asia			
Amount, bln EUR	8,74	9,6	4,83	2,29	0.94	0,18	0,42	27
% total	32%	36%	18%	8%	3%	1%	2%	100%

Source: Decision 466/2014/EU, Annex I, figures rounded off

The full list of countries eligible under the ELM is provided in the Appendix C of the Decision.

1.1.6 EU guarantee: coverage and activation

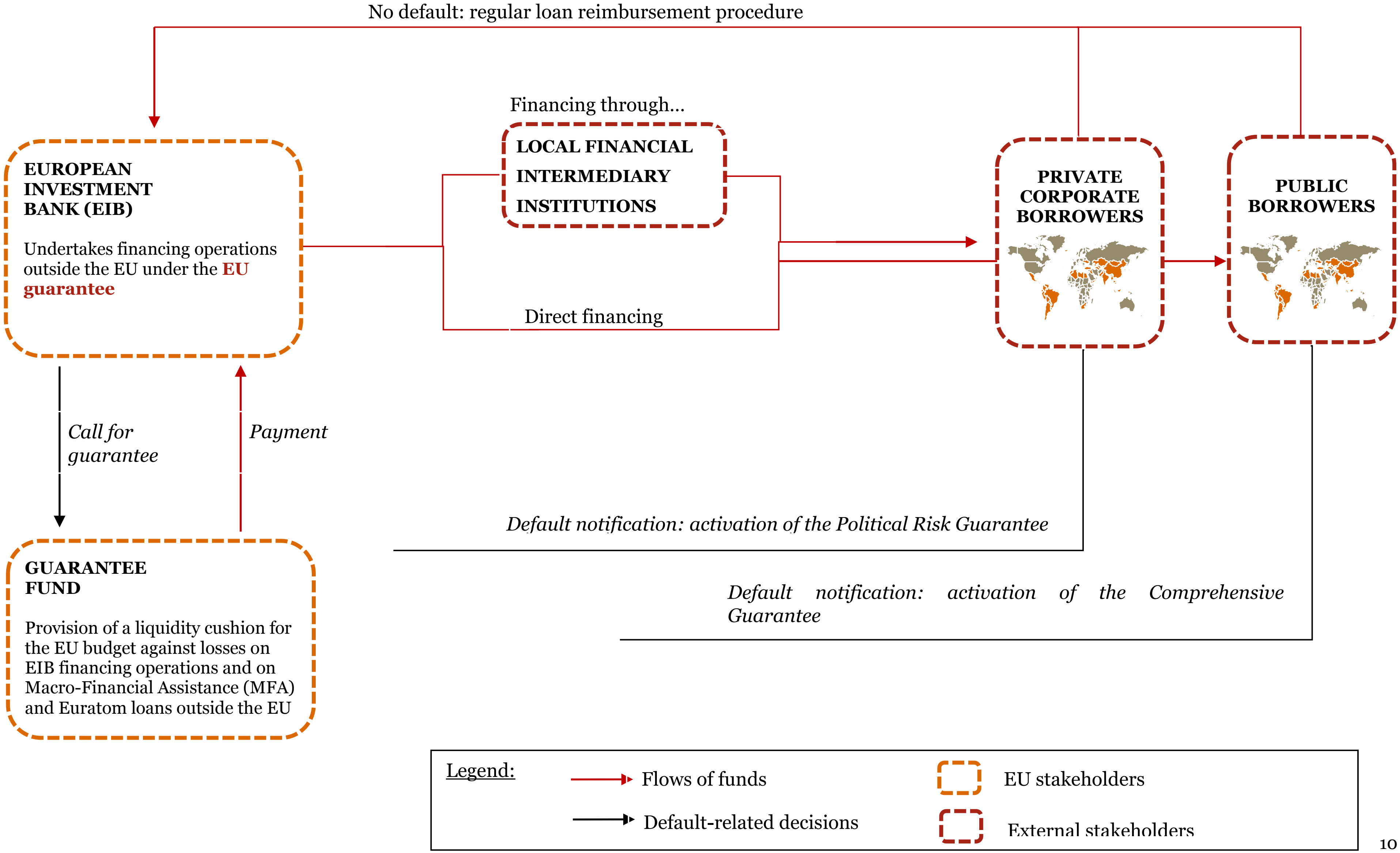
According to the Decision, the EU guarantee is provided under two different modalities covering different types of risks:

- The *Comprehensive guarantee* is provided for financing operations, excluding those involving debt capital market instruments, where the borrower (or a guarantor) is a State, regional, local public entity or corporations and institutions under state control.
- The *Political Risk guarantee* is provided for all cases not covered by the Comprehensive guarantee and in the event of non-payment induced by one of the following events:
  - Non-transfer of currency;
  - Expropriation;
  - War or civil disturbance;
  - Denial of justice upon breach of contract.

  The Political Risk guarantee also applies to all the operations involving debt capital market instruments.

As described in the following scheme (Figure 2), in the event of partial or complete non-receipt of funds due to the EIB by a borrower under an ELM financing operation, the EIB initiates a call upon the guarantee and a corresponding flow of funds is disbursed from the Guarantee Fund in line with the Guarantee Agreement.

Figure 2: The External Lending Mandate under the EU guarantee: how it works



1.2 The intervention logic of the ELM

The intervention logic is a representation of how the ELM is understood to contribute to a chain of results that produce the expected or actual impacts. It represents the causal chain in five steps:

- *Inputs:* this refers to the resources mobilised for the implementation of the Programme (financial, technical, human, etc.);
- *Activities*: this is what is produced (financed/accomplished) with the inputs allocated to the Programme;
- *Outputs:* these are the first level results / the operational objectives of the ELM;
- *Outcomes*: these are the mid-term/long term effects of the ELM. They represent the overall objectives of the Programme;
- *Impacts*: they represent what the ELM is expected to contribute to. They are not necessarily specific to the Programme (cross-cutting objectives, also influenced by others external factors), but represent what could be its long-term effects.

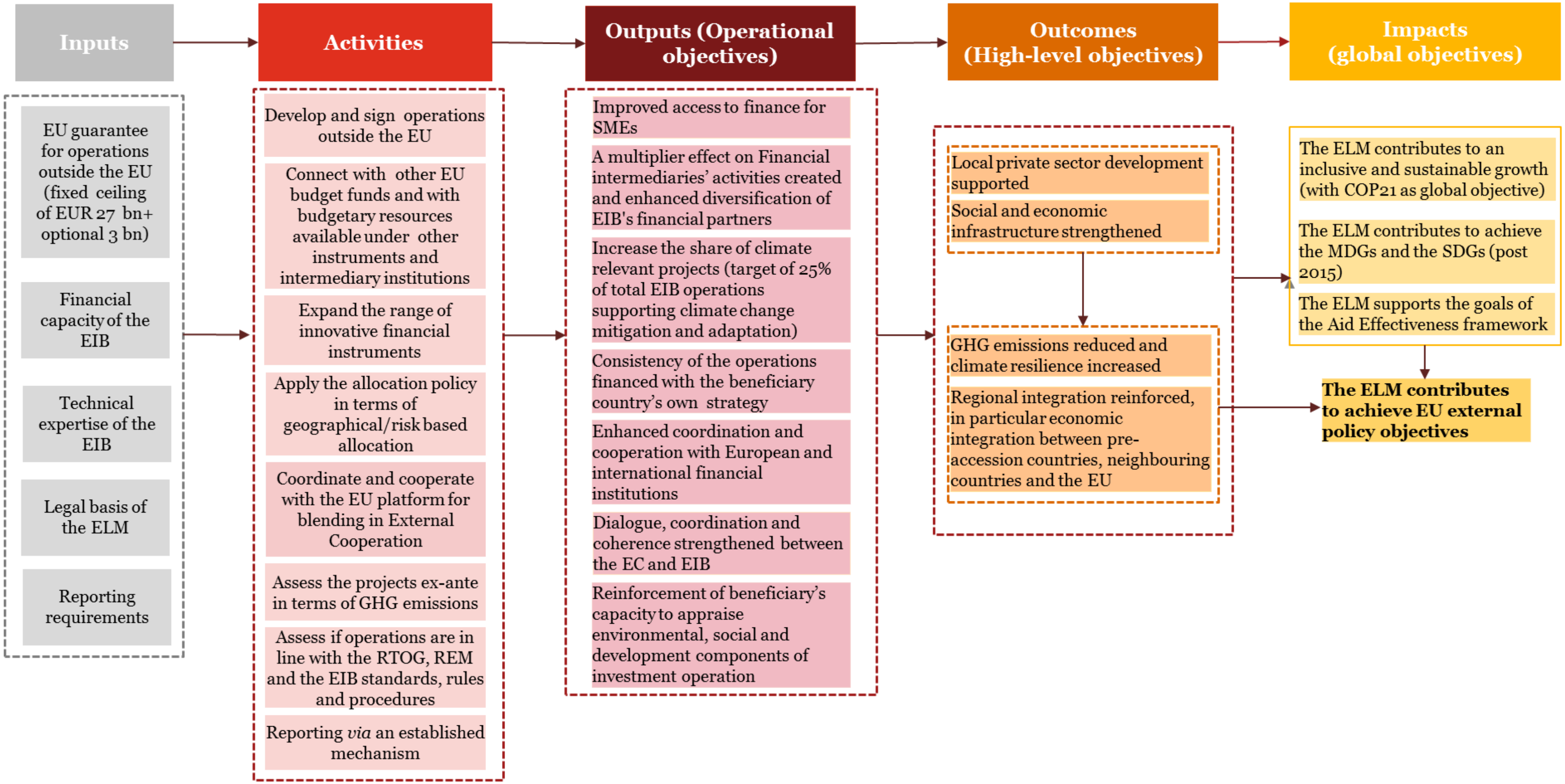
The intervention logic is the conceptual basis for the design of the evaluation approach, in particular the analysis of the evaluation questions. Each evaluation question reflects one or several causal links of the intervention logic, which allows defining judgment criteria and indicators (as presented in section 2.2).

The intervention logic will act as the foundation for the whole evaluation report in general and the analysis of the 20 EIB financing operations selected for case studies in particular. Setting up a clear and consistent intervention logic is not only a prerequisite for the successful undertaking of the evaluation. It also ensures logical, coherent and transparent analysis and judgment. It also enables the evaluation team to illustrate the complementarities between objectives, set necessary assumptions, and identify external influencing factors.

The intervention logic of the ELM presented below has been elaborated with DG ECFIN and the EIB during a dedicated workshop. We used a collaborative approach to produce a common understanding of the ELM logic of intervention, in particular to agree on the actual inputs and activities of the Programme and the expected outputs, outcomes and impacts. It also allowed combining internal opinions on the ELM (focus on resources, implementation and objectives) and an evaluation point of view (focus on causal effects).

The following figure represents the Intervention logic presiding over the ELM operations:

Figure 3: Intervention logic for the External Lending Mandate operations



Source: PwC

Given the short operating timeframe of the ELM, the evaluation will mainly **focus on its inputs, activities and outputs**, as outcomes and impacts can only be partially estimated and judged at present. The assessment should show, however, if the right conditions are in place to deliver results and impacts in the future. The previous programming period will also be taken into account, allowing for a more comprehensive picture of the whole Programme to be drawn, especially with regard to outcomes and impacts.

The analysis of the intervention logic underlines three main chains of causal effects (horizontal channels). These chains are composed of inputs – activities – outputs that have a direct causal link and refer to the same aspect of the ELM. It does not mean that they are independent one from another, but rather that they allow narrowing the methodological approach and in particular the evaluation criteria.

The first chain focuses on the **financial impacts** of the ELM and is related to the effectiveness of the Programme. This chain can be described as follows. The financial resources (inputs) brought by the EU with the guarantee and the EIB through the financing of projects allow expanding the financing operations outside the EU, but also encourage connection with budgetary resources from other EU and financial intermediaries' programmes. It also develops the range of financial instruments offered to beneficiaries. All this results in better financing conditions for the beneficiaries, in particular the SMEs and in multiplier effects on financial intermediaries' activities.

The second chain of effects relies on the **consistency and the contribution of the Programme** to the EU objectives and deals with the relevance and the coherence of the ELM. This chain can be described in the following way. First, the legal basis of the ELM (inputs) sets the objectives and the guiding principles of the Programme (defined in the Decision) as well as the practical measures to implement the Programme (defined in the Guidelines). This framework is complemented with the application of the allocation policy (activities) and the coordination through the EU platform. This is expected to create the conditions for the coordination and cooperation of the ELM with other relevant EU programmes and a strengthened dialogue between the Commission and the EIB. Finally, the latter are expected to make the ELM consistent with the EU priorities and to make it contributing to the EU external objectives.

The third chain of effects focuses on the **internal performance of the ELM** and deals mainly with the efficiency of the Programme. The description of the chain goes as follows. Specific technical resources mobilised by the EIB during the different steps of the project lifecycle (project initiation/identification, project appraisal on financial, economic, social, environmental and technical aspects, project review/approval, negotiation, project signature, project implementation, monitoring and evaluation) and the implementation requirements (in particular as regards reporting) are expected to contribute to a better assessment and monitoring of projects. This, in turn, is expected to increase the quality of the projects founded and the overall internal performance of the ELM, but also to strengthen beneficiaries' capacity on projects appraisal.

The three chains of effects are complementary and converge to produce the expected outcomes set out in the Decision. The first chain deals with producing higher financial impact. The second orients this financial impact towards the EU objectives. The third one ensures that this is done in an efficient way.

2 The evaluation approach

This section outlines and details the evaluation approach, along with the evaluation techniques that will be used and the status of each of the evaluation steps.

2.1 The scope of the evaluation

According to the EU Evaluation Guidelines, an evaluation is defined as "an evidence-based judgement of the extent to which an intervention has:

- Been effective and efficient;
- Been relevant given the needs and its objectives;
- Been coherent both internally and with other EU policy interventions and
- Achieved EU added-value."

However, given the short period of time that elapsed since the beginning of the current ELM period, the mid-term evaluation should focus mainly on relevance, and should consequently assess the consistency of the intervention, since the intervention is not mature enough to assess results. The aim of a mid-term evaluation is to assess if the *conditions* are in place to allow the programme to achieve its objectives. Impact and sustainability are normally used only when the intervention is advanced enough to observe its primary effects, where there is a better opportunity to evaluate its long-term effects.

In this respect, the mid-term evaluation will therefore analyse if the expected impacts are likely to be achieved. The evaluation will analyse the probability and potential for longer-term impact to occur. In addition, the selection of case studies will include the maximum of financing operations with full or non-zero disbursement rate, to assess the actual outputs and short term outcomes when feasible.

The table below summarises our approach to analyse if the conditions are in place to allow the programme to maximise its impacts and to reach its initial objectives and targets. The analysis will include an assessment of outputs and outcomes whenever the timeframe of the operation has allowed them to come about.

Table 2: Our proposed approach to analyse the potential for ELM to achieve its objectives

	2007-2013 Period: peripheral scope	**Link between the two periods**	**2014-2020 Period: central scope**
Objectives	To the extent that it is relevant for the current ELM, the evaluation will collect and analyse **results from the 2007-2013 programming period**, but the evaluation team will not do any additional primary data collection and no attribution analysis. No analysis of the causes of success.	The evaluation will analyse factually at the project level if the **lessons learned and the recommendations** from the 2007-2013 programming period have fed into the design of the 2014-2020 programme and, if not, why. The evaluation will not seek to question the validity of these recommendations.	Since it is too early to assess results, a relevant approach is to analyse if the **conditions** are in place to ensure results will be achieved (relevance, assessment of needs, stakeholder involvement, institutional framework, synergies between the EIB and the EC, etc.).
Outcomes of the analysis	• Synthesis of best practices • Aggregated outputs/outcome and impacts if this information is available		Analysis of the conditions to allow future impacts: • Consistency of the design; • Quality of the operational set up and monitoring; • Portfolio analysis: breakdown of allocation per country, sector, type of instruments; • Outputs and preliminary outcomes for some operations, provided sufficient time elapsed since the disbursement of funds.
Data collection & Sources	**Secondary data sources** and evaluation /monitoring aggregation synthesis (data already available).		**Primary sources of data collection**: desk research (based on the REM for outputs and first outcomes), interviews, and field visits.

The framework of the evaluation of the ELM will include firstly an evaluation of the EIB's external financing activities under the EU guarantee (including risk-capital and technical assistance) and secondly an assessment of the wider impact of the EIB's external lending in Programme regions (including relevant policies, agreements and cooperation). Thirdly, it will draw conclusions and recommendations to improve the processes in the future. The evaluation approach is structured in the following way:

- *First*, the evaluation team will assess if the strategic conditions are in place to generate results. The team will thus analyse relevance and coherence of the programme in terms of strategic high-level objectives. This step is a prerequisite for the evaluation and will provide a basis for answering the questions contained in the ToR;
- *Secondly*, the evaluation team will assess if the operational conditions are in place to maximise the programme's impact on the ground (monitoring, cooperation mechanisms and synergies, operational set up);
- *Third*, the evaluation team will investigate the preliminary effects of the EU guarantee applied to the EIB operations under the ELM.

The evaluation will address:

- Compliance of EIB financing operations with the Decision, their added value and contribution to the Union external policies, their quality, their development impact drawing on the EIB's REM and the financial benefits transferred to beneficiaries on an aggregated basis;
- Climate change and biodiversity financing under the Decision;
- Functioning of the Memorandum of Understanding between the European Commission and the European Investment Bank with respect to cooperation and coordination in the regions covered by the External Mandate, which was revised in 2013 enhancing cooperation and early mutual exchange of information between the Commission, the EEAS and the EIB at operational level;
- Cooperation with the Commission and other European and international financial institutions, including co-financing;
- Coherence with respect to the EU external policy agenda in the areas covered by the ELM (e.g. economic, social, environmental issues) and the reinforcement of the dimension of internationalisation of European businesses;
- Application by the EIB of the Guidelines, as well as assessment of its usefulness for the EIB and the necessity of regular reviewing;
- Relation/complementarity with the ACP Cotonou Agreement in terms of overall strategic policy context.

The evaluation will also address the allocation policy regarding, in particular, the geographic distribution of the financing operations, the sector allocation, and the choice of the financing instruments. In addition, it will also take into account the existence of the Own-Risk-Facility as the alternative setup for the EIB financing operations outside the EU. The evaluation of the Own-Risk Facility and the analysis whether, on a case by case basis, a given operation should have been financed under the ELM or through the Own-Risk Facility as such are outside the scope of the evaluation. Nevertheless, the extent to which the allocation policy contributes to the effective use of the EU guarantee will be part of this evaluation.

Furthermore, the evaluation will assess the EIB reporting system and provide recommendations if appropriate on how to improve and rationalise it further (as required by the Decision).

The evaluation will also provide recommendations on the potential activation of the optional mandate considering the priority areas, both in terms of regions and of thematic areas (e.g. climate change) in which the additional funds could be oriented and the absorption capacity of the EIB for allocation of new funds.

2.2 *Evaluation question analysis*

The operational approach for the ELM mid-term evaluation seeks to answer the evaluation questions by rephrasing and reordering them in a logical sequence that follows the intervention logic of the ELM operations. The primary step consisted in identifying objectives, the design characteristics and the implementation logic of the ELM. Based on this, the evaluator detailed each question with judgement criteria and related indicators, aiming at making the final judgment explicit and at structuring the final answers to the evaluation questions.

Table 3: Evaluation questions with regard to the legal basis of the Programme

Legend

- **EQ**: Evaluation question
- **JC**: Judgment criteria
- **I**: Indicator

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Relevance	**EQ1: Are the objectives set out in Decision No 466/2014/EU still relevant considering the changes in the context, in particular with regard to geopolitics, emerging post-2015 development finance and climate framework, and the EU external policy agenda, including its external blending mechanism?**		
	JC1.1: The Decision is aligned with the EU external policy objectives	I1.1.1: Points of alignment (common references) for projects, sectors and regions I1.1.1: Cases of fund allocation changes when needed	Strategic documents (on ELM – Decision, previous evaluations; for each of the operations, the supporting documentation;) + analysis of the database Interviews with high level policy officers (EIB, DG DEVCO, DG ECFIN, DG NEAR, DG GROW, DG BUDG, DG CLIMA)
	JC1.2: The Decision's objectives take into account the Millennium Development Goals (MDG) and the Sustainable Development Goals (SDGs)	I1.3.1: Points of alignment between the Decision objectives and the MDCs and the SDGs goals	Strategic documents (on ELM – Decision and MDGs and SDGs strategic document Interviews with high level policy officers (EIB, DG DEVCO, DG ECFIN, DG GROW)
	JC1.3: The Decision's objectives are aligned with the goals of the Aid Effectiveness framework	I1.3.1: Points of alignment between the Decision objectives and the Aid Effectiveness framework	Strategic documents : Cotonou Agreement, EEAS strategy, DG DEVCO Strategies Paris Agreement, Busan partnership for

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
			effective development cooperation Interviews with high level policy officers (EIB, EEAS, DG DEVCO)
	JC1.4: The Decision is in line with the EU climate objectives outside the EU and is aligned with International Climate agreements	I1.4.1: Identification of common references in terms of quantitative targets and priority sectors.	Strategic documents: climate change strategy of the ELM, others EU commitment and strategy on climate change and sustainable development Interviews with DG CLIMA and EIB Environment Climate and Social Office (ECSO) (EIB)
	J.C.1.5: The Programme demonstrates its capacity to adapt to geopolitical changes	I1.5.1: Considerations of political risk within country risk reports and regularly planned assessments I1.5.2: Occurrences of changes in fund allocation (for a specific country, sector) to align with the EU policy requirements (e.g. Russia, Syria)	Desk research. Interviews with high level policy officers (EIB and EEAS)
	EQ2: Regarding the relevance of design, how does the allocation policy contribute to the effective use of the EU guarantee?		
	JC2.1: The allocation policy provides a common framework, which allows the Programme reflecting the EU external objectives	I2.1.1: Existence of precise targets and thresholds and level of application of these targets (in particular as regards geographical and risk based allocation). I2.1.2: Consistency of the sectorial distribution of Programme's actions with the allocation policy.	Desk research :Regional Technical Operational Guidelines Portfolio analysis Project appraisal documentation & file (contracts, feasibility study, second opinion)
	J.C.2.2: The allocation policy foresees leeway for further adaptation to the intervention's context	I2.2.1: Level of flexibility allowed in the allocation policy, in particular in terms of thresholds, geographical distribution and modus operandi I2.2.2: Application of the concept of differentiation	Interviews with high level policy officers (EIB's operations division)
	J.C.2.3: The Programme is consistent with the beneficiary country's own strategy	I2.3.1: Points of alignment between the Decision objectives and the country's own strategy (as perceived by the beneficiaries)	Desk research Interviews

Table 4: Evaluation questions with regard to the selection of the operations and the reporting

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Relevance	**EQ3: Are the methods used by the EIB relevant to analyse the financial needs of the beneficiaries, their absorption capacity and the availability of other sources of private or public financing for the relevant investments?**		
	JC3.1: The methods include an assessment of beneficiaries' needs, assessment of their absorption capacity, and its potential leverage effect on private and public financing	I3.1.1: Identification of needs and absorption capacity assessment as well as potential leverage effects at project level	Desk research: project appraisal documentation and REM framework Interviews with EIB's operations division (Loan officers, OPS, PJ)
	JC3.2: The methods are in line or reflect best practises with respect to those of other multilateral and bilateral financing organisations	I3.2.1: Existence of an analysis of best practice methods I3.2.2: Methods of other financial institutions for similar interventions have been taken into account	Project appraisal documentation & file (contracts, feasibility study, second opinion) Interviews with EIB's operations division (Loan officers, OPS, PJ)
	JC3.3: The methods have been tested and are regularly updated (if needed)	I3.3.1: Tests have been realised and methods updated following changes in the context of intervention I3.3.2: An update of the needs analysis is has been conducted or is planned	Portfolio analysis Project appraisal documentation & file (contracts, feasibility study, second opinion) Interviews with EIB's operations division(Loan officers, OPS, PJ)
Compliance	**EQ4: How does the EIB reporting towards the commission allow to assess the compliance of EIB financing operations with the Decision No 466/2014/EU and what are appropriate measures for improvement (if applicable)? Are the reporting requirements regarding greenhouse gas emissions related to EIB financing operations being fulfilled?**		
	JC4.1: The EIB reporting requirements towards the Commission (including regarding greenhouse gas emissions) are formalised (e.g. clearly stated) and met.	I4.1.1: Level of fulfilment of the reporting requirements as defined in the Article 11 of the Decision	Desk analysis of the reporting activities of the EIB towards the Commission Interviews with EIB's reporting team (OPS, Board, and EC (DG ECFIN)

Table 5: Evaluation questions with regard to the monitoring and evaluation of the Programme

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Monitoring mechanisms and other processes	**EQ5: What is the relevance of the set of indicators and criteria developed by the EIB, the REM for the evaluation of the Programme?**		
	JC5.1: The REM and its indicators are aligned with the best practices of the multilateral and bilateral financing organisations	I5.1.1: Existence of an analysis of best practice methods I5.1.2: Measurement methodologies of other financial institutions for similar interventions have been taken into account	Interviews with EIB operations division, REM and EV Interviews with multilateral and bilateral financing organisations
	JC5.2: The REM and its indicators allow reflecting adequately all the features related to the ELM operational objectives	I5.2.1: Extent of match with the operational objectives (leverage and catalytic effect, etc.)	Desk research (strategy documents)/intervention logic Portfolio analysis Interviews (REM, Ops)
Monitoring mechanisms	**EQ6: How does the EIB monitoring system contribute to the identification of barriers to effectiveness and allow overcoming them and how does the REM framework contribute to the ex-ante assessment of expected project results and enhance the EIB's ability to report on actual results?**		
	JC6.1: Mechanisms are in place to identify the barriers to effectiveness at all level of the Programme (including Financial intermediary and project level)	I6.1.1: Existence of continuous internal and external monitoring processes to identify effectiveness gaps and to identify failure factors	Desk research: documents produced in through the reporting and monitoring of the ELM Interviews (with EIB Internal audit, REM, OPS, PJ and TMR)
	JC6.2: Mechanisms are in place to identify side effect or unexpected effects of the programme (Financial intermediary and project level)	I6.2.1: Existence of continuous internal and external monitoring processes to detect unexpected effects of the programme I7.2.2: Existence of mechanisms to collect best practices and to promote them I7.2.3: Cases where monitoring results of whatever nature led to change in the scope or scale of the project, including stopping it	
	JC6.3: Indicators collected through the REM are used and provided relevant information for the ex-ante assessment of expected project results	I6.3.1: REM results feed into the reporting process I6.3.2: Use of REM indicators in projects selection	
	JC6.4: Indicators collected through the REM are used by the EIB to report on actual results	I6.3.2: Use of REM indicators in reporting	

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Monitoring mechanisms	**EQ7: Is the programme able to detect and take into account the unintended effects on stakeholders?**		
	JC7.1: Mechanisms are in place to detect unintended effects and alleviate them	I7.1.1: Existence of monitoring mechanisms (formal/informal meetings, contact point, regular report, etc.) allowing identification of unintended effects I7.1.2: Examples of identification of such unintended effects and means deployed to alleviate them exists	Desk research: documents produced in through the reporting and monitoring of the ELM Interviews (with EIB Internal audit, REM, OPS and TMR)
	JC7.2: Mechanism are in place to take into account external comments or remarks	I7.2.1: Involvement of stakeholders during project planning is ensured I7.2.2: Publication by external actors, governmental or non-governmental are taken into account	
	JC7.3: Action taken following the detection of unintended effects	I7.3.1: Number of responsive measures that had been undertaken (if necessary)	

Table 6: Evaluation questions with regard to the complementarity of the Programme with other EU programmes

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Coherence	**EQ8: Are there overlaps, realised or potential complementarities between the Programme and any other EU, MS and IFI actions in the relevant areas? Could the coherence and synergies of the Programme with other EU and/or MS interventions that are designed to contribute to the EU external policy objectives be further improved? What lessons can be learned from interaction between EIB under ELM and the blending facilities - also in terms of complementarity?**		
	JC8.1: The Programme has set up high-level mechanisms to identify beforehand potential cooperation, overlaps, and contradictions with EU, DFI or IFI on the field.	I8.1.1: High-level mechanism to detect possible cooperation exists at project level. I3.1.2: Assessment of identification of contradictions between the Programme and EU, MS and IF actions per sector/region/countries. I3.1.3: Identification of ex-ante cooperation when potential overlaps are identified.	Desk research (strategy documents) Portfolio analysis Interviews with EC (DG DEVCO, DG ECFIN, DG GROW, DG NEAR, DG CLIMA, DG BUDG), EEAS and relevant IFIs
	JC8.2: The Programme seeks for cooperation to ensure the identification and appraisal of joint financing	I8.2.1: Mechanisms avoiding duplication of cost, of procedures and heavy administrative cost is in place	Desk research (strategy documents) Portfolio analysis

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
		I8.2.2: Number of co-financed projects I8.2.3: Case of double-financing I8.2.4: Critical mass is obtained in terms of available funds which leads to an increase in project size I8.2.5: Existence of clear definition of leadership during cooperation I8.2.6: Justification for non-cooperation is available I8.2.7: Existence of platforms where the issues of overlapping/complementarities are effectively discussed	Interviews with EC (DG DEVCO, DG ECFIN, DG GROW, DG NEAR, DG CLIMA), EEAS and relevant IFIs

Table 7: Evaluation questions with regard to the management of the Programme

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Efficiency	**EQ9: To what extent are the desired effects achieved at a reasonable cost in comparison to other similar organisations/Programmes? What aspects of the Programme are the most efficient or inefficient, especially in terms of resources that are mobilised by final beneficiaries, the EIB and the Commission during the different phases of the project?**		
	JC9.1: The Programme imposes minimal additional costs from the point of view of the Commission	I9.1.1: Perceived costs by the Commission per project phase	Interviews with EC
	JC9.2: Management costs for the EIB are known and mitigated The volume of human resources is sufficient to ensure proper management of the Programme during the selection of FIs, the implementation of financial operations and the monitoring	I9.2.1: Identification of the various costs related to the Programme (from the EIB side) I9.2.2: Identification of actions / mechanisms to mitigate these costs I9.2.3: Number of directly and indirectly (support services) resources which had been involved in the Programme and on project bases I9.2.4: Average number of projects monitored with the existing human resources	Interviews (EIB OPS, PJ) Interviews with financial intermediaries and final beneficiaries EIB's personnel timesheets analysis
	JC9.3: Project holders (final beneficiaries) are not discouraged from participating by high administrative burdens	I9.3.1: Project holders can clearly state project related costs (in terms of time, delays and paperwork) and perceive it as manageable	Interviews with financial intermediaries and final beneficiaries

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
	JC9.4: Cooperation among EIB employees/ Commission employees contributes to an efficient management of the Programme	I9.4.1: Existence of knowledge sharing mechanism among and between the Commission and the EIB / Added value of such mechanisms. I9.4.2: Existence of internal communication and information sharing processes: meeting agendas, action plans, breakdown of role and responsibilities, work plans/planning and follow up mechanisms / Added-value of such mechanisms.	Interviews (EIB OPS, PJ)
	JC9.5: comparison between the EIB activities under the EU guarantee and EIB activities involving blending with EU budget grants	I9.5.1: assessment of perceived relative administrative burden on the EU by the Commission and the EIB representatives I9.5.2: relative added value of the two modalities as perceived by the beneficiaries	Interviews Field visits

Table 8: Evaluation questions with regard to the added value of the Programme

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Effectiveness through added value	**EQ10: What is the added value of the Programme for beneficiaries (ref. EIB performance indicators, incl. qualitative and quantitative effects) and in the selection of specific lending activities, how is the highest added value to beneficiaries ensured?**		
	JC10.1: The Programme (the existence of the Guarantee) improves final beneficiaries' access to finance and borrowing terms (cost of funding)	I10.1.1: Existence of projects which would not have been launched without the ELM (based on statement of project holders) I10.1.2: Comparison of the cost of funding through the ELM mechanism with the private market. I10.1.3: Interest rate differential with a benchmark (country related risks) I10.1.4: Providers collateral requirements are lower than from private market	Interviews (EIB OPS, PJ) Interviews with financial intermediaries and final beneficiaries Portfolio analysis
	JC10.2: The Programme creates a multiplier effect and a catalytic effect on financial intermediaries' activities	I10.2.1: Perceived multiplier effect or conditions to generate a multiplier effect by beneficiaries I10.2.2: Perceived catalytic effect or conditions to generate a catalytic effect by beneficiaries	Interviews EIB (SG, OPS) REM analysis Interviews with financial intermediaries

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
			and final beneficiaries
	JC10.3: The Programme spreads higher banking standards and best practices among FI , in particular in terms of reporting and ex-ante assessment of projects (including capacity to appraise environmental, social and development components of investment operation)	I10.3.1: Identification of mechanisms to share best practices with FIs (guideline, meeting, workshop, capacity building)	Interviews with financial intermediaries and final beneficiaries
	JC10.4: The selection of partner FIs is based on their alignment with EIB objectives	I10.5.1: Identification of criteria related to the selection of partner FIs	Desk research (appraisal documents) Interviews with the EIB (Ops)

Table 9: Evaluation questions with regard to climate change objectives and visibility of the EU

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
Sustainability	**EQ11: What is the volume of climate change lending against the target of 25% and what is the result of the new system to ex-ante assess greenhouse gas emission of projects supported by the EU guarantee? How does the EIB reinforce the climate resilience for all relevant financing operations, and integrate carbon pricing in economic cost benefit analysis?**		
	JC11.1: The volume of climate change lending reaches the targets of 25%	I11.1.1: Number and share of financed projects setting as primary/significant objective climate change mitigation/ adaptation I11.1.2: Geographical and sector distribution of climate change mitigation related lending is representative of overall lending I11.1.3: Geographical and sector distribution of climate change adaptation related lending is representative of overall lending	Portfolio analysis
	JC11.2: Ex-ante assessment of greenhouse gas emission of projects allows capturing the impact of financing	I.11.2.1: Share of projects assessed I.11.2.2: Ex-ante assessed impact of projects in terms of reducing GHG emissions (emissions avoided)	Desk research (appraisal documents) REM framework

Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
	operations in terms of reduction of GHG emissions	I11.2.3: Existence of a common and scientifically robust methodology for assessing greenhouse gas emission I11.2.4: Consistency in the methodology used across projects	Interviews EIB
	JC11.3: Ex-ante assessments provide the relevant information for projects selection and contribute to project design/adjustment	I11.3.1: Reference to the outcomes of ex-ante assessments in project selection I11.3.2: Consideration for recommendations of the ex-ante assessment in project design I11.3.3: Existence of Cost-Benefit Analysis assessment of the projects and inclusion of carbon pricing considerations	Desk research (appraisal documents) REM framework Interviews EIB
	JC11.4: The system of ex-ante assessment of greenhouse emission pushes financial intermediaries to conduct such assessment in every project (including those outside the Programme)	I11.4.1: Knowledge sharing mechanism is in place I11.4.2: Level of perception of ex-ante assessment among financial intermediaries	Interviews with financial intermediaries and final beneficiaries Interviews EIB Ops
Effectiveness through visibility	**EQ12: What is the effectiveness of communication efforts of the EIB on the visibility* of the EU, including at project level?**		
	JC12.1: EU rules on communication are clearly defined and applied at financial intermediary level and project level	I12.1.1: Number and type of communication tools deployed both at the financial intermediary level and project level I12.1.2: Inclusion of explicit reference to the EU at the project level through logo or dedicated information is visible for each financing operation	Interviews with financial intermediaries and final beneficiaries
	JC12.2: The EIB communication is adapted to the targets and to specific geographical areas	I12.2.1: Presence of local adaptation of communication tools to the different targets (financial intermediary and final beneficiaries) and with regard to geographical areas (language, culture, key issues, EIB background in this location, etc.) I12.2.2: Clear understanding and knowledge of the Programme opportunity and advantage among financial	Interviews EIB OPS and PJ

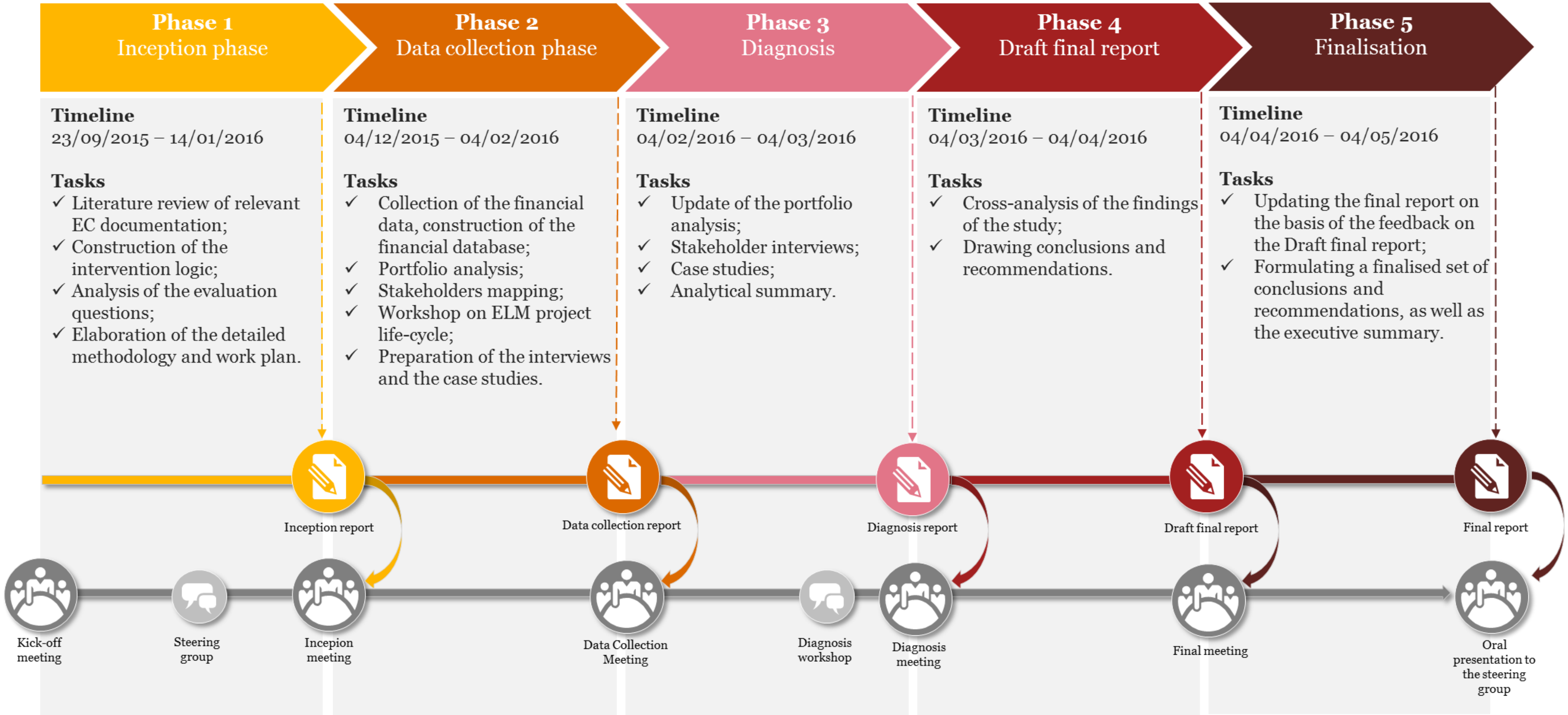
Evaluation criteria	Judgment Criteria	Means of verification (indicator)	Sources
		intermediaries	
	JC12.3 The EIB communication makes the EU and its external policy objectives visible at financial intermediaries and project levels.	I12.3.1: Level of awareness (perception) of the funds' origin (EU's involvement) among financial intermediaries and final beneficiaries. I12.3.2: Level of awareness (perception) of the EU external objectives (including as regards climate change mitigation and adaptation) among financial intermediaries and final beneficiaries.	Interviews with financial intermediaries and final beneficiaries

Assessing the EU's visibility mostly rely on stakeholder's perception and non-measurable indicators, subject to different interpretation. This limit of the approach will be addressed in the final analysis (triangulation of sources) and flagged.* ***NB:* *A regular update will be provided on the status of each of these questions in the following reports.*

2.3 Main phases of the mid-term review

The evaluation work has been articulated in five phases as illustrated below.

Figure 4: Breakdown of the assignment work phases



2.3.1 Methodological tools employed

Financial database creation

The task involved close cooperation between the evaluation team and the EIB staff to ensure that the evaluation team has possession of and understands all the data available relevant to the study.

The primary step has been the constitution of the database of financial operations of the EIB under the ELM for the years 2014-2015, including, where possible, foreseeable upcoming operations, in particular those awaiting signature.

For each of the 57[8] financing operations, the financial database comprises in particular:

- The project title and description (purpose, region, sector, country, etc.);
- Date of signature;
- Appraisal time (in months);
- The stakeholders under consideration (financial intermediaries and final beneficiaries);
- The financial characteristics of the project (project cost, percentage of the EIB contribution, volume of funds disbursed so far);
- The results of the risk assessment exercise;
- The climate change indicator (Climate Action Indicator% for tracking climate change mitigation and adaptation);
- Nature of the EU guarantee (Political risk vs. Comprehensive);
- For multi-beneficiary loans: number of final beneficiaries (specifying the financial characteristics of each of the loans provided by the financial intermediaries to the final beneficiaries);
- For the framework loans: number of sub-projects covered/in the pipeline (specifying the financial characteristics of each of the sub-projects).

The preliminary data provided by the EIB have been stored in an excel spreadsheet as illustrated below:

8 Within the portfolio analysis, we have considered 57 operations. In fact, one project, e.g « TAJIK - KYRGYZ POWER INTERCONNECTION » counts twice since it concerns two separate countries and two contracts have been signed.

Figure 5: Financial database: a snapshot[9]

Operation number	Contract number	Operation name	Avancement (gb)	EU Guarantee limited to Political Risks	Mandate / Facility	Funds	Region	Country	Sector(s)	First signature of the operation	Signature within current ELM period	Appraisal duration (months)	EIB financing type	Project cost EUR	Approved (operation-level) EUR	Signed in EUR	Contract currency	Signed in contract currency	Climate Change indicator (%)	Climate Change mitigation indicator (	Climate Change adaptation indicator (	Disbursed as % of net signed	Type of final beneficiary	Co-financing with other IFIs	TA / grant component
20140459	85294	NICARAGUA HYDRO DEVELOPMENT AND TRANSMISSION	Fully Signed	No	ELM Latin America 2014-2020	EIB own resources	Latin America	Nicaragua	Energy	29/12/2015	29/12/2015	11	Investm. Loan	1,090,445,860	145,586,897	146,092,038	USD	160,000,000	85	100		0%	Sovereign entity	Yes	
20100613	82167	CAIRO METRO LINE 3 (PHASE 3)	Approv BoD	No	ELM MED 2014-2020	EIB own resources	Mediterranean countries	Egypt	Transport	14/11/2012	29/12/2015	12	Investm. Loan	2,417,900,000	600,000,000	200,000,000	EUR	200,000,000	100	100		0%	Public sector entity	Yes	Yes
20150476	85055	UKRAINE AGRI-FOOD APEX LOAN	Fully Signed	No	ELM East-Ru. 2014-2020	EIB own resources	Russia, E.Europe,Sth. Caucasus	Ukraine	Credit lines	28/12/2015	28/12/2015	3	Multi BI Loan	800,000,000	400,000,000	400,000,000	EUR	400,000,000	35	11	24	0%	SMEs / MidCaps		Yes
20150022	84434	AFFORESTATION AND EROSION CONTROL III	Fully Signed	No	ELM Pre-Accession 2014-	EIB own resources	Candidate countries	Turkey	Agriculture, fisheries,	28/12/2015	28/12/2015	9	Investm. Loan	330,816,000	120,000,000	120,000,000	EUR	120,000,000	100	70	30	0%	Sovereign entity		
20150021	84433	TUBITAK RESEARCH PROMOTION II	Fully Signed	No	ELM Pre-Accession 2014-2020	EIB own resources	Candidate countries	Turkey	Services	28/12/2015	28/12/2015	9	Investm. Loan	535,500,000	200,000,000	200,000,000	EUR	200,000,000	3	3		0%	Public sector entity		
20150308	84809	MODERNISATION ROUTIERE II	Fully Signed	No	ELM MED 2014-2020	EIB own resources	Mediterranean countries	Tunisia	Transport	18/12/2015	18/12/2015	1	Framew k loan	342,900,000	150,000,000	150,000,000	EUR	150,000,000	2	2		0%	Sovereign entity		Yes
20150294	84794	ISTANBUL UNDERGROUND RAIL NETWORK	Approv BoD	No	ELM Pre-Accession 2014-2020	EIB own resources	Candidate countries	Turkey	Transport	18/12/2015	18/12/2015	4	Investm. Loan	1,400,000,000	350,000,000	295,000,000	EUR	295,000,000	100	100		0%	Regional or local authorities		
20140232	83634	ROUTE 10 RAIL REHABILITATION	Approv BoD	No	ELM Pre-Accession 2014-2020	EIB own resources	Potential candidate countries	Kosovo	Transport	08/12/2015	08/12/2015	16	Investm. Loan	208,400,000	80,000,000	42,000,000	EUR	42,000,000	100	100		0%	Commercial company	Yes	
20140534	84869	DAMANHOUR CCGT POWER PLANT	Fully Signed	No	ELM MED 2014-2020	EIB own resources	Mediterranean countries	Egypt	Energy	06/12/2015	06/12/2015	5	Investm. Loan	1,207,530,255	537,875,392	550,357,733	USD	600,000,000	2	2		0%	Public sector entity	Yes	
20120407	84944	NEPAL GRID DEVELOPMENT PROGRAMME	Fully Signed	No	ELM Asia 2014-2020	EIB own resources	Asia (excl. Central Asia)	Nepal	Energy	03/12/2015	03/12/2015	8	Investm. Loan	65,159,212	30,000,000	30,000,000	EUR	30,000,000	84	84		0%	Regional or local	Yes	Yes
20130587	83156	VIENTIANE SUSTAINABLE URBAN TRANSPORT	Approv BoD	No	ELM Asia 2014-2020	EIB own resources	Asia (excl. Central Asia)	Lao People's Democratic	Transport	30/11/2015	30/11/2015	14	Investm. Loan	87,760,000	20,000,000	18,905,379	USD	20,000,000	100	100		0%	Regional or local	Yes	Yes

Source: EIB

9 The snapshot does not provide all the information contained in the database but the most relevant in the context of the evaluation

Portfolio analysis

The EIB provided the evaluation team with the data for the 57 financing operations signed under the current ELM from July 2014 up to 31 December 2015. The data was extracted from the EIB database Serapis with detailed information on each financing operation.

From this database, the evaluation team performed a portfolio analysis of the 57 financing operations in the database. This analysis provides a descriptive and analytical overview of the ongoing status of the ELM operations, including:

- Regional distribution;
- Country distribution;
- Sector distribution;
- EIB financing type;
- Appraisal duration;
- Coverage of the EU guarantee;
- Project cost and EIB contribution per projects;
- Disbursement;
- Type of final beneficiaries;
- Climate change indicators.

This allows drawing a global snapshot of the portfolio and outlining some findings and build hypotheses, which were addressed more in depth during the case studies.

Workshop on ELM projects lifecycle

A workshop was organised with the EIB to present some of the key elements of the ELM: project lifecycle, project monitoring, the economic and financial assessment of project, the EU call for guarantee process, the REM framework and a specific case study of the financial operation conducted in Armenia.

Stakeholders mapping

The stakeholders mapping consisted in the identification of the various stakeholders involved directly and indirectly in the strategic orientation, the implementation, the reporting and the monitoring of the Programme as well as stakeholders from the beneficiaries side. Then their role and their interaction was defined to draw an overall picture of the stakeholders' interactions. The stakeholder mapping was necessary to prepare the stakeholder interviews, ensuring that the evaluation team identified all the relevant stakeholders.

Stakeholder interviews

Interviews were conducted with a set of relevant stakeholders identified in the stakeholders mapping. The evaluation team used a semi-structured interview approach that provided a set of questions to be tackled during the interview while allowing the interviewer to ask follow-up questions. This approach enabled the evaluation team to obtain the largest possible volume of information during each interview.

The list of stakeholders interviewed is presented in the Appendices 1.

Case studies

The evaluation team conducted an in-depth analysis for 20 financing operations by studying the documentation related to these projects. This documentation set the background of the financing operation, the appraisal procedure, the contractual specificities and the modalities of the execution of the financing operation. This desk research was completed by interviews with relevant stakeholders.

The analytical grid for the twenty case studies is presented in the appendices. This grid introduces the various themes to be addressed for each of the case studies.

2.4 Data collected for the evaluation

The evaluation team collected project-specific documentation for each of the twenty case studies: PIN, appraisal report, contracts, REM reports, the financial data (interest rate of the loan, maturity, collateral, guarantee arrangement), reporting documents, documents on methods used by the EIB to ex-ante assess projects.

The evaluation team also collected and analysed the following documents:

- Legal framework (the Decision, the Guidelines, allocation policy, the Guarantee Agreement and the Recovery Agreement);
- Strategic documentation (ELM Climate change strategy, various EU strategies as regards climate change, migration or external policies, etc.);
- Past evaluation report on the ELM;
- Project cycle guidelines from the EIB and presentation on REM framework, economic and financial analysis and monitoring;
- Financial data on each of the 57 financing operations.

The full list of strategic documents consulted through the evaluation is provided in the appendices.

2.5 Main limits of the approach and mitigation actions

The overall approach for the study presents two main constraints:

First, considering **the short operating timeframe of the Programme**, a small number of operations have already been signed (57) and an even smaller number of operations have already been disbursed (9), which reduces the explanatory power of the analysis. Any extrapolation to the whole population of operations (both running and upcoming under this ELM period), in particular, would be hazardous. Given this short timeframe, the evaluation approach is mainly qualitative, addressing the conditions for success. The judgment on the actual effectiveness, efficiency, coherence of the ELM is completed with an analysis of whether the conditions for the Programme to achieve its objectives are in place. The evaluation team applied this approach throughout the entire analysis of the ELM including the internal functioning of the ELM. This is all the more relevant as it helps to draw recommendations for the improvement of the Programme.

Data availability is another issue, in particular as regards data at the final beneficiaries' level. This is partly due to the short operating timeframe of certain operations or the way they are structured, in particular for multi-beneficiary loan. However, at the Programme level, all aggregated financial and non-financial data have been made available and allowed to produce the required analysis for this evaluation.

3 Institutional analysis

This section analyses the institutional framework of the ELM focusing on policy context, stakeholders involved and implementation mechanisms. It provides qualitative information on various aspects of the ELM, particularly relevant within the scope of the present evaluation.

3.1 Policy context

The overall purpose of the ELM is to contribute to the EU external policy objectives. In that respect, being consistent with the EU political agenda and its evolutions is one of the key challenges of the ELM and is logically reflected in the present evaluation.

To assess the consistency of the ELM with the EU policy agenda, it is crucial to stress key elements of the EU policy agenda over the last year and a half and to understand the ongoing discussions that may influence the EU external priorities.

First, **climate change mitigation and adaptation** is among the EU's top priorities and has been high on the EU and international political agenda in recent years, culminating with the 2015 Paris climate change conference (COP21). Climate action encompasses the development and implementation of strategies, policies and projects to either mitigate climate change or to adapt to it. The EU has set itself targets for reducing its greenhouse gas emissions progressively up to 2050. They are presented in three documents:

- *2020 climate and energy package*: enacted in 2009, the 2020 package defines three key targets for the EU as a whole in terms of climate change mitigation with a 20% cut in the greenhouse gas emissions (from 1990 levels), a 20% share of EU energy produced from renewable sources and 20% improvement in energy efficiency. EU member states have taken on binding national targets, which vary according to national wealth and depending on the countries' different starting points for renewables production and ability to further increasing it. For cutting GHG emissions from large-scale facilities in the power and industry sectors, as well as the aviation sector, the EU created the emissions trading system (ETS). The EU supports also the development of low carbon technologies for instance through the NER300 programme for renewable energy technologies and carbon capture & storage or the Horizon 2020 funding for research & innovation.

- *2030 climate and energy framework*: adopted in 2014, the framework sets three key targets for the year 2030: at least 40% cuts in greenhouse gas emissions (from 1990 levels), at least 27% share for renewable energy and at least 27% improvement in energy efficiency.

- *2050 low-carbon roadmap*: it sets the overall target for GHG emissions by 2050. By 2050, the EU should cut emissions to 80% below 1990 levels. All sectors need to contribute to the low-carbon transition according to their technological and economic potential (power generation, industry, transport, buildings, construction and agriculture).

The EU climate change adaptation strategy was defined in 2013 in the "EU strategy on adaptation to climate change." This strategy is mainly targeted at the EU, but it sets some guiding principles that are also applicable to external actions. The overall objective of the strategy is to deal with the unavoidable climate impacts and their economic, environmental and social costs through promoting action by Member States (subsidiarity principle), promoting better informed decision-making and promoting adaptation in key vulnerable sectors. These are outlined in 8 actions, which are the levers to achieve these objectives. Some of these actions are also relevant for the EU external actions. In particular, action 7 deals with ensuring more resilient infrastructure, which will be achieved by providing industry-relevant standards in the area of energy, transport and buildings and by producing guidelines to help project developers working on infrastructure and physical assets to climate-proof vulnerable investments. In addition, action 8 intends promoting financial products for resilient investments and business decisions.

Some guiding principles of the EU actions in climate change mitigation and adaptation can be drawn from this strategic framework. These principles mark the EU policy objectives and will be considered when assessing the consistency of the ELM with the EU political agenda. These principles are:

- Setting clear, ambitious and long-term targets for GHG emissions. This implies setting progressive targets for portfolio of projects, assessing the expected GHG emissions of projects and GHG emissions at various maturities.
- Making all sectors contribute to GHG reductions. This implies considering potential GHG emissions for all projects/operations and taking mitigation measures when possible. It also results in maximising the potential of each sector in terms of GHG emissions reduction.
- Making the most of infrastructure potential in particular in energy, transport and buildings. Projects or operations involving the development of infrastructure should put a high premium on contributing to GHG emissions reduction.
- Integrating climate adaptation/resilience into operations and developing adapted financial products for financing climate-resilient investments.

The COP21 and the Paris Agreement are also important milestones for the EU policy in the aspects of the climate change adaptation and mitigation. The European Commission prepared a communication towards the European Council assessing the implications of the Paris Agreement[10].

Climate change is also integrated in external policies through green diplomacy. In this respect, the EU strategy dates back to 2002 with the Strategy on Environmental Integration in External Policies. Today, one of the main tool is the Green Diplomacy Network[11]. The network focuses on environmental topics that have significant relevance to the EU's external relations, such as climate change, biodiversity, land degradation and renewable energy

The external political agenda of the EU faces the challenge of the **refugee crisis**. Since 2015, a rising number of refugees and migrants have arrived in the European Union from areas such as Middle East, South Asia and Northern Africa, travelling across the Mediterranean Sea, or through Southeast Europe. In May 2015, the European Commission set the "European agenda on migration"[12]. The first part of this Agenda responded to the human tragedy in the whole of the Mediterranean. This includes search and rescue efforts in the Mediterranean sea, fight against criminal smuggling networks, alleviation of the pressure on the asylum systems through temporary distribution scheme for asylum-seekers, resettlement, working in partnership with third countries to tackle migration upstream and using the EU tools to help frontline Member States. The agenda also identifies four levels of structural actions: reduction of the incentives for irregular migration, border management, development of a strong common asylum policy and a new policy on legal migration. A large part of the measures taken by the EU relies on the cooperation with third countries, both entry points in the EU (e.g. EU neighbouring countries) and countries of origin of migrants and refugees. In that respect, the Agenda states that "the EU must continue engaging beyond its borders and strengthen cooperation with its global partners, address root causes, and promote modalities of legal migration that foster circular growth and development in the countries of origin and destination". This ambition may directly affect the ELM since the ELM supports operations in third countries including neighbouring countries. On the 18 March 2016, the Members of the European Council met with the representatives of the Republic of Turkey in the framework of their ongoing discussion to address the refugee crisis. Following these discussions, the agreement was reached with the aim of stopping the flow of illegal immigration to the EU. The agreement specified, in particular, that the EU will speed up the disbursement of the EUR 3 billion under the Facility for Refugees in Turkey and, once these resources exhausted mobilise additional funding for the Facility up to EUR 3 billion by the end of 2018. Even though, the ELM is not directly concerned by the Agreement, the financial effort towards Turkey and towards the Middle-Eastern area countries could potentially support the EU political agenda in relation to the refugee crisis. Indeed, the EIB has been solicited for contributing to the European response on migration, and this objective needs to be accounted for in the future ELM operations.

Another topic of importance in the current EU debate is **economic diplomacy** with ongoing discussions on the EU approach and strategy as regards internationalisation of European businesses. The overall objectives of the economic diplomacy are to support the EU businesses who want to do business abroad, to promote common standards for businesses and, in parallel, attract

10 "The Road from Paris: assessing the implications of the Paris Agreement and accompanying the proposal for a Council decision on the signing, on behalf of the European Union, of the Paris agreement adopted under the United Nations Framework Convention on Climate Change", 2.3.2016, https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-110-EN-F1-1.PDF

11 The EU Green Diplomacy Network (GDN) is a innovative tool that works towards a better integration of the EU environment policies into external relations practices.

12 Communication from the Commission to the European Parliament, the Council, the European Cconomic and Social committee and the Committee of the Regions, a European Agenda on Migration, 13.5.2015.

investments within the EU. At this stage of the discussions, two mains axis have been identified. First, there are many policies, actors and instruments that already contribute to economic diplomacy. Therefore, there is a need for coordination, alignment and streamlining of EU effort in this field. Second, access to funding is the key obstacle to the internalization of EU businesses. EU economic diplomacy should also focus on the financing conditions to internationalization of EU businesses. As part and parcel of the EU set-up, the EIB is expected to be a key player in this field.

Despite little information published so far, the development of the EU economic diplomacy is a relevant topic when it comes to assessing the alignment of the ELM with EU external objectives. Indeed, as for the ELM, economic diplomacy mainly focuses on actions/operations outside the EU and promotes EU economic operators, including SMEs abroad.

The EU external political agenda has also been shaped by major **geopolitical changes** in the EU partner countries. These changes have defined or redefined EU external priorities that the ELM is expected to contribute to. A major topic in this discussion is the evolution of the context in Ukraine and the redefinition of the relationship between the EU and Russia. In response to the crisis in Ukraine, the EU has engaged a major effort to support the country recovery. In March 2014, the Commission committed to help stabilise the economic and financial situation in the country, assist with the transition and encourage political and economic reforms. The overall support reaches EUR 11 billion coming from the EU budget and EU-based IFI in addition to funding provided by the IMF and the World Bank. In that respect, the EU wants "all elements and instruments to be pulled together to ensure an effective and coherent European Union and international response" [13]. This has been translated into a set of measures to be implemented in the coming years and relying both on the financial push and on the structural reforms. The package includes:

- EUR 3 billion from the EU budget, EUR 1.6 billion in macro financial assistance loans (MFA) and an assistance package of grants of EUR 1.4 billion;
- Up to EUR 8 billion from the European Investment Bank and the European Bank for Reconstruction and Development;
- Potential EUR 3.5 billion leveraged through the Neighbourhood Investment Facility;
- Setting up of a donor coordination platform;
- Provisional application of the Deep and Comprehensive Free Trade Area when Association Agreement is signed and, if need be, by autonomous frontloading of trade measures;
- Organisation of a High Level Investment Forum/Task Force;
- Modernisation of the Ukraine Gas Transit System and work on reverse flows, notably via Slovakia;
- Acceleration of Visa Liberalisation Action Plan within the established framework; Offer of a Mobility Partnership;
- Technical assistance on a number of areas from constitutional to judicial reform and preparation of elections.

As underscored in the second measure of the package, the EU intended to make the EIB contribute to the Ukraine recovery, in particular through long-term investments: "the EIB could provide financing for long-term investments of up to EUR 3 billion for 2014 – 2016 in support of both the local private sector and economic and social infrastructure"[14].

On 8 January 2015, the European Commission indeed proposed further Macro-Financial Assistance to Ukraine of up to EUR 1.8 billion in medium-term loans. It was adopted by the European Parliament and the Council on 15 April 2015 to be implemented in the course of 2015, and in early 2016.

Ukraine is a telling example of how geopolitical changes may affected the EU external agenda. The study will therefore analyse the extent to which these changes have impacted the implementation of the ELM.

In the **Middle East,** major geopolitical changes have also occurred over the past few years. The high political instability and humanitarian crisis in Iraq and Syria have become increasingly prevalent in the discussion on the EU external policy. The EU is the leading donor in the

[13] "European Commission's support to Ukraine" http://europa.eu/rapid/press-release_MEMO-14-159_en.htm

[14] "European Commission's support to Ukraine" http://europa.eu/rapid/press-release_MEMO-14-159_en.htm

international response, with over EUR 5 billion from the EU and the Member States collectively in humanitarian, development, economic and stabilisation assistance. The latest EU position is stated in the Foreign Affairs Council Conclusions of 12 October 2015.

Finally, the EU external objectives are supported through various instruments and programmes among which **blending mechanisms**. First introduced in the Multiannual Financial Framework 2007-2013[15], blending has gaining momentum to complement other implementation modalities. The mechanism combines EU grants with loans or equity from public and private financiers. The geographical coverage of regional blending facilities has been progressively extended in ELM countries:

- Pre-accession: Western Balkans Investment Framework (WBIF);
- Neighbourhood: Neighbourhood Investment Facility (NIF),
- Latin America: Latin America Investment Facility (LAIF);
- Asia: Asia Investment Facility (AIF);
- Central Asia: Investment Facility for Central Asia (IFCA);

Among the objectives of the blending mechanism, there is leveraging to enhance the impact of EU development assistance and improved aid effectiveness through greater donor, beneficiary and lender coordination, and increasing the access to public services, infrastructure and credit to boost socio-economic development. Considering that they share common geographical targets, instruments and objectives, blending mechanisms and ELM financing operations could complement each other. Their potential cooperation within the framework of the ELM will be therefore another element to analyse.

3.2 Stakeholders analysis

The stakeholder analysis intended to identify the main stakeholders of the ELM and to analyse their role and interactions within the Programme. This contributed to the overall understanding of the Mandate. It also guided the data collection process and allowed identifying the stakeholders who served as the main sources of information for the study, in particular during the stakeholders' interviews. Different stakeholders have been involved at different levels (strategic, operational, and intermediate) and their feedback contributed to different parts of the study. Figure 6 on the next page presents a stakeholder mapping of the ELM.

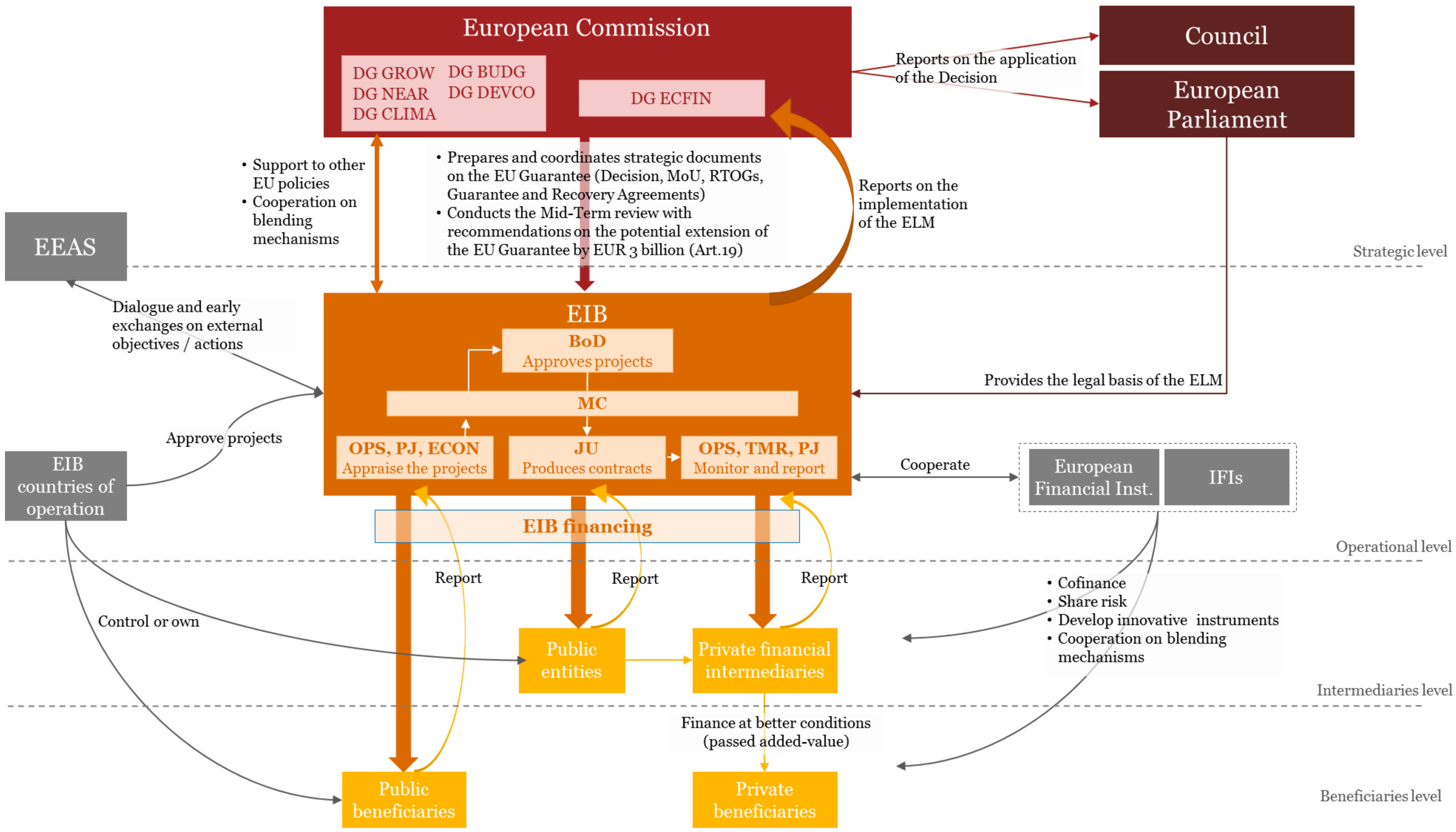
In addition, not all stakeholders have the same stake in the ELM and in the study. The table presented after the stakeholder mapping provides for each stakeholder identified:

- Their level of intervention (strategic, operational, intermediaries and beneficiaries);
- Their role and responsibilities;
- Their contribution in the study.

The stakeholder's analysis was used to target the relevant interviewees and to address the relevant topics with each of them. On this basis, we specified for each judgement criteria of the evaluation matrix the type of stakeholder interviewed.

[15] Blending operations, https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en

Figure 6: Stakeholders mapping



Stakeholders	Level of intervention	Role / Responsibilities	Contribution to the study
Primary stakeholders			
European Parliament	Strategic / Legal	• Adopting the legal basis for the ELM • Ensuring that the Decision is enforced	• Quality and relevance of the reporting provided by the EC on the ELM. • Strategic relevance of the Decision (and evolutions)
European External Action Service (EEAS)	Strategic	• Coordinating with the EIB on EU external policy objectives and actions • Developing synergies / complementarity between the ELM and other EU programmes	• Quality and effectiveness of the cooperation with the EIB • Level of synergies / complementarity between ELM and other EU programmes.
Council	Strategic / Legal	• Adopting the legal basis for the ELM • Ensuring that the Decision is enforced	• Quality and relevance of the reporting provided by the EC on the ELM. • Strategic relevance of the Decision (and evolutions)

European Commission	Strategic (part of operational)	• Coordinating and preparing the legal basis of the ELM and strategic documents (MoU, RTOGs, Guarantee and Recovery Agreements).
		• Monitoring of the Guarantee Fund mechanism
		• Ensuring the compliance of the ELM with its legal basis / EU external objectives
		• Orienting ELM if needed (evolutions in context / objectives)
		• Overall monitoring of the Programme through the reporting from the EIB
		• Ensuring the consistency of the ELM with other EU programmes and instruments (develop synergies, avoid overlaps)
		• Cooperation with the EIB on blending mechanisms
		• Ensuring the consistency of the ELM with other EU policies, in particular as regards economic diplomacy, neighbouring countries and climate change
		• Submits to the European Parliament and the Council a mid-term report evaluating the application of the Decision and a proposal for its potential amendment (Art.19 of the Decision 466/2014/EU)
			• Relevance of the Decision with the context of intervention of the ELM (and its evolutions)
			• Consistency of the ELM with EU external objectives
			• Quality of the reporting from the EIB
			• Cooperation between ELM and other EU programmes and instruments
			• Cooperation with other IFIs
			• Quality and effectiveness of the cooperation with the EIB on blending mechanisms
			• Level of synergies/complementarity between ELM and other EU programmes
			• Consistency/contribution of the ELM to EU policies
			• Cooperation with other IFIs
			• Drawing upon the evaluation and contribution from the EIB to produce own mid-term report on the application of the Decision (Art.19), including:
			  • an assessment of the application of the allocation policy;
			  • an assessment of EIB reporting and recommendations on how to improve it;
			  • an assessment of the REM, including performance

			indicators and criteria, and their contribution to the achievement of the objectives of this Decision; • A detailed account of the criteria considered for the recommendation concerning the potential activation in whole or in part of the optional additional amount.
European Investment Bank			
Board of Directors (BoD)	Strategic	• Ensuring the quality of the projects to be funded under the ELM and of the structuring of the operation	• Quality of the project and of the appraisal process • Effectiveness of the allocation policy • Relevance of the Decision
Management Committee (MC)	Strategic / operational	• Ensuring the quality of the projects to be funded under the ELM and of the structuring of the operation • Coordination of human resources	• Quality of the project and of the appraisal process • Effectiveness of the allocation policy • Internal efficiency in the implementation of the ELM
Directorate for Operations (OPS)	Operational	• Identification of potential projects • Coordinating the appraisal of the projects (in particular financial analysis and perspectives of EIB counterpart(s), structuring of EIB operation) • Monitoring of the projects / Reporting • Coordination with other EU / IFI programmes	• Quality and relevance of the appraisal process (methods used in particular) • Quality, relevance and effectiveness of the monitoring system (REM, etc.) • Level of synergies / complementarity between ELM and other EU/IFI programmes • Efficiency of the internal management of the ELM • Added-value for beneficiaries • Contribution to climate change objectives • Communication efforts on the ELM
Projects Directorate (PJ) including Environment Climate & Social Office (ECSO) and Including PJ/QUAL	Operational	• Contributing to the appraisal of the projects (technical, economic, environmental and social due diligence) • Physical monitoring (technical, economic, environmental and social aspects) • Ensuring the compliance of Article 19 between the EIB & European Commission • Coordinating and ensuring the quality of project	• Quality and relevance of the appraisal process (methods used in particular) • Quality, relevance and effectiveness of the monitoring system (REM indicators, etc. including Env, Social & Climate impact indicators) and links to Climate Strategy (EIB, ELM) • Quality and effectiveness of the cooperation with the EC

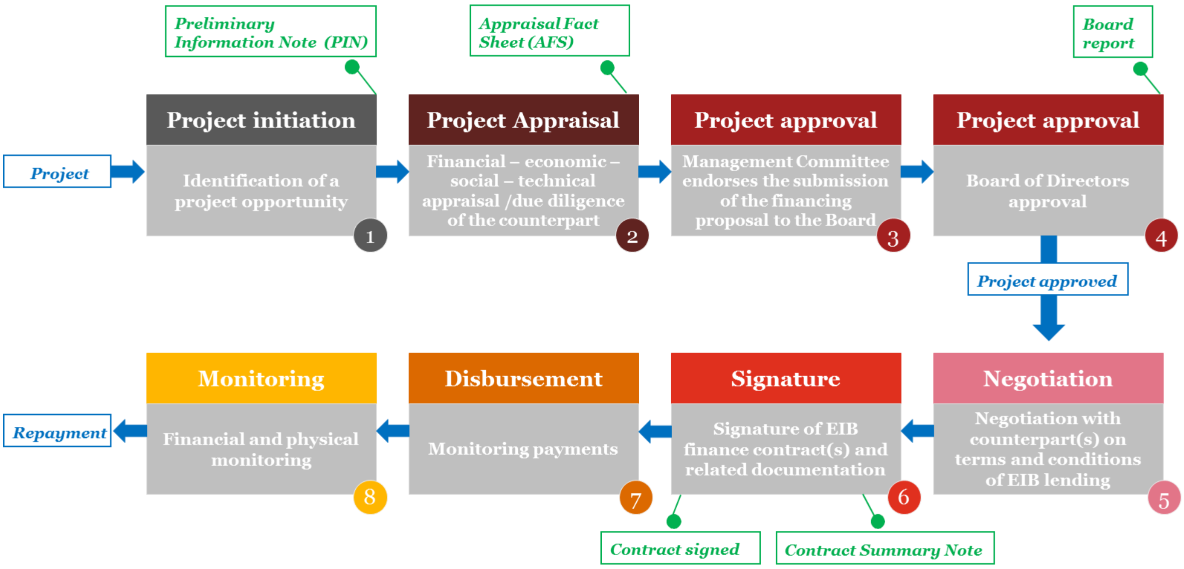
		information submitted to the EC	
Legal Directorate (JU)	Operational	• Drafting contractual documents.	• Legal issues of the ELM
Transaction Management and Restructuring Directorate (TMR)	Operational	• Contributing to the monitoring of the projects	• Quality, relevance and effectiveness of the monitoring system (REM, etc.)
Public or private intermediaries	Operational / intermediaries	• Using the EIB financing (with the EU guarantee) to finance project • Reporting on the related activities	• Financing conditions offered • Management cost induced by the ELM • Complementarity of the ELM with other EU/IFI programmes • Visibility of the EU • Added-value for the final beneficiaries • Awareness of EU objectives and consideration for climate change
Public or private beneficiaries	Operational / beneficiaries	• Implementing projects with the direct or indirect financing of the EIB	• Financing conditions offered • Management cost induced by the ELM • Visibility of the EU • Added-value of the ELM • Consideration for climate change
Secondary stakeholders			
European Financial Institutions (EFI) and International Financial Institution (IFI)	Strategic / operational	• Coordinating with the EIB on joint programmes including the ELM • Exchanging practices with the EIB on the conduct of the operation (appraisal, monitoring, reporting, etc.)	• Quality and effectiveness of the cooperation with the EIB • Level of synergies / complementarity between ELM and other EFI/IFI programmes.
EIB countries of operation	Strategic / operational	• Approving the projects to be conducted in their country • Coordinating with the EIB on a project basis	• Quality and effectiveness of the cooperation with the EIB • Relevance of the operation with their national strategies

3.3 Implementation principles

3.3.1 ELM project life and processes

The projects under the ELM follow the usual EIB project lifecycle. The project lifecycle of EIB operations is presented below:

Figure 7: Project cycle and processes for EIB operations



Source: EIB

The **initiation of a project** starts with the identification of a project opportunity through a first contact between a loan officer (OPS) and a borrower or a promoter. However, other modalities of the identification of the project may occur (e.g. EIB being invited by another IFI to participate in the project co-financing). Then preliminary verifications are carried out. The PJ check the project eligibility on several criteria:

- The project is a new investment (no refinancing);
- It is consistent with the EU policy and the EIB public policy objectives;
- It is not an "excluded activity"[16].

If requested by OPS, the compliance officer carries out due diligence on the counterpart(s) identity. In particular, he ensures that the counterpart(s) is not under sanctions or legal threat.

Based on these first verifications and analysis, a *Preliminary Information Note* (PIN) is prepared by the project team. The PIN presents the project scope, the counterpart(s), the possible financial structure (loan tenor, security) and a due diligence calendar. With the PIN, the loan officer requests for authorisation to process the project from the Management Committee. At this stage, the EIB requests opinions on the project from the Commission which has two months to answer (sometimes delays are longer due to discussions) and from the host State. Normally, at the PIN stage the projects are published on the EIB website.

If agreed, the project enters in the **appraisal phase**. The appraisal mission is conducted on the spot by OPS and PJ:

[16] Activities excluded from EIB lending: ammunition and weapons, military/police equipment or infrastructure, projects which result in limiting people's individual, rights and freedom, or violation of human rights; projects in protected areas, critical habitats and heritage sites, without adequate compensation/mitigation, sex trade and related infrastructure, services and media; animal testing*); gambling and related equipment, hotels with in-house casinos; tobacco (production, manufacturing, processing, and distribution), activities prohibited by national legislation (only where such legislation exists). http://www.eib.org/attachments/documents/excluded_activities_2013_en.pdf

- OPS ensures the overall coordination of appraisal, financial analysis and perspectives of EIB counterpart(s) and the structuring of the operation;
- PJ carries out the technical, economic, environmental and social due diligence.

Throughout the appraisal phase, the results are analysed in internal reports (PJ report) and financing proposal (OPS financial note) which form the *Appraisal Fact Sheet* (AFS) submitted for management decision. The AFS also incorporates the opinions provided by ECON, OCCO, JU and RM.

Legal requirements in terms of ex-ante assessment of investment projects (art. 9 of the Decision)

The EIB shall carry out due diligence on social, human, rights, environmental, economic and development-related aspects of investment projects and require, where appropriate, project promoters to conduct local public consultation on these topics.

The EIB shall also obtain from project promoters the relevant information to assess the contribution of the project to EU external policy and strategic objectives.

In addition, the ex-ante assessment shall cover the "relative and absolute greenhouse gas emissions related to the EIB financing operation".

The opportunity of deploying technical assistance throughout the project cycle shall also be considered by the EIB during the appraisal phase if it contributes to reinforcing the capacities of beneficiaries.

Then the project follows a **two-steps approval**:

- The overall results of the appraisal are presented to the Management Committee which is requested to endorse submission of the financing proposal to the Board of Directors. The Management Committee considers the various opinions expressed by the different directorates involved in the process and potentially provides an authorisation to launch a negotiation of the financial contract and approves the *Appraisal Fact Sheet* (AFS), including the opinion on credit risk from the credit risk department;
- The Board report and its annexes (REM, ESDS) are submitted to the Board of Directors for approval;
- The project is approved by the Board of Directors (*Board report*), which authorises the signature of the contract(s).

The contractual documents are drafted by the Legal Directorate (JU) on the basis of the relevant Management Committee and Board of Directors decisions and incorporating the condition required by the project team. Terms and conditions of the EIB lending are negotiated with the counterpart(s). This is presented in a *Contract Summary Note* for inter-service validation. It gives the authorisation to the Bank to disburse, but disbursements are attached to preconditions that the counterpart has to meet before receiving the funds.

For non-EU operations, the **disbursement period** is usually longer, in particular the period until the fulfilment of conditions preceding the 1st disbursement. Then, several small disbursements are provided according to project implementation progress with close monitoring on the funds through invoices, proof of payments, etc.

Monitoring takes place during project implementation and up to one year of operation. It aims to ensure that the operation is in line with best banking practice in order to protect EIB financial interest and reputation, and that the project has been implemented in line with the Bank's standards and that the objectives of the financing are achieved. Two types of monitoring are conducted:

- Contractual/financial monitoring: it monitors the respect of contractual terms (conducted by OPS and TMR);

- Physical monitoring focuses on technical, economic, environmental and social aspects. (conducted by PJ).

Legal requirements in terms of monitoring of investment projects (art. 9 of the Decision)

The Decision states that the EIB shall monitor the implementation of financing operations, but also requires the project promoters "to carry out thorough monitoring during project implementation" with respect to the economic, development, social, environmental and human rights impact of the investment project.

The EIB shall also "verify on a regular basis the information provided by the project promoters and make it publicly available if the project promoter agrees".

The project cycle reflects the main challenges of the evaluation, in particular as regards internal efficiency of the ELM. We can therefore map the evaluation topics on the project cycle:

- Relevance of the methods used by the EIB to appraise projects (in particular financial needs, absorption capacity, additionality of the EIB) refers to project initiation and project appraisal phase;
- Relevance of the set of indicators and criteria and the REM refers to appraisal and monitoring phase;
- Capacity to identify barriers to effectiveness and unintended effects refers to monitoring period;
- Compliance of the EIB reporting through monitoring;
- Efficiency in the management of the ELM covers the whole project cycle.

The evaluation team will use this mapping to identify key documents to analyse at project level as well as key stakeholders to interview (complemented by the stakeholders mapping).

3.3.2 Reporting

As part of the project cycle but also of its obligations under the Decision (article 11), the EIB has to provide the European Commission with annual reporting on financing operations under the ELM. In its annual reports, the EIB should provide all the elements – in particular financial, statistical and accounting data – required for the European Commission's own reports to the European Parliament and the Council or for requests by the Court of Auditors.

The Commission's report shall comprise in particular the following elements:

1) The assessment of the ELM operations at project, sector, country and regional levels along with the assessment of their compliance with respect to the Decision;
2) The assessment of the added value, the estimated outputs, outcomes and development impact of EIB financing operations, based on the EIB's Results Measurement framework annual report;
3) The assessment of the contribution of EIB financing operations to the fulfilment of the EU external policy and strategic objectives (taking into account the Guidelines);
4) The assessment of the financial benefit transferred to beneficiaries;
5) The assessment of the quality of EIB financing operations, in particular, accounting for the consideration of the environmental and social sustainability dimensions in the due diligence and monitoring of the investment projects financed;
6) Detailed information on calls on the guarantee;
7) The information on the climate change and biodiversity financing volumes, the impact on absolute and relative greenhouse gas emissions and the number of projects assessed against the climate risk;
8) A description of the cooperation with the EC and other European and international financial institutions, including co-financing; this must give an overview of the overall investment supported by EIB financing operations carried out under the Decision;
9) Information on the follow-up of the functioning of the Memorandum of Understanding (MoU) between the EIB and the European Ombudsman insofar as the MoU concerns EIB financing operations covered by the Decision.

The Bank is also required to provide:

10) An auditor's certificate on the outstanding balances of EIB financing operations;
11) The risk assessment and grading information regarding the ELM operations;
12) An indicative multiannual programme of the planned volume of signatures of EIB financing operations, in order to align the forecasted financing with the ceilings established by the Decision and to enable the European Commission to make appropriate plans for provisioning the Guarantee Fund;
13) All independent evaluation reports, which assess the results achieved by the specific EIB activities under the Decision and other external mandates.

Furthermore, according to the preamble of the Decision, "*the EIB should establish a reporting mechanism to make sure that the funds dedicated to SMEs are used for their benefit. A consolidated report on SMEs financing under this Decision should be provided by the EIB as part of its contribution to the mid-term review.*"

The reporting obligations are defined by the Decision and are therefore legally binding. The evaluation team will therefore assess the compliancy of the reporting documents provided by the EIB to the Commission on each of these 13 requirements.

However, reporting obligations impose a cost in terms of time and resources dedicated to it. One of the purposes of the evaluation is therefore to identify possible ways of rationalising the reporting modalities. Another is to ensure that reporting mechanisms produce relevant information for the monitoring and the evaluation of the ELM by the EIB and the follow-up of the Commission.

4 Portfolio analysis

This section presents and analyses the data on the financing operations that have been running under the ELM from its initiation in July 2014, and draws some results. It provides the overall picture of ELM operations as of 31/12/2015.

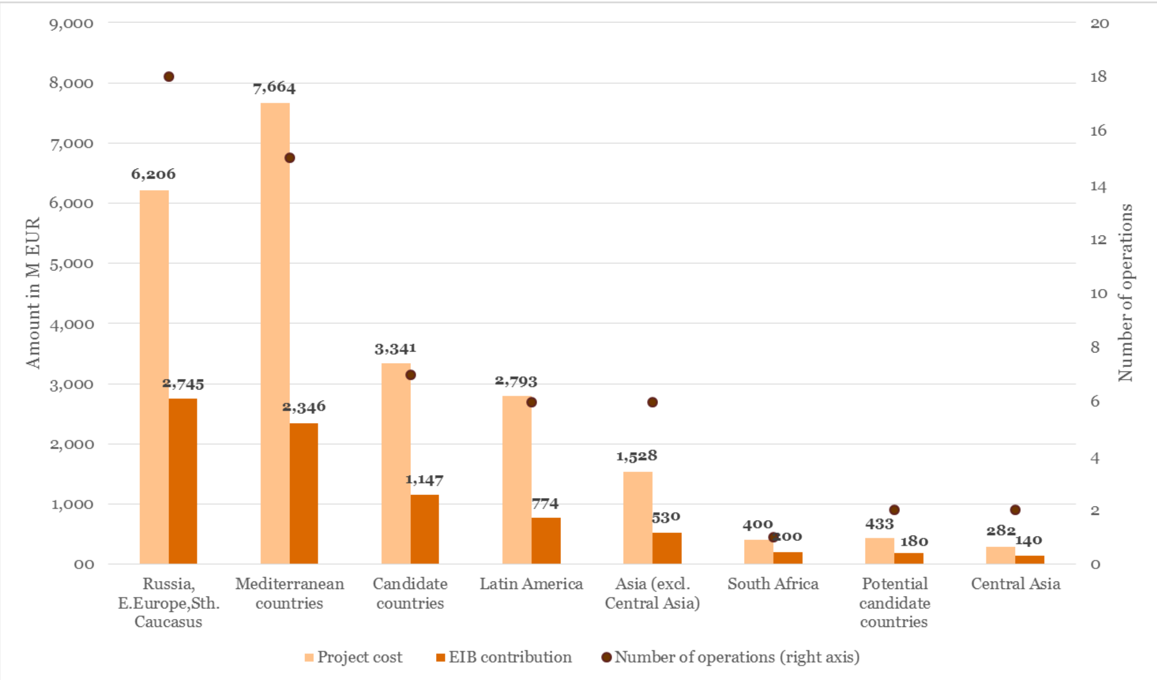
4.1 Overview

Between 01/07/2014 and 31/12/2015, 57 financing operations covered by the ELM were signed. The overall cost of these 57 projects is EUR 22.93 billion, of which the EIB contributes EUR 8.06 billion or 35% of the total cost of projects. The following subsections describe and analyse the distribution of the financing operations. The operations under the ELM for the period 2014-2020 have been running for around 1.5 years only, so the analysis of the ongoing operations, based on 57 observations only, is of a preliminary nature.

4.1.1 Distribution by region and by country: external policy priorities drive the allocation of funds

The following figure shows the number of financing operations, the total project cost and the EIB contribution for each of the regions:

Figure 8: Regional distribution of financing operations: total project cost in M EUR, EIB contribution in M EUR, number of financing operations



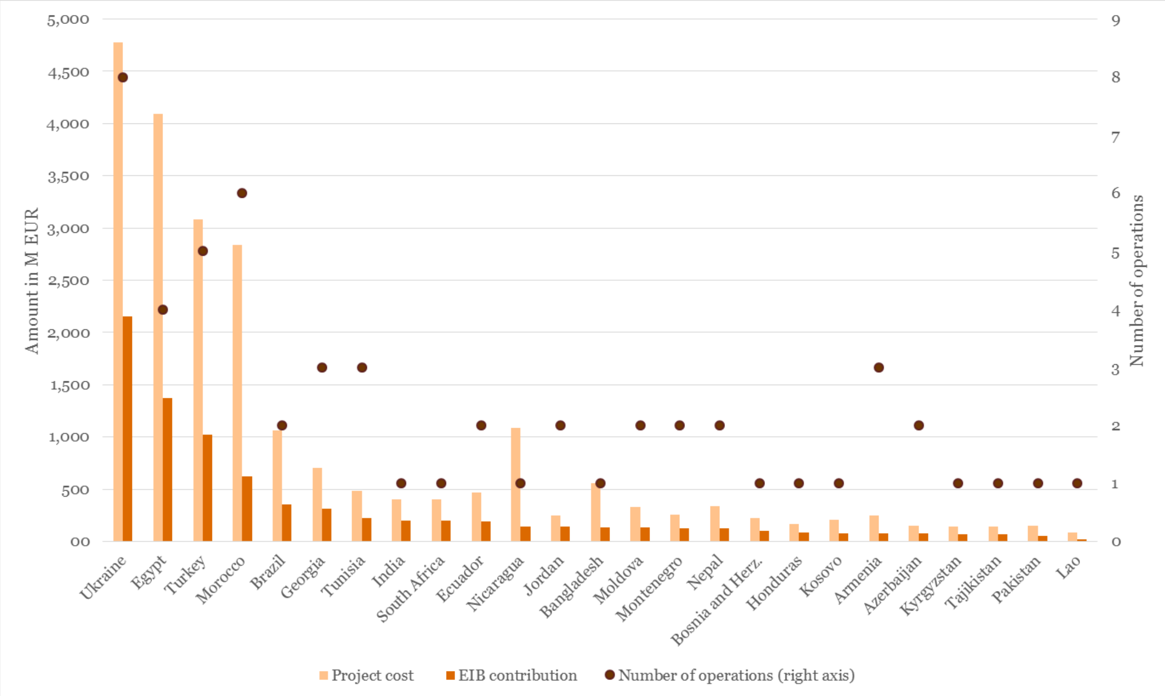
Source: EIB, PwC analysis

The EIB contribution corresponds to the volume of lending approved which is partly of fully signed. The first region of intervention of the ELM is Russia, Eastern Europe, South Caucasus with around EUR 2.7 billion (34% of the EIB contribution under the ELM). This is driven by the investments made in Ukraine, which represent 78% of the total EIB contribution in this region (see figure below). The over-representation of Ukraine results from the EU engagement in favour of the country's recovery after the conflict of 2014 (see section 5). Mediterranean countries benefit from 29% of EIB contribution, 85% of which concentrated in Egypt and Morocco.

Among candidate and potential candidate countries, which benefit from 16% of the total EIB contribution under ELM, there is a similar pattern of domination by a single country with 77% of funds targeted at Turkey. Latin American countries receive 10% of the total volume of EIB contribution under ELM, of which 45% is targeted at Brazil. Asian countries (excluding Central Asia) receive 7% of the total EIB contribution.

We therefore observe a high level of concentration of the EIB lending on one or two countries within each of the regions. This is confirmed by the distribution of funds per country as presented in the figure below.

Figure 9: Distribution of financing operations by country: total project cost in M EUR, EIB contribution in M EUR and number of financing operations (right vertical axis).

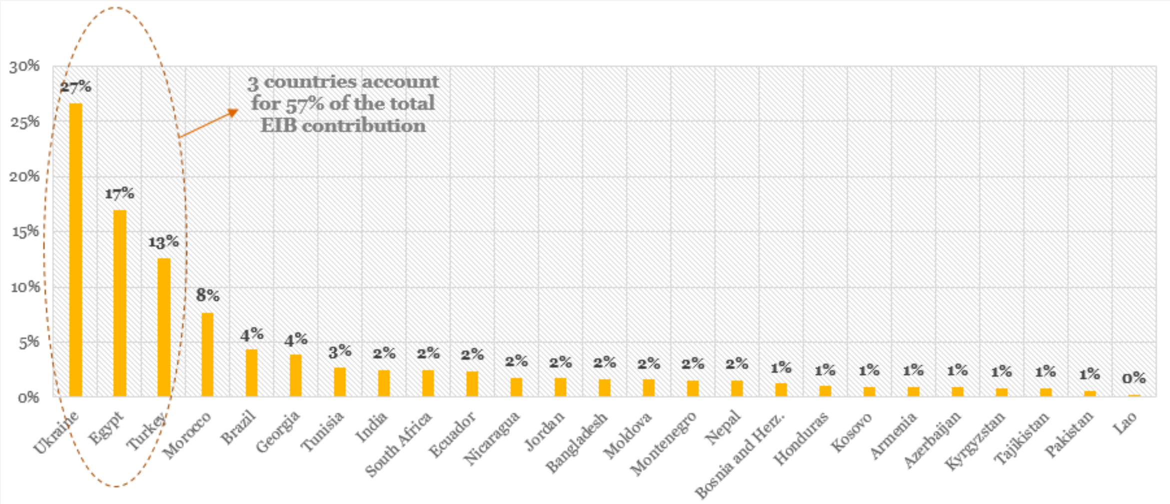


Source: EIB, PwC analysis

In total, 25 countries benefit from the EIB financing operations under the ELM. The number of operations is the highest in Ukraine (8), followed by Morocco (6), Turkey (5), and Egypt (4). Taken as a share of the total EIB contribution, the main beneficiaries of ELM operation are Ukraine, Egypt and Turkey.

A similar picture emerges when considering the allocation in percentage of the total volume of funds committed by the EIB. The following graph shows the distribution of the EIB contribution by country in percentage of the total:

Figure 10: EIB contribution by country, in% of the total EIB contribution



Source: EIB, PwC analysis

The external policy-driven focus is confirmed when considering the distribution of allocated funds across countries. The distribution is heavily skewed in its upper end thanks to three countries – Ukraine, Egypt and Turkey – covering 57% of funds allocated by the EIB under ELM by the end of 2015. Outside these three cases, the distribution of funds is relatively low, with very little variation: from 1% to 8% of the total allocated funds and from one to three projects funded.

The political dimension of operations in Ukraine, Egypt and Turkey is clear. Operations conducted in Ukraine are part of the EU package announced by the European Commission in March 2014 to help stabilise the economic and financial situation in Ukraine, assist with the transition, encourage political and economic reforms in the context of the EU-Ukraine Association Agreement and against the background of the conflict in eastern Ukraine. The extension of the credit line to Ukraine (and the coinciding freezing of operations in Russia) from the spring 2014 is a corollary of this conflict. The period elapsed between the political decisions to support Ukraine and the effective implementation of lending operations in Ukraine is short, pointing out the reactivity of the EIB in Ukraine and a sufficient flexibility of the ELM framework. Thus, the ELM as an instrument and its management by the EIB demonstrated sufficient flexibility as to allow the surge in funding targeted at the priority country.

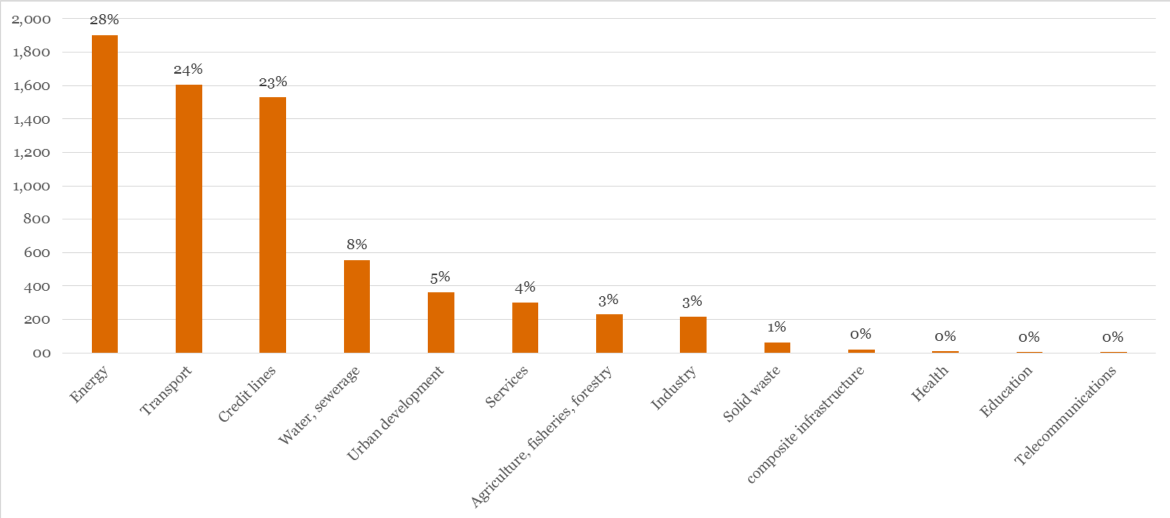
However, this surge in funding also raises questions about the ability of the recipient country to absorb and efficiently manage the increased inflow, and the capacity of the EIB to track and monitor this process. These questions are addressed in the section 5, in particular through the case studies.

The importance of **Egypt** has also to be considered from the political perspective. Following the "Arab spring" the country faces major challenges to which the EU intends to respond. The ELM mandate has been one of tools used by the EU through the EIB to promote the stabilization of the country. As for **Turkey**, the pre-accession statute of the country and its potential role in the refugee crisis explain the highlight put on the country within the ELM. This shows that the political dimension of the ELM is crucial. This point is deeper analysed in the section 5 of the report.

4.1.2 Distribution across sectors: energy and transport at the top

The data provided by the EIB and based on the Serapis database also allows for the analysis of financing operations by sector. However, some financing operations cover several sectors at once. For instance, framework loans are loan facilities provided to a single stakeholder, but covering several projects, potentially from very different sectors. Thus, the distinction of financing operations by sector has to be based on the specific loans signed by the EIB for each sub-project within a financing operation. As an example, the financing operation "Ukraine municipal infrastructure programme" involves a framework loan covering sub-projects related to energy, solid waste, urban development, water and sewerage. Thus, instead of treating the financing operation as a whole, the evaluation team chose to decompose into sub-projects that this loan seeks to finance. Sub-projects are defined along the lines of the NACE rev.2 classification. However, for each of the sub-projects the data provided to the evaluation team comprised only the information on the signed loans. The project cost and the EIB contribution are defined at the level of the framework loan without breakdown by specific sub-projects. Hence, the allocation of funds by sector (in% of the total) is computed based on the loans signed rather than EIB contributions. The figure below shows the breakdown of the volume of signed loans by sector:

Figure 11: Allocation of funds by sector, in M EUR and in percentage of the total volume of signed loans



Source: EIB, PwC analysis

Three sectors (energy, transport and credit lines[17]*) account for 75% of signed loans, with energy and transport concentrate respectively 28% and 24% of the total volume of signed loans, respectively. While the Decision, the Regional technical operational guidelines or the Guarantee agreement omit any specific breakdown, which the Bank should pursuit in its allocation of funds, the Decision defines "development of social and economic infrastructure, including *transport, energy* (…)" as a funding priority. Thus, the accent put on these sectors is in full alignment with the Decision. Furthermore, the credit lines are targeted at the SME financing, which is one of the objectives of the Decision (local private sector development). Overall, all sectors fall under the definition of priorities established in the Decision.

4.1.3 Project cost and EIB contribution: focus on Ukraine, Egypt and Turkey

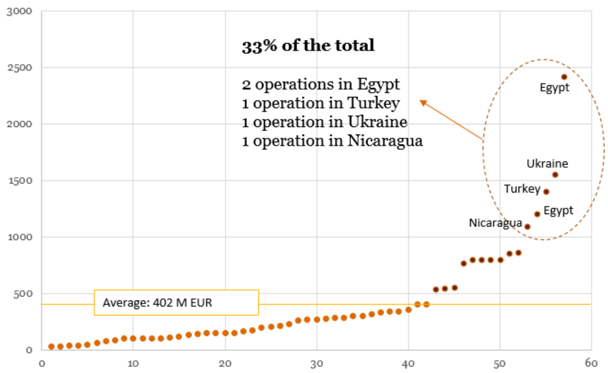
The term 'project cost' designates the overall investment (capital expenditures) required to complete the project. The operational expenditures are not included in this cost.

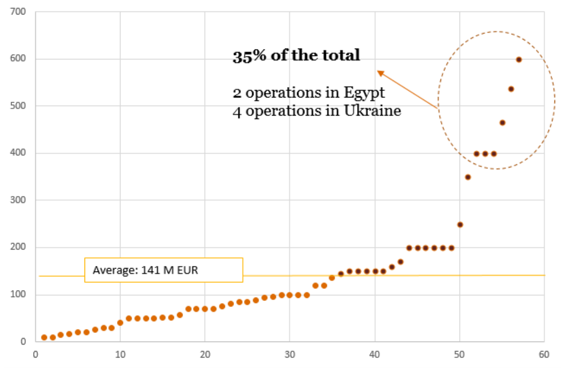
The 'EIB contribution' refers to the volume of funds, expressed in percentage of the cost of a project, offered by the EIB to finance the project. Based on the EIB policies, the EIB contribution is capped at 50% of the project total cost. This can be extended to 75% when the project has a significant impact in terms of climate change mitigation and adaptation.

The distributions of the projects and EIB contributions are presented below:

[17] The category "*credit lines*" refers to Multi-beneficiary loans channeled through a financial intermediary – typically public – which in turn distributes loans to a variety of corporate actors from one or different sectors. Based on the data provided so far, it was possible to identify the specific activities funded for each of the projects only for a part of the credit lines (those that were disbursed).

Figure 12: Distribution of financing operations by the total cost of the project (left graph) and the EIB contribution (right graph), in M EUR





Source: EIB, PwC analysis

The average contribution of the EIB on individual project is EUR 141 million (e.g. an average of contribution per project of 42% per project). The maximum is EUR 600 million for the project Cairo metro line 3 (phase 3) in Egypt. The minimum is EUR 10 million for the projects "North Moldova Water" and "Caucasus Transmission Network".

We observe a relative concentration of the total project cost and the EIB contribution in few projects. Indeed, six operations account for 35% of the total EIB contribution:

- Cairo metro line 3 (phase 3), investment loan in Egypt: 600 M EUR (7% of the total)
- Damanhour CCGT power plant, investment loan in Egypt: 538 M EUR (7% of the total)
- Guarantee for economic development in Ukraine: 466 M EUR (6% of the total)
- Apex loan for SMES & Mid-Cap, multi-beneficiaries intermediated loan in Ukraine: 400 M EUR (5% of the total)
- Ukraine municipal infrastructure programme, framework loan : 400 M EUR (5% of the total)
- Ukraine agri-food apex loan, multi-beneficiaries intermediated loan in Ukraine: 400 M EUR (5% of the total)

The same observation can be made for project cost since five projects account for 33% of the total project cost. Among these, four are investment loans and one is guarantee in Ukraine. In the case of framework loans and multi-beneficiaries loans, the total project cost is partly misleading because these projects will finance a number of final projects whose cost can vary significantly. Therefore, these projects hide a number of sub-projects which will benefit from the EIB financing but which do not appear in this analysis.

The average project cost is presented according to the type of EIB financing in the graph below:

Table 10: Average project cost and EIB contribution according to the type of EIB financing type, in M EUR

EIB financing type	Average Project cost	Average EIB contribution
Framework loan	408	215
Guarantee[18]	-	-
Investment Loan	439	127
Multi Beneficiaries Loan	275	131

Source: PwC analysis

[18] The average project cost of the guarantee is not represented since only one guarantee has been signed.

4.1.4 Disbursement rate: few operations with funds disbursed

Among the 56 operations (excluding the only operation involving the guarantee), full or partial disbursement has been made for 14 projects only (disbursement rate not equal to zero). The table below shows the details of the fourteen financing operations where the disbursement has occurred:

Table 11: List of projects with EIB funds disbursed (non-zero disbursement rate)

Operation name	Country	Project cost, M EUR	EIB contribution , M EUR	Amount signed, M EUR	Disbursed as% of net signed	Disbursed, M EUR	Time between the approval and the first disbursement (in month)
FEMIP sustainable energy facility	Morocco	137	30	5	100%	5	9
Europac industrial packaging plant in Tangier	Morocco	31	15	10	100%	10	1
Armenia apex loan for SMEs	Armenia	100	50	50	100%	50	3
Accessbank Azerbaijan loan for SMEs	Azerbaijan	50	25	25	100%	25	1
Brasil loan for SMEs & Mid-Caps	Brazil	300	150	150	100%	150	4
MHP agri-food	Ukraine	172	85	30	100%	30	12
ZIRAAT BANK IPARD MBIL	Turkey	270	100	100	100%	100	-
IDF loan for SMEs & priority projects ii	Montenegro	140	70	40	63%	25	3
Sao Paulo rolling stock	Brazil	765	200	200	58%	115	6
SBI loan for SMEs and mid-caps	India	400	200	145	55%	80	12
Amen Bank-prets PME & ETI	Tunisia	100	50	50	20%	10	3
Ouarzazate ii (parabolic)	Morocco	865	200	100	16%	14	12
Administrative & urban infrastructure	Ecuador	257	100	100	11%	12	12
Ukraine early recovery	Ukraine	200	200	200	8%	15	12

Source: EIB, PwC analysis

As the table shows, there are six financing operations where disbursement occurred in full (100%). For the others, the disbursement rate varies widely from 11% to 63%. The average duration between the signature of the operation and the first disbursement is seven months with minimum of one month for the project Europac industrial packaging plant in Tangier and Accessbank Azerbaijan loan for SMEs. The highest duration is observed in 12 months.

The majority of financial operations where funds were disbursed involve relatively modest amounts of EIB contribution (Morocco, Armenia, Montenegro, and Azerbaijan).

Among the financing operations where disbursement occurred, two involve Ukraine (8% and 100% disbursed very recently). This fact partially offsets the speed of provision of the financial support to Ukraine through the ELM: contracts were signed, but funds were not disbursed. In Ukraine, the first disbursement for both projects in the table occurred 12 months after the signature of the operation, which is twice as high as the average duration. However, local stakeholders in Ukraine states that this was not particularly long compared to other IFI and that it results from the very specific situation in Ukraine, as described in the section 5.

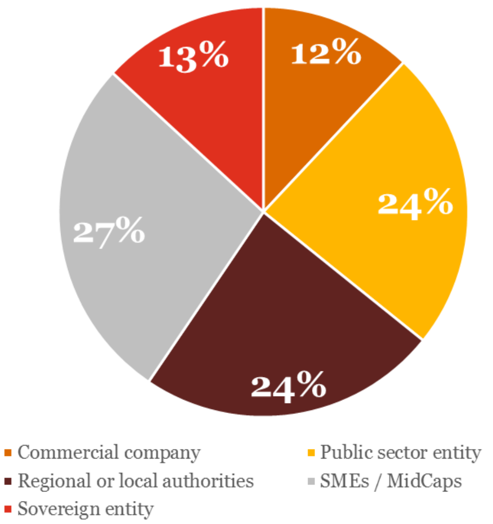
4.1.5 Type of final beneficiaries: prevalence of SMEs and Mid-Caps.

The ELM financing operations portfolio comprises five categories of beneficiaries:

- SMEs and Mid-Caps;
- Commercial companies (outside SMEs and Mid-Caps);
- Regional or local authorities;
- Public sector entities; and
- Sovereign entities.

The following figure shows the breakdown of the EIB contribution under the ELM financing operations across these five categories of stakeholders:

Figure 13: Distribution of EIB contribution under ELM by type of final beneficiaries.



Source: EIB, PwC analysis

The main beneficiaries of the ELM are SME/Mid-Caps (27%) followed by public sector entities and regional or local authorities (24% each). These three categories account for 75% of EIB contribution.

4.1.6 EIB financing type: mainly investment and multi-beneficiary loans

The EIB contribution to project funding under the ELM exclusively takes the form of loans with the exception of one case where a guarantee product was put in place for the operation in Ukraine.

There are four financing types used by the EIB for the financing operations under the ELM:

- ***Framework loan***: this type of loan corresponds to a financing operation comprising one (public) beneficiary and several projects, potentially belonging to different areas or sectors. The purpose of the loan is to cover various activities in the same geographical area. As an example, Ukraine early recovery operation involving framework loan provides a financing facilities to different sectors in the regions of Ukraine adjacent to the area of conflict. The purpose is to provide a well-rounded economic support to these regions rather than targeting a specific industry within the country;

- ***Investment loan***: this type of loan obeys the logic "one project=one beneficiary=one loan" and typically answers to the call for an important investment in one specific sector/project;

- ***Multi-beneficiary intermediated loan***: this type of loan is awarded to a public intermediary (e.g. the Central Bank), which then has the task of disseminating the funds among the national private financial intermediaries (e.g. banks) or, alternatively, directly to a set of national private financial intermediaries, which in turn lends the funds to multiple final beneficiaries – SMEs, Mid-Caps, other types of commercial companies;

- ***Guarantee***: this type of financial product was used in one financing operation only, under exceptional circumstances and under special authorisation. The purpose of the operation was to enable urgent disbursement of funds to the beneficiary country (Ukraine) and is not susceptible of being reproduced under this ELM period (in absence of comparable force majeure circumstances). The objective of the operation was to release the exposure of the IBRD on selected projects in Ukraine, so that IBRD could support gas purchase, which could not be financed under EIB statute.

The following table provides a breakdown of the EIB contribution and the number of projects by type of financing:

Table 12: Distribution of ELM operations according to the type of financing operation, in M EUR

EIB financing type	Total cost of projects	Total EIB contribution	Total amount signed	Number of operations	Average EIB contribution
Framework loan	2,043	1,075	1,075	5	215
Investment Loan	1,4508	4,214	3,363	33	128
Multi Beneficiaries Intermediated Loan	4,827	2,507	1,894	18	121
Guarantee	1,551	466	458	1	466

Source: EIB, PwC analysis

The main financing types used under ELM, both in terms of number of operation and total EIB contribution, are investment loans and multi-beneficiaries intermediated loans. They account together for 65% of the total EIB contribution. The guarantee product put in place for Ukraine is a specific case, uncommon for the ELM, and for which an exception was made. Five other financing operations involved framework loans, each of which bears several specific sub-projects. Thus, the financing per sub-project may actually be lower than for other categories of loans.

The specificity of the ELM operations in comparison within the EIB operations resides, among other features, in the extensive use of the Multi-beneficiary loans (23%). By contrast, investment loans – which represented 68% of the loans provided by the EIB in 2015 in general – represent only 42% of the loans provided under the ELM.

4.1.7 Appraisal duration: nine months on average.

The project appraisal starts once the Agreement to Appraise (A2A) is issued. It is a joint decision of the Directorate for Operations (OPS), the Projects Directorate (PJ), the Risk Management Directorate (RM) and the Legal Directorate (JU) of the EIB.

The project appraisal is conducted by OPS and PJ and is composed of:

- A financial analysis and perspectives of the counterpart(s);
- The technical, environmental and economic assessment (including risk assessment), and social due diligence;
- The structuring of EIB operation.

The appraisal phase ends with the project approval by the Board of Directors, which approves the proposed EIB financing operation and authorises the signature of the corresponding finance contracts.

The project appraisal is a critical phase of the project lifecycle because it allows for the assessment of the quality of a project and the associated risk hence ensuring the quality of the investment. However, it slows down the launching of the project and delays the disbursement of funds. The time spent on the appraisal is therefore valuable from the EIB and the project holders' point of view. The analysis should assess the extent to which the appraisal phase has been conducted efficiently on the first 57 operations under ELM.

The present first-hand analysis provides an overall picture of the appraisal duration based on the portfolio of 57 financing operations. The appraisal duration is calculated between the A2A and the project approval. The overall average duration of an appraisal is 9.2 months (the median is of 8.5 months) with a maximum of 29 months for the project "MHP Agri-food" in Ukraine and a minimum of one month experienced by two projects, "Fruit garden of Moldova" and the project "Guarantee for economic development in Ukraine".

The time of appraisal is composed of the time of instruction of the project from the EIB side and the borrower side. From the EIB side, all the appraisal of the project is formalised though processes and documents to be produced. The time for each processes and documents are binding for the EIB. Discrepancies between projects can result from specific requirements due to the nature of a project or due to the nature of the borrower.

Ideally, the appraisal duration should be considered alongside some key characteristics of the projects such as the sectors, the type of beneficiaries or the EIB financing type as presented below.

Table 13: Average duration of project appraisal by the type of final beneficiary or the type of financing, in month

Type of beneficiaries	Average
Commercial company	14.5
Public sector entity	12.1
Regional or local authorities	8
SMEs / Mid-Caps	6.4
Sovereign entity	6

EIB financing type	Average
Investment Loan	11.5
Framework loan	6.4
Multi BI Loan	6.4
Guarantee	1

Source: EIB, PwC analysis

Considering the small size of the current portfolio sample (57 operations), the quantitative analysis cannot provide conclusions that could be extrapolated to the whole population from the standpoint of the statistical representativeness. Most of the sub-groups present a number of operations too low to be considered statistically representative. However, keeping this word of caution in mind, some observations can be drawn for the sub-groups where more than five operations has been launched:

- *As regards the distribution by beneficiary*, the appraisal duration for the SMEs/Mid-Caps and for regional or local authorities is shorter than for the commercial companies and the public sector entities;
- *As regards the EIB financing type*, the appraisal duration of the guarantee is much shorter than for all the categories of loans. However, only one financing operation involving the guarantee is present in the portfolio, which does not allow drawing any conclusions or making a comparison. Moreover, the guarantee has been provided in Ukraine, to WBG (IBRD) in a very urgent situation, making it a guarantee of an unusual and specific nature. On the contrary, investment loans present a longer appraisal duration than for the Framework loan and the multi-beneficiary loan. This is explained by the very nature of the Framework and the multi-beneficiary loan which set a framework in which the various financial operations will be operated but without focusing on specific investment projects. Therefore, the appraisal and implementation of project is limited to this framework and not extended to sub-projects. Appraisal of the sub-projects,

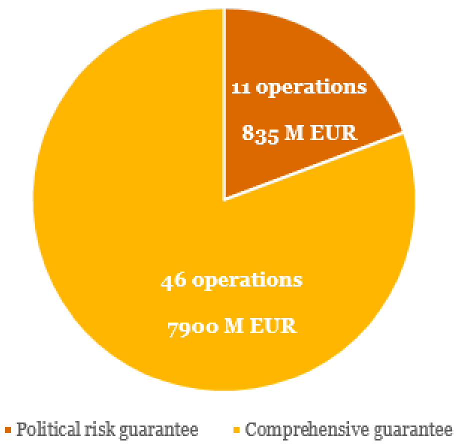
where required, happens after the FL or MBIL signature, which is what dictates the shorter lead time to signature of the FL or MBIL, but not necessarily a shorter time overall. The appraisal of the sub-projects by the EIB is modulated depending on the size of sub-projects and nature/context of the operation in particular in ELM countries. Such appraisals are typically conducted at the time of allocations of sub-projects under the framework loan.

These observations do not allow for drawing definitive conclusions on the efficiency of the appraisal phase, but enable distinguishing the projects with the lowest appraisal duration and those with the highest duration.

4.1.8 Comprehensive vs Political risk guarantee

As presented in the section 2.1.6, the Decision defines two modalities of the EU guarantee covering different types of risks: the Comprehensive guarantee and the Political Risk guarantee. According to the Decision, Comprehensive guarantee is reserved to operations where funding is provided to public entities, while the Political risk guarantee shall cover operations involving private counterparts.

Table 14: Distribution of operations according to the coverage of the EU guarantee, in number of operation and total EIB contribution, in M EUR.



Source: EIB, PwC analysis

Among the 57 operations of the portfolio, 11 operations (19% of operations) have benefited from the Political risk guarantee while 46 operations (81% of operations) have benefited from the Comprehensive guarantee.

All 11 operations under the Political risk guarantee were awarded to SME/Mid-Caps or commercial companies, which is consistent with Article 8 §3 of the Decision that states the Political risk guarantee should be provided when the borrower does not belong to the regional or local authorities, public enterprises or institutions owned or controlled by a State.

4.1.9 Co-financing and blending

From the database provided by the EIB, 29 financing operations out of 57 involve co-financing with other financial institutions. The figure 13 shows the operations co-financed and the name of the co-financer for each.

On average, the projects that involve co-financing tend to have slightly higher project cost: EUR 448 M for the 21 co-financed projects compared to EUR 402 M for the 57 operations overall. The average EIB contribution is logically lower for the co-financed projects: 36% (as compared to 42% for the 57 projects of the database).

The characteristics of the projects involve co-financing closely mimic those of the 57 projects. All the types of financing (different types of loans and the guarantee) are involved. The average appraisal time is slightly higher for co-financed projects than for projects without co-financing (10.4 months against 9.2). All types of stakeholders and sectors of activity are represented among the projects with co-financing (taking into account the limited size of the database, some countries are not represented in the pool of projects involving co-financing).

It is interesting to note that co-financing concerns operations in all the regions but that the share of co-financed projects is much higher in regions like Asia (five operations co-financed out of six) or Latin America (four operations out of six) than for candidate countries (one operation out of seven) for instance. This reflects the level of presence of the EIB in these regions. In Asia, the EIB has no local representation (Beijing office only) and has limited expertise of the local context. It relies therefore on the ADB for the identification and implementation of projects in Asia. On the contrary, the EIB is deeply rooted in candidate countries where it can identifies and conduct projects on its own. Co-financing is therefore a mean to conduct activities in regions/countries where the EIB activities are less developed, which is also the rationale of the EU guarantee.

The added value of the co-financing is to share the financial burden and the subsequent risks. In region where the EIB is less developed co-financing allow the EIB to develop its activities and strengthen the EU objectives. In Mediterranean and pre-accession countries, the co-financing allow to leverage on the existing actions of the EU and Member States which are largely developed in these countries For instance, we notice that KFW for Germany and AFD for France are the main partners of the EIB for ELM operations with respectively nine and eight operations co-financed with the EIB under the 2014-2020 ELM. Most of these operations are located in Mediterranean countries (Morocco, Egypt, Jordan)

The table below presents all the co-financed operations with the name of the co-financer.

Figure 14: Projects co-financed by the EIB through the ELM with the name of the co-financing institution

Project's name	ADB	AFD	AFDB	BCIE	EBRD BERD	IADB - WAS	IBRD	KFW	OFID
MONTENEGRO WATER AND SANITATION								x	
NEPCO GREEN CORRIDOR		x							
URENGOY- POMARY- UZHGOROD GAS PIPELINE					x				
CAIRO METRO LINE 3 (PHASE 3)		x							
EGYPTIAN POLLUTION ABATEMENT(EPAP) III		x						x	
NEPAL GRID DEVELOPMENT PROGRAMME								x	
ZENATA URBAN DEVELOPMENT PROJECT		x							
FEMIP SUSTAINABLE ENERGY FACILITY		x			x			x	
TOFAS RDI								x	
OUARZAZATE II (PARABOLIC)			x				x	x	
OUARZAZATE III (TOWER)		x	x					x	
NORTH MOLDOVA WATER					x				
CORRIDOR VC POCITELJ - BIJACA					x				
ADMINISTRATIVE & URBAN INFRASTRUCTURE (ECUADOR)						x			
REHABILITATION WARSAK HYDROELECTRIC PROJECT		x						x	
VIENTIANE SUSTAINABLE URBAN TRANSPORT	x						x		x
LAKSAM AKHAURA DOUBLE TRACK RAIL PROJECT	x								
NEPAL POWER SYSTEM EXPANSION PROJECT	x								
HONDURAS SUSTAINABLE ROADS				x					
WASTEWATER TREATMENT PROJECT IN GUAYAQUIL							x		
TAJIK - KYRGYZ POWER INTERCONNECTION							x		
WADI AL ARAB WATER SYSTEM II PROJECT		x							
ROUTE 10 RAIL REHABILITATION					x				

Project's name	**ADB**	**AFD**	**AFDB**	**BCIE**	**EBRD BERD**	**IADB - WAS**	**IBRD**	**KFW**	**OFID**
KUTAISI WASTE WATER	**x**								
CAUCASUS TRANSMISSION NETWORK								**x**	
NICARAGUA HYDRO DEVELOPMENT AND TRANSMISSION				**x**					
DAMANHOUR CCGT POWER PLANT			**x**		**x**				
YEREVAN SOLID WASTE					**x**				
GUARANTEE FOR ECONOMIC DEVELOPMENT IN UKRAINE							**x**		
TOTAL NUMBER OF OPERATIONS	**4**	**8**	**3**	**2**	**7**	**1**	**5**	**9**	**1**

Source: EIB

Out of 29 financing operations with co-financing, 16 involve blending. Among the latter, four involve technical assistance, nine involve grants and three involve both. The following table shows the corresponding financing operations:

Figure 15: Financing operations with blending - TA and grants

Financing operations	Technical Assistance	Grant
MONTENEGRO WATER AND SANITATION	X	X
NEPCO GREEN CORRIDOR	X	X
CAIRO METRO LINE 3 (PHASE 3)	X	X
UKRAINE MUNICIPAL INFRASTRUCTURE PROGRAMME	X	
EGYPTIAN POLLUTION ABATEMENT(EPAP) III	X	X
NEPAL GRID DEVELOPMENT PROGRAMME		X
FEMIP SUSTAINABLE ENERGY FACILITY		X
ILLER BANK URBAN TRANSPORT AND ENVIRONMENT LOAN	X	
OUARZAZATE II (PARABOLIC)		X
ZIRAAT BANK IPARD MBIL		X
OUARZAZATE III (TOWER)		X
NORTH MOLDOVA WATER		X
CORRIDOR VC POCITELJ - BIJACA		X
VIENTIANE SUSTAINABLE URBAN TRANSPORT	X	X
FRUIT GARDEN OF MOLDOVA	X	X
ARMENIA APEX LOAN FOR SMES	X	
HONDURAS SUSTAINABLE ROADS	X	X
WADI AL ARAB WATER SYSTEM II PROJECT	X	X
KUTAISI WASTE WATER	X	X
CAUCASUS TRANSMISSION NETWORK		X
BANK OF GEORGIA LOAN FOR SMES AND MID-CAPS	X	
YEREVAN SOLID WASTE	X	X
MODERNISATION ROUTIERE II	X	
UKRAINE AGRI-FOOD APEX LOAN	X	
UKRAINE EARLY RECOVERY	X	X

Source: EIB

The purpose of the evaluation as regards the co-financing and blending is to address the optimality of the design of such operations through the existence of potential overlaps or complementarities between the ELM and the co-financing solutions. A very preliminary analysis shows lower EIB contribution for projects involving blending, which tends to point in the direction of substitution rather than overlap. The rest of the analysis on blending operations is presented in the section 5.

4.1.10 Climate change mitigation and adaptation

The Decision sets EIB financing operations under the ELM in support of climate change mitigation and adaptation should represent at least 25% of total EIB financing operations under the ELM (Article 3).

The table below presents the share of climate-related expenditures in total and for each region. It can be noted that once broken down to regions, these are very small datasets and subject to large annual variation. For example, if EIB is working on preparation of a Climate Action project for two to three years, including project preparation, the actual climate action finance will only be recorded in the year of signature. To see trends therefore, a longer term rolling average over a number of years may be needed.

Table 15: Climate change related expenditure in the ELM portfolio (57 operations) per region and in total, in M EUR and in%

Regions	**EIB financing contribution**	**Number of operations**	**Climate Action finance** (EIB finance contribution × climate action indicator)	**Climate Action indicator%** (Share of climate change mitigation and adaptation in the project expenditure)
Asia (excl. Central Asia)	530	6	385	73%
Candidate countries	1,147	7	762	66%
Mediterranean countries	2,346	15	1,101	47%
Potential candidate countries	180	2	80	44%
Latin America	774	6	329	43%
Russia, E.Europe, Sth. Caucasus	2,745	18	519	19%
South Africa	200	1	4	2%
Central Asia	140	2	0	0%
Total	**8,062**	**57**	**3,181**	**39%**

Source: PwC

Methodological note on the Climate Change Indicator (CCI)

The bank has a set of definitions (originally approved in 2010, and updated for the 2015 Climate Strategy) defined as "Climate Action": these are the activities are considered as contributing to climate-change adaptation or mitigation. The EIB Climate Strategy defines climate action activities under the following sub-headings:

- Energy efficiency (EE);
- Renewable energy (RE);
- Nuclear energy;
- Transport;
- Solid waste;
- Urban development;
- Forestry and land use;
- Research, development and innovation in the areas of energy efficiency and low-carbon technologies, including the deployment of breakthrough innovation;
- Adaptation;
- Any other activity in a sector not included, but with demonstrable substantial reductions in GHG emission.

More detailed explanations exist for all categories, to clarify specific activities, processes, thresholds for inclusion or exclusions. For example, in EE, to be included, the project must be making a significant increase in energy efficiency over and above norms or standards, in line with EIB's EE definition. Then only the EE components are counted, rather than the whole project which is made energy efficient. For Adaptation – the analysis is process based and aims to capture only the incremental aspect or activities within the project which are the adaptation activities, although the whole project may be more climate resilient.

Each project financed by the EIB under the ELM is screened and the activities within this project that are related to climate-change adaptation or mitigation as defined above are identified. The project cost is broken down into the costs related to the different activities.

The CCI is computed as the proportion of the climate action activities costs over the total project cost. Naturally, if the whole project is related to climate action, the CCI might reach 100%. The EIB also specify climate change mitigation indicator and climate change adaptation indication which are a disaggregation of the CCI.

This methodology is harmonised within the group of MDBs since 2011 (joint report on the MDB climate finance 5th report is due for publication summer 2016) and is aligned with EU standards and policies, as well as being harmonised with the Common Principles for Mitigation and Adaptation tracking agreed and published by MDBs and the International Development Finance Club (IDFC) prior to COP21.

This approach has its caveats: climate action activities are assumed entirely beneficial in terms of climate change mitigation and the activities are assumed to be conducted in an efficient manner – which can only be determined after completion. Another challenge – recognised by the EIB – is related to the threshold requirements in the definition of the energy efficiency: how do you capture real energy efficiency?
The MDB terminology clarifies “there has to be a substantial increase in energy efficiency”, i.e. to avoid counting business as usual – i.e. merely replacing old things with new things which are more efficient.

The EIB has a specific computation procedure for the Multi-beneficiary loans, for which the nature of sub-projects of the final beneficiaries (SMEs and Mid-Caps) cannot be known in advance. For MBILs with a dedicated window or entirely dedicated to Climate Action the% of dedicated window is counted. For standard MBILs the projects signed after the 1 January 2015, a CCI of 2% is applied by default (unless the contract signed with the financial intermediary specifies a threshold of climate action projects to be financed) based on ex-post analysis of three years of allocations from earlier MBILs. The EIB conducted this *ex post* evaluation of a large number of multi-beneficiary loans (global coverage i.e. beyond the ELM). It computed a conservative share of activities financed through these loans and compatible with the EIB definition of the climate action (as attested by the NACE code type of the activity). The evaluation shown that 2.4% of the activities under these multi-beneficiary loans match the definition of climate action. Thus, the Bank decided to use this result – applying 2%– for the standard multi-beneficiary loans with no dedicated window for climate action. This approach was applied only for multi-beneficiary loans signed in 2015 and reanalysis for 2016 has reconfirmed this approach and the 2% figure for 2016 signatures globally.

Alternatives to the CCI exist. The Development Assistance Committee (DAC) of the OECD uses for instance the “Rio markers” to monitor aid targeting the objectives of the Rio Conventions. Five statistical policy markers exist covering biodiversity (introduced in 1998), climate change adaptation (introduced in 2010), climate change mitigation (introduced in 1998), and desertification (introduced in 1998). The Rio markers is a grade given to a project to indicate the extent to which climate change (for instance) is considered as a policy objective. The Rio markers can show three values: “0” for not targeted, meaning the project does not explicitly target the Convention objectives; “1” for significant, meaning that the project target climate change objectives but as a secondary objective; and “2” for principal. Projects with a “2” value” are those for which climate change objectives have been fundamental in the design of the project and for which they are explicit objective of the project. They may be selected by answering the question “would the activity have been undertaken (or designed that way) without this objective?” The Rio Markers allow to rank projects according to the level they include climate change related objectives. But they do not allow to quantify the contribution of the projects to the climate change mitigation and adaptation, as it is possible with the CCI developed by the EIB. Nevertheless for Blending Facility and other reporting, it has been agreed with DG CLIMA that the MDB approach (hence EIB’s approach) is compatible and comparable with reporting under Rio Marker 2.

Overall, the CCI appears as the most transparent, straightforward and pragmatic approach to estimate *ex ante* the impact of the EIB lending in terms of climate change adaptation and mitigation. More complex alternative methods could be envisaged, but they would have their own caveats while requiring much more time and considerably more project data (not always available before the launch of the project).

In total, the 25% target is exceeded since the climate related actions account for 39% of the total EIB contribution under ELM. This is even in line with the 35% target that the EIB is willing to set progressively by 2020.

Even if the 25% target does not apply at regional level, we observe that only three regions are below this target and it has to be noticed that only one operation has been conducted in Central Asia and South Africa, so that the figure cannot be considered as representative of the effort in the region. In the other regions, the share of climate related expenditure is between 43% in Latin America and 73% in Asia (excluding Central Asia). It appears that the climate action are not geographically concentrated but rather mainstreamed throughout almost all the regions. Some regions are nevertheless more advanced in terms of support to climate objectives. In Asia in particular, operations under ELM primarily focus on climate change since four operations out of six in the region have a 100% climate change indicator while the two others operation have respectively a 30% and 84% climate change indicator. This confirms the priority given to climate change in Asia and the high potential of the region in this field.

Although the climate action is relatively well balanced from the geographical perspective, it appears to be concentrated on a relative small set of operations. Thus, one can notice a relative dispersion among the 57 operations under ELM:

- 30 operations have a climate change indicator below 10%;
- 9 operations have a climate change indicator between 10% and 50%;
- 4 operations have a climate change indicator comprised between 50% and 99%;
- 14 operations have a 100% climate change indicators.

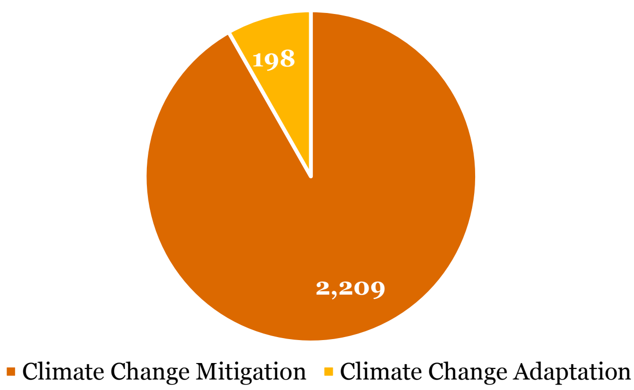
There is a high concentration at top and bottom values, which represents 44 operations out of 57. This indicates that the overall volume of climate action is concentrated and driven by a relative small set of fully contributing projects, while more than half of the operations have a minor climate component.

Overall, the total emission savings of ELM projects over the second half of 2014 and 2015 is **1.35 Mt CO2-eq/year** over a total of 26 projects – 23 in 2015 and 3 falling under the second half of 2014.

The ELM operations largely targeting the climate change mitigation

The financial portfolio data shows that most of the climate related expenditures under the ELM target the climate change mitigation (92%), while only 8% are dedicated to the climate change adaptation. This is illustrated on the following figure:

Figure 16: Contribution of the ELM operations to climate change mitigation and adaptation, in amount signed and in EUR M



Source: EIB, PwC analysis

In total, eight operations are related to climate change adaptation. However, judging by the climate change indicator, none of them is 100%-dedicated to the climate change adaptation. They cover agriculture adaptation, water management, and adaptation of transport infrastructure or the erosion control. In two projects, climate change-adaptation expenditures reach a third of the amount signed:

- The Afforestation and Erosion Control project 3 supports adaptation to climate change impacts by supporting erosion control measures on a further 155 000ha of degraded land in Turkey (plus reforestation of over 80 000 ha and forest rehabilitation of 20 000ha as part of climate change mitigation).
- The ONEE - *amelioration AEP et assainissement* project will support the *Office National de l'Electricité et de l'Eau Potable* (ONEE) in providing reliable and high-quality water supply and sanitation services to its customers. In a climate change adaptation dimension, it will support the upgrading and rehabilitation of existing infrastructure in water supply.

Therefore, if ELM operations largely contribute to climate change objectives by exceeding the target of 25%, they mostly contribute to climate change mitigation and little to climate change adaptation objectives. These findings are not surprising, as it is unusual to find a 100% adaptation project – unless it is a technical assistance or capacity building programme. Most climate change adaptation is an incremental component or proportion of a project. Adaptation being the part addressing climate change. Hence for example in project Wadi Al Arab water system II project in Jordan, although an important water supply project in a drought challenged region, the adaptation aspects were estimated at only 10% of the overall cost. Nevertheless, this project supports greatly the climate resilient water supply and urban development in the city and region.

Climate objectives are mainly supported through transport and energy

More than 68% of climate change expenditure concern transport (45%) and energy (24%), which is quite logical considering the high potential of those sectors in terms of climate change mitigation. Additionally there are a number of types of mitigation activities which are often found to be 100% of projects: for example RE investments such as solar or wind power.

Table 16: Climate change contribution according to the sectors, in EUR M

Sectors	EIB financing contribution	Climate change related expenditure	Share of climate change related expenditure
Transport	1,952	1,425	45%
Energy	1,829	769	24%
Various (includ. Credit lines)	3,207	757	24%
Agriculture, fisheries, forestry	220	155	5%
Industry	150	34	1%
Water, sewerage	387	32	1%
Service	200	6	0%
Solid waste	17	4	0%
Urban development	100	2	0%

The "various" category includes projects targeting various sectors and for which the sectoral split is not available due to low disbursement. It also includes credit lines projects.

Climate objectives are mainly support through investment loans

More than 70% of climate related expenditures have been deployed through investment loans. As indicated in table below, operations in investment loan has a higher level of contribution to climate change objectives (55%) than other type of EIB financing, especially multi-beneficiary loans (15%).

Table 17: Climate change contribution according to the EIB financing type, in EUR M

EIB financing type	EIB financing contribution	Climate change related expenditure (EIB contribution × climate change indicator)	Share of climate change related expenditure	Number of operations[19]
Framework loan	1,075	473	44%	5
Guarantee	466	75	16%	1
Investment Loan	4,214	2,292	54%	33
Multi Beneficiaries Loan	2,307	342	15%	18

Source: PwC

The relatively low level of contribution of multi-beneficiary loans can be explained by the very nature of this financing instrument. Indeed, the EIB relies on financial intermediaries, which allocate the amount of the loan to various sub-projects. These sub-projects get the approval of the EIB but are selected by the financial intermediaries itself. Therefore, the level of control of the EIB on this type of project is lower than for investment loan for which the EIB can almost freely select the project to be financed. In the case of multi-beneficiary loan, the control of the EIB is exerted through the eligibility criteria set for sub-projects to be financed and sometimes though specific targets attached to the portfolio of sub-projects.

Out of the 18 multi-beneficiary loans, only five contribute to climate change objectives. These are projects for which the EIB has set specific target in terms of climate change or because the targeted sectors are considered to contribute to climate change, e.g. energy, agriculture, fisheries or forestry. In India, the operation “SBI loan for SMEs and Mid-Caps” includes a target of 30% of sub-projects to be financed with the credit lines supporting climate change objective.

[19] All operations contribute to the climate action to a different extent (the multi-beneficiary loans by assumption). Thus, the number of operations contributing to the climate action within a type of financing is simply the number of operations for this type of financing.

5 In-depth analysis of the ELM operations 2014-2015 – case studies

This section of the report is dedicated to the in-depth analysis of the ELM functioning based on the twenty selected case studies.

The *first subsection* deals with the design of the intervention. This part assesses the alignment of the ELM with the EU external policy agenda and the objectives of the ELM stated in the Decision 466/2014/EU, and addresses the relevance of the geographical distribution and of the allocation policy.

The *second subsection* bears on the management and the implementation of the ELM. It covers the ELM operations lifecycle and the methodology – the Results Measurement Framework (REM) – used to select, monitor and evaluate the financing operations. This subsection also addresses the issue of complementarity and coordination of the ELM financing operations with other International Financial Institutions (IFI).

The *third subsection* identifies the added value of the ELM, also shedding light on some specific issues like the management of the exchange rate risk.

The *fourth subsection* is dedicated to the specific theme of climate change adaptation and mitigation: the way the financing operations take this objective into account and the measurement of the results.

The *fifth subsection* deals with the communication issues around the ELM operations and with the ELM contribution to the visibility of the EU to the final beneficiaries and, more broadly, in the recipient countries.

5.1 Design of the intervention

This subsection covers the evaluation questions EQ1, EQ2 and EQ3.

- **EQ1**: Are the objectives set out in Decision No 466/2014/EU still relevant considering the changes in the context, in particular with regard to geopolitics, emerging post-2015 development finance and climate framework, and the EU external policy agenda, including its external blending mechanism?
- **EQ2**: Regarding the relevance of design, how does the allocation policy contribute to the effective use of the EU guarantee?
- **EQ3**: Are the methods used by the EIB relevant to analyse the financial needs of the beneficiaries, their absorption capacity and the availability of other sources of private or public financing for the relevant investments?

5.1.1 Alignment of the ELM with the EU external policy agenda

As part of the EU institutional set-up contributing to the EU external policy agenda, the EIB is the financial arm of EU's external action. In this respect, the ELM's objectives and operations are expected to be aligned with the external policy objectives of the EU.

ELM has been reactive to changes in EU external priorities

The EU external policy agenda has been shaped by major geopolitical changes in the EU partner countries. These changes have defined or redefined EU external priorities that the ELM is expected to contribute to. The analysis consisted in assessing if these major changes have been reflected in the ELM. Two examples show how the ELM adapted to emerging external policy priorities in the EU.

ELM and the Ukraine crisis

Following the conflict in Ukraine, the EU has engaged a major effort to support the country recovery. In March 2014, the Commission committed to help stabilise the economic and financial situation in the country, assist with the transition and encourage political and economic reforms. The overall support reaches EUR 11 billion among which the EIB contributes 3 billion, in particular through long-term investments: "the EIB could provide financing for long-term investments of up to EUR 3 billion for 2014 – 2016 in support of both the local private sector and economic and social infrastructure" [20]

Between October 2014 and the end of the year 2015, the EIB had signed eight operations under ELM in Ukraine for more than EUR 2 billion:

Table 18: List of ELM operations signed in Ukraine under the ELM 2014-2020

Operations	EIB contribution (in EUR M)
Ukraine Agri-food apex loan	400
Guarantee for economic development in Ukraine	466
Ukraine municipal infrastructure Programme	400
Apex loan for SMEs & Mid-Caps	400
Ukraine early recovery	200
Urengoy- Pomary- Uzhgorod gas pipeline	150
MHP Agri-food	85
Astarta Agri-food and climate change adaptation	50

Source: EIB

These operations result directly from the EU political decision to support Ukraine and have been signed in a relative short timeframe which proves that the EIB has been reactive in supporting Ukraine and the ELM in itself (its implementation processes) is adapted to quickly respond to a geopolitical change. The EU also identified sector priorities in the country, e.g. trade, energy, transport, mobility and education. As regards energy and transport, the EU identifies gas supplies as key priorities for the country and for Europe[21]. Two operations under the ELM refer directly to this issue and show that they are aligned with the EU sector priorities:

- Guarantee for economic development in Ukraine: the project is an EIB guarantee in favour of IBRD, covering five IBRD investment loans in Ukraine contributing to the development of economic infrastructure. The guarantee will release IBRD exposure to Ukraine, enabling IBRD to support emergency gas purchases by Naftogaz, Ukrainian gas import-export company.
- Urengoy- Pomary- Uzhgorod gas pipeline: the project consists of repair measures on the Ukrainian part of the Urengoy - Pomary - Uzhgorod natural gas pipeline. Several sections of a total length of some 119 km and two gas compressor units will be replaced.

The ELM has clearly contributed to the EU response to the Ukrainian crisis and has therefore support the EU external priorities in the country. In parallel of the support to Ukraine, the EU decided also sanctions against Russia over Ukraine crisis[22]. Sanctions include diplomatic measures (cancellation of the EU-Russia summit, resettlement of the G8 summit), restrictive measures – (asset freezes and visa bans), restrictions targeted at the Crimea and Sevastopol (ban on imports of goods, prohibition of investments, no technical assistance, etc.), and economic sanctions (EU nationals and companies shall not provide loans with a maturity exceeding 30 days to some entities, prohibition on exports of dual use goods and technology for military use, etc.). Some of the measures taken refer to economic cooperation. Thus, on 16 July 2014[23], the European Council requested the EIB to suspend the signature of new financing operation in Russia, which has been complied with since the EIB has signed no operation, including under ELM, in Russia. This should be considered as another proof of the ELM alignment with the EU external priorities.

[20] "European Commission's support to Ukraine" http://europa.eu/rapid/press-release_MEMO-14-159_en.htm

[21] "European Commission's support to Ukraine" http://europa.eu/rapid/press-release_MEMO-14-159_en.htm

[22] COUNCIL DECISION 2014/145/CFSP of 17 March 2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions_en

[23] Conclusions of the special meeting of the European Council of 16 July 2014, General Secretariat of the Council, EUCO 147/14

Focus on Ukraine Early Recovery

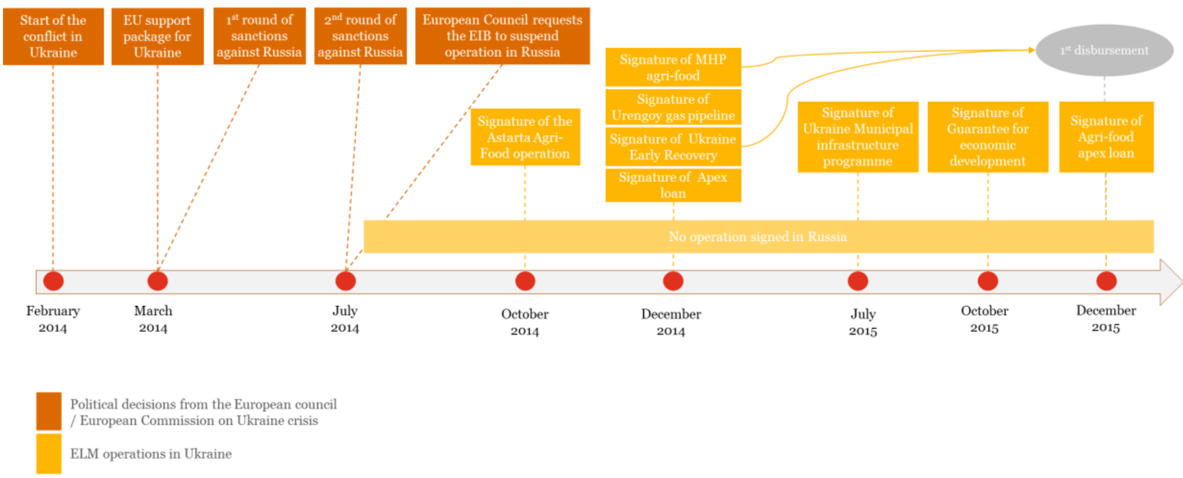
The project is a multi-sector framework loan to support priority investments in the recovery of small-scale damaged infrastructure and basic infrastructure needs of internally displaced population (IDPs) to cope with the consequences of the conflict in East Ukraine between March and early September 2014.

The project focuses on investments in the Government-controlled areas of Donetsk and Luhansk oblasts (regions), as well as the three surrounding oblasts (Kharkiv, Dnipropetrovsk and Zaporizhzhia). The scope of the project is mainly the infrastructure recovery or adaptation and is limited to the following sectors: (i) water and sewerage; (ii) energy, including electricity, district heating and energy efficiency); (iii) transportation, including damaged or destroyed roads, rail and bridges; (iv) municipal infrastructure; (v) social infrastructure, including schools, kindergartens, hospitals, health and social centers; (vii) postal services providing financial services; and (vii) community infrastructure for sheltering IDPs. The promoter is the Ukrainian state through the Ministry of Regional Development, Construction, Housing and Communal Services (MRD). The final beneficiaries are central, regional and municipal administrations and publicly-owned enterprises.

Considering the emergency of the situation in Ukraine and the high financial constraints facing the Ukrainian Government, the EIB covers 100% of projects costs (in line with the EIB funding principles accepted for projects following natural disasters). On the whole, 72 sub-projects have been identified so far to be financed under this operation. These projects correspond to the 1st batch of projects identified. Other batches with more sub-projects will follow in the future.

The project is expected to contribute to the recovery of social infrastructure in Ukraine. It is therefore aligned with one of the three general objectives of the Decision (article 3), which is "development of social and economic infrastructure, including transport, energy, environmental infrastructure, and information and communication technology". This project is part of the EU response to Ukrainian crisis and is consistent with the priorities of the EU for EIB intervention in this country, e.g. economic and social infrastructure. It contributes to the recovery of the country, which is indispensable to keep on implementing the EU-Ukraine Association Agreement whose objective is to gradually integrate Ukraine in the internal market. In addition, the project is in line with the Recovery and Peacebuilding Assessment (RPA) conducted by the EU, UN and World Bank to assess short-term recovery needs and priorities in areas under the Government control, with particular focus on restoring basic social services, rehabilitating key infrastructure, creating an enabling environment for population return and socio-economic recovery and supporting social cohesion and reconciliation. Finally, this project is fully aligned with the Ukraine Economic Recovery Plan 2014-2017, which defines the assistance to IDP as a key priority.

Figure 17: Chronology of events in the Ukraine crisis -EU response and ELM operations



Source: EIB

The ELM has clearly been used as a political tool during the Ukraine-Russia crisis allowing to support EU priorities.

ELM and the "Arab spring"

Egypt is the second beneficiary country of the ELM with more than EUR 1.3 billion committed by the EIB under the EU guarantee. The importance of the country has to be considered from a policy priority perspective. Indeed, following the "Arab spring" in 2011 and the major political and economic instability of the following years, an EU-Egypt task Force was created in November 2012 with the objective of enhancing and structuring the EU's engagement in the country. The EIB took part in the task force and announced potential lending of up to EUR 1 billion per year. The EIB also announced a new Task Force fund, which can provide up to EUR 60 million for countries in transition[24]. Under the EU guarantee, the EIB engaged more than EUR 1.3 billion between December 2014 and December 2015 (under ELM 2014-2020). The four operations concern public transportation, energy, and private sector development and pollution abatement investments. They include:

- Cairo metro line 3 (phase 3): the project consists in the extension of Line 3 (Phase 3) of the Cairo Metro with 17 km to serve the main transportation corridors of urban greater Cairo;
- Damanhour CCGT power plant: the project consists in the construction of high-efficiency combined cycle gas turbine (CCGT) on the site of an existing power plant at Damanhour, in the Nile Delta;
- Private sector development and economic growth: the project is a line of credit to Egyptian banks for the purpose of financing small and medium sized projects in productive and related sectors in Egypt;
- Egyptian pollution abatement (EPAP) III: the project is a line of credit intermediated by local commercial banks to finance pollution abatement investments promoted by public and private industrial companies.

In line with the 2012 EU engagement to help stabilising Egypt, the EIB under ELM 2014-2020 has put a strong focus on Egypt. This supports the external policy objectives of the EU in the country.

Similarly, in Tunisia, after the 2011 revolution, the EU responded to the evolving economic and political challenges by doubling the amount allocated to Tunisia for the period 2011-2013 (from EUR 240 million to EUR 445 million). For the period 2014-2020, the indicative allocation could range between EUR 725 and EUR 886 million (i.e. an average of EUR 115 million yearly). For the year 2015, the annual Action Programme (EU bilateral cooperation) focuses on support to private sector, support to the Security sector reform, decentralisation, and support for the cultural and tourism sector. Between December 2014 and December 2015, three operations have been signed in Tunisia. They focus on private sector development and transport. The selection of projects funded under the ELM tries to adapt as much as possible to the country's evolving needs in terms of economic recovery, and especially by supporting the tourism sector, affected by the Jasmine Revolution and the several terrorist attacks that took place in Tunisia within the last couple of years.

Furthermore, following EU decision on sanctions against Syria[25], the EIB stopped all existing and future activity in this country.

Support to the candidate and pre-candidate countries

The ELM operations went on ensuring a consistent support to the candidate (Turkey, Montenegro) and pre-candidate (Bosnia and Herzegovina) countries. In the framework of this support, and in line with the objectives stated in the Decision, five operations were initiated in Turkey for the overall volume of around EUR 1 billion, two in Montenegro (EUR 50 million) and one in Bosnia (EUR 100 million). Turkey, in particular, is among the three top beneficiaries of the ELM funds so far since July 2014. This commitment is in line with the general strategy of the EU towards Turkey, in particular in relation to the Agreement reached between the EU and Turkey in the context of the refugee crisis.

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24 EU-EGYPT TASK FORCE Fact Sheet, A 515/12, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/133513.pdf

25 COUNCIL DECISION 2013/255/CFSP of 31 May 2013

Emerging issues

One of the highest priorities on the EU political agenda is the refugee crisis. In May 2015, the European Commission set the "European agenda on migration". The agenda identifies four levels of structural actions: reduction of the incentives for irregular migration, border management, development of a strong common asylum policy and a new policy on legal migration. A large part of the measures taken by the EU relies on the cooperation with third countries, both entry points in the EU (e.g. EU neighbouring countries) and countries of origin of migrants and refugees. In that respect, the Agenda states that "the EU must continue engaging beyond its borders and strengthen cooperation with its global partners, address root causes, and promote modalities of legal migration that foster circular growth and development in the countries of origin and destination". On 18 March 2016, the EU-Turkey summit resulted in the Agreement bearing on the prevention of the illegal immigration to the EU. The EIB and European Commission are currently discussing the EIB's support to pre-accession and Neighbourhood countries affected by the refugee crisis to determine how the EIB can provide support to the refugee and host communities, including through ELM funding. In the short term, the EIB also "converted existing projects to open a special eligibility window for expenditures connected with refugees"[26]. The EIB was part of the London conference on Syria and the neighbourhood to discuss the migration package of measures. The cooperation is close on the migration issues between the EU and the EIB. The project Wadi Al Arab Water System II is an example of the use of the ELM loans in response to the refugee crisis. The purpose of the project is to expand the water supply in Jordan to match the increasing needs due to a massive inflow of refugees in the country.

A flexible and reactive instrument to date

Overall, the ELM funding plays an important role in supporting the EU objectives of the economic – and therefore political – stabilisation of several recipient countries, as attested by the importance of funds allocated to Ukraine, Egypt, Tunisia or to a certain extent Morocco. Taken together Ukraine Egypt and Tunisia account for almost half of the ELM funding allocations. Therefore, over the period 2014-2015, the ELM has been primarily a stabilisation instrument. The ELM has accompanied several policy shifts proving its flexibility and reactivity.

The other side of the coin is that the more flexible and reactive the ELM had been, the less flexible and reactive it can be in the remaining mandate period. Indeed, because of the significance of the geopolitical changes evoked above, large volume of investments has been made under ELM. In the concerned regions, the regional ceilings are largely used (see section 5.1.2) so as the capacity of ELM to support EU external priority. It impacts also the capacity of the EIB to intervene in other countries in these regions under the ELM. This is particularly true in the region Russia, Eastern Europe, South Caucasus where almost two third of the ceiling has been reached (see section 5.1.2), with 78% of the funds concentrated on Ukraine (see section 4.1.1). Therefore, the capacity of the ELM to support other external policy objectives in the region in the future is somewhat weakened.

Alignment with the EU strategies in beneficiary countries

When the EIB conducts operations with ELM, they are expected to align with the EU strategic framework in the country and in the region. This strategic framework is composed of the Association Agreement, the Association agenda, the country strategy paper, the sector strategies, the multiannual financial framework 2014-2020 and the regional policy.

The main tool for ensuring the ELM operations are consistent with the EU regional policy framework is the Regional Technical Operational Guidelines (article 5 of the Mandate). This describes for all the regions covered by the ELM the main priorities of the EU, e.g. how the EIB should work on these regions. It is a valuable tool for the loan officer of the EIB in ensuring that the projects being instructed are aligned with EU priorities, including during the pre-appraisal phase. The document is also used to identify the field in which the EIB can prospect the market for new projects under the ELM.

However, the RTOG provides a static picture of the EU regional policy framework. They have been written in May 2015 and are still relevant in the current context, but the question of its updating will be raised in the coming months. This will allow the RTOG to reflect the latest evolutions of the

[26] External Lending Mandate 2014-2020, annual report 2015, p.37

EU priorities and the EIB to align with them. Article 5 of the mandate stated “the RTOG shall be reviewed following the mid-term review”.

The RTOG document was produced by the EC, together with EIB and approved by the EC (art. 5). Considering that it should reflects the EU external priorities, which involve a wide range of institutions and instruments. A prior discussion on the RTOG with the EEAS could add value to the document.

Alignment with the Sustainable Development Goals

The EU committed to contribute to reach the Millennium Development Goals (MDG’s) and since 2015 the Sustainable Development Goals (SDGs). 2016 ushered in the official launch of the 2030 Agenda for Sustainable Development adopted by world leaders in September 2015 at the United Nations. The new Agenda calls to begin efforts to achieve 17 Sustainable Development Goals (SDGs) over the next 15 years. The EIB’s, and more specifically the ELM’s, objectives and operations are broadly aligned with the SDGs and are expected to contribute directly to the following SDG’s:

- Clean water and sanitation;
- Affordable and clean energy;
- Industry, innovation and infrastructure;
- Sustainable cities and communities;
- Climate action;
- Decent work and economic growth.

In addition, the ELM contributes indirectly to the following SDGs, mostly by developing infrastructures in sectors (Agriculture, Education, etc.) that are expected to have an impact on the goals listed hereafter: No poverty, Zero hunger, Good health and well-being, Quality education, Gender Equality, Reduced inequalities, Responsible consumption and production, Life below water, Peace, Justice and strong institutions and partnerships for the goals. The ELM is expected to contribute even more directly to the SDGs than in the past the MDGs[27] since the focus tends to shift from poverty reduction to sustainable economic development, which is one the three key priorities of the ELM.

Alignment with the Paris Climate Agreement

With the Paris Climate Agreement, 195 countries adopted the first legally binding global climate deal. In terms of climate change mitigation, governments agreed to limit global warming to well below 2°C above pre-industrial levels and therefore to undertake rapid reductions of GHG emissions with the best available techniques. This includes making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development[28]. They also committed to strengthen societies’ ability to deal with the impacts of climate change and to support developing countries in their effort toward climate change adaptation. In preparation, countries have agreed to publicly outline what post-2020 climate actions they intend to take under a new international agreement, known as their Intended Nationally Determined Contributions (INDCs) which will define the strategic framework of each country for reaching climate objectives.

Within this framework, the EU has played a key role and was among the first to submit its intended contribution to the new agreement in March 2015 and is already taking steps to implement its target to reduce emissions by at least 40% by 2030. The projects conducted under the ELM are part of this effort. As indicated in the portfolio analysis, the ELM contributes significantly to climate change objectives with a share of climate related expenditure of 40% of the total ELM. However, the ELM is mainly contributing to climate change mitigation objectives since 92% of the climate related expenditure within the ELM target mitigation and consequently only 8% adaptation. Therefore, the ELM is fully aligned with the ongoing effort of the EU and the international community towards climate change mitigation objectives (reduction of GHG emissions). Overall, the savings in terms of GHG emissions resulting from ELM operations estimated at 1.35 Mt CO2-

[27] Eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, global partnership for development.

[28] Article 2 of the Paris agreement

eq/year. Its contribution to climate change adaptation objectives is more limited, although this is expected to grow as the screening for climate change impacts and the Bank's climate risk and vulnerability assessment work will take more effect.

Alignment with the three ELM's objectives

The Decision sets three high-level objectives defining the sectors/fields of intervention of the ELM:

- Local private sector development, in particular support to SMEs;
- Development of social and economic infrastructure, including transport, energy, environmental infrastructure, and information and communication technology;
- Climate change mitigation and adaptation.

The table below shows the high-level objectives matched by each of the financing operations among the twenty case studies:

Table 19: Which high-level objectives do the financing operations under the ELM match?

Financing operation	Country	Date of signature[29]	High-level objectives defined in the Decision		
			Local private sector development	Development of social/economic infrastructure	Climate change mitigation / adaptation
Laksam Akhaura double track rail project	Bangladesh	15/10/2015		X	X
SBI loan for SMEs and Mid-Caps	India	28/11/2014	X		X
Tajik - Kyrgyz power interconnection	Kyrgyzstan[30]	02/10/2015		X	
Armenia APEX loan for SMEs	Armenia	04/12/2014	X		
Accessbank Azerbaijan loan for SMEs	Azerbaijan	07/11/2014	X		
Kutaisi waste water	Georgia	15/10/2015		X	X
Ukraine early recovery	Ukraine	22/12/2014	X	X	
Guarantee for economic development in Ukraine	Ukraine	09/10/2015		X	X
Sao Paulo Rolling Stock	Brazil	20/10/2014		X	X
Brazil loan for SMEs & Mid-Caps	Brazil	28/05/2015	X		
Private sector development & economic growth	Egypt	14/03/2015	X		
Ouarzazate III (Tower)	Morocco	22/12/2014		X	X
EUROPAC industrial packaging plant in Tangier	Morocco	15/06/2015	X	X	
Partenariat BEI-BTK-réseau-entreprendre	Tunisia	04/12/2014	X	X	
AMEN Bank-Prêts PME & ETI	Tunisia	17/09/2015	X		
Wadi Al Arab water system II project	Jordan	08/11/2015		X	X
Montenegro water and sanitation	Montenegro	25/06/2015		X	
IDF loan for SMEs & priority projects II	Montenegro	16/03/2015	X		
Ziraat Bank IPARD MBIL	Turkey	22/09/2014	X		X
South Africa private sector facility	South Africa	23/11/2015	X		X

Source: PwC analysis, Decision 466/2014/EU, EIB Serapis database

[29] Formally, it is the credit rating at the date of submission by the EIB of the operation to the Commission under the Article 19 procedure which should be taken into account instead of the date of signature. However, the time elapsed between the two is likely to be limited. Thus, we use the date of signature as a proxy.

[30] First-time ratings attributed by S&P and Moody's in December 2015

All the 20 operations analysed as case studies are well-positioned to address one of these objectives, and in most cases more than one. The consistency of the operation with the ELM objectives is one of the first criteria to initiate a project. Then, the contribution of the project to ELM objectives is analysed more deeply within the framework of the REM.

The objectives covered by the 20 operations are well distributed. The support to local private sector development is sought in 12 operations among the case studies, infrastructure in 11 and climate change in nine operations. Sometimes a financing operation targets more than one objective.

Another major ELM objective is regional integration. According to the RTOG, "regional integration among countries, including in particular economic integration between Pre-Accession countries, Neighbourhood countries and the Union, shall be an underlying objective for EIB financing operations within areas covered by the general objectives"[31]. In its annual report on the ELM 2014-2020, the EIB clarifies its understanding of the meaning of this objective: "in practice this can mean creating physical infrastructure links such as road rail and energy networks. It can also mean facilitating trade and financial linkages across regions and the process of convergence in economic output and standards of living". [32]

Among these 20 operations, one includes regional integration objectives between a pre-accession country and the Union (based on the REM framework). It is the project "Iller Bank urban transport and environment loan in Turkey". The project will support municipal investment schemes in the public transport, water, waste water and solid waste sector in Turkey using Iller Bank as an intermediary. It will contribute to regional integration by supporting the development of transport network and bringing municipal services closer to EU standards.

The three overall objectives of the ELM as set in the Decision are still relevant in the present context. The climate change mitigation and adaptation objectives are ever more relevant after the post-Paris agreement. Private sector and infrastructure development objectives are drivers of the sustainable and inclusive growth and as such still relevant as key objectives of the ELM.

Conclusion 1: the ELM operations are aligned with the three objectives defined in the Decision. The latter are still relevant in the present context where post-Paris agreement efforts towards climate change mitigation and adaptation objectives and pursuit of the SDGs are contributing to a sustainable and inclusive growth.

Conclusion 2: ELM objectives are broadly aligned with the SDGs and are expected to contribute directly to a number of the SDGs.

Conclusion 3: the ELM has supported the EU external policy agenda, showing sufficient flexibility and reactivity to upcoming challenges. This is exemplified through the case of Ukraine (the Ukrainian crisis), Egypt and Morocco ("Arab spring"), Syria and the ongoing discussion over the refugee crisis. This includes also alignment with climate objectives as they have been agreed in the Paris Agreement.

Conclusion 4: the ELM, above all, has been a tool contributing to the economic stabilisation in the countries hit by a political crisis. Its agenda has been constrained by tough geopolitical challenges, which weigh on the regional ceilings and the future capacity of action under the ELM.

[31] Regional Technical Operational Guidelines for EIB financing operations under Decision 466/2014/EU, p.2

[32] EIB. External Lending Mandate 2014-2020, 2015 annual report

5.1.2 Relevance and added value of the geographical distribution and regional ceilings

The distribution of funds across the seven regions covered by the ELM finds its legal basis in the Decision 466/2014/EU, which establishes caps for the amount that can be allocated to the ELM financing operations in each region. The following table shows these regional ceilings in EUR and in% of the total:

Table 20: Regional ceilings, in EUR billion and in percentage of the total

	Candidate and Pre-candidate countries	Neighbourhood and Partnership countries		Asia and Latin America		Central Asia	South Africa	TOTAL
		Mediterranean countries	Eastern Europe, Southern Caucasus, Russia	Latin America	Asia			
Amount, bn EUR	8.74	9.6	4.83	2.29	0.94	0.18	0.42	27
% total	32%	36%	18%	8%	3%	1%	2%	100%

Source: Decision 466/2014/EU, Annex I, figures rounded off

The ceilings are not targets insofar as the Mandate does not specify a requirement to reach the amount indicated by the ceiling, but rather the maximum EIB contribution under ELM for a specific region. Yet, the amounts corresponding to each ceiling should broadly reflect the financing needs of the stakeholders from the region and the EU policy priorities. In other words, funds should be allocated to where they are the most needed and to the regions the EU considers of utmost importance as regards its external policy. Considering the ceilings established by the Decision, primary importance is given to the Candidate and Pre-Candidate countries, the Mediterranean countries and the Eastern Europe, Caucasus and Russia (respectively 32%, 36% and 18% of the total funding cap under the ELM). It is important to mention that, according to the Regional Technical Operational Guidelines and the Decision, the EIB is authorized, upon consultation with the Commission, to reallocate an amount of up to 20% of the sub-regional ceilings within regions and up to 10% of the regional ceilings between regions (within the overall ceiling of the EUR 27 billion).

The purpose of this section is therefore to assess the relevance of the regional ceilings – in particular, to see if for some regions they bind already – and, more broadly, to consider the adequacy of the geographical allocation of funds, i.e. whether they are allocated where they are needed the most.

Are the regional ceilings posing a barrier to further EIB activity under ELM in any region?

Considering the 57 financing operations signed by the 31.12.2015, the EIB contribution amounted to approximately EUR 8.93 billion (amount approved by the EIB board of directors). The volume of funds approved, in EUR and in percentage of the total, is shown in the table below:

Table 21: Amount approved by region as of Dec. 2015, in EUR billion and in% of the total

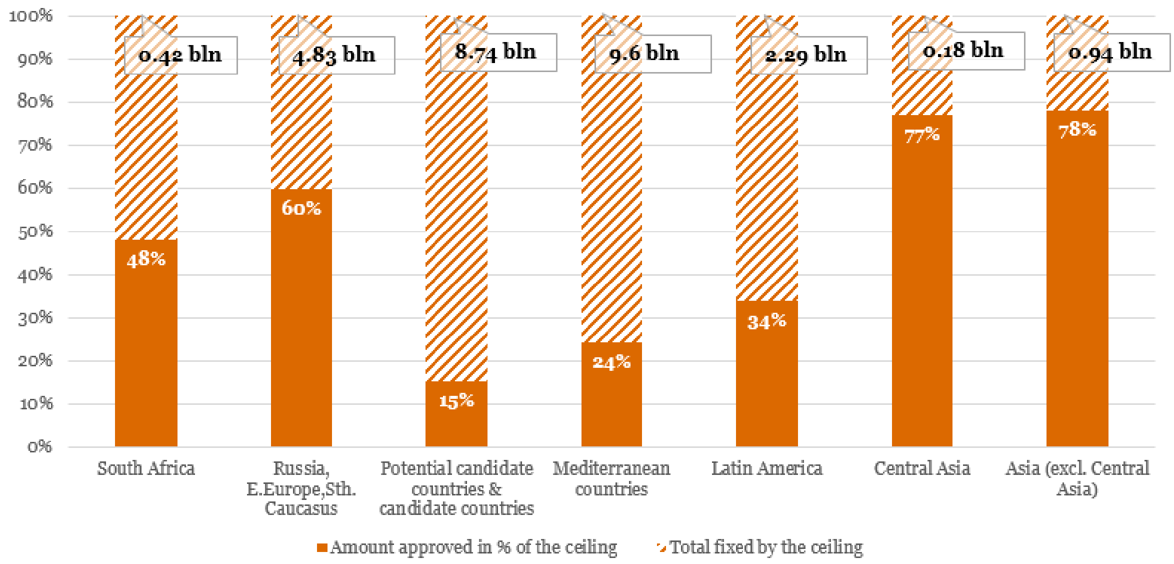
	Candidate and Pre-candidate countries	Neighbourhood and Partnership countries		Asia and Latin America		Central Asia	South Africa	TOTAL
		Mediterranean countries	Eastern Europe, Southern Caucasus, Russia	Latin America	Asia			
Amount bn EUR	1.32	2.34	2.88	0.77	0.73	0.28	0.60	8.937
% total	15%	26%	32%	9%	8%	3%	7%	100%

Source: PwC

The comparison between the two tables above indicates that for some regions, the allocation of funds[33] has taken a faster pace, in particular the amount approved to the financing operations for the region "Eastern Europe, Southern Caucasus, Russia" represents 32% of the total amount approved to the ELM financing operations as of the 31.12.2015. This proportion is due to a new geopolitical priorities of the EU: increase financial assistance to Ukraine and provide it under relatively short notice. Indeed, the latter represents around 79% of the total volume of funds approved in the region and 26% of the total EIB contribution approved under the ELM as of 31.12.2015.

The following graph shows the volume of funding approved under the ELM by the end of 2015 in percentage of the amount established for each region by the corresponding regional ceiling:

Figure 18: Funds approved in each region as a% of the amount fixed by the ceiling for this region



Source: EIB

We observe significant differences across regions. After 1.5 years of activities under the 2014-2020 ELM (approximately 20% of implementation time lapsed), five regions out of six are beyond this indicative figure of 20%. In three regions, in particular, more than half of the total has already been committed (approved). For Central Asia, the amount approved reaches 77% of the regional ceiling; for Asia (excluding Central Asia), the amount approved represent 78% of the corresponding regional ceiling. By contrast, among the candidate and the potential candidate countries, the funds approved so far represent only 15% of the ceiling.

For the **region Eastern Europe, Southern Caucasus, Russia** 60% of the total cap was committed (approved). This commitment covers 19 projects – more than in any other region. This allocation pace has been driven by the geopolitical considerations and EU external policy priorities of supporting Ukraine. Indeed, in March 2014, the Commission committed to help stabilize the economic and financial situation in the country, assist with the transition and encourage political and economic reforms. The overall support reaches EUR 11 billion coming from the EU budget and EU-based IFI in addition to funding provided by the IMF and the World Bank. Among them, the EIB is asked to contribute up to 3 billion. Under the ELM, 2.2 billion has already been approved by the EIB through 10 operations accounting for 79% of the total volume of funds approved in the region and 26% of the total EIB contribution committed under the ELM as of 31.12.2015. According to the EIB, this commitment for Ukraine from the Bank corresponds to the frontloading lending based on the assumption that, following the Mid-Term Review of the ELM in 2016, the financing capacity of the EIB under the ELM would be re-examined to ensure an adequate level of financing for Ukraine and other countries in line with EU priorities[34].

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33 Calculated on the amount approved by the board of Directors of the EIB, e.g. the EIB contribution to the project

34 CA of 14th March 2014 (CA/472/14)

The remaining 21% of the amount approved in this region have been deployed in Georgia, Armenia, Azerbaijan and Moldova. In the region "Eastern Europe, Southern Caucasus, Russia", the pace of operation has been strongly affected by an unexpected geopolitical event that urge the EU to provide a rapid and significant financial support through the ELM. While this outcome has a clear political relevance, it raises the question of how to deal with major geopolitical events that distort the allocation under the ELM within an almost fixed ceiling. The regional ceiling is not constraining the EIB activity in the region so far. However, in the future it could represent a serious constraint to continue supporting EU priorities in the region (notably those countries having signed an Association Agreement with the EU), a constraint further heightened if new countries (e.g. Belarus) were added to the list of eligible countries under the ELM.

In **Asia**, 78% of the ceiling have been already committed in India (55% of the total allocation), Bangladesh (18%), Nepal (17%), Pakistan (7.5%), and Laos (2.5%). The ceiling is relatively low compared to other regions such as Latin America and compared with the potential demand for project financing which is considered very high and address also the least developed countries under the mandate and would largely exceed the regional ceiling. Indeed, the EIB has many project opportunities in Asia, in particular as regards climate change, and due to the financial ceiling imposed through the allocation policy has to be very selective. As part of this selection, the EIB puts a high premium to climate related project. This is reflected in the level of climate action in the region (see section 5.4).

For **central Asia**, the current volume of funding approved stands at 77% of the regional ceiling. This reflects mainly the fact that the regional ceiling is quite low (EUR 182 million) so that one large infrastructure project of EUR 140 million held in two countries (Tajikistan and Kyrgyzstan) drives the resources available for the region to near-exhaustion. Two additional considerations have to be taken into account for this region. The first consideration refers to the importance of the financing needs identified in the region: the current pipeline of projects represents a forecasted volume of around than EUR 330 million for the four central Asian countries only. The second consideration refers to the potential inclusion of Kazakhstan. So far, the EIB conducts the financing operations in Kazakhstan under the own-risk facilities, in line with the Regional Technical Operational Guidelines, which specify "in Kazakhstan the EIB should envisage to finance operations exclusively using ORF". However, if the macroeconomic situation of the country – falling oil prices, depreciation of the national currency – leads to a downgrading of the country' credit rating, Kazakhstan might not be eligible any more for financing under the ORF. If this occurs, a case could be made for an extension of the ELM to Kazakhstan. This, however, would make the regional ceiling an even tougher constraint.

In **Latin America**, six operations have been launched so far. 34% of the ceiling has been reached through operations in Brazil (45%), Ecuador (25%), Nicaragua (19%) and Honduras (11%). This figure indicates that currently the EIB has delivered against the resources dedicated to the region. However, like in Asia, according to the EIB the potential demand for project financing which is considered very high. In addition, the addition of new countries to the ELM portfolio (Argentinaand Cuba in particular) would put a strain on this ceiling.

In **South Africa**, around half of the available funds have been exhausted. The regional ceiling has been lowered in comparison to the previous ELM period from EUR 936 million to EUR 416 million. The regional ceiling is not binding so far. However, only 1.5 years elapsed from the start of the current ELM period and simply projecting the linear trend into the coming period up to 2020 – assuming the financing needs of the region remain stable – shows that the regional envelope would be exhausted by the second half of 2017. Given that the lowering of the ELM regional ceiling coincided with the reduction in the direct European Commission assistance to South Africa – from EUR 1 billion to EUR 200 million –, the financial presence of the European Union in South Africa becomes much less pronounced. This leaves opportunities for other external policy interests, in particular from China, the largest trade partner of South Africa and one of the major investors in the country. The EIB uses own-risk facilities in South Africa only for strategic FDI of EU companies and renewable energies, thus reduction in the ELM envelope limits its leeway for financing operations in South Africa. Co-financing of projects in partnership with international financial institutions (IFI) can indeed be envisaged, in particular with AFD, KFW, IFC, the World Bank, or

Proparco, all of which work in South Africa on a regular basis. However, this concerns only large infrastructure projects. For the loans to SMEs, the EIB has to rely exclusively on the financing under the EU Guarantee.

For the regions **Potential candidate countries and candidate countries** as well as the "**Mediterranean countries**" region, the utilization of the regional ceilings has been according to plan so far. For the first region, the amount committed so far represents 15% of the ceiling even though nine financing operations have been active in this region (around 30% of all the operations). However, to finance its operations in Turkey in 2014 the EIB used the financial resources remaining from the previous ELM. For the second region, the aggregate volume for the fifteen financing operations launched since July 2014 represents 24% of the ceiling. However, these countries have particularly urgent financing needs in the refugee context. The European Council has invited the EIB to present to its June meeting a specific initiative aimed at rapidly mobilising additional financing in support of sustainable growth, vital infrastructure and social cohesion in Southern neighbourhood and Western Balkans countries. In the light of the high political priority to provide a substantial support to the countries of the region in the refugee context, the EIB could be called to step up its level of operation substantially, resulting in an early exhaustion of the envelope. This would call for an additional financial effort from the EU budget to support public sector infrastructure projects at concessional terms, and leveraging guarantee to boost the private sector as driver for growth. However, the analysis of details of such an initiative, including the implications for the ELM, is outside the scope of the present study and must be tackled separately.

Overall, the regional ceilings for different specific regions reflect the policy priorities of the EU. Therefore, the judgment on the specific regional ceilings is not of a technical, but of a political nature. The key issue lies more in the flexibility given to the EIB in reallocating funds across the different regions based on the quality of projects in the pipeline.

Conclusion 5: in some of the regions (Asia; South Africa; Central Asia; Russia, Eastern Europe, South Caucasus), the amount committed (approved) after 1.5 years into the Mandate approaches the regional ceiling, which constrains the future operations and significantly reduces the capacity of the ELM to respond to potential upcoming challenges or EU priorities in the future.

Conclusion 6: in other regions (Mediterranean countries; Latin America, Potential candidate and candidate countries), the EIB delivers according to the regional ceilings.

5.1.3 Relevance of the allocation policy and the choice of own-risk financing vs financing under the EU guarantee

This subsection of the report addresses an important issue of soliciting the EU Guarantee for EIB external lending operations. The purpose of the subsection is to explore and analyse, based on the twenty case studies, the selection by the EIB of financing operations for which the EU Guarantee coverage is solicited.

The Allocation policy, specified in Annex V of the ELM Guarantee Agreement between the Commission and the EIB, sets the rules for the EU guarantee coverage of EIB lending outside the EU operations under the 2014-2020 external mandate or EIB own risk facilities.

The EIB's Board of Directors decides on the overall amount of lending, amount of risk taking (under own risk and under the EU guarantee) and the breakdown by region. For its outside operations, the EIB decides whether to solicit or not the EU guarantee and informs the European Commission accordingly.

The main criteria for soliciting of the EU guarantee are the nature of the counterparty, the credit risk of the country of operation and the Bank's Credit Risk Policy Guidelines. It also takes into account the risk absorption capacity and the country limits if applicable.

The credit rating is the one applied to the country by the rating agencies Standard & Poor's, Fitch and Moody's at the moment of submission by the EIB of the operation to the Commission under the Article 19 procedure. The following credit risk criteria are defined:

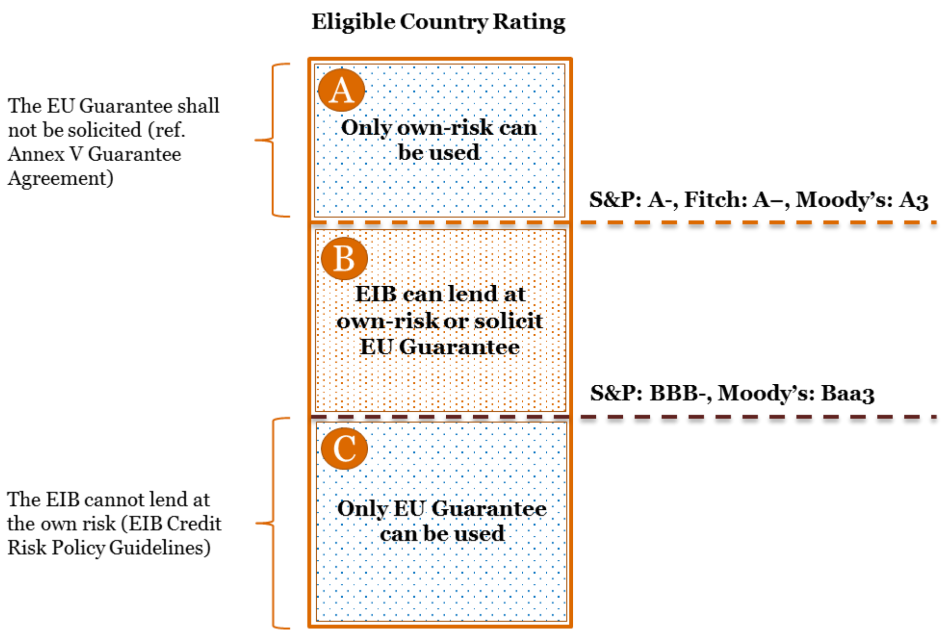
- **Sovereign lending**: risk coverage EU Guarantee would not be sought for sovereign loans to countries with an Eligible Country Rating equivalent to Standard & Poor's / Fitch A– / Moody's A3 or better.
- **Sub-sovereign lending**: the EIB shall not solicit the EU Guarantee risk coverage for sovereign loans to countries with an Eligible Country Rating equivalent to Standard & Poor's / Fitch A– / Moody's A3 or better.
- **Private sector lending**: the EIB shall not solicit the EU Guarantee risk coverage for sovereign loans to countries with an Eligible Country Rating equivalent to Standard & Poor's / Fitch A– / Moody's A3 or better.

The existence of the credit rating ceiling for the financing operations under the EU Guarantee is sound. EU guarantee has an opportunity cost, as it requires provisioning the guarantee fund from the EU budget. This emphasizes the necessity of selecting projects for lending outside the EU. In particular, it is sound to focus the EU guarantee on lending in countries for which investing at the own-risk would be relatively riskier and therefore damaging to the EIB creditworthiness.

The Allocation policy does not specify any credit rating "floor" for the ELM operations. However the EIB own risk assessment precludes own-risk operations in countries with sovereign rating below the investment grade (credit rating is BBB- or higher by Standard & Poor's and Fitch or Baa3 or higher by Moody's).

Thus, the Allocation policy and the EIB's Credit Risk Policy Guidelines taken together establish a "ceiling" and a "floor" in terms of credit risk for soliciting the EU guarantee. It is best represented by the following graph:

Figure 19: When can the EIB solicit the EU Guarantee for lending outside the EU?



Source: PwC analysis; Credit Risk Policy Guidelines; Annex V Guarantee Agreement

The figure above indicates the areas where the EU Guarantee under the ELM can be chosen by the EIB for its financing operations outside the EU. Above the threshold represented by the S&P and Fitch grades of A- and Moody's A3, area A, the EU Guarantee cannot be solicited. The two areas B and C below this threshold can be covered the EU Guarantee. The bottom area C, below the investment grade threshold of BBB- (S&P) or Baa3 (Moody's), corresponds to countries where the EIB cannot lend at own risk.

Even though the EIB has the legal option to lend under both modalities in the areas B and C, the maximization of the added value of the ELM suggests focusing on countries for which own risk lending cannot take place, i.e. use the EU Guarantee where it is the most needed.

Thus, the evaluation addresses two concerns. The first is to check the compliance of the EIB financing operations under the ELM 2014-2020 regarding the Allocation policy[35]. The second one is to assess whether the lending of the EU Guarantee takes indeed place in countries with the credit rating below the investment grade.

The following table shows the sovereign rating of the beneficiary country at the date of signature of the loan under the ELM 2014-2020:

Table 22: Sovereign rating of the beneficiary country at the date of signature of the ELM loan

Financing operation	Country	Date of signature[36]	Eligible Country Rating at the moment of the loan signature[37]		
			S&P	Moody's	Fitch
Laksam Akhaura double track rail project	Bangladesh	15/10/2015	BB-	Ba3	BB-
SBI loan for SMEs and Mid-Caps	India	28/11/2014	**BBB-**	**Baa3**	**BBB-**
Tajik - Kyrgyz power interconnection	Kyrgyzstan[38]	02/10/2015	B	B2	-
Armenia APEX loan for SMEs	Armenia	04/12/2014	-	Ba2	BB-
Accessbank Azerbaijan loan for SMEs	Azerbaijan	07/11/2014	**BBB-**	Ba3	**BBB-**
Kutaisi waste water	Georgia	15/10/2015	BB-/B	Ba3	BB-
Ukraine early recovery	Ukraine	22/12/2014	CCC-	Ca	CCC
Guarantee for economic development in Ukraine	Ukraine	09/10/2015	B-	Caa3	CCC
Sao Paulo Rolling Stock	Brazil	20/10/2014	**BBB-**	**Baa2**	BB-
Brazil loan for SMEs & Mid-Caps	Brazil	28/05/2015	**BBB-**	**Baa2**	**BBB**
Private sector development & economic growth	Egypt	14/03/2015	B-	B3	B
OUARZAZATE III (Tower)	Morocco	22/12/2014	**BBB-**	Ba1	BB+
EUROPAC industrial packaging plant in Tangier	Morocco	15/06/2015	**BBB-**	Ba1	**BBB-**
Partenariat BEI-BTK-réseau-entreprendre	Tunisia	04/12/2014	BB	Ba3	BB
AMEN Bank-Prêts PME & ETI	Tunisia	17/09/2015	-	Ba3	BB-
Wadi Al Arab water system II project	Jordan	08/11/2015	BB-	B1	-
Montenegro water and sanitation	Montenegro	25/06/2015	B+	Ba3	-
IDF loan for SMEs & priority projects II	Montenegro	16/03/2015	B+	Ba3	-
Ziraat Bank IPARD MBIL	Turkey	22/09/2014	BB+	**Baa3**	**BBB-**
South Africa private sector facility	South Africa	23/11/2015	**BBB-**	**Baa2**	**BBB**

Source: PwC analysis

As shown in the table, the financing operations were conducted in full compliance with the Allocation policy of the ELM: countries where the EIB operates all fulfil the credit risk criteria set by the allocation policy[39] as all of them have grades below the credit risk thresholds specified (Standard & Poor's/Fitch A-, Moody's A3 or better).

The examination of the table also indicates that the own-risk lending and lending under the EU Guarantee are largely non-rival: the ELM is used in most cases for financing operations in countries with a speculative grade. The few exceptions concern countries with the S&P/Fitch grade BBB– (Moody's Baa2 or Baa3).

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35 The assessment of the compliance of the own-risk operations with the Credit Risk Policy Guidelines is out of scope of this evaluation.

36 Formally, it is the credit rating at the date of submission by the EIB of the operation to the Commission under the Article 19 procedure which should be taken into account instead of the date of signature. However, the time elapsed between the two is likely to be limited. Thus, we use the date of signature as a proxy.

37 The investment grades are marked in bold/orange.

38 First-time ratings attributed by S&P and Moody's in December 2015

39 Allocation policy for EIB's new financing operations outside the EU between EU Guarantee coverage under the 2014-2020 external mandate or EIB own risk facilities

The three countries for which the three credit rating agencies unanimously attributed investment grades are India, Brazil and South Africa. These are three emerging/developing countries with relatively wider access to the world capital markets and the EU Guarantee is, *a priori*, not a prerequisite for the EIB operating in these countries. While the three countries are important markets representing a clear interest for the European Union and for the EIB, the relevance of the EU Guarantee for these three countries can be subject to discussion.

Nevertheless, even if formally it corresponds to the first investment grade, soliciting the EU Guarantee in these cases is defensible. Indeed, the countries concerned are emerging/developing countries, which typically exhibit substantial macroeconomic volatility and are strongly subject to external shocks. A deterioration of the terms of trade following a relative price shock or a deterioration in the capital account can affect significantly the credit risk perspectives of the country under consideration and lead to the revision of the associated credit rating. In line with this argument, BBB– rating indicates the potentiality of a negative evolution represented precisely by the “minus”.

An example of the potentiality of such an outcome is Kazakhstan. The country is out of scope of the ELM and the EIB lends there at its own risk. The country’s present rating is BBB (S&P), Baa2 (Moody’s) and BBB+. However, a fall in the oil price is leading to the strong depreciation of the local currency and the potential deterioration of the country’s sovereign and corporate agents’ solvency. This increases the probability of the credit rating agencies revision of the country’s sovereign rating which would push it below the investment grade status. In this case, the EIB would not be able to continue operating in the country under the own risk facilities.

This sovereign credit rating risk effectively materialized for Brazil, with its grades currently being BB (S&P), Ba2 (Moody’s) and BB+ (Fitch) with a negative outlook. India and South Africa have kept the same grades as at the date of the signature of the ELM loans, but macroeconomic pressures persist for both countries, especially India.

Thus, overall, the Allocation policy is strictly complied with – the EIB does not use the ELM in countries with the credit rating higher than the threshold – and the use of the EU Guarantee is indeed largely concentrated in countries where the EIB would not be able to operate at its own risk.

Considering the criteria of the Allocation policy, the list of the eligible countries might be subject to revision. Indeed, some of the eligible countries have credit ratings well above the thresholds specified in the Annex V. For instance, as of March 2016, China has a credit rating of AA- (S&P), Aa3 (Moody’s) and A+ (Fitch). South Korea has a credit rating of AA- (S&P and Fitch) and Aa2 (Moody’s). The table below provides a list of countries which are defined eligible in the Decision but whose credit ratings are above the threshold given in the Annex V of the Guarantee Agreement between the EIB and the European Commission:

Table 23: Sovereign rating of the eligible countries with credit ratings above the threshold defined in the Allocation policy (S&P/Fitch: A-, Moody’s: A3)

Country	Eligible Country Rating		
	S&P	Moody’s	Fitch
China	AA-	Aa3	A+
South Korea	AA-	Aa2	AA-
Mexico	BBB+	A3	BBB+
Chile	AA-	Aa3	A+
Malaysia	A-	A3	A-
Peru	BBB+	A3	BBB+
Israel	A+	A1	A
Singapore	AAA	Aaa	AAA

Source: PwC analysis

Based on the credit ratings exposed above, China, South Korea, Singapore, Malaysia, Israel and Chile clearly fall out of the scope of the ELM operations. As for Mexico and Peru, albeit their credit rating exceeds the threshold only for one rating agency, their grade clearly takes them off the list of top priorities.

It should be underlined that the EIB fully complies with the Allocation policy thresholds and no operations under the current ELM 2014-2020 have been initiated in the countries mentioned in the table. Thus, the recommendation to review the list of eligible countries (Annex III of the Decision 466/2014/EU) has no immediate implication for the ongoing or planned financing operations under the ELM.

An additional point of concern related to the design of the EU Guarantee was raised during the discussion with the EIB representatives and is related to the scope of the guarantee cover. The guarantee does not, in particular, cover the political risks related to more complex transactions, as the former emanate to a large extent from the governments' contractual obligations under the project documents (as off-taker or supplier). In fact, the Bank is only entitled to call for the EU guarantee under the Breach of Contract insofar as there is a Denial of Justice. This means that any disagreements under the project documents between the sponsor and the lender on the one hand and the off-taker/government on the other, must first go to arbitration, which, in turn, must result in an arbitral award in favour of the investor and the lender, which the government subsequently would fail to enforce ("denial of justice"). Such a cover has been considered insufficient by the market (commercial banks, sponsors) as it is not Basel II compliant. Thus, the Mid-Term review could offer the opportunity to reconsider the extent of the EU guarantee cover so as to include in its scope the non-honouring of sovereign financial obligations.

Conclusion 7: the financing operations were conducted in full compliance with the Allocation policy of the ELM.

Conclusion 8: the own-risk lending and lending under the EU guarantee are largely non-rival: the ELM is used in most cases for financing operations in countries with a speculative grade.

Conclusion 9: in the three countries with an investment grade (India, Brazil and South Africa) where the ELM operations have been conducted, the macroeconomic environment is characterized by high volatility and uncertainty, which justifies the use of the EU guarantee.

5.2 Management of the Programme and implementation of the operations

This subsection covers the evaluation questions EQ4, EQ 5, EQ 6, EQ 7 and EQ 9.

- **EQ4**: How does the EIB reporting towards the commission allow to assess the compliance of EIB financing operations with the Decision No 466/2014/EU and what are appropriate measures for improvement (if applicable)? Are the reporting requirements regarding greenhouse gas emissions related to EIB financing operations being fulfilled?
- **EQ5**: What is the relevance of the set of indicators and criteria developed by the EIB, the REM for the evaluation of the Programme?
- **EQ6**: How does the EIB monitoring system contribute to the identification of barriers to effectiveness and allow overcoming them and how does the REM framework contribute to the ex-ante assessment of expected project results and enhance the EIB's ability to report on actual results?
- **EQ7**: Is the programme able to detect and take into account the unintended effects on stakeholders?
- **EQ9**: To what extent are the desired effects achieved at a reasonable cost in comparison to other similar organisations/Programmes? What aspects of the Programme are the most efficient or inefficient, especially in terms of resources that are mobilised by final beneficiaries, the EIB and the Commission during the different phases of the project?

5.2.1 ELM operations lifecycle

The projects under the ELM follow the usual steps of the EIB project lifecycle. For the 20 case studies, we analysed the various phases of the project lifecycle.

Project origination: identification of a project opportunity and first checks

The **initiation of a project** starts with the identification of a project opportunity by the EIB. This can occur in a variety of situations.

The very rationale of the EU guarantee is to enable the EIB to carry out projects in countries where it has no or limited activity and to further work with public sector entities (especially through the comprehensive guarantee). In the countries where the EIB has no local presence or "intelligence" of the field, the identification of projects relies on **cooperation with other IFIs** that have a higher presence in the country or the region. Therefore, the EIB holds regular discussions with other IFI to identify project opportunity (through co-financing). A telling example is the biannual meeting between the EIB and the ADB to discuss project pipeline and identify opportunity for the EIB to co-finance projects with the ADB in Asia. This has been observed in Bangladesh – where the EIB has no local presence - for the project "Laksam Akhaura double track rail" where the opportunity for the EIB to co-financed this project with the ADB (while the ADB had already done much of the preparatory work) were identified during such meeting.

The identification of the project may also result from the **prospection of the local needs** to develop operations with new types of counterparts. For instance, the origination of the project "Sao Paulo rolling stock" in Brazil resulted from the need to refocus operations of the EIB on public sector following the change in the mandate to have project in environmental and social infrastructures. Therefore, the EIB has investigated project opportunities with public sector entity and identified this particular project. It allowed the EIB to launch its first project with the public sector in Brazil and to cover objectives of the ELM other than the support to SME and Midcaps, in this case sustainable infrastructure.

Finally, the identification of some projects may result from the **continuous discussion** between the EIB and a well-known counterpart with whom the EIB has already worked in the past. This situation is notably observed in countries where the EIB also intervenes under others mandates or under ORF. This way the Bank can rely on existing clients and its knowledge of the national market. This occurred for instance in Tunisia, with the intermediated loan to BTK or Amen and in South

Africa with the four financial intermediaries (Firstrand Bank Ltd, Nedbank Ltd, Standard Bank Ltd, and Industrial Development Corporation (IDC)) benefiting from a multi-beneficiary intermediated loan. In Brazil, the EIB has financed a loan for SME with Banco Santander following the signature of two operations with this counterpart outside the ELM in Mexico (Global Loan for SMEs and Mid-Caps) and Chile (Climate Change Framework Loan).

Once the first contact established, the Project Directorate checks the project eligibility on several criteria:

- The project is a new investment (no refinancing);
- It is consistent with the EU policy and the EIB public policy objectives;
- It is not an "excluded activity"[40].

Then, the EIB carries out preliminary checks whose results are provided in three separate documents.

First, the **Preliminary Information Note (PIN)** comprises the preliminary opinions of OPS and PJ on the opportunity to support the concerned project; ECON provides an opinion for intermediated lending operations. The PIN presents also the main issues to be appraised during appraisal phase and provides outlining information on the project. A first financial proposition is formulated with the mandate/facility to be used, the type of operation, the project cost and the maximum maturity, grace and bullet. Other aspects are also considered such as the sector of the project, the opportunity to use technical assistance and past experience with the intermediaries. Finally, the PIN includes also overall information on the counterpart characteristics and the country economic situation.

Second, at this stage the **first pillar of the REM framework** "Contribution to EIB Mandate Objectives & EU Priorities" is completed. It analyses the contribution of the operation to the three mandate's objectives and its alignment with the EU and national actions in this field. The contribution of the project to at least one of the three mandate's objectives is a prerequisite to further assess the project, e.g. to obtain the Agreement to appraise. The overall contribution of the REM to the appraisal of the project is deeper explained below in the dedicated section on the REM.

Then, the **Opinion for Appraisal** (OFA) is an internal PJ document presenting the main issues and risks to be appraised during the appraisal phase. The risks are assessed mainly along the following considerations: the implementation risk, the investment costs, environmental risks, compliance with the Bank's requirements in terms of public procurement or environmental and social standards, capability and capacity of the intermediary to identify sub-projects, economic relevance of the project, etc. The OFA provides also basic information on the project: description and location, timetable, cost, environmental and social aspects, procurement, economic interest, contribution to overall Mandate Objectives & Priorities and overall quality and soundness of the project. In parallel, upon request from OPS, the compliance officer carries out due diligence on the counterpart(s) identity on the basis of the Integrity Questionnaire. This involves, in particular, ensuring that the counterpart(s) is not under sanctions or a legal threat.

With the PIN, the loan officer requests for authorisation to process the project from the Management Committee. With PIN validation, the EIB requests opinions on the project from the Commission (Article 19 - Statutory requirement) which has two months to answer (sometimes there are delays due to discussions) and from the host State. If agreed, the project enters in the **appraisal phase**.

The identification of project opportunities under ELM requires the EIB to prospect and market products towards new counterparts or to rely on partners IFIs, especially, in countries where the EIB has no or limited local presence and knowledge of the market. As from the pre-appraisal stage,

40 Activities excluded from EIB lending: ammunition and weapons, military/police equipment or infrastructure, projects which result in limiting people's individual, rights and freedom, or violation of human rights; projects in protected areas, critical habitats and heritage sites, without adequate compensation/mitigation, sex trade and related infrastructure, services and media; animal testing*); gambling and related equipment, hotels with in-house casinos; tobacco (production, manufacturing, processing, and distribution), activities prohibited by national legislation (only where such legislation exists). http://www.eib.org/attachments/documents/excluded_activities_2013_en.pdf

the EIB covers all the topics that will be deeper investigated during the appraisal phase. The insertion in the ELM objectives and the consistency with EU objectives in the country are a key topic during this phase and a prerequisite for a further appraisal of the project.

Project appraisal: a comprehensive analysis of the project that provides the relevant information for assessing the performance and the relevance of the project.

The appraisal of projects benefitting from the ELM does not differ from the usual appraisal of project conducted with other mandate or under ORF. Therefore, the EIB implements its usual appraisal tools and processes. It covers all operations and specifically some types of operations (investment loans, multi-beneficiary loans, etc.) and some sectors. The various analyses provide a comprehensive picture of the various aspects of the project and reflect effectively all the main issues that may affect the project and all the objectives of the EU with the ELM.

The first step in the ex-ante evaluation of any project is **the assessment of the financing needs**, i.e. the project cost that starts in the pre-appraisal phase and is consolidated in the appraisal phase. This will condition the volume of lending by the EIB (capped at 50% of the total cost).

The assessment of the financial needs of the beneficiaries is conducted for all operations but following different processes depending on the type of the loan. For the infrastructure projects, covered by the investment loans, the project holder/promoter conducts the project cost assessment. The project cost is then re-assessed by the EIB – relying on the sector experts – and potentially by the co-financing IFIs. The re-assessment by the EIB starts from the hypotheses laid out by the project holder/promoter and reviews the underlying hypotheses. The two types of cost estimates might diverge, depending on the assumptions made. As an example, in the Ouarzazate III (Tower) project the assessment of the needs for funds made by the Moroccan counterpart (MASEN) estimated the total project cost at EUR 764 M, while the EIB estimated it at EUR 855 M. In some cases, when the co-financing IFI assumes most of the project funding, the project cost assessment is conducted by the IFI; for instance, in the case of the Laksam Akhaura Double Track Rail Project, the Asian Development Bank (ADB) undertook the project cost assessment on the financers' side. The ADB has the local presence and strong intelligence and knowledge of the local market, which allows the EIB to rely on the ADB for the project cost assessment. The impact in terms of leverage of private funds is most often nil for the investment loans. Indeed, the latter often correspond to large infrastructure projects most of which would not generate revenues (and therefore does not attract private investors). The example of the Laksam Akhaura Double Track Rail Project illustrates this point as the project is expected to have a very high economic internal rate of return, but without generating any financial revenue, which precludes any private funding on a pecuniary basis.

For the multi-beneficiary loans, the financial intermediaries (local banks) assess the financing needs of the local SMEs and Mid-caps. The financial intermediaries then submit to the EIB the estimation of the project cost, i.e. the total volume of funding for which they wish to apply. The assessment of the financial needs by the local financial intermediaries is an optimal solution given their comparatively better knowledge of the market. The additional volume of lending made available for the local SMEs and Mid-Caps is composed at 50% of the EIB multi-beneficiary loan and at 50% of the own funds of the local banks. This sharing of total additional lending volume ensures that the local financial intermediaries would not tend to overestimate the needs of the final beneficiaries (as they participate in the funding and therefore share the credit risks with the EIB). The leverage effect for the multi-beneficiary loans is ensured thanks to the participation on parity basis from the local banks: for each euro lent by the EIB, an additional euro is raised by the local private banks.

In addition, for all operations, the borrower **economic and financial situation** (market position, business outlook, earnings, balance sheet analysis, asset quality, risk management, capitalization, funding and liquidity and off-balance sheet items, etc.) is assessed. It provides information on the main strengths and weaknesses of the counterpart. For credit lines operation, the market position of the counterpart is crucial since it conditions the way sub-projects will be financed (type of projects in the pipeline, geographical coverage of the borrower, competitive advantage, etc.). The EIB analyses the **internal management system** of the borrower with a focus on the organizational structure, the shareholders structure and the internal risk management system.

For loans intermediate through the **financial sector**, a macroeconomic and financial sector assessment of the country of operation is carried out with a view to evaluating structural bottlenecks, systemic risks and development challenges, with a particular focus on the private sector businesses, including and micro enterprises and SMEs.

For investment loans in infrastructure, a particular attention is paid to **technical and technological challenge, implementation processes and environmental impacts**. On the environmental impact, the borrower is required to provide an ex-ante assessment for which all aspects related to social and environmental impacts of the project should be addressed, including impact on fauna and flora, consumption of land or resettlement of people. In Bangladesh, for the project Laksam Akhaura double track rail, the promoter has undertaken an Environmental Impact Assessment (EIA) that covers the main environmental related aspects of the projects. The project was expected to generate savings in user time, vehicle operating costs, road accident costs, local air/ noise emissions as well as a reduction in greenhouse gas emissions as a result of the expected modal shift of passengers and freight from road to rail. The main residual negative environmental and social impacts of the project included: (i) permanent conversion of about 60 ha of largely agricultural land; (ii) cutting down of about 57,000 trees; (iii) involuntary resettlement of about 2,200 households and 60 common property assets; and (iv) use of about 2.2 million m3 of material for the construction of embankment and track. In response to these, mitigation measures have been taken. They are gathered in an Environmental Management Plan, which is contractually binding on the works of the contractor and monitored by independent auditors.

When the project implies to procure goods or services, the **public procurement system** in the country is also analysed and compared with the EIB guidelines for procurement. For the project Laksam Akhaura double track rail, the appraisal has focused on the procurement system in place to purchase the train sets. Indeed, 65 train sets were procured before the EIB's involvement. The EIB noticed that the tender documents for these 65 EMUs included a margin of local preference of 20%, 5% higher than the 15% margin allowed by the EIB Guide to procurement. This level of local preference did not therefore fully comply with the Bank's Guide to procurement. After having completed an ex-post evaluation of this procurement process, the EIB considered that the local preference requirements did not have a significant impact on the outcome of the procurement process and therefore approved the requested derogation for this procurement.

The risk of corruption is also assessed. Prior to the initiation of a project, the loan officer has to screen its portfolio of potential projects to ensure that they are compliant with the anti-corruption standards of the Bank. OCCO department is responsible for such an analysis. Then, once a project is initiated and during its appraisal, upon request by OPS, OCCO extends its investigation to the corruption issues and the identity of the borrower, both persons and legal entities, the stakeholders and potential capitalistic links of the borrower or the sub-contractor. OCCO uses existing databases from the IMF or the World Bank to identify suspicious persons or entities and builds upon its own information from previous operations and investigations.

As part of the ex-ante assessment of the investment project, the **potential effect on employment** is estimated based on the usual EIB methodology, and takes into account the information already available concerning similar projects.

The EIB has also to do with **unexpected events** occurring during the appraisal phase that affected the fields to investigate and the way the operation were designed. For instance, for the project Sao Paulo rolling stock, the EIB has been aware that investigation was conducting on possible cartels in this sector. In response, the EIB included protective clause in the finance contract in case the borrower would have been concerned by this investigation. For the project in Bangladesh, Laksam Akhaura double track rail, the management structure of the project within BR has been investigated. Specific measures were foreseen to prevent corruption (in particular considering past corruption cases for similar project including among railway officials) and ensure that environmental and social requirements will be taken into account throughout the project, in particular as regard the Environmental Management Plan and the environmental clauses contained in the construction contract. In a **highly constraining context** such as Ukraine, the appraisal has been accelerated and reduced to the core analysis. In Ukraine due to the emergency of the situation, the appraisal of the project has been particularly rapid (2 months between the PIN and the signature). The assessment included a fully risk assessment of the project especially as regards political risk, security environment, institutional capacity, governance and corruption, social cohesion and technical capacity. This reflects also a certain flexibility in the appraisal process when exceptional circumstances occurred.

In addition, the EIB relies also on the assessments carried out by other IFI. In Ukraine, the economic and financial situation of the country have been assessed with the support of studies conducted by other international organisations. For instance, the report of the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) on the situation of the IDPs. The EIB relied also on a study carried out by the UNDP assessing the impact of the conflict in Luhansk and Donetsk oblasts on the social and economic infrastructure. The EIB has also worked with the EU to prepare an early recovery assessment (RPA) aiming at identifying basic needs to be covered with the project.

However, one topic could be more reflected during the appraisal phase, e.g. the potential coordination / complementarity / overlaps with other European multilateral and Member States' financial institutions or instruments and IFI. Indeed, the contribution and the consistency of the operation with the EU objectives are assessed during the pre-appraisal phase (1st pillar of the REM framework), but mostly at the strategic level, e.g. checking whether the objectives are aligned. The complementarity at the operational level (with other instruments) is not clearly evoked later on. The appraisal of the project is logically focused on the project in itself (performance, risk profile, etc.). However a deeper analysis of the existing instruments/programmes in the field of intervention of the project could provide valuable information for the potential cooperation with other European and international financial institutions in line with the article 7 of the Decision. It has to be noticed that the 1st pillar of the REM provides some information on existing programmes in related field (including national ones) and that the 3rd pillar dealing with EIB additionality provides information on how EIB could potentially complement existing source of funding. Yet, these information are quite limited (partly due to the format of the REM) and do not provide the comprehensive picture of the funding instruments in the related field.

Overall, the appraisal of the projects provides an accurate and comprehensive picture of the operation, which seem relevant to properly appraise the project and decide whether it should be financed or not by the EIB.

Table 24: Compliance with the legal requirements in terms of ex-ante assessment of investment projects (art 9 of the Decision)

Legal requirements in terms of ex-ante assessment	Observation from the 20 case studies / compliance
The EIB shall carry out due diligence on social, human rights, environmental, economic and development-related aspects of investment projects and require, where appropriate, project promoters to conduct local public consultation on these topics.	The list of eligible countries is established by the European Parliament and by the European Commission. Thus, it is not a prerogative of the EIB to assess the relevance of one or another country on the list from the human rights point of view. However, the EIB carries out a comprehensive screening and monitoring of each individual project from the point of view of environmental and social implications by PJ. Also the compliance with respect to the EU and international regulations (e.g. sanctions list) as well as the potential misuse of funds. This

	screening is conducted both by the loan officer and by the OCCO (Compliance) department of the Bank. The screening uses the databases established by IFIs (IMF, World Bank) alongside which OCCO also conducts its own investigation. The output of the compliance check activity is provided in the publicly available annual Sustainability Report.
The EIB shall obtain from project promoters the relevant information to assess the contribution of the project to EU external policy and strategic objectives	The contribution of the project to the EU external policy and strategic objectives is part of the preliminary checks on each project (at pre-appraisal phase) and composes one of the three pillars of the REM framework. It is indeed a prerequisite to pursue the appraisal of the project. The project promoter is involved in the appraisal of its project. It is sometimes required to carry out specific analysis (for instance on environmental impacts of the project) and to provide needed information.
The ex-ante assessment shall cover the "relative and absolute greenhouse gas emissions related to the EIB financing operation"	GHG emissions are assessed ex-ante for every project whose emissions are above a defined threshold (see Section 5.4.4).
The opportunity of deploying technical assistance should be considered by the EIB	The opportunity of deploying technical assistance is considered by the EIB in the appraisal phase but it is poorly reflected in the internal documentation (Board report, etc.). In particular, the justification of the use or the non-use of technical assistance is not systematically provided.

Monitoring of the operations

The monitoring of operations relies on formalized procedures set by the EIB (progress report, financial monitoring by the TMR department, etc.) and specific requirements defined usually in the annex 2 of the financial contract.

The EIB monitoring procedures on projects is both **intermediated**, e.g. operated through the borrower own monitoring, and direct.

For multi-beneficiary intermediated loan, the EIB requires the borrower to send progress report on an annual basis. In addition, prior to the first disbursement the borrower is required to justify the utilization of the loan through an allocation proposal with the final beneficiary (type, ownership, financial data) and information on the project to be financed (description, cost, implementation period, expected job creation) and information on pricing (fees, interest, reduction on interest rate, etc.). At final beneficiary level, the monitoring is ensured by the borrower itself but the EIB may set specific requirements on the borrower own monitoring in the finance contract For the project Amen Bank-Prêts PME & ETI for instance, the EIB ask the Amen bank to send some sub-projects fiche to check randomly is the information contained in the fiche are compliant with the information sent previously by the borrower to the Bank (double check). For some large-scale projects, the EIB can send external consultants to monitor and report on the progresses of the projects.

For investment loans, for instance in infrastructure, the operational monitoring is ensured by the project promoter, which is responsible for the effective delivery of the project in terms of costs, deadlines and quality. The monitoring of the project by the EIB relies on three main elements.

First, the EIB ensures that the various conditions set in the finance contract and the side letter prior to the first disbursement are applied. Then, it ensures that all information have been given by the promoter and that they are compliant with the contractual clauses.

When the project involves the procurement of goods or services, the EIB monitors the procurement processes used. Typically, the EIB sends to the borrower the procurement guidelines that set the EIB standards as regards public procurement and then the promoter should send the tendering documents that will be used to the EIB and get its approval.

However, the EIB exerts also a **direct monitoring** through field visits by the project team (comprising loan officer and sector specialists) and, if needed, by hiring on-the-spot consultants to monitor complex projects or projects implemented in constraining context. In Ukraine, considering the significance of the implementation issues (based on the risk assessment), the EIB has increased the implementation capacity on the ground by using on-the-spot consultants who are employed to monitor the implementation of the projects and additional staff members located in Kyiv (Task Force Ukraine). Some of the on-the-spot consultants are deployed within the Ministries concerned, others directly within regional and municipal authorities, as part of the technical assistance provided. In Bangladesh, the operational monitoring of the project is assumed by a local consultant paid on a man-day basis (the EIB has no local presence in Bangladesh). He deals with all the administrative aspects for the EIB. The monitoring of the Environment Management Plan is ensured by independent auditor. In addition, the EIB (through TMR department) exerts also a financial monitoring, follow-up of the maturity, reimbursement and completion of the conditionalities for disbursement.

Along these procedures that prevail for all operations, the EIB defines also some specific requirements that are attached to the finance contract (annex 2). It sets the project information to be sent to the EIB and the method of transmission. Four types of information are defined and adapted to each individual project:

- The information on specific subjects related to the project;
- The information on the project's implementation;
- The information on the end of works and first year of operation
- The information required three years after the project completion

Table 25: Examples of information requested by the EIB to monitor project implementation

	Examples of information requested by the EIB to the borrower[41]
Information on specific subjects related to the project	• Evidence that the borrower has implemented the legal separation of the management and accounting functions in its business.
Information on the project's implementation	• Update on the date of completion of each of the main project's components, explaining reasons for any possible delay; • Update on the cost of the project, explaining reasons for any possible cost increases vs. initial budgeted cost; • Update on the Environmental Management Plan implementation; • Update on the Resettlement Plan implementation; • Update on procurement procedures as relevant; • Update on the project's demand or usage and comments; • Any significant issue that has occurred and any significant risk that may affect the project's operation; • Update on the sector reform process.
Information on the end of works and first year of operation	• A brief description of the technical characteristics of the project as completed, explaining the reasons for any significant change; • The final cost and funding sources of the project, explaining reasons

41 The examples are specific to one particular investment loan. They are extracted from the finance contract.

	for any possible cost increases vs. initial budgeted cost; • The number of new jobs created by the project; both jobs during implementation and permanent new jobs created; Update on the results of the Environmental Management Plan implementation; • Update on the results of the Resettlement Plan; • Update on procurement procedures; • Update on the project's demand or usage and comments; • Any significant issue that has occurred and any significant risk that may affect the project's operation; • Any legal action concerning the project that may be ongoing.
Information required three years after the project completion	• Update on the project's demand or usage and comments; • Update on the sector reform process.

These information reflect the main risks/challenges/objectives of the project and allow to have a comprehensive picture of the project progresses.

On the 20 operations analysed, the monitoring of the EIB has been compliant with the usual processes set by the Bank. No major implementation problem has been reported on these 20 operations but it has to be noticed that most of the operation are just started. However, examples shows that the EIB is flexible and pragmatic in the way it monitors operations. Due to the complexity of some projects or the lack of local presence of the EIB in some countries, the Bank has sometimes complemented the usual monitoring processes with on-the-spot consultants or relied on the monitoring of other IFIs (in case of co-financing). This reveals that along the core monitoring processes (progress report, financial monitoring by the TMR, conditionalities for disbursement, etc.), the EIB has set specific requirements adapted to the nature of the project, the nature of the beneficiaries and the country of operation.

Management cost

Methodological note: Due to the lack of aggregated data, the assessment of management cost does not rely on a quantitative analysis of the time spent and the resources deployed in the management of the different phases of the ELM. The analysis relies on the perception of the actors involved in the management from the EIB side (loan officers, reporting team, and mandate management) and the final beneficiaries' side (borrower and project promoter met during the field visits).

The EIB does not mention additional cost resulting specifically from the ELM. Operationally speaking, there is no difference between managing projects under ELM and managing project under others mandates outside EU or at EIB own risk. The EIB does not deploy additional resources except when ELM operations have been conducted in countries where the EIB had no local presence, for instance in Bangladesh or in Ukraine, where the exceptional volume of lending implies to involve additional resources. In this case and if needed, the EIB hires on-the-spot consultant to ensure the monitoring of those projects.

However, with the ELM, the EIB has increased its activities in some countries (for instance Brazil) towards public sector entities whose operating timeframe, including during the appraisal phase is longer than for private entities. This result in longer appraisal and implementation phases.

From the local stakeholders' perspective, the administrative burden (in terms of time, paperwork and number of procedures required) of the ELM loan financing is among the least heavy compared to the other international financial institutions'. This assessment is based mainly on the subjective perception of the stakeholders and on a limited number of cases (Ukraine, Turkey and Morocco). Nevertheless, these stakeholders have been involved with several IFIs for each of the projects co-financed by the EIB, which enables the comparison. Furthermore, there is no adequate objective measurement of the administrative burden, which makes the stakeholder subjective perception the best available proxy.

Overall, no major efficiency issue has been reported. The ELM uses the usual implementation channels of the EIB which appear relatively efficient compared to other IFIs.

Reporting

The reporting requirements related to the ELM, have been clearly stated in the agreement with the Commission and are presented in the article 11 of the Decision. The reporting of the EIB to the EU is composed of several documents:

- The reporting on the pipeline of projects;
- The three-year ELM projections forecast provided to the EC in October;
- The annual report;
- The reporting on the calls of guarantee;
- Semi-annual reporting on the new signatures.

For the ELM, financial reports are prepared on an annual basis by the Financial control department, together with the Operations department. In the annual reports, there is a complete overview of the mandate, and then the Commission does its own reporting in the mandate to the Parliament. This year new chapter on geographical outlook to provide the Commission with an overview with a narrative and the economic situation and the cooperation with other IFIs. The External Lending Mandate imposes external reporting requirements. However, there is no difference in the reporting procedures and processes internally to the EIB. The ELM – and other Mandates – are covered by specific internal reports. An internal tracing system (Serapis) enables to retrieve the information related to the operations and is provided to the top management.

At the appraisal phase, the results of the REM are reported to the European Commission, which in turn produces its own report to the Parliament. In line with the Article 19 of the Decision 266/EU, the Commission confirms the eligibility of the operation as regards to the EU rules (and the Decision) before the initiation of the project.

In case of new situation which has not been foreseen, there is direct contact with the EC to identify the best way of doing, and this is usually formalize in the following Guarantee agreement.

Among the areas of improvement, there is a lack of feedback from the Commission on which data is really useful and the way the Commission uses it. In addition, the feedback from the Commission is often very formal. For instance, this year, both parties has agreed on better alignment between the annual report (produced by the EIB) and the ten pages-report to the Parliament (made by the Commission) in terms of structure and presentation of data to get higher consistency. It would be time-saving to have the same type of reporting between the EIB which reports to the Commission and the Commission which reports to the Parliament. An improvement could be to agree in advance of the type of reporting to be included in the ten pages-report to include in the annual report. The EIB could for instance write the ten pages-report in line with the EC requirements for this report.

Another minor point of concern is that the ELM requires the EIB to provide to the Commission an indicative multiannual Programme of the planned volume of signatures of EIB financing operations, in order to align the forecasted financing with the ceilings established by the Decision and to enable the European Commission to make appropriate plans for provisioning the Guarantee Fund. This three-year forecast is provided to the Commission in October, while the usual EIB COP reporting is not finalised until the end of the year. Thus, at the time of providing the information to the Commission, the Bank's overall three-year targets are still under discussion. This requires the EIB to make some assumptions about the ELM operations forecasts as of October. Synchronizing the reporting time to the common reporting period of December would allow more precise (because less relying on assumptions) three-year forecasts for the EIB activities under the ELM.

In the semi-annual report, new signatures impose a lot of verification from the EIB side, the changes related to the contractual modifications have to be reported, while some changes are not relevant to be reported. Reporting the financial changes in the semi-annual review on a disaggregate basis is probably inappropriate. The added-value of the reporting from the EIB comes mainly from the data reconciliation as some product of data are used for internal notes.

In the table below we assess the compliance of the whole EIB reporting with the Decision requirements. We took the year 2015 as reference for the reporting documents, in particular the annual report.

Information required to be reported	Information provided in the EIB reporting
The assessment of the ELM operations at project, sector, country and regional levels along with the assessment of their compliance with respect to the Decision	The annual report presents the distribution of projects according to the region (table 1.3 and 1.5 of the annual report), the sector (table 1.5) The assessment of ELM operation at regional levels is also presented in a more analytical way in the section 3.2 onwards. For each region, the report presents the political and macroeconomic situation as well as the EIB financing activities for the year 2015. Within the latter section, operation per country are described. The way ELM operations comply with the Decision, in particular ELM objectives is presented in the table in the annex 1.
The assessment of the added value, the estimated outputs, outcomes and development impact of EIB financing operations, based on the EIB's Results Measurement framework annual report	The EIB added value or additionality is presented in the section 2.6 of the annual report. It focuses on the financial added value (tenor extension, funding in local currency, blending loans and grants and innovation), the added-value in terms of standards improvement and technical contribution. This analysis mainly rely on the results of the REM framework.
The assessment of the contribution of EIB financing operations to the fulfilment of the EU external policy and strategic objectives (taking into account the Guidelines)	The contribution of the ELM operations to the ELM objectives (local private sector development, development of social and economic infrastructure, climate change mitigation and adaptation, regional integration, EIB additionality, EU transversal policies) is presented in section 2 of the report while the contribution to the EU external objectives and actions by region is described in the section 3.
The assessment of the financial benefit transferred to beneficiaries	The financial benefit transferred to beneficiaries is reported through the financial reporting.
The assessment of the quality of EIB financing operations, in particular, accounting for the consideration of the environmental and social sustainability dimensions in the due diligence and monitoring of the investment projects financed	The annual report presents how the environmental and social dimensions are taken into account in the appraisal and monitoring of project (section 2.4 and section 2.7).
Detailed information on calls on the guarantee	These information are provided in the call for guarantee report.
The information on the climate change and biodiversity financing volumes, the impact on absolute and relative greenhouse gas emissions and the number of projects assessed against the climate risk	The annual report (p.25) provides the financing volumes dedicated to climate change overall and per sector. It provides also the number of projects that went through the Carbon Footprint Exercise and the overall related total absolute GHG emissions and the saved/avoided emissions.
A description of the cooperation with the EC	The cooperation with other financing institutions

and other European and international financial institutions, including co-financing; this must give an overview of the overall investment supported by EIB financing operations carried out under the Decision	is described in the section 4 of the report (p.46 onwards) focusing on the topic of development finance, and climate action. Annex 4 presents a table with the operation that involve co-financing with other IFIs (both multilateral and European)
Information on the follow-up of the functioning of the Memorandum of Understanding (MoU) between the EIB and the European Ombudsman insofar as the MoU concerns the operations covered by the Decision	The cooperation between the EIB and the EU Ombudsman is presented in the section 5.

Conclusion 10: the project appraisal results in a comprehensive analysis of the project and provides the decision-maker with sufficient information for assessing the quality and the relevance of the latter. The project appraisal is compliant with the requirements of the Article 9 of the Decision.

Conclusion 11: the EIB or the local stakeholders perceive the management cost induced by the ELM among the least heavy compared to the other international financial institutions'.

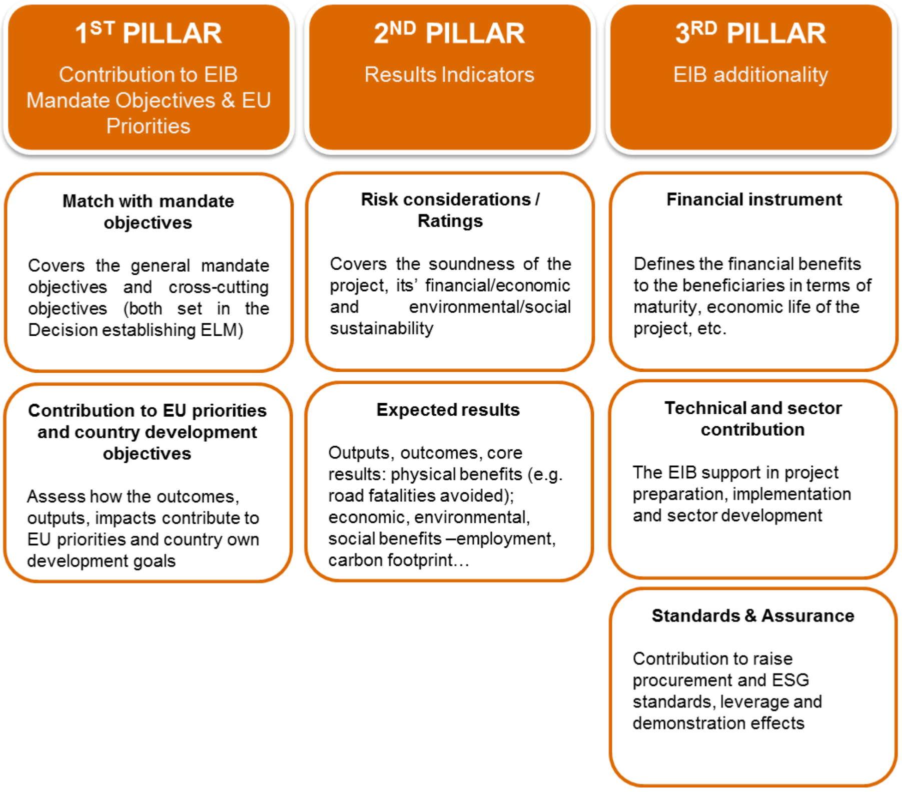
Conclusion 12: the reporting from the EIB to the Commission is compliant with the Article 11 of the Decision and covers effectively the main aspects of the ELM. However, some improvements in the procedure and coordination between the EIB and the Commission could further enhance the reporting system.

5.2.2 Assessment of the needs and the results: the Results Measurement Framework (REM)

This section considers and assesses the methodology of the EIB to estimate the financing needs, monitor and report on the ongoing projects and evaluate results of the financing operations under the ELM. To perform these tasks, the EIB relies on the structured tool – the Results Measurement Framework (REM), in use since 2012. Thus, the purpose of this section is to present and analyse the quality of the REM. This analysis supposes investigating the relevance of the set of indicators and criteria used in the REM, in particular its alignment with the best practices existing at the IFI and the extent to which these indicators match adequately all the features related to the ELM operational objectives.

The REM consists of three pillars as illustrated by the following figure:

Figure 20: Results Measurement Framework (REM): how it is organised[42]



Source: EIB

The first pillar – Contribution to EIB Mandate Objectives & EU Priorities – considers the extent to which the project is aligned with the general mandate objectives, that is the three priorities underlined in the Decision 466/2014/EU: development of social and economic infrastructure; local private sector development, in particular support to SMEs; climate change mitigation and adaptation. It also considers the contribution to EU priorities and country development objectives, i.e. matching with the sector priorities defined in the Decision, support to the country own development strategy and the EU global objectives (regional integration in particular).

The second pillar – Results indicators – considers the soundness of the project, measured by the expected deviation in time and cost from the values specified at the appraisal stage. It also covers the notions of financial & economic sustainability – measured by the economic rate of return and the internal rate of return – as well as the environmental & social sustainability, measured by the e-rating (environmental safeguards assessment) and s-rating (social safeguards assessment). It covers the output and outcome indicators that are sector specific. For financial sector operations, different dimensions are considered. For intermediated multi-beneficiary loans for example this covers aspects such as such as the Capacity and soundness of the Intermediary and quality of the Operating Environment, the contribution to Increasing access to finance and improving financing conditions including for final beneficiaries and the employment sustained by the operation.

The third pillar – EIB additionality – covers the added value of the EIB intervention with respect to the baseline situation. It identifies the extent to which the EIB loan makes a difference for the beneficiary in terms of maturity (often short in the countries covered by the ELM), in terms of economic life of the project and its feasibility. These notions are covered under the subtitle "Financial instruments". Under this pillar there is also the assessment of whether the EIB would provide a valuable technical support and sector knowledge to the beneficiary of the loan ("Technical and sector contribution") at the different stages of the project cycle. Finally, the pillar covers the impact in terms of standards and assurance – the demonstration effect of the EIB presence, the

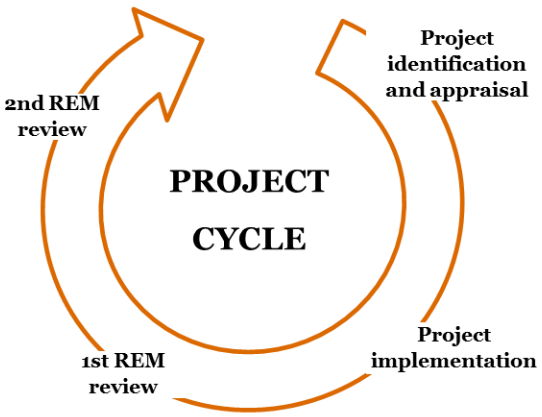
[42] The Pillar 3 was revised in 2015. The revised structure also encompasses three sub-pillars:: financial contribution, financial facilitation, advice.

leadership of the Bank in structuring a viable project, the contribution to raise standards or the leverage effect[43].

All three pillars are considered at the beginning and at the end. For certain operations like investment loans the results are again reviewed also three years after completion.

The REM is used throughout the project cycle, from the appraisal to monitoring and tracking of the results. The following scheme illustrates the different stages where the tool is used:

Figure 21: Use of the REM throughout the project cycle



Project identification and appraisal: choice of relevant indicators; setup of baseline and targets; rating of projects over 3 pillars

Project implementation: the performance is monitored and measured against initially set benchmarks throughout the project

1st REM review: at the project completion

2nd REM review: 3 years after the project completion

Source: EIB

At the appraisal stage, the loan officer and the Projects Directorate undertake an ex-ante assessment using the REM with the pillars 1, 2 and 3 filled. According to the representatives of the EIB, there were already projects rejected based on the REM, even though, the Bank usually pre-empts it. This demonstrates the effective ability of the REM to enable distinction between sound and low quality/risky projects and contribute to the selection of the former and rejection of the latter.

During the project implementation, the REM allows continually monitoring the project to ensure, in particular, that the project is on track.

For both 1st and 2nd REM reviews, the performance is measured against benchmarks set at the beginning of the project, rated and reported. The comparison between the results ex-ante and ex-post is systematic, in order to improve the REM in particular, but not disclosed. Given the short period since the launch of the REM, few projects launched under the ELM 2007-2013 were closed considering that the REM was introduced in 2012. Thus, a check for a systematic bias in the ex-ante estimations with respect to the ex-post results was not possible for this mid-term review. Such a check should, however, be conducted upon the closure of this ELM period and completion of a sufficient number of the projects (all of these projects had been launched after the introduction of the REM).

Based on the description of the REM above, two specific questions are raised:

- Whether the REM indicators are aligned with the operational objectives of the EIB in the framework of the ELM;
- Whether the REM indicators and methodology are in line with the best practices existing among the international financial institutions.

[43] The Pillar 3 was revised in 2015. The revised structure also encompasses three sub-pillars:: financial contribution, financial facilitation, advice.

Alignment with the operational objectives of the EIB in the framework of the ELM

An important issue is whether the REM indicators allow tracking the objectives stated in the Decision and related to the private sector development, infrastructure and climate change adaptation/mitigation. Beyond the question of alignment with the objective stated in the Decision (and the Regional Technical Operational Guidelines), the issue bears on the ability of the indicators chosen in the REM to provide accurate and sufficient information to enable adequate decision-making regarding the projects (at the appraisal stage) and to enable drawing lessons for the future (at the completion stage).

The first pillar of the REM – contribution to mandate objectives and EU priorities – addresses precisely the issues of the project alignment with the three objectives of the Decision as well as the cross-cutting objective of the regional integration among partner countries. Each of the four objectives are assessed based on a qualitative score (from 0 to 100%) attributed by the loan officer in the appraisal phase of the project.

The table below establishes a correspondence between the objectives stated in the Decision and the indicators used in the REM:

Table 26: Correspondence between the objectives stated in the Decision and the indicators used in the REM

Decision objectives	REM indicators (non-exhaustive)
Local private sector development, in particular support to SMEs	• **Additional loans** to SMEs, micro-, small- medium enterprises, Mid-caps, other (expected value at the end of allocation) • **Increase in the average size of loans**-SMEs, micro-, small- medium enterprises, Mid-caps, other (expected value at the end of allocation) • **Increase in average tenor** (years maturity) • **Additional total disbursed** (EUR) • **Average cost of projects financed** (EUR) • Number of **first-time borrowers** • Credit line **targeted to undeserved market** – women, rural, poor, ... (yes/no) • **New products** put on the local financial market (yes/no) • Improved competition (yes/no) • Credit to private sector/GDP (%) • Employment sustained in final beneficiaries - SMEs, micro-, small- medium enterprises, Mid-caps, other (expected value at the end of allocation) • Additional fiscal revenues generated (net taxes/fees paid by intermediaries, EUR)
Development of social and economic infrastructure	• Physical indicators (examples: road fatalities saved, time savings, vehicle operating cost savings...)
Climate change mitigation and adaptation	• Intermediary has an environmental and social management system in place (yes/no) • Energy – efficiencies realized (Energy saved MWh) • Carbon footprint – absolute (absolute impact) • Carbon footprint – relative (impact vs counterfactual)

Source: EIB Results Measurement Framework

The list of REM indicators provided in the table is not exhaustive as the indicators are tailored according to the type of operations and the sector level. For instance, for the Multi-beneficiary loans, the REM puts the accent on the indicators related to the increased access to finance. For the infrastructure loans, the REM uses the physical indicators or the indicators related to the economic benefits to the final beneficiaries and to the society as a whole. Overall, the REM ensures a wide and exhaustive coverage of the three objectives of the Decision, while ensuring that the indicators are specific enough to reflect the particularities of the project. For decision makers these indicators cascade up in more digestible parts that are then rated at several layers (e.g. Results sub pillar, Overall Pillar 2, etc.).

Regarding the ex-ante assessment of the results, for the different performance indicators related to the realization of the project (e.g. employment), the project promoter typically provides raw data and estimations. The promoter usually has the best knowledge of the project and therefore is the most suitable to provide ex-ante estimations about the impact of the project. Theoretically, this could result in an overestimation of the expected performance, as the promoter would tend to rely on less conservative assumptions to maximize the likelihood of being successful at its request of EIB funds. However, the EIB has the ability to mitigate this risk. Indeed, the sector experts from the EIB Projects Directorate and ECON for intermediate lending operations systematically check the ex-ante estimations provided by the promoter, reconsidering them if needed. For this check, the sector experts usually rely on similar projects realized in the same field.

One major indicator which is frequently (but not always) computed for the REM, in particular for the infrastructure projects, is the Economic Rate of Return (ERR)[44]. The purpose of this indicator is to provide the net present value of the project, i.e. the discounted benefits net of discounted costs over the lifetime of the project. To conduct the Cost-Benefit Analysis (CBA), the EIB again relies on the financial data provided by the promoter with the sector experts of the Bank systematically checking and challenging the data based on their expertise, on similar projects conducted elsewhere and on the date provided by the other IFI (whenever the project is done in co-financing). The EIB also uses data from other sources (IMF, European Commission, OECD, etc.) to test macroeconomic assumptions and more specialised sources to test the other assumptions. As with the ex-ante impacts assessment, this check of the promoter cash-flows by the EIB sector experts ensures that any bias related to the promoter's incentive to maximize its costs (to obtain more funds) is eliminated.

There is a requirement (by the EIB internal rules) to re-do the ex-ante analysis upon the project completion. This allows comparing how the ex-ante matches the ex-post in order to correct for potential systematic biases in the forecasting. The EIB has expressed an intention to perform this assessment in the future, once the results of the ELM operations come to maturity.

As a general matter, the REM is an evolving tool, expected to be refined and updated following the reception of the first results of the ELM operations, in particular following the assessment of the projects that come to term over the years 2015-2016.

Alignment with the best practices of the IFI

According to the interview with the EIB representatives, the REM was developed based on an assessment of indicators and models existing among the international financial institutions. Thus, the REM appears as one of the most structured of the tools used among the IFI as it absorbed the existing best practices. The IFI Working Group on Development Results Indicators Harmonization exists since 2013 by 25 IFI in order to harmonize the indicators used across the IFI, align and share the indicators used and exchange best practices. The REM will absorb the results of this work.

Conclusion 13: the REM indicators are well aligned with the operational objectives of the EIB in the framework of the ELM.

Conclusion 14: the REM was developed based on an assessment of indicators and models existing among the IFIs. Therefore, it absorbed the existing best practices.

5.2.3 Complementarity and coordination with other EU financing facilities and International Financial Institutions

This subsection covers the evaluation question EQ 8 and EQ9.

The majority of the projects for which the EIB provide loans in the framework of the ELM involve in parallel the financing by other IFI or through other sources of financing from the EU, in particular the mechanisms providing grants. This section therefore addresses the issue of

[44] Not applicable for financially intermediated operations, microfinance or private equiry.

complementarity, coordination and, potentially, overlaps with these IFI and the sources of financing.

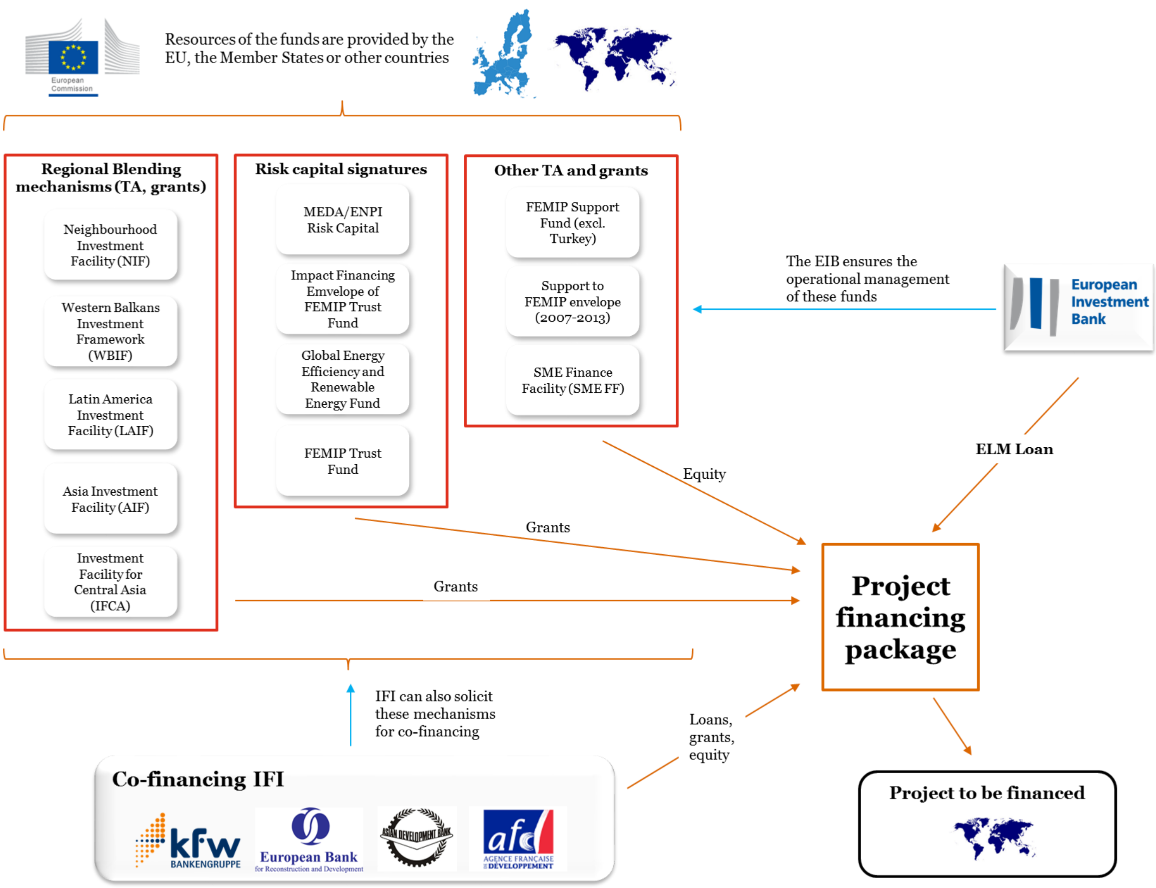
Blending ELM loans/grants

The EIB is legally able to cover only up to 50% of the project cost[45]. Therefore, the projects financed under the ELM typically require co-financing by other IFIs or through other EU sources of funding. The latter refer to the blending mechanisms using EU budget resources to provide grants and technical assistance. The EIB ensures the operational management of some of these mechanisms on behalf of the European Commission. The purpose of these mechanisms is to contribute to financing schemes for the projects outside the EU (not necessarily under the ELM). The mechanisms use the budget resources coming from the EU as well as additional resources provided by the Member States or non-EU countries on a discretionary basis (as an example, Saudi Arabia provided financial resources for the FEMIP Support Fund in order to enable it to finance projects in the Maghreb countries under the Deauville agreement).

There are five mechanisms providing technical assistance and grants on a geographical basis. Four others provide TA and grants without distinction of geographical area. Finally, four additional mechanisms address the needs of final beneficiaries in terms of risk capital.

The European Commission established a platform, which regroups all the potential co-financers and the pool of financing facilities mentioned in the scheme above. The facilities under the blending platform can provide additional funds for financing of projects in the form of equity, investment grants, and subsidized interests. The EIB may request co-financing from these facilities in order to complement its loan under the ELM in financing of the project in the recipient country. Other IFIs can also request co-financing from these mechanisms. The general scheme of how the blending ELM loans/grants works is illustrated by the figure below:

Figure 22: Blending mechanism ELM loans/grants



45 One ad-hoc exception was made for a financing operation in Ukraine in 2014, given the exceptional circumstances. Usually, the EIB can finance up to 100% of the cost only in the case of projects serving to meet the consequences of a natural disaster.

Source: EIB, PwC
*the list of co-financing IFIs is illustrative and non-exhaustive

When a specific financing operation is envisaged by the EIB, the loan officer in charge of the project can request co-financing from one or another mechanism. Given that the ELM funding cannot cover more than 50% of the project cost, the search of additional financing through grants is done systematically, provided the country and the project considered are eligible for funding from the blending mechanisms. If the financing is awarded, a separate contract is established for funding from each of this financing facilities.

The issue of blending the ELM loans with grants is key as the ELM could be expected to play a role in least developed countries or in post-crisis area. During the interviews, the EIB representatives underlined the administrative burden of mobilizing EU blending facilities. Provision of funds through each of these mechanisms follows a project by project approach requiring separate appraisal, project implementation, monitoring and reporting, distinct from the ELM loan processes and procedures. Thus, a discussion between the Commission and the EIB regarding rationalization of appraisal and reporting procedures and processes would be welcome.

Pivotal role of the EU delegation

The ELM is a specific instrument, with tasks and objectives clearly distinct from other EU financing instruments, such as, for instance, the Macro-Financial Assistance (MFA) or the Instrument for Pre-Accession (IPA) or bilateral loans made by Member States. Thus, little overlap or substitutability is expected between the ELM and the other financing frameworks. However, the issue of complementarity and coordination between the former and the latter is central. In operational terms, the complementarity and the coordination of the EU efforts towards the ELM countries is ensured by the EU delegation. In Turkey, in Ukraine and in Morocco, the role of the EU delegation in facilitating the prospection of projects, establishment of contacts with relevant local stakeholders and ensuring the coordination of the EU communication and efforts in relation to the provision of funding has been important, as attested both by the EIB representatives and the local stakeholders. Regular meeting with EU delegations were held, which enable the EIB to present the ongoing projects and to discuss new project opportunities.

Coordination with International Financial Institutions (IFI)

In total, 29 projects out of 57 from the ELM portfolio (and seven out of 20 case studies) covering the period July 2014-December 2015 were co-financed by other IFI. Thus, the subject is of paramount importance. From a purely financial perspective, financing by other IFI has been complementary to the financing by ELM as the latter by definition (almost) never covers more than 50% of the project cost and often covers even less.

The complementarity with other IFIs is important also on the non-financial side. As mentioned in one of the previous sections, the EIB has limited presence in some of the countries covered by the ELM. For these cases, the identification and structuring of projects closely relies on the cooperation with other IFIs often present on the ground. As an example, for its operations under the ELM in Asia, the EIB relies on the cooperation with the Asian Development Bank. The ADB identified the financing opportunity, performed the feasibility study and initiated the collaboration with the EIB on the project. A similar pattern of collaboration based on comparative advantage exists with other regional Banks having a specific focus on a given region (e.g. IaDB in the Caribbean and Latin America region).

Another side of collaboration and complementarity is the exchange of data and the alignment of the best practices among the IFI and the EIB. The provision of data feeds the economic and financial analysis conducted by the EIB Operations Department. The co-financing IFI also provide data in the phase of the project appraisal, which enables the EIB to conduct its own risk assessment and ex ante impact assessment, in particular through the REM. The EIB participates in several working groups with other IFI dedicated to the alignment and harmonisation of methodologies, tracking approaches and indicators. This allows the Bank to contribute to and maintain the best practices prevailing among the co-financers.

Conclusion 15: complementarity and coordination with other IFI are strengthened through the co-financing of projects. Coordination occurs for the identification of project opportunities, the appraisal of those projects and the monitoring.

Conclusion 16: cooperation with other IFIs allows the EIB to leverage on their expertise of the local markets where EIB has a limited presence, and to structure its own operations.

Conclusion 17: the role of the EU delegation has been crucial in several financing operations in sharing the knowledge of the local context, coordinating with other IFIs and ensuring a connection with the national governments of the beneficiary countries.

5.3 Added value of the External Lending Mandate

This subsection covers the evaluation question EQ 10.

- **EQ10**: What is the added value of the Programme for beneficiaries (ref. EIB performance indicators, incl. qualitative and quantitative effects) and in the selection of specific lending activities, how is the highest added value to beneficiaries ensured?

One of the major issues of the ELM evaluation is the ELM loan additionality for the local beneficiaries and the non-distortion of the local capital market conditions. This subsection is dedicated to the assessment of the added value of the financing operations under the External Lending Mandate. This assessment is conducted in line with the evaluation questions, judgment criteria and indicators specified in the methodology, and focuses, in particular, on the following points:

- Would the EIB have financed the project in absence of the EU Guarantee (either because of the risk criteria or because of any other)?
- Would the project have been financed/realized without the EIB financing (for instance because other IFI or private agents would have covered the corresponding financing need)?
- What are the financing terms (maturity, interest) attached to the EIB loan as compared to the alternative means of financing? Correspondingly, what is the size of the financial advantage (if any) for the final beneficiary?
- Are there any leverage or catalytic effects generated through the EIB loan?
- Does the ELM promote financial best practices and standards among the financial intermediaries in the beneficiary countries?
- Beyond the financial side, do the ELM operations contribute to spread good practices and legislation (e.g. in procurement) in the recipient countries?

The subsection explores and analyses these points in sequence and in detail in the paragraphs below.

Financial added value resulting from the EU guarantee

The first point to address is whether the EIB would have financed the project **in absence of the EU Guarantee** (either because of the risk criteria or because of any other).

The analysis of the portfolio and a more specific insight over the twenty case studies revealed that the majority of countries covered by the financing operations under the External Lending Mandate are not eligible for the EIB own-risk operations, with few exceptions covered in the subsection on the Allocation policy. Even if the Allocation policy does not specify any credit rating “floor” for the ELM operations, the EIB Credit Risk Policy Guidelines preclude own-risk operations in countries with the sovereign rating below the investment grade (BBB- for S&P and Fitch, Baa3 for Moody's). Thus, in absence of the ELM, the EIB would not have financed the projects situated in most of the ELM countries due to the relatively high credit risk. Out of twenty case studies, twelve correspond to projects that the EIB would not be able to finance in absence of the EU Guarantee. The table below shows these projects:

Table 27: Financing operations in countries with a sovereign rating below the investment grade at the date of signature of the ELM loan

Financing operation	Country	Date of signature[46]	Eligible Country Rating at the moment of the loan signature		
			S&P	Moody's	Fitch
Laksam Akhaura double track rail project	Bangladesh	15/10/2015	BB-	Ba3	BB-
Tajik - Kyrgyz power interconnection	Kyrgyzstan	02/10/2015	B	B2	-
Armenia APEX loan for SMEs	Armenia	04/12/2014	-	Ba2	BB-
Kutaisi waste water	Georgia	15/10/2015	BB-/B	Ba3	BB-
Ukraine early recovery	Ukraine	22/12/2014	CCC-	Ca	CCC
Guarantee for economic development in Ukraine	Ukraine	09/10/2015	B-	Caa3	CCC
Private sector development & economic growth	Egypt	14/03/2015	B-	B3	B
Partenariat BEI-BTK-réseau-entreprendre	Tunisia	04/12/2014	BB	Ba3	BB
AMEN Bank-Prêts PME & ETI	Tunisia	17/09/2015	-	Ba3	BB-
Wadi Al Arab water system II project	Jordan	08/11/2015	BB-	B1	-
Montenegro water and sanitation	Montenegro	25/06/2015	B+	Ba3	-
IDF loan for SMEs & priority projects II	Montenegro	16/03/2015	B+	Ba3	-

Source: PwC analysis

In addition, the discussion with the loan officers for several financing operations explored through the case studies revealed that in some countries (e.g. Bangladesh) the EIB does not possess sufficient knowledge and intelligence of the local market to be able to conduct financing operations at its own risk. While this shortcoming is compensated through cooperation with other IFIs, it is an additional reason why the EIB would not have conducted lending operations in countries under consideration outside the framework of the ELM.

The second point to consider is the question of whether the project would have been realized **without the EIB financing**. A corollary is, of course, whether other public or private agents would have provided an alternative source of funding. Based on the discussion with the EIB loan officers, the most accurate to say is that for the majority of projects, among the twenty case studies, IFIs could have potentially stepped in to fill the gap. However, other IFI face their own budget constraints, so there is a certain probability that even a sound project would not have attracted financing in absence of the ELM. Another aspect of this argument is more subtle. International financial institutions seek to diversify risks and aim for risk sharing when engaging in project financing, in particular in the emerging and developing countries. Thus, in absence of the ELM, the other IFIs would probably scale down their volumes of overall lending in proportion to the reduction in the ELM lending, as the IFI would reduce their risk exposure to some projects where the EIB would not be taking part.

According to the claims of the loan officers, four projects specifically could have met financing difficulties in absence of the EIB loan: Kutaisi Wastewater Treatment, South Africa Private Sector Facility, Montenegro Water and Sanitation, and IDF Loan for SMEs & Priority Projects II.

Interaction with the relevant EIB loan officer underlined the case of the project in Georgia, Kutaisi Waste Water, where the EIB loan was funding the rehabilitation and extension of the municipal sewerage system, and the construction of a mechanical-biological wastewater treatment plant in one of the three cities covered by the project: Kutaisi. The Asian Development Bank (ADB) acting as a co-financer was funding the similar investment in two other cities: Ureki and Zugdidi. The

[46] Formally, it is the credit rating at the date of submission by the EIB of the operation to the Commission under the Article 19 procedure which should be taken into account instead of the date of signature. However, the time elapsed between the two is likely to be limited. Thus, we use the date of signature as a proxy.

hypothesis that without the EIB loan the project would have been confined to Ureki and Zugdidi, leaving Kutaisi aside is unlikely. Kutaisi is a major city in Georgia with a population of over 200,000 (Ureki for comparison is much smaller, around 1,500) and it is highly unlikely that even in the absence of the EIB loan the project would not have covered Kutaisi. The most likely hypothesis is that the ADB would have simply extended the size of its own intervention. However, the conversation with the loan officer revealed that this investment by ADB would probably have been made without the climate-change mitigation component related to the EIB loan.

Regarding the Montenegro Water and Sanitation project, the first elements of the project have been funded by the EIB long before the current ELM period, starting under the South Eastern Neighbours Mandate 2000-2007 (the borrower being Serbia-Montenegro disbanded in 2006). The project has several funding sources under the form of loans and grants – KfW, USAID, commercial bank loans, etc. –, and would probably have obtained financing outside the ELM and without the EIB.

Two case studies where the claim of **absence of alternative financing** has some ground are the projects involving loans targeting the SMEs and Mid-Caps via financial intermediaries in South Africa and in Montenegro. Both projects involve co-financing only from the financial intermediaries (at 50% of the total volume of funding). It is possible, but unlikely that the financial intermediaries would have been able and willing to provide funding by themselves in the same volume (i.e. that the EIB loans simply induced windfall profits on their side). Indeed, the ELM loan presented favourable borrowing terms for the financial intermediaries. This which enabled the latter, in turn, to lend at the interest rate much lower than what they would usually charge, thus expanding their own loan portfolio to SMEs and Mid-Caps, which would not be willing to borrow at the usual commercial interest rate or would have been otherwise credit-rationed out of the market.

In addition to these four specific cases, the financing of the projects “Ukraine early recovery” and “Guarantee for economic development in Ukraine” would also be problematic without the ELM, given the specifically complex political and economic situation of Ukraine in 2014-2015. This is the rationale of the EIB lending extended to 100% of the project (beyond the regular 50% threshold). “Ukraine early recovery” is actually the only large-scale IFI operation targeting recovery of Ukraine. Overall, the EIB financing appears as critical for most operations in Ukraine and it is unlikely that other funding sources would be easily available in the absence of ELM loans.

The third point is related to the financing terms (maturity, interest) associated to the EIB loan and how it compares to the alternative means of financing. The twenty financing operations under consideration all provide loans at an interest rate typically lower than the one attached to loans offered on a commercial basis in the recipient countries. Furthermore, the ELM loans are offered with a much longer maturity than the one prevailing in the countries under consideration. The size of the financial advantage, both in terms of interest rate and of maturity, is deemed considerable by the local beneficiaries, the financial intermediaries and the EIB representatives interviewed. The exact size of the financial advantage is difficult to estimate quantitatively, as the relevant counterfactual – the most likely scenario in the event the ELM loan would not have existed – might have been concessional debt offered by other IFIs or borrowing on commercial terms on the capital markets.

The EIB does not offer concessional debt, thus the comparison with the interest rates and maturities on the loans of other IFIs would be biased. Thus, this evaluation takes a stance of estimating the financial advantage of the loans under the ELM by comparing them to the borrowing terms existing on the capital markets.

To compute the financial advantage, the evaluation team had to choose a relevant counterfactual – the most likely scenario, which would have occurred in absence of the ELM. The highest probability lies with the scenario where, for each of the projects, the majority of the final beneficiaries are not able/willing to implement their projects given the much more constraining borrowing terms. The remaining SMEs – those, which implement their projects anyway – would have to borrow without any public intermediation and at the conditions prevailing on the local capital market. The evaluation team therefore considers as the most likely the scenario where the remaining SMEs would take loans in local currency at the interest rate applied on the loans with the longest maturity or the same maturity as the one applied to the ELM loan.

The table below provides an indication of interest rates prevailing on the capital markets in the countries under consideration and in the relevant period:

Table 28: The market interest rate in the beneficiary countries for which there was ELM loan disbursement

Financing operation	Beneficiary (public vs private)	Country	Year	Interest rate (%)
SBI loan for SMEs and Mid-Caps	Private	India	2014	10.25%
Armenia APEX loan for SMEs	Private	Armenia	2014	15.2%
Accessbank Azerbaijan loan for SMEs	Private	Azerbaijan	2014	9.16%
Ukraine early recovery	Public	Ukraine	2014	15.4%
Sao Paulo Rolling Stock	Public	Brazil	2014	6%
Brazil loan for SMEs & Mid-Caps	Private	Brazil	2015	22.7%
EUROPAC industrial packaging plant in Tangier	Private	Morocco	2015	5.1%
AMEN Bank-Prêts PME & ETI	Private	Tunisia	2015	4.8%
IDF loan for SMEs & priority projects II	Private	Montenegro	2015	8.41%
Ziraat Bank IPARD MBIL	Private	Turkey	2014	12.3%

Source: PwC analysis

* The market interest rate indicated in the table is the average interest rate applied to the borrower – public or private – in the same year and with the maximum maturity prevailing in the recipient country. All the data for the local commercial interest rates (labelled "Market") comes from the central banks of the countries under consideration.

Comparing the data from the table with the borrowing terms of the EIB ELM loans – not disclosed here for the sake of confidentiality – indicates that if the ELM did not exist, the borrowers, and particularly the SMEs and Mid-caps would have faced higher interest rates and shorter loan maturities. The financial advantage is considerable for all the operations with peak differences for the Ukrainian regional authorities and the Armenian and Brazilian SMEs. The reason for this magnitude of the financial advantage resides in the macroeconomic characteristics of the recipient countries: the environment of high inflation, volatile exchange rate, scarce capital and strong credit rationing of the SMEs. The EU Guarantee enables to the EIB not to price the country risk or the political risk when structuring the loan, which translates into lower interest rates for financial intermediaries and, ultimately, the final beneficiaries.

An alternative way of presenting the financial advantage is the measure of the risk pricing that would have been applied to the ELM loans in absence of the EU guarantee. This risk pricing can be measured in additional basis points added to the interest rate on the loan. It integrates both the expected loss and the unexpected loss estimates.

The table below provides an estimate of the additional basis points that would have been applied to the loan had the EIB not benefited from the EU guarantee coverage:

Table 29: Risk pricing without the EU guarantee

Name of the project	Type of the Guarantee	Country	Borrower	Risk pricing without EU Guarantee (additional basis points)
Laksam Akhaura Double Track Rail Project	Comprehensive	Bangladesh	People's Republic of Bangladesh	73
Warsak Hydroelectric power station rehabilitation	Comprehensive	Pakistan	Islamic Republic of Pakistan	139

Vientiane sustainable urban transport	Comprehensive	Lao People's Democratic Rep.	Lao People's Democratic Rep.	146
Nepal Grid Development Programme	Comprehensive	Nepal	Federal Democratic Republic of Nepal	59
Central Asia South Asia Electricity transmission	Comprehensive	Kyrgyzstan	Kyrgyz Republic	131
Ukraine municipal infrastructure programme	Comprehensive	Ukraine	Ukraine	184
IBA loan for SMEs and Mid-caps	Comprehensive	Azerbaijan	The International Bank of Azerbaijan OJSC	63
Guarantee for economic development in Ukraine	Comprehensive	Ukraine	Ukraine	154
Procredit loan for SME and Priority Projects II GE	Political risk	Georgia	JSC Procredit Bank	61
Kutaisi Waste Water	Comprehensive	Georgia	Georgia	73
Yerevan solid waste phase I	Comprehensive	Armenia	Republic of Armenia	59
Ukraine Agri-Food APEX Loan	Comprehensive	Ukraine	Ukraine	164
Wastewater treatment Project in Guayaquil	Comprehensive	Ecuador	Empresa municipal de Agua potable y Alcantarillado de Guayaquil ep	90
Nicaragua hydro development and transmission	Comprehensive	Nicaragua	Republica de Nicaragua	135
Amen Bank prêts PME et ETI	Political risk	Tunisia	Amen Bank	64
ONEE amélioration AEP et assainissement	Comprehensive	Morocco	Office national de l'électricité et de l'eau potable	30
Nepco green corridor	Comprehensive	Jordan	Hashemite Kingdom of Jordan	76
Wadi Al Arab water system II project	Comprehensive	Jordan	Hashemite Kingdom of Jordan	76
Damanhour CCGT power plant	Comprehensive	Egypt	Arab Republic of Egypt	139
Modernisation routière II	Comprehensive	Tunisia	Tunisian Republic	73
Cairo metro line 3 Phase 3 - B	Comprehensive	Egypt	Arab Republic of Egypt	134
Iller bank urban transport and environment loan	Comprehensive	Turkey	Iller Bankasi AS	71
Route 10 rail rehabilitation	Comprehensive	Kosovo	Kosovo	196
Istanbul underground rail network	Comprehensive	Turkey	Istanbul Buyuksehir Belediyesi	135
Tubitak research promotion II	Comprehensive	Turkey	Republic of Turkey	53
Afforestation and erosion control III	Comprehensive	Turkey	Republic of Turkey	53
South Africa Private sector facility Nedbank	Political risk	South Africa	Nedbank LTD	14
South Africa Private sector facility FNB	Political risk	South Africa	Firstrand Bank LTD	14
South Africa Private sector facility - IDC	Comprehensive	South Africa	Industrial Development Corporation of South Africa LTD	11

Source: EIB

As attested by the risk pricing measures, the majority of the final beneficiaries would have faced higher interest rates in absence of the EU Guarantee. The range of risk pricing is from 0.11 percentage points for South Africa to two percentage points for Kosovo.

Another major aspect of the financial advantage is the extension of maturity, which is typically much shorter in countries under the ELM. The finding from interviews with the local stakeholders and the EIB representatives is that loans are most often unavailable at the maturity offered for the ELM loan.
Beyond the quantitative evidence, the added value of the ELM loans to local beneficiaries shows up qualitatively through the case studies. In Tunisia, the multi-beneficiary intermediated loan to the Amen Bank has been designed based on the analysis of the financing gap. A Frankfurt School study, financed by the FEMIP Trust Fund, on the potential of meso-finance (03/2014) showed clearly that the main challenge to the SMEs resides in the poor access to credit. This results mainly from the inadequacy of the guarantees available and the absence of a trust-based relationship between borrowers and lenders. Therefore, the credit line is strongly focused on the access to finance for SMEs and micro-enterprises in the meso-finance segment. The EIB additionality comes specifically from expanding the access to credit for the SMEs and MidCaps.

One of the key aspects of the ELM added value assessment is the question of non-distortion of the local banking sector activity. The EIB intervention on the local credit market should not substitute to the local banking activities, evicting the local banks thanks to more favourable borrowing terms offered to the SMEs and Mid-Caps. However, the ELM multi-beneficiary loans are channelled through the local financial intermediaries, associating them rather than evicting: for each euro invested by the EIB, the local financial intermediaries expand their credit portfolio by two euros. Furthermore, the EIB is careful in assessing the non-rival positioning on the local credit market. This argument is better illustrated by the example of the Ziraat bank multi-beneficiary loan.

Non-financial added value resulting from the EIB standards

While it is difficult to construct any qualitative score indicating the added value of the EIB financing operations under the ELM, there is a strong evidence of clear benefits for the final beneficiaries generated by the EIB lending – in terms of project realization, financial advantage, leverage effect or promotion of good financial standards within the local banking sector. The EIB also provides both an IFI and EU label, which improves the credibility and the visibility of the projects with the private investors. An important component of the added value from the technical assistance provided alongside the funds. In the case of Ukraine, for instance, the technical assistance component was very important, endowing the local stakeholder with the knowledge and expertise about the project management and implementation as well as pushing to adapt EU standards for procurement. This capacity-building side of the ELM loan, in particular, was recognized and praised by the local stakeholders during the interview with the evaluation team. Thanks to the EIB involvement, the projects are implemented relatively faster because in particular of the EIB providing significant financial capacity and technical expertise for the assessment of viable investments. In addition, through the ELM, the Bank diffuses best practices among the local – public and private – stakeholders. For instance, the procurement practices of the borrower are expected to improve following the implementation of the ELM-funded projects as the promoter has to use the standards of the EIB in terms of procurement ("EIB guidelines") and get the approval of the EIB on the tender documents to be used. These standards are systematically passed into the national legislation and contribute to the quality of the project.

Conclusion 18: without the ELM, the EIB would not have financed most of the projects under consideration (country profiles too risky for own-risk facilities).

Conclusion 19: in several cases, the project could have been realized thanks to alternative sources of financing, mainly from the other IFIs, though not necessarily at the same extent. However, there is a probability that some of the projects would not have found financing in absence of the EIB (it is unlikely that the other IFI would have covered the entirety of the corresponding EUR 27 billion gap) as they face their own financial constraints.

Conclusion 20: the added value of the ELM financing operations is substantial compared to the commercial loans both in terms of financial advantage (interest rate much lower, maturity much longer than on any regular commercial debt) and availability of funds.

Conclusion 21: there is a clear evidence of non-financial benefits for the final beneficiaries generated by the EIB lending: technical assistance, promotion of good financial standards within the local banking sector, procurement standards. In addition to other IFIs, the EIB is acting as the EU bank, applying EU policies and promoting EU standards and principles.

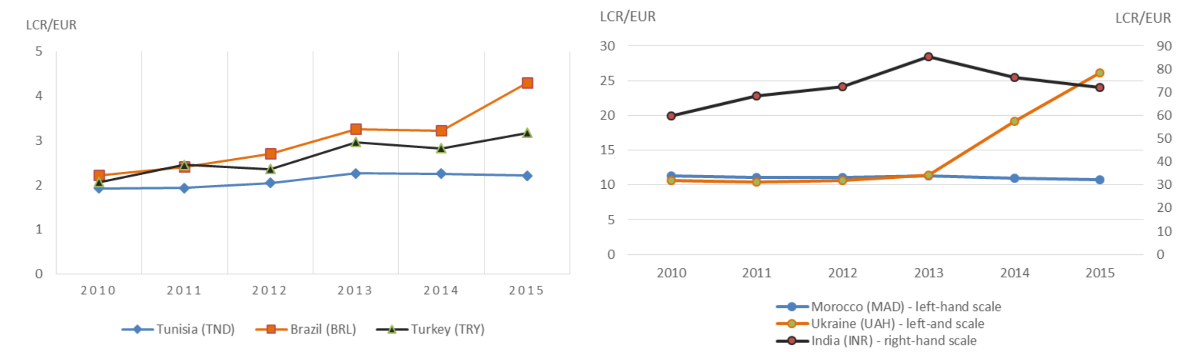
5.3.1 Exchange rate risk: a drag on the demand for EIB loans

The contractual arrangements in all the case studies specify that the borrower has the ability to choose, among other items, the currency in which they disburse loan tranches are disbursed. However, EIB disbursements to the borrower are made in EUR or in USD[47], and the contractual agreements foresee that the repayment be made in the same currency that the disbursement.

Almost all of the countries eligible under the ELM mandate, including all the countries concerned by the case studies, are the emerging or developing countries with volatile exchange rates. In the current context, many of these countries are affected by the capital flight, induced by the end of the QE in the US, by the sharp fall in the price of oil or other commodities. Both evolutions lead to the depreciation of the local currency. In this context, the debt burden in EUR or in USD is increased. The financial advantage from the relatively cheap and long-maturity borrowing in the framework of the ELM would be, under these circumstances, eroded or partly offset by the exchange rate risk materialization. The interviews with the loan officers shed light on the issue: in Morocco, some of the promoters refrained from soliciting EIB loans under the ELM, as borrowing in EUR would comprise a serious foreign exchange (FX) risk. The expected cost of an increased FX debt burden is an even more serious issue for the SMEs and Mid-Caps than for the sovereign borrowers.

The table below represents the evolution over the last five years of the exchange rate against the euro of the local currencies of the six countries for which a disbursement has been made under the current ELM:

Figure 23 Nominal exchange rate local currency (LCR) vs euro (EUR), 2010-2015[48]



Source: PwC analysis, Eurostat

For several countries, the national currency depreciated strongly against the euro over the considered period: 93% for Brazil, 53% for Turkey, 145% for Ukraine. From 2014 to 2015 – the period fully covered by the current ELM –, the Brazilian real depreciated by around 33%, the Turkish lira – by around 12%, the Ukrainian Hryvna by 36%. While the maturity on all the loans made in these countries under the ELM is long enough to shield the countries and the final beneficiaries from all the short-term fluctuations, the existence of the exchange rate risk can be a drag on the demand from the local beneficiaries for lending in euros (and in FX in general). Given the volatility of the national currency in the beneficiary countries, a following hypothetical situation could well occur. The EIB offers a multi-beneficiary loan of, say, EUR 200 million – expecting a positive effect for the local SMEs –, and yet little demand from the local SMEs is shown for these loans, despite the favourable borrowing terms, because of the FX risk. The absorption, at least partial, of this risk by the financial intermediaries would not solve the problem, if they reflected this

[47] EIB also offers loans in South African Rands and Turkish Liras.

[48] Nominal exchange rate local currency vs the euro, at the 31 December of the indicated year. Montenegro adopted the euro as its' *de facto* currency.

expected cost in their pricing of loans: it would largely offset the positive effect of lower interest rate on the EIB loan.

The importance of the exchange rate risk and its potential negative impact on the demand for loans from SMEs and Mid-Caps has been confirmed by the local stakeholders in Ukraine and in Turkey. In Ukraine, the representatives of the Ministry of Finance evoked this risk as one of the major issues, which could offset the benefits from the ELM-driven lending. The remark did not apply to the Ukraine Early Recovery project where the borrower and the final beneficiaries are public entities, but to other ELM loans where the ultimate beneficiaries and financial intermediaries are private. The reality of this problem was also recognized by the representatives of the Ziraat bank, which acts as the financial intermediary to disseminate the EIB loan among the small agricultural producers. The bank absorbs the risk and mitigates it internally – buying currency swaps – as the local borrowers would be reluctant to borrow in foreign currency and unable to cope with this risk themselves.

There are no mitigation measures currently in place on the EIB side for the ELM to shield the borrowers from the exchange risk. The EIB is currently considering swap instruments, which would enable the borrowers to repay in the local currency.

Naturally, the risk of borrowers' insolvency due to currency depreciation also weighs on the EIB portfolio, but this risk is fully internalized in the pricing of the loans.

Conclusion 22: the existence of the FX risk drags on the demand for the ELM loans (in USD or in EUR) and partially offsets the financial added value of the ELM.

5.4 Climate change mitigation and adaptation

This subsection covers the evaluation question EQ 11.

- **EQ11**: What is the volume of climate change lending against the target of 25% and what is the result of the new system to ex-ante assess greenhouse gas emission of projects supported by the EU guarantee? How does the EIB reinforce the climate resilience for all relevant financing operations, and integrate carbon pricing in economic cost benefit analysis?

5.4.1 ELM strategic framework as regards climate action

Climate action is one of the three general objectives, and the only objective for which a dedicated strategic document is requested by the Mandate Decision. This strategy has been updated on 28th December 2015 to reflect the recent developments of climate framework in particular as regards the transition to low carbon and climate resilient development, the SDGs, which link economic, social and environmental dimensions within a common framework and the engagement taken during the international United Nations Framework Convention on Climate Change (UNFCCC) negotiations. Mandate for the 2014-2020 period reinforces support to EU Climate action, by setting an overall quantitative target of at least 25% of total EIB financing operations covering climate change adaptation and mitigation.

The ELM Climate Strategy 2014-2020 sets three overarching objectives:

1) Implementing EIB Climate Action Strategy in non-EU operations;
2) Delivering on the Mandate Requirements;
3) Using new channels and instruments to increase impact, in particular financial instruments and Green Climate Funds.

These three objectives are specified through sub-objectives and potential levers for action.

Through the first objective, the EIB intends to reinforce the impact of its climate financing. To do so, the EIB wants to focus on the projects with the highest impact in terms of climate change mitigation and adaptation by developing financial products in grade of mobilizing additional climate finance and overcome investments barriers for this type of projects. These projects are defined as "projects that (i) bring significant mitigation or adaptation gains; and/or (ii) catalyse and mobilise additional climate finance from a range of sources; and/or (iii) reduce financial and non-financial barriers to the investments needed for the transition to a low-carbon resilient economy"[49]. The technical and financial advisory services will be also mobilized to build a consistent pipeline of climate-related projects. This is expected to be aligned with the national priorities in this field in particular by supporting projects identified and listed in the national Intended Nationally Determined Contributions (INDC). In addition, a focus will be also put on climate change adaptation by looking to build specific adaptation measures in investments projects with other objectives and also by targeting adaptation projects. In terms of reporting on impacts, further improving tools and metrics for climate change reporting will be taken into account for example by considering the possibility to extend the Carbon Footprint Exercise to include construction emissions and to include intermediated lending.

The second objective presents how the EIB intends to contribute to climate change mitigation and adaptation within the framework of the ELM requirements set in the Decision. Thus, although the ELM Decision sets a target of at least 25% climate action for all operations falling under the Decision, the EIB wants to go further with an increase of the climate action lending target to 35% of all external lending in developing countries by 2020. The EIB will build a climate action portfolio with a focus on high impact climate action projects. This portfolio will be developed with the introduction of climate risk screening and vulnerability assessment elements for new investments. In order to increase the climate adaptation projects in the portfolio, the EIB will also invest in activities such as land and water resource management. In addition, the EIB wants to pay a high attention to promote climate change objectives through smaller-scale projects, for instance by fragmenting high impact investments in large numbers of small projects. Climate change objectives will be also pursued through blending mechanisms, which represented nearly a third of the EIB's total commitment under the ELM in 2014. The EIB intends also to strengthen the existing greenhouse gas (GHG) emissions assessment by exploring new approaches to assess the overall footprint of operations.

With the third objectives, the EIB foresees potential new channels for climate actions. This includes the cooperation with the Green Climate Fund (GCF) and the use of financial instruments for climate action (equity, debt funds, guarantees, subordinated loans, etc.).

Examples include the Global Energy Efficiency and Renewable Energy Fund ("GEEREF"). This is a fund of funds, which provides global risk capital to unlock private investments in renewable energy and energy efficiency projects in developing countries and economies in transition.

In the past, the EIB did not have access to grants from similar climate change financing mechanisms (e.g. Climate Investment Funds - CIF and Global Environment Facility - GEF), but was accredited to GCF in early 2016 and will engage in a deep cooperation with the GCF in consultation with the European Commission.

Then, the strategy identifies priority sectors to support climate related projects. They includes renewable energy and energy efficiency, transport, water and sanitation, municipal solid waste, urban development, forestry and land use and adaptation. This strategy has started to be reflected in the ELM operations as described below.

5.4.2 Contribution of the 20 case studies to climate change objectives

Among the 20 case studies, eight contribute to climate change objectives (e.g. climate change indicator above 2%), two of which fully contribute to climate change objectives (e.g. climate change indicator equal to 100%). seven operations out of this eight contribute to climate change mitigation

49 External lending Mandate Climate Strategy,

for a total amount of EUR 518 million. Only one operation contributes to climate change adaptation, "Wadi al Arab water system ii project" in Jordan but for only EUR 5 million.

Table 30: Contribution of the 20 operations (case studies) to climate change mitigation and adaptation

Name of the project	EIB contribution to the project	Climate Change indicator		Climate Change indicator - Mitigation		Climate Change indicator - Adaptation	
	(EUR M)	(%)	(EUR M)	(%)	(EUR M)	(%)	(EUR M)
Montenegro water and sanitation	10	-	-	-	-	-	-
Sao Paulo rolling stock	200	100	200	100	200	-	-
Private sector development and economic growth	120	2	2.4	100	2.4	-	-
Ziraat bank IPARD MBIL	100	35	35	100	35	-	-
Ouarzazate iii (tower)	50	100	50	100	50	-	-
Europac industrial packaging plant in Tangier	10	-	-	-	-	-	-
Laksam Akhaura double track rail project	135	100	135	100	135	-	-
Armenia apex loan for SMEs	50	-	-	-	-	-	-
Accessbank Azerbaijan loan for SMEs	25	-	-	-	-	-	-
Tajik - Kyrgyz power interconnection	70	-	-	-	-	-	-
SBI loan for SMEs and Mid-Caps	45	30	13.5	100	13.5	-	-
Wadi al Arab water system ii project	50	10	5	-	-	100	5
Kutaisi waste water	100	4	4	100	4	-	-
Partenariat BEI-BTK-reseau entreprendre	20	-	-	-	-	-	-
Brasil loan for SMEs & Mid-Caps	150	2	3	100	3	-	-
Ukraine early recovery	200	-	-	-	-	-	-
IDF loan for SMEs & priority projects ii	40	2	0.8	100	0.8	-	-
South Africa private sector facility	50	2	1	100	1	-	-
Amen bank-prets PMEs & ETI	50	2	1	100	1	-	-
Guarantee for economic development in Ukraine	458	16	73	100	73	-	-
Total	**1932**	**-**	**523**	**-**	**518**	**-**	**5**

Source: PwC

Among the nine credit lines projects in the case studies, only one has a climate change indicator above 2%, e.g. 30% for the project "SBI loan for SMEs and Mid-Caps" in India. Indeed 30% of the sub-projects are required to target final beneficiaries of any size for investments in the fields of climate change mitigation and adaptation but without being contractually binding. However, the other credit lines projects do not include such a target and has therefore a 2% climate change indicator.

The opportunity to use more often targets in credit lines is being followed up proactively by EIB and discussions on pilot cases with certain FIs are ongoing. It is hoped this will lead to a number of MBILs with dedicated Climate Action windows – where necessary, supported by TA for the FI. There is significant potential, provided that the demand for climate change projects by SME does form a realistic pipeline, in order not to affect the disbursement of the loan.

5.4.3 ELM contribution to GHG emissions reduction

Ex-ante assessment of GHG emissions

The Decision states that an analysis of the carbon footprint "ought to be included in the environmental assessment procedure to determine whether project proposals optimise energy-efficiency improvements" (Article 3). The EIB Carbon Footprint Exercise (CFE) estimates at the appraisal stage GHG emissions for all projects with significant emissions, e.g. where, in one standard year of operations:

- Absolute emissions (actual emissions from the project) exceed 100 000 t Co2-eq/year and/or;
- Relative emissions (estimated emissions increases or avoidance compared to the expected alternative) exceed 20 000 t CO2-eq/year.

These thresholds are in line with those of other financial institutions and are estimated to cover approximately 95% of the absolute and relative GHG emissions from projects[50]. The EIB calculates and reports on 100% of the project's emissions in the Environmental and Social Data Sheet (ESDS) which is published on EIB's Public Register, even if the Bank is only contributing a portion of the total project investment cost. For the annual aggregated CFE reporting only the GHG emissions prorated to EIB financing are reported, to avoid double count with other financiers.

The Carbon Footprint Exercise is only conducted for direct investment loans and large framework loans. Intermediated lending does not go through this exercise for the moment due to the limited information available for sub-projects, in particular at the time of the appraisal (the portfolio of projects may not be finalised at the time of the appraisal of the project).

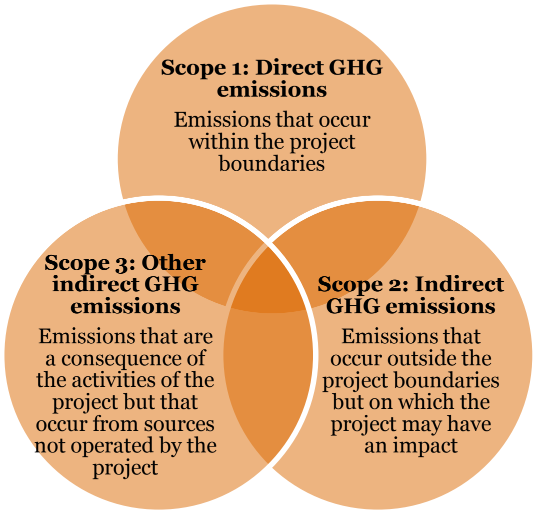
The methodology used by the EIB to calculate absolute and relative emissions is based on the Intergovernmental Panel on Climate Change (IPCC) Guidelines and the World Resources Institute (WRI) GHG Protocol. These two provide methods and tools to calculate GHG emissions, which are used by a large range of corporate and non-corporate actors in the world.

The overall methodology simplified and described in four steps.

Step 1: Definition of the project boundary

The project boundaries serve to determine what should be included in the calculation. Typically, the EIB methodology distinguishes three different scopes referring to the WRI GHG Protocol "Corporate Accounting and Reporting Standard".

[50] Methologies for the Assessment of Project GHG Emissions and Emission Variations, EIB, version 10.1



The carbon footprint exercise only includes the emissions from the scope 1 and scope 2. This was decided based on a six-month pilot exercise and through the meetings with other IFIs dedicated to the harmonisation of different carbon footprint computation approaches.

Step 2: Quantification of absolute emissions

The absolute emissions of the project (scope 1 and 2) are estimated by multiplying activity data, such as the volume of fuel used by a project-specific or an industry –specific default emissions[51] factor. The emissions factors derived from the WRI GHG Protocol and IPCC Guidelines for National GHG Inventories.

Step 3: Quantification of Baseline emissions

The baseline emissions refer to the emissions that would have been produced without the project ("without project" scenario). It gives the counterfactual to which the absolute project emissions can be compared. The "without project" scenario is defined as "the expected alternative means to meet the output supplied by the proposed project"[52]. Therefore, the scenario should be credible in technical terms, but also in terms of socio-economic effects, compliance with legal requirements, and use of existing assets beyond their economic life.

Step 4: Calculation of the relative emissions

The relative emissions are defined as:

Relative emissions= Absolute emissions – Baseline Emissions

The relative emissions give the overall impact (negative or positive) of the project in terms of GHG emissions.

The methodology used by the EIB to estimate GHG emissions is fully aligned with the existing international best practices, especially the methods developed through the IPPCC Guidelines and the WRI GHG Protocol. It is still too early to assess the extent to which the financial intermediaries have integrated ex-ante assessment of climate related aspects into their own practices, including for operations not covered by an ELM operations. However, local stakeholders report that the EIB pays more attention to climate and environmental aspects than most of the others IFIs. This has been stated for the Ukraine operation (Guarantee) and in Tunisia. In Tunisia, representative from the financial intermediaries (Amen Bank) considers that their collaboration with the EIB allowed them to reinforce the way they appraise environmental and climate related aspects in projects.

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[51] In case where the project-specific data are not available, the EIB use default factors based on sector specific activity data and through the application of documented emission factors.

[52] Methodologies for the Assessment of Project GHG Emissions and Emission Variations, EIB, version 10.1, p.14

The total emission savings (equivalent to the relative emissions) of ELM projects over the second half of 2014 and 2015 is **1.35 Mt CO2-eq/year** over a total of 26 projects – 23 in 2015 and 3 falling under the second half of 2014.

The figure for the ELM covering the whole period July 2014-December 2015 is as follows:
.

Total absolute emissions	1.44 Mt/CO2-eq/yr
Total relative emissions	-1.35 Mt/CO2-eq/yr

Among the 20 case studies, three projects highly contribute to climate change objectives:

- *Sao Paulo rolling stock*: the project has a 100% climate change indicator and is fully dedicated to the climate change mitigation. An Environmental Impact Assessment has been conducted before the implementation of the project. The improved services are expected to increase the number of passengers using trains rather than car or bus, reducing pollution, noise and CO2 emissions from road vehicles. The potential GHG emissions of the project would result from the electric consumption of the railway line. Overall, this project is expected to save **16.032 kt of CO2-eq/year**.

- *Laksam Akhaura double track rail*: with a climate change indicator of 100% the project is considered to be fully focused on the climate change mitigation. The promoter has undertaken an Environmental Impact Assessment (EIA). The project is expected to generate savings in user time, vehicle operating costs, road accident costs, local air/ noise emissions as well as a reduction in greenhouse gas emissions because of the expected modal shift of passengers and freight from road to rail. The main residual negative environmental and social impacts of the project include: (i) permanent conversion of about 60 ha of largely agricultural land; (ii) cutting down of about 57,000 trees; (iii) involuntary resettlement of about 2,200 households and 60 common property assets; and (iv) use of about 2.2 million m3 of material for the construction of embankment and track. In response to these, mitigation measures have been taken. They are gathered in an Environmental Management Plan, which is contractually binding on the works of the contractor and monitored by independent auditors. The impact on GHG emissions has not been used directly in the selection of the project but in its design. The use of double track railways is indeed motivated by the higher modal shift allowed by this system and therefore the higher impact on GHG emissions reduction. The decrease in GHG emissions is estimated to **64kt CO2-eq/year**.

- *Ouarzazate III (tower):* the project will contribute to meet growing electricity demand in Morocco using solar energy. Overall, this project is expected to save **266 kt of CO2-eq/year**.

This provides examples of how ELM operations can contribute to climate objectives. In the other operations within the case studies, climate change mitigation and adaptation are either a secondary objective (for four operations whose climate change indicator is between 10% and 35%) or not an objective in itself (climate change indication below 2%).

Conclusion 23: the ELM largely contributes to the climate change-related objectives, especially in terms of mitigation. It largely exceeds the quantitative target of 25% and even the future target of 35%, as the climate change-related actions account for 39% of the total EIB contribution[53]. The total emission savings of ELM projects over the second half of 2014 and 2015 is 1.35 Mt CO2-eq/year.

[53] Current ELM climate action (at end March 2016) stands at 34% in terms of signatures (down from 35% at end 2015). The report refers to the proportion in terms of volume approved and partly or fully signed which stood at 39% at end 2015. The cumulative proportion is, however, not constantly increasing, it may evolve downwards too.

5.5 The communication and the ELM contribution to the visibility of the EU

This subsection covers the evaluation question EQ 12.

- **EQ12**: What is the effectiveness of communication efforts of the EIB on the visibility* of the EU, including at project level?

The RTOG stipulates that the EIB financing operations under ELM should "strengthen EU communication and visibility". Assessing this objective raises several challenges. First, the short operating timeframe of the ELM 2014-2020 operations limits the possibility to observe effects on visibility. In addition, assessing visibility requires a specific methodology, which goes beyond the scope of this mid-term review.

In this section, the evaluation therefore analyses the question of visibility through two specific approaches: on the one hand, we will assess whether the conditions to ensure the visibility of the EU are in place, on the other hand we will rely on the perception of the stakeholders, in particular at final beneficiaries level.

The requirements in terms of communication and visibility of the EIB and the EU are set in the finance contracts. The side letter attached to the finance contract indicates that the "borrower commits to inform each Final Beneficiary of the EIB support and of the Financial Advantage stemming from Bank involvement". This can be done in two ways. First, by labelling a product from the borrower, either the name of the product or the product documentation should clearly refer to the Bank. Second, a letter or electronic means should be sent to each Final Beneficiary indicating that the respective financing has benefited from EIB support and state the difference in terms and conditions stemming from this support.

In addition, when the operation deals with SME financing, the borrower should be ready to insert on their website dedicated to SME and medium and long term financing products, an information page on the Bank's activity in favour of SMEs and Mid-Caps.

The signature of the finance contract may also be a mean of communication, especially when it involves Ministries or high level officials. The visibility of the EU is also likely to be reinforced by the operations conducted with new counterpart, in particular as regards public sector entities. For instance, in Brazil, the project with Sao Paulo State was the first project of the EIB with a public sector entity in Brazil. This could bring others projects with such entity in other State of Brazil and therefore reinforce the presence of the EIB in the country and the overall visibility of the EU among public actors in the country.

When the EIB co-financed operations with other IFI, the visibility is agreed in advance in the partnership agreement, even when the EIB is a minority co-financer, it seems that EIB and EU effort has been put forward. In Bangladesh, the ADB, which is the main co-financer of the project, is considered by the EIB as really respectful of the visibility of the partner by paying attention to make a joint visibility impact.

In specific situation, such as in Ukraine, the operations conducted under ELM are considered to attract substantial political visibility as part of the EU's broader efforts to support the short-term recovery of Ukraine and the medium/long-term development of affected regions.

This has been confirmed by local stakeholders, which consider that the visibility of EIB operations under the EU guarantee is ensured at the final beneficiaries' level with attempt to promote the operation in mass media. In Turkey, as attested by the interview with the representatives of the financial intermediaries, the name of the EIB has a demonstration effect of marking the loans easily marketable. However, the Moroccan case demonstrate that the ultimate beneficiaries are not necessarily aware that the EIB benefited from an EU guarantee to fund the operation. Indeed, the interviews conducted during the field visit showed that the beneficiary of the Ouarzazate III (Tower) project was not aware that the project benefited from the ELM's guarantee mechanism.

Overall, the communication and visibility impact of the operation have been taken into account in a formal way, e.g. as an operational requirement for the borrower, but no as a strategy in itself. A potential for leverage on communication actions within the framework of a true communication campaign is high and could benefit from the support of local stakeholders.

Conclusion 24: Communication efforts to date have ensured the borrower is informed of the EU support. However, it does not ensure that the visibility of the EU is sufficiently enhanced at the final beneficiary level. Communication and visibility objective should be further promoted and supported within the ELM.

6 Conclusions and recommendations

6.1.1 Main conclusions by themes

The formulation of the recommendations has been based on the analysis conducted over the portfolio of the operations conducted by the EIB under the ELM for the period July 2014-January 2015. The results of this Mid-Term review sought to identify the potential areas of improvement in the design and management of the ELM and provide the criteria for the decision on the extension of the EU guarantee by EUR 3 billion.

This section summarizes the findings of the evaluation and presents the conclusions across five main themes: the design of the ELM, its management, added value, role in terms of climate-change mitigation and adaptation and contribution to the visibility of the EU.

The design of the ELM

All the operations launched under the ELM since its inception in July 2014 are fully aligned with the three objectives stated in the Decision (C1). These three objectives themselves are aligned with the Sustainable Development Goals as defined by the United Nations (C2). Moreover, the ELM has supported the EU external policy agenda, showing sufficient flexibility and reactivity to the geopolitical challenges as demonstrated through the cases of Syria, Ukraine (the Ukrainian crisis), Egypt and Morocco ("Arab spring") and Jordan (the refugee crisis) (C3). The ELM has played a role in the economic and political stabilisation of these countries hit by a political crisis (C4).

As a result, in some of the regions (Asia; South Africa; Central Asia; Russia, Eastern Europe, South Caucasus), the volume of funds allocated so far represents up to 78% of the regional ceiling, which leaves limited leeway for responding to potential future challenges (C5).

Overall, the financing operations were conducted in full compliance with the Allocation policy of the ELM (C7-8). Lending under the EIB own-risk and lending under the EU guarantee proved largely non-rival, as the EU guarantee has usually been solicited for operations in countries with a speculative grade. Even though, three countries (India, Brazil and South Africa) where the ELM operations have been conducted had an investment grade at the date of signature, their macroeconomic environment is highly unstable, which justifies the use of the EU guarantee (C9).

The management of the ELM

The management of the ELM by the EIB has been compliant with the requirements of the Decision and contributed to the effective use of the EU guarantee. Indeed, the project appraisal results in a comprehensive analysis of the project and provides the decision-maker with sufficient information for assessing the quality and the relevance of the latter (C10). Key part of the appraisal, the REM framework is well adapted to the operational objectives of the EIB in the framework of the ELM. The REM was developed based on an assessment of indicators and models existing among the IFIs. Therefore, it absorbed the existing best practices (C13 and C14). The reporting from the EIB to the Commission is compliant with the requirements of the Decision and covers effectively the main aspects of the ELM. However, some improvements in the procedure and coordination between the EIB and the EU could further enhance the reporting system (C12).

Overall, the EIB or the local stakeholders do not perceive the management cost induced by the ELM higher than the management cost of other comparable operations (C11).

Coordination and complementarity with other stakeholder such as the EU delegations, other IFIs or blending mechanisms has been crucial in several operations prospecting the beneficiaries, sharing the knowledge of the local context, coordinating and ensuring a connection with the national governments of the beneficiary countries (C15 and C16). Some rationalisation of the blending process could be envisaged in order to address urgent needs (e.g. loans targeting refugee crisis-related issues).

The added value of the ELM

Without the EU guarantee, the EIB would not have financed most of the projects under consideration, as the country profiles of the recipient countries are too risky for the EIB to carry out the lending using the own-risk facilities (C18). In several cases – with important exceptions –, the project could technically have been realized in the absence of the EIB involvement, as the borrower may potentially have found an alternative source of financing, mainly from the other IFIs (C19). However, the other IFIs face their own budget constraints and seek to diversify risks: thus in absence of the ELM, they would not have been able to fill the gap entirely. The added value of the ELM financing operations is substantial compared to private sector both in terms of the interest rate – much lower than the local commercial interest rates – and longer maturity. Thus, it expands greatly the access to funds for the local SMEs and Midcaps (C20). Moreover, there is a clear evidence of non-financial benefits for the final beneficiaries generated by the EIB lending: technical assistance, promotion of good financial standards within the local banking sector, procurement standards (C21). However, the existence of the FX risk drags on the demand for the ELM loans (in USD or in EUR) and partially offsets the financial added value of the ELM (C22

Climate change mitigation and adaptation

The ELM has substantially contributed to the climate change-related objectives, especially in terms of mitigation. It exceeds the quantitative target of 25% and even the future target of 35% by 2020, as the climate change-related actions account for 40% of the total EIB contribution (C23). In addition, the ELM operations have allowed to save an estimated 1.35 Mt CO2-eq/year of GHG emissions through the operations signed between July 2014 and December 2015.

The communication and the ELM contribution to the visibility of the EU

The communication efforts allowed informing the borrower of the EU support. However, it does not ensure that the visibility of the EU is sufficiently enhanced at the final beneficiary level. Communication and visibility objective should be further promoted and supported within the ELM (C25).

The results of this Mid-Term review, as presented through the conclusions above, are meant to be used to define the criteria for the potential extension of the EU guarantee by EUR 3 billion.

In line with the scope of the evaluation, these criteria could be summarized as follows:

- Is the design of the ELM relevant from the point of view of the EU external policy objectives, that is, would the additional funds address relevant needs? The conclusions of the Mid-Term review allow answering positively to this criterion;
- Is the current management of the ELM by the EIB sound, that is would the Bank be able to use the additional funds in a confident and efficient manner? The conclusions of the Mid-Term review point that, in spite of some minor inefficiencies, the overall management of the Mandate by the EIB is sound and in line with the existing best practices;
- To what extent do the ELM loans bring added value to the final beneficiaries, that is would additional funds be expected to generate significant benefits – financial and non-financial – to the local stakeholders? The Mid-Term review clearly points out that the ELM operations generate high added value for the final beneficiaries;
- Do the current regional ceilings and the overall envelope restrict the EIB activities in a way that could be detrimental to the fulfilment of its objectives? The answer from the Mid-Term review is contrasting depending on the specific regions: in some of them, the volume of lending committed is proportionally more significant, sometimes moving quite close to the actual regional ceiling defined in the Decision.

6.1.2 Recommendations

This section draws on the results of the analysis and the conclusions presented before and formulates the recommendations for the future of the Mandate. These recommendations are preliminary. The finalised recommendations will be presented in the final report.

1. Consider the review of the eligible countries list specified in the Decision 466/2014/EU according to the country risk profile

The list of eligible regions and countries presented in the Annex III of the Decision includes some countries whose credit rating puts them well above the threshold specified in the Annex V of the Guarantee Agreement. For instance, as of May 2016, China has a credit rating of AA- (S&P), Aa3 (Moody's) and A+ (Fitch). South Korea has a credit rating of AA- (S&P and Fitch) and Aa2 (Moody's). Singapore has a credit rating of AAA (S&P), Aaa (Moody's) and AAA (Fitch). Chile – a credit rating of AA- (S&P), Aa3 (Moody's) and A+ (Fitch). While the EIB conducts no operations under the ELM in these countries, their presence on the eligible countries list may be questioned.

2. Better target the External Lending Mandate on the EU priorities in order to improve the response to external policy objectives

Alongside the policy objectives stated in the Decision, the current ELM period saw a rise of new external policy priorities across several dimensions: economic diplomacy, new climate change adaptation/mitigation requirements, political and economic support of neighbouring countries in distress (Ukraine), the indispensable response to the refugee crisis. These challenges call for more flexibility over the definition and organisation of the EIB ELM in order to optimise its potential impact.

- **In countries where there is a possibility to lend through ORF, this lending opportunity may remain the preferred one** As a general rule, the EIB solicits the EU Guarantee for operations in countries with the credit rating below the threshold BBB- (S&P and Fitch) and Baa3 (Moody's), i.e. for which the EIB cannot lend under the own-risk. However, some of the operations under the ELM were undertaken in countries with the risk profile exceeding this threshold. The operations are expected to generate the highest added value in countries with lower credit rating, as private and public stakeholders in these countries face relatively tougher credit conditions and relatively more limited access to finance. Thus, in order to concentrate the lending under the ELM on higher risk profiles, the operations under the ELM could be restricted to countries with the credit rating corresponding to the speculative grade (below BBB- (S&P and Fitch) and Baa3 (Moody's).

- **The extension of the EU guarantee should be granted in order to support the ELM objectives beyond the current Mandate (operations in new eligible countries, support of the EU response to the refugee crisis) to allow the EIB delivering on the EU priorities.** According to the Bank, the pipeline of current projects would bring the some regional envelope to full exhaustion from 2017, three years short of the 2020 deadline. This would call for the extension of the total envelope, considering the soundness of the mandate management and relevance of its objectives. However, the extension of the EU Guarantee would come at an opportunity cost, as a corresponding volume would have to be provisioned in the Guarantee Fund. Thus, considering the abovementioned aspects and the opportunity cost, the evaluation team suggest that the optional additional amount of EUR 3 billion should be reserved to the new EU priorities: the financing of the ELM operations in the new countries that could be added to the list of the eligible countries under the ELM (Iran, Cuba, Belarus, etc.), the support of new policy priorities put forward by the European Commission, European Council or European Parliament, such as the increased support to the refugee crisis response in Pre-Accession and Mediterranean countries. The latter may also require a qualitative change in the type of guarantee coverage provided, because the private sector is assigned a key role to promote economic resilience and create jobs benefiting refugees and host communities, but often presents high level of residual commercial risks. The clarification of the use of the Guarantee between EIB and the Commission would also enhance efficiency in the use of the instrument.

Better targeting of the ELM operations on the existing and the emerging EU priorities would allow higher and stronger responsiveness to the current and upcoming external policy challenges. It would also leave the EIB with higher leeway in pursuing the different policy objectives currently formulated in the Decision, appeared through the current ELM period or forthcoming in the foreseeable future. The adaptation of the ELM and the re-definition of the EU Guarantee – with the subsequent changes introduced in the legal basis – will trace the path for the future design of a new instrument.

3. In terms of communication, the ELM would have more impact if there were a consistent joint EC-EIB strategy communicating on all projects in a country taken together

The current communication framework for the ELM operations relies largely on the formal contractual clause, which requires informing the final beneficiary of the EU origin of funds provided. However, this formal requirement is insufficient to ensure the full-fledged visibility of the instrument and, more importantly, of the EU support. In addition, it fails to communicate in a consistent manner on the overall EU strategy in the country. Thus, in order to empower the EIB to communicate effectively to the local beneficiaries the extent and the impact of the EU support, this evaluation suggests putting in place a "cooperation package" between the EIB, the Commission, EEAS and other entities of the EU working in the country under consideration. This "cooperation package" could include, in particular, joint visits from Commission, EIB and EEAS to the countries, joint communication strategies between EU delegation and EIB local offices, joint press releases putting the accent on the EU involvement in the country. At the operational level, this "cooperation package" would involve aligning the calendar of relevant events in the country and systematize knowledge sharing between the Commission, the EIB and EEAS so that the representatives of each institution would perform conduct joint visits. The use of both the EU and the EIB logo could be envisaged for joint projects, including blending operations involving grants. The EU delegation role could also be given the prerogative of communicating on the EIB action in the country once a year in a specific report. The EIB could also ensure inclusion of specific communication and visibility plan in proposals for new initiatives involving EU grants and/or ELM coverage. This evolution would allow the EIB, the Commission and EEAS to align messages towards the beneficiary country, while ensuring the completeness and up-to-date character of the information about this country for both institutions. It would also maximize the impact of the ELM operations in terms of the visibility of the EU support to the main stakeholders and the public in the recipient countries.

4. EEAS should be better associated to the elaboration of the Regional Technical Operational Guidelines

The task of elaborating the RTOG is devolved to the Commission, which coordinates the preparation with EEAS and EIB. Given the leading role of the EEAS in the operational formulation of the EU external policy, it is recommended to enhance the role of the EEAS in elaborating the RTOG. This would enable clear definition of the EU external priorities in each of the regions.

5. Consider a consolidated reporting approach in order to get a more consistent and more comprehensive picture of the ELM and the use of the blending mechanisms

While current reporting procedures of the EIB under the ELM are globally sound, there is scope for rationalisation comprising 1) the reporting on projects, which involve blending of grants and ELM loans, and 2) the reporting and provision of data by the EIB to the Commission. While these reporting procedures have different legal basis, it is possible to adapt it from the current ELM period. In both of these items, streamlining the reporting procedures could improve the overall quality of the reporting, which would make it more consistent and comprehensive and therefore enable better decision-making at the policy level. The two points below present the two specific measures addressing this theme.

- **For projects where ELM loans are blended with grants or technical assistance, the EIB and the EC should open discussion on the opportunities for rationalising the processes for each, including as regards reporting**.

- **The Commission could define beforehand the type of information it needs from the EIB to prepare its own report to the Parliament: it would improve the quality of the reporting, while cutting costs and saving time.** Currently, the Bank reports to the Commission on its activities under the ELM. The Commission, in turn, prepares the report to the Parliament regarding the ELM. However, a significant share of information provided by the EIB to the Commission is subsequently unused in the report to the Parliament. The collection and preparation of this information imposes an important administrative burden on the Bank. Thus, if the Commission provided a better definition of the type of information it would need for the report to the Parliament, it would allow the EIB to focus on providing more specific and useful information. This would result in the significant reduction of the administrative burden, while providing a more consistent and comprehensive picture of the EIB activities under the ELM.

This streamlined reporting approach would enable better decision-making on the side of policy-makers. In turn, the ELM would be more efficient in its alignment with the EU external policies if it were made more flexible along several dimensions.

Appendices

Annex 1: List of persons interviewed

This table presents the list of persons interviewed at the different institutions: the European Commission, the EIB, the EEAS and the persons interviewed in the process of the local stakeholder consultation. The specific persons to be interviewed were identified with the assistance of the EIB and the European Commission:

Name	Institution	Role
Georg Weiers	SG/Econ	REM
Barbara Marchitto	SG/ECON	Sovereign and banking industry risk; financial sector operations.
Timo Valila	PJ/SQM/Impact	REM
Marcel Gounot	OPS/OSD	Reporting
Nina Kallio	OPS/OSD	Reporting
Gwenael Robert	FC/FRA	Reporting
Carl Gobbi	TMR	Reporting
Maximilien Abt	RM/CRD	Reporting
Georgiana Buturiu	RM/CRD	Reporting
Nancy Saich	PJ/SQM/ECSO	Climate issues/Climate reporting
Esther Badiola	PJ/SQM/ECSO	Climate issues/Climate Strategy
Martin Berg	OPS/NPST	Climate issues
Rasmus Lauridsen	PJ/SQM/ECSO	Climate issues
Lloyd Jones	PJ/SQM/Impact	Climate issues
David Gonzales Garcia	PJ – Ouazazate Project	Climate issues, REM
Thomas Van Gilst	PJ – Wadi Al Arab project	Reporting, REM
Eugene (Monty) Howard	PJ/Energy	Reporting, Climate issues, REM
Ramon Ynaraja	Loan officer, EIB	Laksam Akhaura double track Rail Project
Sunita Lukkhoo	Loan officer, EIB	SBI Loan for SMEs and Mid-Caps
Umberto Del Panta	Loan officer, EIB	Tajik - Kyrgyz Power Interconnection
Tereziya Babych	Loan officer, EIB	Tajik - Kyrgyz Power Interconnection
Maciej Czura	Loan officer, EIB	Armenia APEX Loan for SMEs
Marion Hoenicke	Loan officer, EIB	ACCESSBANK Azerbaijan Loan for SMEs
Georgia Koutsiana	Loan officer, EIB	Kutaisi Waste Water
Olesja Muratova	Loan officer, EIB	Ukraine Early Recovery Guarantee for Economic Development in Ukraine
Alexandre Varela	Loan officer, EIB	Sao Paulo Rolling Stock Brasil loan for SMEs & Mid-Caps
Tomas Tamosauskas	Loan officer, EIB	Private Sector Development and Economic Growth
Hervé Guénassia	Loan officer, EIB	OUARZAZATE III (Tower)
Gratianne Dascon	Loan officer, EIB	Europac Industria Packaging Plant in Tangier
Laurent Nicolai	Loan officer, EIB	Partenariat BEI-BTK-Réseau Entreprendre AMEN Bank-Prêts PME & ETI
Catherine Barberis	Loan officer, EIB	Wadi Al Arab Water System II Project
Wolfgang Spieles	Loan officer, EIB	Montenegro Water and Sanitation

		IDF Loan for SMEs & Priority Projects II
Massimo D'Eufemia	Loan officer, EIB	Ziraat Bank IPARD MBIL
Peter Zajc	Loan officer, EIB	South Africa Private Sector Facility
Nadia Taobane	Director Structuration, MASEN	OUARZAZATE III (Tower)
Gülsüm Duru	Ziraat Bank representative	Ziraat Bank IPARD MBIL
Boutheyna Bouhlel Hammami	Amen Bank	Direction des Relations Internationales Amen Bank
Benjamin Angel	DG ECFIN	ELM overall
Eero Saue	DG CLIMA	ELM overall
Johan Bendz	DG BUDGET	ELM overall
Philippe Taxis de Poët	DG GROW	ELM overall
Sarah Jurreit	DG ECFIN	ELM overall
Paulo Martins	DG NEAR	ELM overall
Pierre Deusy	EEAS	ELM overall
Francesca Raimondi	EEAS	ELM overall
Angelos Pangratis	EEAS	ELM overall
Joan-Carles.Gomez-Masquef	DG DEVCO	ELM overall
Torsten Ewerbeck	DG DEVCO	ELM overall
Field visit in Ukraine		
Artem Shevalev	Ministry of Finance of Ukraine, Deputy Minister	Ukraine Early Recovery
Roman Chuprynenko	Ministry of Regional Development of Ukraine, Deputy Minister	Ukraine Early Recovery
Walter Tretton	EU delegation in Ukraine, Head of Operation Section - Energy, Transport and Environment	Ukraine Early Recovery
Field visit in Morocco		
Eric Baulard	Agence Française de Développement, Director	OUARZAZATE III (Tower)
Mokhtar Chemaou	Agence Française de Développement, Project manager	OUARZAZATE III (Tower)
Mohmed Sahri	Moroccan Agency for Solar Energy (MASEN), Project manager and structuring	OUARZAZATE III (Tower)
Gerhard Krause	EU delegation in Morocco, Head of the economic reform support department	OUARZAZATE III (Tower)
Philip Mikos	EU delegation in Morocco, Head of cooperation	OUARZAZATE III (Tower)

Annex 2: List of documents consulted

- Decision no 466/2014/EU of the European parliament and of the Council of 16 April 2014
- External Lending Mandate 2014-2020, EIB 2015 annual report;
- Regional Technical Operational Guidelines for EIB financing operations under Decision 466/2014/EU
- External lending Mandate Climate Strategy;
- COUNCIL DECISION 2014/145/CFSP of 17 March 2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine
- EU Platform for Blending in External Cooperation (EUBEC) between EC, EIB and third parties (Decision No. 1080/2011/EU)[54];
- Several sector specific MoUs between IFIs for example: MoU between EIB and EBRD for agriculture and rural development (2014);
- MoU between EC, EIB and EBRD (2006) on cooperation in Eastern Europe and the Southern Caucasus in Russia and in Central Asia (replaced by the 2011 MoU);
- Accord in respect of Cooperation in Turkey 2009 (replaced by the 2011 MoU);Mutual reliance initiative (EIB-KfW-AFD);
- EU-EGYPT TASK FORCE Fact Sheet;
- Methodologies for the Assessment of Project GHG Emissions and Emission Variations, EIB, version 10.1;
- All project documents for the 20 case studies (pre-appraisal and appraisal document, internal reporting, contractual documents and monitoring documents).

[54] Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011D1080&from=EN.

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Annexe 4: Minutes of the workshop with NGOs – 10/05/2016

List of participants

Steering Group	PwC evaluation team
• DG ECFIN • DG ECFIN • DG NEAR • DG DEVCO • DG CLIMA • EIB • International Partnership for Human Right (IPHR) • European Centre for Development Policy Management (ECDPM) • European Political Strategy Centre (EPSC) • ActionAid • Actalliance • World Wide Fund (WWF) • Oxfam • Counter Balance • Eurodad • CANE	• Fabio D'Aversa • Iouri Marounov • Aurélien Cane

1. Introduction

- Short introduction by DG ECFIN;
- PwC presentation: update on the work progress, presentation of the main conclusions and recommendations.

2. Open discussion with NGOs

Key points of the discussion:

- SDGs: how the consistency with SDGs has been assessed? Question for the EIB: how the EIB wants to move forward in the context of post COP 21? To what extent the ELM is consistent with the approach initiated with the SDGs?
- Case studies: demand for information on the selection criteria of the case studies;
- Definition: clarification of the difference between public entities and sovereign entities;
- Development focus of the operations: fight against poverty should be added to the overall objectives of the operations;
- Communication / visibility: the problem of the visibility of the EIB should be stressed especially because it affects the way final beneficiaries can complain (through the EIB complain mechanisms);
- Need for higher transparency requirement on the financial intermediaries that channel funds to final beneficiaries;
- Impact of EIB project on taxation, the evaluation should have addressed the question of taxation the EIB should go beyond its tax policy / the question of the ownership of intermediaries -> need for disclosure of ownership;
- Publicity of the mid-term review report;
- information are disclosed on the basis of the REM;
- Transparency on the article 19 procedure, in particular projects rejected on the basis of the Article 19;

- To what extent exit strategy is considered by the EIB?
- Consideration for gender in ELM operation.