End-Term Review of the ACP Investment Facility

Final Report

March 2020

Study conducted by ADE
This report has been prepared by ADE.

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The views expressed are those of the consultants and do not represent the official views of the EU, ACP Secretariat or EIB.
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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACP</td>
<td>Africa, Caribbean and Pacific</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>AR</td>
<td>Annual Report</td>
</tr>
<tr>
<td>BEDEAC</td>
<td>Banque de Développement des États de l'Afrique</td>
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<tr>
<td>BP</td>
<td>Business plan</td>
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<tr>
<td>CA</td>
<td>Climate Action</td>
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<tr>
<td>CEA</td>
<td>Central and East Africa</td>
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<tr>
<td>Commission</td>
<td>European Commission</td>
</tr>
<tr>
<td>CR</td>
<td>Contributions Received</td>
</tr>
<tr>
<td>CSP</td>
<td>Country Strategy Paper</td>
</tr>
<tr>
<td>DEVCO</td>
<td>European Commission Directorate-General for International Cooperation and Development</td>
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<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
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<tr>
<td>E&amp;S</td>
<td>Environmental &amp; Social</td>
</tr>
<tr>
<td>ECFIN</td>
<td>European Commission Directorate-General for Economic and Financial Affairs</td>
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<tr>
<td>EDF</td>
<td>European Development Fund</td>
</tr>
<tr>
<td>EDFI</td>
<td>European Development Finance Institution</td>
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<tr>
<td>EEAS</td>
<td>European External Action Service</td>
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<td>EFP</td>
<td>European Financing Partner</td>
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<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>EQ</td>
<td>Evaluation Question</td>
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<tr>
<td>ERR</td>
<td>Economic Rate of Return</td>
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<tr>
<td>ESCR</td>
<td>Environmental &amp; Social Compliance Report</td>
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<tr>
<td>ESIA</td>
<td>Environmental and Social Impact Assessment</td>
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<tr>
<td>ESMP</td>
<td>Environmental and Social Management Plan</td>
</tr>
<tr>
<td>ESMS</td>
<td>Environmental and Social Management System</td>
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<tr>
<td>ESPS</td>
<td>Environmental and Social Principles and Standards</td>
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<tr>
<td>ESS</td>
<td>Environmental and Social Standards</td>
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<tr>
<td>ETR</td>
<td>End-Term Review</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FIRR</td>
<td>Financial Internal Rate of Return</td>
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<td>FS</td>
<td>Financial Sustainability</td>
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<td>FSR</td>
<td>Financial Sector Review</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>HR</td>
<td>Human resources</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
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<tr>
<td>IF</td>
<td>Investment Facility</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFE</td>
<td>Impact Financing Envelope</td>
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<td>IFI</td>
<td>International Financial Institution</td>
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<td>IL</td>
<td>Intervention Logic</td>
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<td>IRS</td>
<td>Interest Rate Subsidy</td>
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<tr>
<td>JC</td>
<td>Judgement Criterion</td>
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<tr>
<td>LDC</td>
<td>Least Developed Country</td>
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<td>LMIC</td>
<td>Lower-Middle Income Country</td>
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<tr>
<td>LOC</td>
<td>Line of Credit</td>
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<tr>
<td>MBIL</td>
<td>Multi-Beneficiary Intermediated Loan</td>
</tr>
<tr>
<td>MDB</td>
<td>Multilateral Development Bank</td>
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<tr>
<td>MRI</td>
<td>Mutual Reliance Initiative</td>
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<tr>
<td>MS</td>
<td>Member State</td>
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<td>MSME</td>
<td>Micro, Small and Medium Enterprise</td>
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<td>MTR</td>
<td>Mid-Term Review</td>
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<tr>
<td>NIP</td>
<td>National Indicative Programme</td>
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<tr>
<td>NPL</td>
<td>Non-Performing Loan</td>
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<tr>
<td>OCT</td>
<td>European Union Overseas Countries and Territories</td>
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<tr>
<td>OECD-DAC</td>
<td>Organisation for Economic Cooperation and Development - Development Assistance Committee</td>
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<tr>
<td>OG</td>
<td>Operating Guidelines</td>
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<tr>
<td>OR</td>
<td>Own Resources</td>
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<tr>
<td>PIDA</td>
<td>Programme for Infrastructure Development in Africa</td>
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<tr>
<td>PPP</td>
<td>Public Private Partnership</td>
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<tr>
<td>PSD</td>
<td>Private Sector Development</td>
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<tr>
<td>RCR</td>
<td>Reinvestment Cycle Ratio</td>
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<tr>
<td>REM</td>
<td>Results Measurement Framework (of EIB)</td>
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<tr>
<td>RG</td>
<td>Reference Group</td>
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<tr>
<td>RIP</td>
<td>Regional Indicative Programme</td>
</tr>
<tr>
<td>RMD</td>
<td>Risk Management directorate</td>
</tr>
<tr>
<td>RSP</td>
<td>Regional Strategy Paper</td>
</tr>
<tr>
<td>SAIO</td>
<td>Southern Africa and Indian Ocean</td>
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<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>TOC</td>
<td>Theory of Change</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
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<td>WBG</td>
<td>World Bank Group</td>
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Executive Summary

Objectives and scope of the Evaluation

This End-Term Review is an independent evaluation of the Investment Facility (IF) for Africa, Caribbean and Pacific (ACP) States. It is required by the 2000 Cotonou Agreement, which established the Investment Facility. The evaluation has two objectives: (i) an objective assessment of IF’s overall performance, its design and structure; and (ii) formulating recommendations for enhancing IF operations, particularly looking forward post-2020 after the end of the Cotonou Agreement. The evaluation’s scope is the IF and its operations in ACP countries, as well as the Impact Financing Envelope (IFE) launched in 2014. It covers 78 countries, of which 48 in Sub-Saharan Africa, 15 in the Caribbean and 15 in the Pacific, and all of the operations undertaken by IF and IFE. It examines operation of the IF since its creation in 2003 up to June 2018, with a specific focus on operations after 2010, which follows the period 2003-2009 covered during the Mid-Term Review.

Background

The management of the IF has been entrusted to the European Investment Bank (EIB), the European Union (EU) Bank, for the duration of the Cotonou Agreement i.e. until 2020. The IF supports commercially viable projects in productive sectors, with a particular focus on private sector development. A revolving fund, it is financed by EU Member States (MS) through the 9th, 10th and 11th European Development Funds (EDF). It provides a range of financing products: credit lines, equity (direct and through funds), loans (senior and subordinated) and guarantees. MSMEs and infrastructure are the key focus sectors. The IF endowment was €5,158m (€3,137m for investments, €1,221m for interest rate subsidies and technical assistance, and €500m for the Impact Financing Envelope). Between 2003 and 2017, a total amount of EUR 5.2bn was approved under the IF, mainly for private sector operations. The chart below summarises the evolution of the IF portfolio since 2010 and annual approvals. In addition, there were endowments of €48.5 mln for Overseas Countries and Territories (out of the scope of this study), i.e. €20m under 9th EDF and €28.5m under 10th EDF.

**Evolution of Disbursed IF portfolio per Financial Statements (€m)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total portfolio</th>
<th>Annual approvals</th>
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<tbody>
<tr>
<td>2010</td>
<td>1,039</td>
<td>309</td>
</tr>
<tr>
<td>2011</td>
<td>1,285</td>
<td>381</td>
</tr>
<tr>
<td>2012</td>
<td>1,479</td>
<td>561</td>
</tr>
<tr>
<td>2013</td>
<td>1,554</td>
<td>834</td>
</tr>
<tr>
<td>2014</td>
<td>1,735</td>
<td>537</td>
</tr>
<tr>
<td>2015</td>
<td>1,879</td>
<td>544</td>
</tr>
<tr>
<td>2016</td>
<td>2,246</td>
<td>794</td>
</tr>
<tr>
<td>2017</td>
<td>2,164</td>
<td>685</td>
</tr>
</tbody>
</table>

Source: EIB data and ADE analysis
Methodological approach

This study applied a strong methodological approach. It follows the principles of a theory-based evaluation, based on a theory of change and structured around evaluation questions. Information was collected and analysed at the following levels: (i) IF overall (including policies, governance, operating model, and plans), (ii) complete IF portfolio, (iii) case studies of 15 projects, and (iv) field visits to projects in four countries (Angola, Barbados, Belize and Cameroon). Data was collected through a variety of evaluation tools, including an extended documentary review at IF overall and project levels, global portfolio analysis, on-site visits, and interviews with a total of more than 180 people at EIB, European Commission, EU Delegations, EU Member States, EEAS, ACP Group, clients, governments and other stakeholders. The evaluation further builds upon ADE’s mid-term review (MTR) of IF and EIB own resources operations in ACP countries and the OCTs (2010), the European Court of Auditors’ Special Report on the Investment Facility (2015) and the Evaluation of EIB Intermediated Lending through the Investment Facility in ACP (2017).

Conclusions

The ACP Investment Facility has fulfilled its Cotonou mandate. Yet, it did not maximise its contribution in that regard.

A. Fulfilment of the Cotonou mandate

The IF contributed directly or indirectly to the Cotonou objectives of poverty reduction, integration into the world economy, and sustainable development. The IF strategy has also been adapted and amended overtime to reflect new EU priorities and ACP States’ needs, including developing the Impact Financing Envelope. Through credit lines, funds and agency lines it has supported MSMEs and mid-cap companies and increased their access to finance. In infrastructure it has focused on energy (especially renewables) but has also invested in transport, water and sanitation, and telecommunications projects.

The IF has been financially sustainable with satisfactory financial performance. EIB estimates that IF has made investments equivalent to 1.9 times the amount paid in by EU Member States.

However, development objectives have received less attention than financial sustainability, both of which were objectives under Cotonou. Risk management may have been over cautious, with a move since 2012 towards taking lower credit risk projects.

B. Results

Most IF projects examined reached satisfactorily expected results. Projects implemented with financial intermediaries have generally addressed the unavailability of long-term liquidities on local markets, which is an important barrier constraining access to finance for MSMEs in ACP countries. They have to a modest extent contributed to financial deepening. When provided, TA has enhanced the capabilities of financial intermediaries to provide tailored financial services to MSMEs.

IF projects have enhanced the provision of infrastructure in ACP countries. To varying degrees, they have contributed to enhancing energy supply (both increasing capacity and reducing dependence on imports of fossil fuels), transport infrastructure and telecoms.
The overall impact of other projects in mining, agribusiness, industry, mining and tourism has been modest due to the limited size of the portfolio at country level.

C. Additionality

**Financial additionality was broadly satisfactory**, although not used to its full potential. It is higher where IF provides equity, local currency loans, and guarantees.

**IF has done relatively little in low-income and countries in situation of fragility**, where its additionality is generally greater. 30% of IF signatures since 2003 have been in low-income countries (next to 54% in low-middle income, 11% in upper middle income and 5% in high income countries). Moreover, the portfolio is still concentrated in relatively few countries, where projects such as credit lines were less difficult to identify and process.

The **IF has made insufficient use of local currency credit lines**, that target on-lending to micro and small businesses that trade locally. Guarantees accounted for only 3% of net signatures, almost half of which was undertaken by the Impact Financing Envelope.

The Impact Financing Envelope shows clearer development additionality. It is taking higher risks than IF, as expected.

Technical assistance (TA) enhanced the capabilities of financial intermediaries to serve better their MSME clients. Combining TA with IF investment funding enhanced the capability and financial performance of financial intermediaries, especially microfinance institutions. Greater use could have been made of TA in more financial intermediary projects.

Interest rate subsidies are being used insufficiently in private sector projects. Although public sector projects made up 12% of the portfolio they accounted for 67% of the interest rate subsidies amounts actually used.

D. **IF operating model**

EIB’s **lean operating model for IF limited the proactive role it could play and appears too ‘lean’** to be appropriate for the optimal investment of IF, particularly in low income and countries in situation of fragility where it takes longer to process projects. IF field presence has increased since 2010, but it remains relatively limited. EIB manages IF mainly from its HQ in Luxembourg, with only a limited number of staff in its ACP regional offices. IF has and continues to be invested in a reactive or opportunistic manner with a reliance on development partners such as AfDB and IFC to initiate and structure projects that it can finance. The lean model tends to discourage the use of innovative financial instruments which take more EIB resources and longer to process. Instead the focus tends towards ‘plain vanilla’ projects in countries where IF already has operations.

**IF governance, particularly through the IF Committee, remained strong** and involves the active participation of EU member states.

**Coordination and collaboration with EU and development partners, and visibility, have improved significantly** both at strategic and at operational levels. This includes interactions with different Commission and EEAS services at headquarters, as well as contacts at an operational level on projects with EU delegations in the field. EIB has also engaged in several strategic partnerships with IFIs and DFIs. Nevertheless, awareness in projects at the beneficiary level, especially in financial intermediation projects, of the source of IF funding remains weak.
Tracking of development outcomes has improved since the introduction of EIB’s Result Measurement (ReM) system in 2012, which is generally well designed and based on sound development effectiveness principles. Challenges remain, nevertheless, such as on the quality of reporting data by clients, especially in the financial sector, and tracking of results over the longer term.

**Recommendations**

The recommendations derive from the conclusions and are forward looking. They are made on the basis of a continuation of the 2014-2020 institutional set-up, as no decision has been made yet on the institutional set-up for the upcoming 2021-2027 period.

**A. Fulfilment of the Cotonou mandate**

**IF should seek a better balance between development objectives and financial sustainability.** While maintaining the IF’s financial sustainability at a portfolio level in the longer run, greater development impact should be sought in individual projects and at the portfolio level. While the launch in 2014 of the Impact Financing Envelope complements the reach and development effectiveness of IF, it has limited resources. The main IF should therefore be prepared to take on a greater proportion of higher risk projects (but still not as risky as those that IFE finances), especially those with high expected development outcomes and impacts.

**B. Additionality**

**IF should have a stronger focus on low income and countries in situation of fragility.** A strategic review of the ACP countries should be conducted to identify in which countries, groups of countries and regions IF will have the maximum development additionality and where there are likely to be projects with the right balance of expected development outcomes/impacts and financial risk. IF should only invest in upper middle income countries (UMICs) in projects where the developmental justification is high, and IF additionality very strong.

**Credit lines should more carefully identify and target specific beneficiary groups.** To effect a more rapid disbursement investment funds, their proposed business models and strategies should be reviewed more thoroughly at appraisal to ensure that they are realistic in the context of the countries, regions and sectors where they propose to invest.

**IF should provide more local currency finance, in particular local currency loans and credit lines**

**IF should make greater use of innovative financing instruments, especially guarantees.** A particular focus should be instruments that are adapted to the context of low income / least developed countries. The risk management aspects of an increase in guarantees will need to be carefully considered and mitigated so that the financial sustainability of the IF is not compromised.

**IF should pursue greater involvement in the project it finances of local and regional development banks** in a systematic and proactive manner, wherever possible and appropriate. Such banks can bring local economic and market knowledge to IF projects, whereas EIB brings its expertise in matters such as environment and social issues, as well its due diligence skills; a strong complementarity.
The strategy of the Impact Investing Envelope should be reviewed and adapted to enhance further its development effectiveness. Geographically it needs to widen its footprint, in particular in the southern Africa and Indian Ocean region. More projects also need to be done in the Sahel and low-income countries in central and eastern Africa. A radical proposal for IFE, that may merit consideration, is for it to focus on just two product lines: guarantees (and other risk management products) and social impact funds where its effectiveness and additionality may be greater.

Use further technical assistance and interest rate subsidies. Technical assistance is essential for the majority of projects outside the EU to make implementation a success. The blending of TA resources with loan and equity instruments should be increased. The possible use of TA should be considered during the appraisal and project structuring of all IF projects, and in particular projects involving financial intermediaries (credit lines and funds). If blending resources allow, TA should be used for non-project related capacity building such as improving the investment climate in LICs and countries in situation of fragility, as well as for regional initiatives to promote intra-regional trade. Interest rate subsidies could be used in more projects, especially in LICs and regions/countries in situation of fragility. They should only be used in low income and lower-middle income countries where a project is not financially viable without IRS and the developmental rationale is high. In upper-middle income countries such subsidies should only be used where exceptional development outcomes are expected.

C. IF operating model

The operating model should be adapted to the strategic approach to be pursued by IF in the future. Two possible main scenarios emerge from our findings, which would require in-depth reviews:

A. An approach whereby it is assumed that the management fee can be revised to a level whereby IF can undertake many more projects which require considerably more time and effort on the part of EIB but which have higher expected development outcomes and impacts. The actual amount would be supported by an analysis that is based on clear development and business objectives, underpinned by precise targets and a detailed costing analysis. For this revised management fee, EIB should commit to a significant increase in the staffing and other resources that it allocates to IF projects, including, inter alia:

- opening more offices in ACP countries, with a particular focus on LICs and countries in situation of fragility where the need and additionality for IF is greatest, such as the Sahel and the DR Congo;
- a significant and sustained increase in IF’s catalytic effect by structuring and leading more transactions and being more proactive in seeking to develop projects with sponsors and promoters;
- processing more technically complex transactions, such as the greater use of risk sharing instruments;
- processing smaller LIC transactions, as well as projects in fragile states in fragile situation and smaller countries (such as island states) which generally take longer to appraise and structure due to the low level of financial development and higher economic risks;
o providing incentives for EIB staff working on IF projects to undertake more innovative projects and become more proactive in developing IF projects that will be more developmentally effective, such as the increased use of risk management products (e.g. partial risk guarantees and local currency lending);

o providing funds to EIBs own Operations Evaluation Unit (EV) to undertake more IF/IFE related studies.

B. A continuation of the current management fee arrangements whereby the resources available to EIB are limited so that what IF can and cannot reasonably be expected to achieve (by sector, country/region and financial instrument) are constrained. With such modest management fee, IF should seek for closer, more formal links with regional development banks such as perhaps the African Development Bank, Caribbean Development Bank and Pacific Islands Development Bank whereby these banks would identify projects for co-financing with IF.

Maintain visibility efforts and consult more explicitly the ACP Group. IF should maintain efforts for sustained interaction and coordination with European institutions and development partners, including with regard to proactive and professional communication activities on IF operations. It is recommended to further develop visibility especially at the level of the ultimate beneficiaries of IF funding, notably for credit lines. Moreover, consideration should be given to allowing the ACP Secretariat to have an observer position at IF Committee meetings. It is recognised that there may be on occasion certain issues that might require the recusal of such an observer to avoid potential conflicts of interest or where delicate political issues are to be discussed.

Monitoring and evaluation of development outcomes should be improved. Greater care and attention should be paid during appraisal to formulating ex-ante development outcome targets and indicators for projects which should be clearly specified in finance contracts and investment agreements and be both appropriate for the EIB’s Results Measurement system (ReM) but also relatively easy for clients to report on promptly. A particular focus should be reporting on credit lines by financial intermediaries. Consideration should be given to the EIB Operations Evaluation Division undertaking IF individual project evaluations and thematic ones on IF operations such as the MBIL evaluation.
EIB management response to the End-Term Review of the ACP Investment Facility

The EIB welcomes the overall conclusion that the Investment Facility (IF) has fulfilled the Cotonou mandate with good financial performance.

The EIB also welcomes the conclusion that the IF contributed directly and indirectly to the Cotonou objectives of poverty reduction, integration into the world economy and sustainable development.

The EIB takes note of the recommendations as to how the IF might increase its contribution for even greater development impact. Any implementation of such recommendations would require the approval by the EIB shareholders and the Investment Facility Committee (IFC) and a continuation of the mandate beyond 2020.

The European Investment Bank welcomes the End-Term Review (ETR) of the ACP Investment Facility (IF) conducted by Aide á la Decision Economique (ADE). The exercise evaluated a key instrument for the EIB to finance development initiatives focused on private sector development. The combination of different financing tools available under the IF (including the Impact Financing Envelope-IFE) offers a complementary, targeted and cost effective way to make a difference in a wide range of countries in the ACP regions.

The EIB is pleased that the work and evolution of the activity of the IF, in close cooperation with the EU Member States and the European Commission, which have provided direction to its activities over the last 16 years, has been recognized in this evaluation, in the core conclusion that the IF has fulfilled the mandate under the Cotonou Agreement.

The EIB notes that the ETR makes a series of useful recommendations that the evaluators consider might allow the IF to further increase its contribution, for even greater development impact. A number of the recommendations could support the EIB and the EU Member States (MS) in their efforts to enhance the impact of potential Investment Facility operations after 2020 and contribute to the United Nations’ Sustainable Development Goals (SDGs).

However, it is important to underline that some of the recommendations - notably regarding the use of more targeted credit lines, the business model of funds and the Result Measurement (ReM) Framework - do not entirely consider the work already
underway in this respect. Furthermore, as the priorities of the ACP region and the EU and international development policies have changed over the lifetime of the IF, the EIB’s role has followed this evolution. For example, the IF increased its activity in low-income countries as well as fragile states and enhanced the focus on higher risk projects with higher development impact through the Impact Financing Envelope (IFE). Here is an illustrative list of some IF-IFE projects signed in the last three years in low-income countries and fragile states:

1) East and Central Africa Optical Fiber Roll-Out (Uganda, Rwanda, Democratic Republic of Congo, Zambia and Kenya);
2) MBIRR Mobile Banking Services (Ethiopia);
3) Kabala II – Eau et Assainissement Bamako (Mali);
4) Off-grid solar acceleration (Ethiopia, Tanzania, Uganda, Nigeria and Kenya);

In weighing the success of the IF instrument, it is important to balance considerations of greater development impact with the objective enshrined in the Cotonou Agreement to achieve financial sustainability, which is at the heart of the IF model as a revolving fund. As highlighted in the ETR, each Euro provided by the EU Member States to the IF is now being used for the third time. This model has been continuously endorsed by the EU Member States since the IF’s inception. Likewise, Member States have continuously endorsed EIB’s policy of implementing a ‘duty of care’ towards its mandators, which requires EIB to administer IF resources as if they were EIB’s own. EIB’s standards, policies and procedures must therefore routinely be adhered to, barring any agreed exceptions (e.g. IFE).

The implementation of a number of the recommendations made in the ETR may have a negative impact on the financial sustainability of the IF in the longer-term by increasing the overall riskiness of operations along several dimensions. A reduced focus on financial sustainability would have far-reaching effects on EIB’s implementation of the IF mandate and indeed on EIB’s approach to mandates and the duty of care in general. The implementation of some recommendations would also require a significant increase in resources at EIB Headquarters and in EIB local offices across the ACP region. Any decision to implement these recommendations would thus require clear guidance and approval from the IFC, the EIB governing bodies as well as close coordination with the European Commission and the European External Action Service (EEAS).

EIB Management detailed response to each individual recommendation and on specific case studies are included at the end of the report.
1. Introduction

1.1 Objectives and scope of the Evaluation

This report presents the End-Term Review (ETR) of the African, Caribbean and Pacific Group of States (ACP) Investment Facility (IF) managed under a mandate by the European Investment Bank (EIB). This independent evaluation is required by the Cotonou Agreement. It has been contracted by the EIB to ADE, while it is steered jointly by the ACP Secretariat and the European Commission through a Mission Oversight Committee comprising both of them. The evaluation is further supported by a Reference Group comprising, in addition to the ACP Secretariat, the European Commission, and the EIB, also the ACP Private Sector Development (PSD) Regional Focal Points, representatives of the ACP countries, representatives of the EU Member States, and the European External Action Service (EEAS).

The ETR follows on and builds upon ADE’s mid-term review (MTR) of the Investment Facility and EIB own resources operations in ACP countries and the OCTs published in September 2010, as well as on the Evaluation of EIB Intermediated Lending through the Investment Facility in ACP, conducted by the EIB’s Operations Evaluation Division and published in July 2017.

The objectives of this evaluation can be summarised as follows:

- to provide an overall independent assessment of the ACP IF’s overall performance, its design and structure; and
- to draw out recommendations for enhancing IF operations and for any adjustment of the Investment Facility.

The evaluation’s scope covers the following dimensions:

<table>
<thead>
<tr>
<th>Institutional</th>
<th>IF and its operations in ACP countries, as well as the Impact Financing Envelope launched in 2014.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic</td>
<td>78 African, Caribbean and Pacific states comprising 48 countries in Sub-Saharan Africa, 15 in the Caribbean and 15 in the Pacific.</td>
</tr>
<tr>
<td>Thematic</td>
<td>All sectors covered by the IF in ACP countries, including the Impact Finance Envelope launched in 2014.</td>
</tr>
<tr>
<td>Temporal</td>
<td>Operation of the IF since its creation in 2003 up to June 2018. It includes the whole portfolio of projects with a specific focus on operations after 2010, which follows the period 2003-2009 covered during the MTR.</td>
</tr>
</tbody>
</table>

The temporal scope hence includes the First Finance Protocol covering the period 2003-2007 (European Development Fund (EDF) 9), the Second Financial Protocol covering the period 2008-2013 (EDF 10), the Bridging Facility (composed of un- and de-committed balances from previous EDFs) covering the period January 2014-February 2015 and the early years of the Third Financial Protocol covering the period March 2015-December 2020 (EDF 11).
1.2 Background

The Cotonou Agreement (2000) required the creation of an Investment Facility for the ACP Group of States, to be managed by the EIB, the EU Bank. The IF was established in 2003. It supports commercially viable projects in productive sectors, notably in order to promote private sector development in the ACPs. The IF is financed by EU Member States (MS) through the 9th, 10th and 11th EDF and covers operations for the period 2003 to 2020. A key feature and strategic objective of IF is that it should be a revolving fund: its income and repayments are used to finance its continuing operations in order to make it financially sustainable. It provides a range of financing products: direct and intermediated junior/subordinated/senior loans, equity/quasi-equity investments, guarantees as well as risk-sharing schemes (guarantees) and regional and thematic facilities. Financial intermediation targeted at MSMEs and infrastructure are the key sector focus.

The total endowment for IF operations was about €5 billion (€5,158m). This consisted of a total endowment for the IF for investments of €3,137m (unchanged since 2010); €1,221m for both interest rate subsidies (86%) and technical assistance (14%); and €500m for Impact Financing Envelope commitments by EU MS between 2014 and 2018. As well as managing IF, EIB provides loans in ACP countries and overseas countries and territories (OCTs) from its Own Resources envelope benefiting from a comprehensive EU MS guarantee, mainly to support vital infrastructure. Between 2003 and 2017, a total net amount of EUR 9.3bn has been signed by EIB in ACP countries and OCTs, out of which EUR 5.2bn under the IF, mainly for private sector operations.

The EIB’s activities in the ACP promote inclusive and sustainable private sector driven economic growth and development.

The chart below summarises the evolution of the IF portfolio since 2010. It can be seen that the IF portfolio may have plateaued. Also, the volume of annual approvals has varied considerably, peaking in 2013 at more than twice the 2010 level before dropping back.

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2 The EIB is the financing arm of the EU and supports global and EU development policies.

3 Cotonou 2000 - Annex II, article 3.1

4 In addition, for Overseas Countries and Territories (OCTs) there were endowments of €48.5m (€20m under 9th EDF and €28.5m under 10th EDF).

5 In addition, for OCTs €8.5m

6 Initially IFE endowment from EDF was €500m. In 2016 IFE was made revolving, so authorizing the total IFE portfolio to reach a maximum outstanding amount of EUR 800m. The financing of new operations up to EUR 300m will be carried out primarily by refloows under the IFE.
The portfolio analysis is set out in Chapter 3.

1.3 Key Events 2010-2017

Below are summarized the major changes in the way that the IF operated, reflecting evolutions in EU policies and priorities over time:

- 2012: creation of the Results Measurement framework (ReM).
- 2014: the 11th EDF created the Impact Financing Envelope (IFE), a EUR 500m envelope made available to engage in activities with a high developmental impact, while accepting a higher risk.
- 2015: EIB Climate Action Strategy adopted supporting the EU’s goals of low-carbon and climate-resilient growth by investing in climate mitigation and adaptation, while striking a balance between the need to control emissions and the need to promote development and poverty reduction.
- 2016: in response to the migration crisis the IF approves the ACP migration package to support EU objectives with respect to migration.
- 2017: creation of the Infrastructure Package of EUR 1.5 bn under a portfolio guarantee mechanism to EIB own resources portfolio secured by the IF portfolio.
- 2016: Gender Strategy.
- 2018: ACP specific Climate Strategy.

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7 As shown in IF balance sheets (i.e. net or impairment provisions)
8 Member State contributions are the amounts actually paid in the IF.
1.4 Structure of the report

This report is structured in three volumes:

Volume 1 provides the Main Report. It is organised around six chapters: (1) evaluation scope and process; (2) methodological approach; (3) Evolution of IF and IFE Portfolios, (4) responses to the evaluation questions (EQs); (5) conclusions; and (6) recommendations.

Volume 2 contains the 15 case studies examined through desk and field work.

Volume 3 provides the following five annexes: Terms of Reference (Annex 1); List of IF operations (Annex 2); Additional information for EQ 8 and EQ 9 (Annex 3a and 3b); List of people met (Annex 4); and Bibliography (Annex 5)
2. Methodology

This chapter presents the main features of the methodological approach to the evaluation, in particular (i) the evaluation process and overall approach; (ii) the data collection, analysis, and quality of evidence; and (iv) the challenges and limitations of this exercise.

2.1 Evaluation process and overall approach

The evaluation followed a process in three phases as described in Figure 3 below: (i) an inception phase dedicated to defining and fine-tuning the overall methodological framework for the evaluation, based on original and then revised Terms of Reference; (ii) a data collection phase dedicated to the gathering of data from different sources through desk and field work; and (iii) a synthesis phase during which the team has triangulated the information from different sources so as to provided answers to the evaluation questions and, on that basis, conclusions and recommendations. Figure 1 below also sets out the main activities, evaluation tools and deliverables per phase.

![Figure 2 – Evaluation process]

<table>
<thead>
<tr>
<th>Inception</th>
<th>Data Collection (Desk &amp; Field based)</th>
<th>Synthesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial ToR</td>
<td>Data collection</td>
<td>Country visits to</td>
</tr>
<tr>
<td>New ToR</td>
<td>Desk study on the IF overall</td>
<td>Cameroon, Angola,</td>
</tr>
<tr>
<td></td>
<td>Case studies for 15 projects</td>
<td>Barbados and Belize</td>
</tr>
<tr>
<td></td>
<td>Interviews in Brussels and Luxembourg</td>
<td></td>
</tr>
<tr>
<td>Deliverables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>•Overview of IF operations in ACP</td>
<td>•Debriefing Notes</td>
<td>•Answers to EQs</td>
</tr>
<tr>
<td>•Detailed methodology and work plan</td>
<td></td>
<td>•Conclusions and recommendations</td>
</tr>
<tr>
<td>•Interviews in Luxembourg and Brussels</td>
<td></td>
<td>•Additional interviews</td>
</tr>
<tr>
<td></td>
<td></td>
<td>•Final report</td>
</tr>
<tr>
<td>•Inception Report</td>
<td></td>
<td>•Presentations to stakeholders</td>
</tr>
</tbody>
</table>

Source: ADE
This ETR applied the principles of a theory-based evaluation. It is based on a theory of change (TOC) represented in the form of an intervention logic, shown in Figure 4 below. This describes diagrammatically the intended results chain of the IF starting on the left hand side with inputs, passing through outputs and outcomes to impacts on the right hand side that are the development goals and objectives for EIB operations in these countries. The intervention logic provided a starting and reference point throughout the evaluation, notably for the definition of the evaluation questions\(^9\). Contribution analysis was used to respond to the evaluation questions, notably on the extent to which and how the IF reached its main intended objectives. The team conducted an analysis at the level of the IF overall structure and portfolio and a selection of projects with a view to respond to these evaluation questions, and derive overall conclusions and recommendations on the IF.

**Figure 3 – IF Intervention Logic diagram**

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\(^9\) The EQs tie in with the five OECD-DAC evaluation criteria (relevance, efficiency, effectiveness, impact and sustainability) as well as specific ETR requirements set out in the ToR (notably coherence, EIB value-added, and coordination and complementarity with EU and EU MS).
2.2 Data collection, analysis, and quality of evidence

The ETR used a variety of evaluation tools to collect, triangulate and analyse information, as presented in figure 4 below.

Information was collected both at the level of the IF overall, at portfolio level and for a specific selection of 15 projects representing 30% of the portfolio in value. This was done through different data collection tools (each of them is further explained below):

- An overall analysis of the portfolio across a range of features (financial analysis, geographical distribution, financial instruments, etc.);
- Documentary analyses conducted at strategic and at project level;
- Interviews with >180 persons at headquarter level and at field level, targeting both IF-wide issues and in-depth case studies;
- In-depth case study of 15 sample projects, based on various data collection tools;
- On site-visits in four countries allowing to visit projects and meet a variety of stakeholders.

We provide hereafter more detail on the key levels of analysis and the data collection tools used for each of them.

Figure 4 – Mix of Evaluation Tools
2.2.1 Overall analysis of the IF

The team conducted an overall analysis of the IF and its evolution in terms of portfolio, guidelines, governance, management structure, M&E systems, coordination mechanisms, etc.

This was based on both documentary analysis and interviews (and on the portfolio analysis mentioned in 2.2.2).

The documentary analysis consisted in the study of documents such as the Cotonou and EDF Agreements, policy guidelines, operational guidelines, risk reports, previous evaluations (MBIL\textsuperscript{10}, the MTR\textsuperscript{11}, and others), IFC minutes, IFE documents, public sources, etc.

Interviews were conducted at Headquarters and in the field. Of the more than 180 persons interviewed, this concerned representatives of the EIB (75 staff members met in total), ACP secretariat and Ambassadors, European Commission, EEAS, EU MS / IF Committee, etc.

In the field this concerned ACP Governments, EIB and Commission staff, IF clients, customers of clients, financial intermediary beneficiaries, other development partners, and other stakeholders.

2.2.2 Portfolio analysis

An extended portfolio has been conducted on the IF and its evolution, primarily from 2010 (i.e. since the MTR). It examines a number of dimensions such as geographies, sectors, counterpart types; financial instruments; cancellations; public-private; blending; recycling; compliance limits; and risk profiles.

Portfolio analysis has also been conducted on the implementation of the Impact Financing Envelope (IFE) which started operations in 2014. It also provides an analysis of the key characteristics and trends in the IFE portfolio.

2.2.3 Selection of projects for in-depth study

A set of 15 projects was chosen as case studies in agreement with the RG. It represents 16\% by number of the 95 projects in the portfolio and 30\% by value.\textsuperscript{12} This set was judged to fairly reflect\textsuperscript{13} the portfolio taking account of the sector, geographical and financial

\textsuperscript{10} EIB, Evaluation of EIB Intermediated Lending through the Investment Facility in ACP, 2017
\textsuperscript{11} ADE, Mid-term evaluation of the Investment Facility and EIB own resources operations in ACP countries and the OCTs, 2010
\textsuperscript{12} It is not possible nor useful to present a comparison of the sample with the adjusted portfolio because of the general assumptions that were used to exclude SME and mid-cap targeted MBILs.
\textsuperscript{13} It does not aim at being a “representative sample” from a statistical point of view.
instrument characteristics of IF portfolio. It aims at being complementary to the EIB’s MBIL evaluation in 2017.  

The selection comprises:

- By sector: 5 lines of credit, 4 funds (2 focused on micro-finance, one a country fund and 1 under Impact financing Envelope), 4 infrastructure (2 in power, 1 in transport and 1 in telecommunications), 1 in mining and 1 in agribusiness.
- By region: 4 in Caribbean and Pacific, 4 in Southern Africa and Indian Ocean, 4 in Central and Eastern Africa, 2 in West Africa and Sahel and 1 Regional Africa.

These projects were studied using different tools:

- Documentary study on project documents that focused on relevance, effectiveness, efficiency, sustainability, financial and developmental additionality, etc.;
- Interviews on the projects with loan officers and other EIB staff at both HQ level and in countries visited; (see figure 3 above);
- Field visits to Cameroun, Angola, Barbados and Belize, during which on-site visits were conducted for projects with operations in these countries, as well as a series of interviews with direct project stakeholders (promoters, clients, etc.) and other parties (EU, national authorities, other development partners, etc.).

The project analysis was used as one sources of information to answer the evaluation questions. To provide consistency in assessing the sample of 15 projects, and subsequently in answering to the Evaluation Questions, the following rating scale was adopted:

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14 We have excluded MBILs of more than 10m€ targeting SMEs and mid-caps, subject to the 2017 evaluation conducted by EIB on Intermediated lending through the IF in ACPs. The MBILs that have been excluded from the adjusted portfolio from which the sample was selected account for 40% percent of the portfolio by value and 18% by number.

15 To provide useful findings it is important to review projects that are completed or well on their way to completion. Accordingly the selection includes 2 projects signed after 2013, and 6 before 2011. It also aims at reflecting different key parameters of this evaluation:
- **Financing**: the selection covers 15 projects amounting to €276.5 million (net signed amounts);
- **MBILs** (credit lines): the focus was on credit lines targeting micro (and also small) enterprises, and specific sectors/issues such as climate change (i.e. complementarity to the 2017 EIB Evaluation);
- **Size**: the selection covers a wide array of sizes, from large to small projects;
- **Regions/countries**: the selection includes projects taking place in most regions (East Africa, Central Africa, West Africa, Southern Africa, and the Caribbean) and regional projects, hence reflecting the portfolio distribution;
- **Sectors**: the selection covers the five sectors concentrating 98% of the net signatures, i.e. essentially: multi-sectors targeted through credit lines, industry, energy and financial services. It also covers sectors that received less attention in terms of overall financing such as transport, telecoms and agriculture;
- **Financial instrument**: the selection covers the various financial instruments deployed by IF: investment loans, multi BI loans and equity/quasi-equity;
- **Presence of TA and grants**: the selection comprises five operations which include TA components and three operations which includes grants;
- **Impact Financing Envelope**: the selection covers one project financed through the Impact Financing Envelope;
- **Period**: the selection covers projects spread on the whole evaluation period 2003-2018, with more emphasis on the period after 2010 (9 out of 15 were signed after 2010), as requested in the ToR. Priority has been given to projects for which disbursement has already occurred, so as to have information on outputs/outcomes achieved. Two of the 15 selected projects were signed under the current financial protocol (2015-2020); the others were signed prior to recent changes and developments.
Table 2 – Rating Scale for evaluation scores

<table>
<thead>
<tr>
<th>Rating</th>
<th>Explanation</th>
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</thead>
<tbody>
<tr>
<td>4</td>
<td>Highly satisfactory</td>
</tr>
<tr>
<td>3</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>2</td>
<td>Partly Satisfactory</td>
</tr>
<tr>
<td>1</td>
<td>Unsatisfactory</td>
</tr>
</tbody>
</table>

Source: ADE

2.2.4 Quality of evidence

These activities described above allowed the team to:
- Provide a broad understanding of the IF through study of the Facility overall, and a deep understanding through in-depth study of a selection of projects;
- Cover perspectives across the entire portfolio, from headquarters and field levels, different types of stakeholders, and from different countries and regions;
- Cover strategic, institutional and operational aspects.

With a view to build solid answers to the evaluation questions, the team has as much as possible used multiple sources to answer each evaluation question so as to strengthen the information basis and allow for a triangulation of information. Section 4 of this report shows for each question on what sources the answer is based.

As can be seen from the sources listed, for six EQs (1, 2, 3, 6, 8, and 9) there is a high degree of confidence that the evidence used provides a strong assurance for the findings, conclusions and recommendations.

For the other three EQs the evidence is judged to be of medium robustness:
- EQ4 Effectiveness Infrastructure. The answer is based on different sources, including interviews, site visits, documentary evidence and project analysis. But the project analysis was limited to four (out of the sample of 15). At the contrary of EQs 2 and 3 which could count on the EIB’s MBIL evaluation, no global evaluation on IF infrastructure projects was available.
- EQ 5 Effectiveness Direct Investments – is faced with a similar difficulty. With only two project reviews (this small number due to this been the smallest IF sub-portfolio in this category) even when supplemented an analysis of this portfolio and other sources including field visits and other data provided by EIB, the findings are of medium robustness and remain mostly limited to these projects.
- EQ7 Environment and Social Impact. Despite multiplying the information sources, information from the 15 project reviews was insufficient to provide conclusive evidence. In some projects, including micro-finance projects E&S impacts are difficult to articulate. In others, the monitoring information is incomplete.

While as far as possible quantitative data is used to make ratings, evaluator judgements were often required. In particular, assessing whether shortcomings are 'minor' (satisfactory) or 'significant' (partly satisfactory) is particularly difficult.
2.3 Challenges and limitations

Notable challenges and limitations of the exercise included:

- **Wide scope**, covering a total endowment of €5 billion for 78 countries over a 16 year period (2003-2018), and a variety of topics to be assessed in this evaluation.

- **Scope and availability of data on developmental results and impact**, which varied considerably at the project level, particularly for lines of credit. In common with the experience of other IFIs and bi-lateral institutions, the EIB's evaluation of MBILs revealed major information challenges. While the EIB's Results Measurement (REM) system established in 2012 is an important step in improving the capture and analysis of development effects, challenges remain (see EQ9).

- **Presence of EIB staff during field visits**: EIB staff accompanied the evaluators on the three field visits and insisted on being in attendance during all key meetings. As a result, ADE is unsure whether clients and stakeholders were able to speak frankly about issues such as their relationship with EIB17.

- **Confidentiality issues**: a particular feature of the ETR was the difficult access to what EIB considered as confidential documents. These included internal EIB project monitoring reports, financial agreements and legal contracts. Evaluators could only consult them at data rooms in the EIB offices in Brussels, London and Paris, and were not permitted to have copies of these documents. It therefore had to make requests to physically go or return to the data rooms each time project data needed to be checked. This was notably a challenge for the efficiency of the process, in terms of cost and time.

- **Institutional set-up**, as this evaluation was contracted by EIB and jointly managed by EU and ACP Secretariat. This led to substantial delays notably in the inception phase, including for revision of the ToR.

- **Budget that remained limited** given notably the huge scope and the complexity of this study.

- **Limited time frame** for undertaking the evaluation work itself. Indeed, there have been long periods where the evaluation was at a standstill for reasons that did not fall within the realm of the consultants responsibility, so that in the end the timeframe available to the evaluation itself remained limited (desk, field and synthesis work have been conducted over a 5-month period).

The evaluation approach aimed at overcoming these challenges as much as possible, notably by multiplying information sources and triangulation, and receiving additional time and resources.

It should further be noted that, in line with EIB rules, no name of projects appear in the main report (volume I) and some confidential data could not be disclosed. The annexes (volumes II and III) are also not to be published.

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17 On one occasion when the EIB staff member temporarily left a meeting, an IF client indicated that there were issues that it would like to raise with the evaluator.
3. IF and IFE Portfolio Analysis

This section analyses the evolution of the IF portfolio, primarily from 2010. It also reviews the implementation of the Impact Financing Envelope (IFE) which started operations in 2014. As well as providing an analysis of the key characteristics and trends in the two portfolios, this overview provides a context and data for the responses to the evaluation questions which are addressed in chapter 4.

3.1 Investment Facility

Box 1 – IF Portfolio Analysis Highlights

- Portfolio as shown by net signatures (after repayments, sales and cancellations) has plateaued since 2015.
- Increasing use of credit lines that in 2017 accounted for 38% of the portfolio, with the financial sector in total (including funds) making up more than 50%. EIB wishes to reduce the credit line share.
- IF’s reach in low income countries (LICs) has been modest with only 30% by value and number, compared with 54% by value in low middle-income countries.
- Central and east Africa region is the largest by share of the IF portfolio and population, 45% and 42% respectively. West Africa and the Sahel is underrepresented: 36% of the ACP population and 23% of the portfolio, while for Southern Africa and Indian Ocean the figures are 18% and 13% respectively. In contrast the Caribbean and Pacific region accounts for 18% of the portfolio but only 4% of the ACP population.
- By instrument, 47% of IF approved funding has been provided in the form of credit lines, followed by investment/project loans. Equity and quasi equity account for 17% with only 3% in guarantees (most recently through IFE).
- Agency agreements have declined sharply in importance.
- 16% of signed projects by value were cancelled primarily with credit lines and also funds.
- 88% by value of net signatures were with private sector clients and 12% with the public sector.
- Blending (IRS) has to date been used primarily for energy projects (54%) followed by other infrastructure (23%).

This section presents hereafter details on the IF portfolio in terms of (i) its evolution overall; (ii) geographies; (iii) sectors; (iv) counterpart types; (v) financial instruments; (vi) cancellations; (vii) public-private; (viii) blending; (ix) recycling; (x) compliance limits; and (xi) risk profile.
3.1.1 Portfolio Evolution

The two charts below show the annual volumes (left) and the growth of the IF Portfolio (based on net signatures, right).

**Figure 5 – IF Portfolio Evolution (2010-2017)**

Both approvals and signatures have varied considerably from year to year, while disbursements (which lag signatures and typically take several years for most projects) have been on a broadly upward trajectory. Approvals peaked in 2013 at €834m and fell by almost half in 2014. The net portfolio grew rapidly between 2013 and 2015 since when it has hardly changed.

The following chart illustrates the fluctuating disbursement rate in the portfolio that peaked in 2016 at 65.5%18.

**Figure 6 – Evolution of IF disbursments (2010-2017), in m€**

18 A key factor influencing the disbursement rate is the time lag between signature and disbursement, see Table 21.
3.1.2 Geographical

The IF Operating Guidelines 1.3.1 Geographical coverage mention that “The Bank will strive to be present in as many ACP economies as possible, ensuring a broad geographical diversification, including those with weaker economic standing, notably least developed countries.”

The chart below shows clearly the growing concentration of the portfolio in central and east Africa (CEA), which now accounts for 31% of the portfolio. Regional projects’ share of the portfolio has increased from 14% to 24%. In contrast, southern Africa and Indian Ocean (SAIO) has declined by almost half from 14% to 8%. Agency agreements19 have also declined in importance from 17% to 9%. The Caribbean and Pacific (CP) regions have maintained a broadly stable share as has west Africa which is down slightly.

Figure 7 – Evolution of IF portfolio per region (2010-2017)

To judge the appropriateness of the portfolio concentration it is useful to compare regional portfolio shares with the regional distribution of population which are set out in the next two charts.

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19 Agency Agreements were signed between 2004 and 2010 by the EIB with several EDFIs under mainly two facilities, European Financing Partners (EFP) and Interact Climate Change Facility (ICCF) – see also section 3.1.2. The EIB and EDFIs co-finance projects in the ACP countries, aiming at promoting sustainable development of the private sector, based on a mutual reliance principle.
The most striking finding is the disproportionately large share taken by the CP region that accounts for only 4% of ACP population but 18% of the portfolio. West Africa and the Sahel is underrepresented: 36% of the population and 23% of the portfolio, while for Southern Africa and Indian Ocean the figures are 18% and 13% respectively. CEA is slightly over concentrated at 45% of the portfolio while it has 42% of the population. The implication is that insufficient attention has been paid to the WAS region and to a lesser extent SAIO. This may be because it has been easier for IF to invest in CEA and CP regions. This analysis does not, however, take account of regional projects as no data was available to allocate their activities in the four regions. Also, IF has to invest where there are actual and potential opportunities. It is likely that in the Sahel, for example, identifying project opportunities may be more difficult.

IF reach in low income countries

As the charts below illustrate, the IF has mainly done projects in lower-middle income countries (LMIC), both in terms of amount and number of projects. About 54% of the amount signed net of cancellations have benefited to LMIC, while only about 30% was dedicated to low income countries (LICs) whereas LICs represent 57% of the total of ACP countries population. This proportion was the same for LICs regarding the number of projects, while it represented about 40% for LMICs. It is noted that regional projects which are not considered in Figures 4 and 5 have probably reached LICs but no data was available.

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20 See also EQ1 for findings on the geographical distribution of the IF portfolio.
Regarding countries in fragile situation listed as such by the World Bank Group\textsuperscript{21}, they have represented only 4% of the total of signed amounts over the period 2003-2017 (country specific projects) whereas they totalised 15% of ACP countries population. The percentage falls to 3% if we consider the whole IF portfolio, including regional projects. The number of country specific projects in these countries represented 12% of the total of country specific projects of the overall IF portfolio, i.e. 17 projects out of a total of 139. It should be noted that this analysis excludes regional projects that may reach LICs for which no data on sub-projects was available.

\textsuperscript{21} World Bank Group’s (WBG) \textit{Fragile, Conflict and Violence Group} Harmonized List of Fragile Situations (2018). EIB notes that based on the (much longer) OECD Fragile States list, the percentage increases to 40%. See also EQ1.
Country Concentration
There has been a modest decline in concentration of the IF portfolio as measured by proportion represented by top 10 (down from 35% to 30%) and top 5 (down 22% to 20%) counterparts indicating a widening of operations in more countries. Nevertheless, IF has continued to lend and invest in countries where it already has projects, such as Kenya and Nigeria.

3.1.3 Sector
There has been a strong trend to investing through credit lines, which have increased from 16% to 38% of the portfolio. The next largest sector is services that declined slightly, as has the third most important sector energy. Agency lines declined from 17% of the portfolio to 6% while transport and other infrastructure overtook industry as a result. An over concentration of the IF portfolio in credit lines was recognised in the 2016-2018 BP: ‘Efforts towards a more diversified portfolio will be sustained: (i) on the sector side, by consolidating the share of the financial sector operations in the IF portfolio, notably credit lines while offering innovative products with a strong value-added and financing more direct operations, through corporate lending and Project Finance transactions, increasing interventions in agriculture / food security…’

Figure 11 – IF net signature portfolio evolution by sector (2010-2017)
An over concentration of the IF portfolio in credit lines was recognised in the 2016-2018 BP: ‘Efforts towards a more diversified portfolio will be sustained: (i) on the sector side, by consolidating the share of the financial sector operations in the IF portfolio, notably credit lines while offering innovative products with a strong value-added and financing more direct operations, through corporate lending and Project Finance transactions, increasing interventions in agriculture / food security…’.

Further sector analysis is set out in EQ2 (financial), EQ4 (infrastructure) and EQ5 (direct investments) that put into context the selection of the 15 projects for review.

### 3.1.4 Counterparty Type

The chart below is complimentary to the sector analysis. It also shows the growing concentration of transactions through banks and financial institutions (of which about 80% is through credit lines) so that as a group 51% of the portfolio was with this counterparty type. Private equity/venture capital funds, sovereign parties and project finance vehicles each account for between 11% and 13% of the portfolio. As already noted, the share of agency lines has dropped by almost two thirds to under 7%. Transactions with corporates remained small with a share of between 3% and 6%.

**Figure 12 – IF portfolio per counterpart**

![IF portfolio per counterpart chart](source: ADE based on EIB data)
3.1.5 Financial Instrument

The choice of financial instrument provides an indication on how innovative IF has been and its willingness to take on higher levels of risk. As shown in the charts below, by value, almost half (and one third by number) of the aggregate net signatures\(^{22}\) was through credit lines with banks and financial institutions (MBILs). The next largest category was investment loans at 30% by value (28% by number). Equity and quasi equity (EQE) was 17% by value and 34% by number, reflecting the smaller average EQE investment. Guarantees accounted for only 3% of net signatures, almost half of which was undertaken by the IFE. Framework loans accounted for 3% by value and 1% by number, due to the relatively large transaction sizes. MBILs tend to be of relatively higher credit quality while EQE and guarantees carry much higher levels of risk. Investment loans fall between. In summary the 20% of EQE and guarantees indicates an appropriate approach to investment by EIB in its management of IF given the higher risk that these products have.

![Figure 13 – IF portfolio per instrument](image)

3.1.6 Cancelled Projects

In total, 16% of the €6.23 bn (€1.02 bn) of signatures were either partly or 100% cancelled. The charts provide an analysis of the sources of cancellation by counterparty type. Overall about one project in six is completely cancelled, while a further one in 12 is affected by a partial cancellation. A complete cancellation means the loss of anticipated development outcomes and significant amounts of EIB time and effort having been for nothing. By financial instrument 55% of the amount of guarantees was cancelled implying difficulties in their implementation. 22% by value of the amount of credit lines (MBILs) was cancelled. A major reason for MBIL cancellations is that financial intermediaries cannot find potential allocations that meet the agreed eligibility criteria. In the sample of 15 projects reviewed there was evidence of this taking place, most notably in a credit line in the CP region.

\(^{22}\) Total IF signatures €6.23 bn less cancellations of €1.02 bn = net signatures €5.21 bn.
3.1.7 Public Private

While IF is overwhelmingly focused on the private sector there is still a non-negligible proportion with the public sector: 12% of the €5.2 bn net signatures and 7.5% by number of projects. In contrast the EIB own resources portfolio is predominantly public sector.

3.1.8 Blending and IF subsidies (IRS and TA)

A key element feature of the IF is the significant amount of funding for grants, 86% of which is for interest rate subsidies with 14% for technical assistance. The table below shows how such funding was committed to IF. Although the public sector only accounts for 12% of the net signatures, to date it has been allocated 67% of the IRS (35% by number) followed by infrastructure (23%) and credit lines (17%). Grants are not included in the calculation of IF financial sustainability as a revolving fund.
Although the public sector only accounts for 12% of the net signatures, to date it has been allocated 67% of the IRS. The charts below show the sectoral distribution of IRS. Energy at 54% of the amount allocated is by far the largest sector with 54% of the €126m of IRS drawn down (35% by number) followed by infrastructure (23%) and credit lines (17%). It should be noted that drawdowns occur over the life of a loan so that even though drawdowns amount to only 10% of the available amount the actual commitment is considerably larger given the long tenor of loans.

### Figure 16 – IRS sector distribution

<table>
<thead>
<tr>
<th>Sector</th>
<th>9th EDF</th>
<th>10th EDF</th>
<th>11th EDF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>23%</td>
<td>23%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Industry</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: ADE, based on EIB data

3.1.9 Recycling

Since 2012\(^{23}\) the reinvestment cycle ratio (RCR) has grown from 1.53 times to 2.04 times. This demonstrates that an increasing share of new loans and equities is financed by maturing ones. The RCR is a good indicator of IF becoming less dependent on EU MS contributions.

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\(^{23}\) The CRRs for ACP countries include ‘Re-Investment Cycle on loans and equities’ sections showing how many times the MS Contributions have been reinvested in loans and equities. This ratio was not included in CRRs before 2012.
Although there are no forecasts on how RCR is expected to evolve in the coming years, a combination of the recent plateauing of the disbursed portfolio and further contributions from EU Member States make it likely that the RCR will not continue to rise. Nevertheless, the ratio of 2.04 times currently is satisfactory and is indicative of good financial, credit and risk management of IF by EIB having contributed to overall acceptable portfolio performance in the form of good loan repayments and a positive return on equity investments.

At the overall leverage level for IF, EIB estimates that since it was established in 2003 the IF has made investments equivalent to 1.9 times the amount paid in by MS. Moreover, total net IF investments of €5.2bn have been made in projects costing €24bn, a ratio of 4.7 times. To assert, however, that for every €1 of IF funding an additional €3.70 is mobilised, is not appropriate since in most projects IF is not the principal financing institution.

3.1.10 IF Compliance Limits

Of note is that there is a limit of 40% for local currency loans. In mid-2018 such loans accounted for 20% of the portfolio. The other notable limit is for equity at 27% of the portfolio, while the actual proportion of the portfolio was 22% of signatures in mid-2018.

3.1.11 Risk Profile of Annual Project Approvals

Based on confidential data that cannot be disclosed, there has been since 2010 a clear trend towards new projects being of higher credit quality. After 2014 this move to lower risk

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24 MS contributions received by the end of 2017 totalled €2.5bn compared with IF and IFE commitments of 3.9bn, i.e. €1.4bn of additional contributions could be paid into IF and IFE.

25 EIB presentation June 2018.

26 Due to the confidential nature of this information as determined by EIB only a brief analysis can be shown here.

27 Increased from 20% to 40% in 2015. Excludes IFE.

28 As requested by EIB.

29 While the credit quality at entry has strengthened, in contrast there has been in recent years an increase in the value of projects on the watch list - this flags those projects that could in the future have difficulties servicing IF loans. It should
projects may, at least in part, be explained by the availability of the IFE for high risk projects. The implication is that IF has become much more cautious since 2010 and may have rejected projects with high potential development impacts but also high financial risk profiles.

3.2 IFE Portfolio

Since it was only started in 2014, the IFE portfolio comprises a much smaller number of projects than the main IF one, nevertheless there are some clear differences in the characteristics of the two portfolios. The IFE portfolio comprises four categories of investment: (i) social impact funds (early stage, high risk venture capital funds), (ii) loans to financial intermediaries (credit lines), (iii) risk sharing facilitating instruments (guarantees) and (iv) direct financing (both debt and equity products to companies).

Based on confidential information that can only be summarised, more than half (53%) of the signed portfolio is in low income countries (significantly higher than for IF), with one third in low middle income countries. There is a much higher proportion (39%) in regional projects than in the IF portfolio. Central and East Africa (28%) followed by West Africa (22%) and Caribbean and Pacific (11%) were the regions where the rest of the portfolio was located. It is notable that there were no IFE projects in the Southern Africa and Indian Ocean region.

A key challenge for IFE is finding an appropriate balance between high potential development outcomes and impacts and high potential losses. Accordingly only 9% of the IFE €500m endowment has been allocated for guarantees that are expected to incur the highest loss rates due to the much higher risks being taken (i.e. claims are expected to be much higher than the guarantee fees charged). This allocation has been almost fully utilised. More than one third of IFE may be allocated to lower risk credit lines (although these credit lines are higher risk than those undertaken by IF), under 30% to social impact funds and almost a quarter to direct investments. Overall, in mid-2018 about 35% of the IFE endowment had been allocated, indicating considerable headroom for further IFE investments, other than for guarantees.
4. Findings per Evaluation Question

This chapter presents the answers to the nine Evaluation Questions (EQs).

Table 4 – Overview of the Evaluation Questions

| EQ 1 Relevance and Coherence | To what extent were IF operations: (i) focused on the EU development policies and priorities as well as those of the countries /regions in which they were undertaken, and (ii) complementary to, and coordinated, with EU and MS development policies and those for development partners? |
| EQ 2 Access to Finance | Have IF operations contributed to greater access to finance (A2F) for MSMEs and other enterprises in ACPs? |
| EQ 3 Financial Intermediary | Have IF operations strengthened banks and other financial intermediaries (FIs) and enhanced financial deepening\(^{31}\) so that financial sectors better serve private sector needs? |
| EQ 4 Infrastructure | Have IF operations increased/strengthened the provision of infrastructure – power, water, transport, telecoms and social (healthcare and education)? |
| EQ 5 Direct Loans | Have IF loans strengthened enterprises and the productive sector in general (natural resources, industry, agriculture etc)? |
| EQ 6 Additionality | Was EIB additional, both in helping projects and enterprises mobilise long-term local and foreign loan resources and investment and providing non-financial additionality? |
| EQ 7 Environmental and Social Impact | Did IF investments generate positive environmental and impact? Also, has the EIB implemented EU climate change mitigation policies in its IF operations? |
| EQ 8 IF Financial Sustainability | How financially sustainable has the IF portfolio been in recycling/reinvesting project realisations/repayments, and establishing a viable business model that strikes an appropriate balance between higher potential developmental objectives and higher project financial risks/lower potential returns? |
| EQ 9 Efficiency | Did EIB use its human, financial, administrative and other resources to deliver IF operations in an efficient and timely manner and at reasonable cost? |

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\(^{31}\) Financial deepening refers to the increased provision of financial services with a wider choice of services geared to all levels of society.
4.1 EQ 1 – Relevance and Coherence

To what extent were IF operations:
- focused on the EU development policies and priorities as well as those of the countries/regions in which they were undertaken? and
- complementary to, and coordinated, with EU and MS development policies and those for development partners?

This evaluation question assesses the relevance and the coherence of IF operations with regard to EU and ACP countries development policies. It also assesses the matters of the cross-cutting issues, the involvement of national/regional ACP banks, and visibility.

**EQ1 on Relevance and Coherence – Summary Response**

The IF governance system as well as the set of EIB guidelines contributed to coherence and complementarities with, respectively, EU and EU Member States development policies and operations in ACP countries. The IF strategy has been adapted and amended over time to reflect changing EU priorities and ACP States’ needs, including: developing the IFE, launching the ACP migration package, the ACP infrastructure package, and climate change. However, IF operations in low-income countries and countries in situation of fragility have been limited overall.

IF operations studied in-depth were in line with the national and regional EU development policies and were relevant to support ACP countries development strategies. Nevertheless, the relevance of a few operations (most notably an agri-business project in a middle income African country and a telecommunications project) can be questioned given the context of the countries and the nature of the projects.

Complementarity of IF operations with EU and EU Member States strategies and operations in ACP countries is ensured through consultations i) between EIB and other development partners during the appraisal stage, and at both strategic (e.g. during the preparation of EU country or regional strategies) and operational (EIB – EU delegations briefing and debriefing meetings during appraisal missions) levels. No projects where both IF and EU (or EU Member States) operations were involved were identified or assessed during the field visits.

Although at generally a modest level, cross-cutting issues (incl. environment, climate change, social impact, gender, youth) were generally taken into consideration in IF operations, being through the purpose of the projects itself (e.g. line of credit targeting climate actions), through the targeted end-beneficiaries (e.g. funds dedicated to green and

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32 Also the governance of the IF Committee is such that each and every project requires an opinion from the EU before going ahead.

33 Note – The evaluators have different views than EIB on this agri-business project and on the relevance of this telecommunications project.
tier 2 and tier 3 microfinance institutions in Africa), or through social programmes related to infrastructure projects. Of the projects studied in-depth only the IFE fund reviewed had a specific focus on women or on youth. This may be because these projects were approved prior to the 2016 EIB Group Strategy on Gender Equality and Women’s Economic Empowerment.

National and/or regional ACP commercial and/or development banks have been involved in different types of IF projects, especially in infrastructure. IFIs were also often involved. Working alongside commercial sources of finance and other development institutions is essential in larger projects and where sponsors have insufficient resources.

The visibility of the EU\textsuperscript{34} has improved since the IF’s Mid-Term Review (2010). As a result of increased interaction between EIB and EU and other stakeholders, the profile of EIB and IF has increased so that there is greater awareness of their activities and what financial and non-financial products they can offer. The IF Committee plays an important role at HQ level in keeping the EU and EU Member States informed of IF operations. As noted, in the MBIL Evaluation and also the report of the European Court of Auditors, more, however, could have been done by EIB regarding visibility, particularly at the level of IF projects, especially for the beneficiaries of credit lines.

The analysis for EQ 1 Relevance is based upon:

\begin{itemize}
  \item[a)] A review of the IF policy documents (most importantly), plans, operating reports, IF Committee meeting minutes, EU country-level evaluations, and other appropriate documents supplemented by meetings with EIB staff and management.
  \item[b)] Meetings with EIB staff and management involved in IF operations and support.
  \item[c)] Meetings and telephone calls with a wide range of stakeholders including the European Commission, EU member states, EU delegations, EEAS, ACP Secretariat, clients, and other IFIs and development partners.
  \item[d)] A synthesis of the Relevance findings for the 15 sample projects. For each JC a rating has been attributed to each project.
  \item[e)] Field visits to four ACP countries where meetings with IF clients ultimate beneficiaries (for financial intermediaries), EU delegations, ACP governments and other stakeholders.
\end{itemize}

The table below summarises the ratings for the sample projects. Analysis is detailed thereafter.

\textsuperscript{34} It is noted that IF funding is provided by member states but that EIB is often perceived in the field as the EU development bank.
Table 5 – Relevance and coherence analysis: project ratings

<table>
<thead>
<tr>
<th>Average Score per JC</th>
<th>Partly Satisfactory (Score 2)</th>
<th>Satisfactory (Score 3)</th>
<th>Highly Satisfactory (Score 4)</th>
<th># projects scored for this EQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5</td>
<td>1</td>
<td>6</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>3.7</td>
<td>2</td>
<td>4</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>3.5</td>
<td>2</td>
<td>4</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>3.4</td>
<td>2</td>
<td>5</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>3.3</td>
<td>2</td>
<td>5</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>3.5</td>
<td>1</td>
<td>6</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>3.2</td>
<td>1</td>
<td>10</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

No projects rated with Score 1 (Unsatisfactory) for these judgement criteria.
Source: ADE

JC 1.1 EIB policies and guidelines to ensure that operations financed are in line with (i) development needs and strategies of ACP, (ii) market failures and (iii) EU development policies

IF operations are implemented according to specific guidelines, which are in line with the overall strategic framework for the IF defined by the Cotonou Agreement, the EU Development Policy and the EIB ACP strategy. Reference to overall development needs and strategies of ACP countries is explicit in IF operation guidelines.

The Cotonou Agreement stresses the need to establish a development strategy for each ACP country and to foster closer collaboration among donors and other co-financers to enhance the effectiveness of aid. In this regard, the IF operational guidelines mention that each operation financed on IF resources shall be coherent with the relevant EU country or regional support strategy. The non-EU equity risk guidelines also explicitly refer to development needs of ACP countries, as it mentions that “While the Overall Score may become “Unsatisfactory” during an investment’s life (i.e., post signature), the Bank shall not pursue direct equity investments which are assigned this rating at appraisal. Exceptions may include operations pursued for developmental or other considerations”.

As required in the operating guidelines, coherence with development policies and relevance to development needs have been ensured at appraisal stage for the projects examined.

- In about three quarter of the cases examined (11 of 15 projects), alignment with EU as well as ACP countries development policies and strategies was rated as highly satisfactory. The following two cases provide an illustration of this:
  - Regarding the gas fired power plant in Central Africa, the operation was in line with the EU – country National Indicative Program (NIP). Indeed, in line with the objectives

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identified in the NIP, EIB action in the country was articulated around 3 axes, including:
« Le financement des infrastructures de base contribuant à l'amélioration des conditions de vie de la population et facilitant les initiatives entrepreneuriales : les secteurs de l'eau potable, de l'énergie et des transports ont été identifiés en priorité. Lorsque cela sera possible, le partenariat public/privé sera, le cas échéant, encouragé. »

- The investment approach and objectives of the Africa wide microfinance fund were in line with the EU regional development strategies. Indeed, the 2008-2013 EU’s RSP and RIP for West Africa consides as a main axis of the strategy the support to the private sector via the facilitation of access to credit through the existing banking system or the creation of new banks dedicated to SMEs.
- In the remaining quarter of the cases examined (4 of 15), alignment with EU and ACP countries development policies and strategies was considered to be “satisfactory”36. This was the case for two of the four infrastructure projects (in wind power and a toll road), and one direct loan (an agri-business in a middle income African country) and one fund. The 2 infrastructure projects supported EU policies (e.g. on climate change in the case of the wind power), however, neither road infrastructure, nor wind power were identified as priorities in the EU strategy paper for the countries involved.

The IF strategy has been adapted and amended to reflect changing EU priorities and ACP States’ needs, including: developing the IFE37, launching the ACP migration package38, the ACP infrastructure package39 and climate change40. Key stakeholders interviewed recognised these as steps in the right direction.

**JC 1.2 and 1.3 Operations’ prioritisation and selection criteria41**

Most IF operations examined took into account beneficiary countries views and their development needs:

In more than half (9/15) of the projects examined, the development logic of the project as detailed in the appraisal report was assessed as being “highly satisfactory”, notably because there was a reference in the appraisal documents to the potential high development impact of the project for the beneficiary country or region (and the path to reach this impact) in line with the identified development needs. This was found in the 5 lines of credit studied, and 3 of the 4 funds in the sample42.

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36 “Criterion substantially met, with only minor shortcomings”
37 Note to Management Committee - Investment Facility Impact Financing Envelope Note to Management Committee
38 Note to Management Committee - The EIB response to migration in the ACP regions 1 July 2016
39 Note to IF Committee - EIB Infrastructure Package for ACP/OCT - Amendment of IF Operational Guidelines 20th July 2018
40 Such as the strengthened focus on climate change in 2017 IF Operating Guidelines
41 This section covers JC 1.2 Operations prioritisation with a view to addressing most pressing development needs, and taking stakeholders’ views into account; and JC 1.3 EIB project selection criteria to identify projects with higher development outcomes/impacts
42 For the Africa wide microfinance fund, for example, the appraisal reports mentioned that, through its operations and the focus on tier 2 MFIs and smaller businesses active throughout the agricultural value chain, the fund was expected to have a high development impact. Indeed, the fund’s focus on developing access to financial services for rural clients and improving the agricultural value chain was expected to make significant change in the economic and social lives of micro-entrepreneurs. In the case of the climate action line of credit, it was an innovative transaction that was highly relevant to the development needs of countries in the region that because of their location and geographic/economic
In about a quarter (4/15) of sample projects, a “satisfactory” rating was given. This was in particular the case for 2 infrastructure projects (the gas fired power plant and the transport project). To illustrate with the case of the power plant, it was expected to have an indirect impact on the MDGs through the provision of reliable electricity supply, for the benefit of the country’s economic development, including its private sector. No details on the development logic of the operation was however provided.

In a few cases, although the alignment to EU policies could be confirmed, relevance could be questioned. This was in particular the case for 2 projects rated “partly satisfactory”: (i) an agri-business in a middle income African country that involved the relocation of an existing plant and (ii) an internet telecoms project where the trickle down impacts on rural/poorer segments of the society were limited.

IF operations in LICs and countries in situation of fragility have been limited. According to the IF operational guidelines, “The Bank will strive to be present in as many ACP economies as possible, ensuring a broad geographical diversification, including those with weaker economic standing, notably least developed countries (…) Particular attention shall also be given to investments in least developed countries, as well as in countries committed to undertake economic reforms, to adjust in a post conflict or post natural disaster situation, and/or to improve their governance”. From the detailed portfolio analysis (presented in chapter 3 above) it appears that IF’s reach in low income countries (LICs) has been modest with only 30% by value and number compared with 54% by value in low middle-income countries. The bulk of EIB operations have been implemented in countries (especially Dominican Republic, Kenya, Nigeria and Uganda) where bankable projects are more numerous and easier to identify, as illustrated notably with the case of the IFE fund reviewed in the box below. The top 5 countries in the IF portfolio, accounting for nearly one third of the signed portfolio has hardly changed over the period of the review. The EIB’s 2016-2018 ACP business plan (BP) provides tacit evidence that more could be done in LICs: “Efforts towards a more diversified portfolio will be sustained: …as well as (ii) geographically, by seeking investment opportunities in a broader number of countries, notably the least developed while taking into account governance aspects, the compliance with the rule of law and the existence of an adequate business.” Stakeholders met generally recognise the IF’s lack of focus on LICs. Several underline hereby the difficulty of finding a balance at portfolio level between risk and financial sustainability.

characteristics are especially vulnerable to climate change. It was the first regional project focused on climate action and the effects of climate change.

43 Of the 40 “least developed countries” ACP States listed in Annex VI to the Cotonou Agreement, 26 are classified as low income countries by the World Bank, 11 as low middle income countries and 3 as upper middle income countries (E.g. Guinea and 2 Pacific islands). In addition three countries which are classified by the World Bank as LICs (Senegal, South Sudan and Zimbabwe) are not in the list of ACP LDCs. Moreover, 20 of those 40 countries are classified as fragile situations by the World Bank Group in its FY 2019 Harmonized List of Fragile Situations. The OECD also has its own list of Fragile States, which is much longer than that of the WBG as it is based on the definition that “a fragile region or state has weak capacities to carry out basic governance functions, and lacks the ability to develop mutually constructive relations with society” (https://nsdsguidelines.paris21.org/node/291). Portfolio analysis has been conducted primarily on the basis of the WB lists of economies and of fragile situations, as these are well established and widely used.

44 In Africa Kenya, Nigeria and Uganda feature prominently in the portfolios of other IFIs and European development institutions.
Box 2 – Impact Financing Envelope - Fund

While this fund has a regional focus it has invested primarily in Kenya, which is a highly competitive venture capital / private equity market. Nairobi is a hub for East African SME development. Many donors also operate regional offices out of Nairobi and both the government and the donor community broadly supports SME development – to the extent that it may be the case of money chasing projects. This investment very likely would have been eligible for the IF with or without the IFE window.

JC 1.4 Complementarity/coordination with EU and EU MS operations; and JC 1.5 with other development partners

The EIB collaborated with EU and EU Member States both at strategic and at operational levels, as recommended by the Mid-Term Review (2010). According to the IF operational guidelines, “The EIB shall inform the Commission on the projects it administers and shall request the opinion of the Commission, at the appraisal stage of a project, including for an interest rate subsidy, on its conformity with the relevant EU policies and in particular with the country or regional cooperation strategy concerned”. The following is to be noted in this respect:

- The IF has a specific governance system which notably allows key strategic documents as well as project proposals to be submitted directly to EU MS, which form part of the IF Committee (see EQ9 for details on its structure and objectives). The role of the IF Committee is inter alia to assess and approve new initiatives and changes in strategy such as the ACP migration package adopted in 2016. The IF Committee also ensures coherence and alignment of EIB operations with EU and MS external policies (e.g. European Consensus on Development, EU Global Strategy, EU-Africa Alliance), and the international agenda (Sustainable Development Goals, Financing for Development and Community of Practice). It also aims at favouring possible complementarities between IF and MS operations. However, some EU MS mention that their views are requested at a relatively late stage, when project instruction is well advanced. Some interviewees note nevertheless that EIB consults earlier in the process the EU delegations, which may consult in turn member states’ representatives present in the countries (including through the Joint Programming process).

- EIB and EU (DEVCO, ECFIN and EEAS) staff members highlight increased consultation on projects among their services at headquarters level. EIB notes that it works both “at (i) a strategic level (in particular through informal FAC/DEV/ Council meetings, regular EU Development DGs meetings hosted by the Commission, regular meetings of Commission-EIB Directors to discuss strategic priorities) and (ii) an operational level (regional and bilateral country programming meetings, quarterly reporting on pipeline, systematic information on projects).”

- There is greater contact and coordination between EIB and the EU delegations. This takes two forms: (i) there are now eight EIB offices in ACP countries, with EIB field representatives and desk officers based in EU delegations; and (ii) following a

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45 Recommendation 7: “Develop a coordination framework to bring mutual leverage and convergence to the contribution of the EIB’s and Commission’s support for the development objectives agreed in the policy dialogue with the partners.”; Recommendation 8: “Strengthen coordination with other IFIs and DFIs at strategic level and for specific operations with a view to maximising the potential contribution to the countries’ development needs, potential synergies, and alignment with the Paris Declaration.”

46 With the exception of the EIB office in Sydney, Australia.
recommendation in the MTR, EIB officers when visiting an ACP state normally visit EU delegations to discuss the projects they are visiting. The field visits to Angola, Barbados and Cameroon, as well as interviews with EU delegations and EIB staff for other countries, and some EU country-level evaluations, confirm that cooperation has improved and was good between EU delegations and EIB staff, in particular where there is an EIB staff member based in the delegation (as a representative or desk officer). In Barbados, for example, the EIB desk officer attends the regular meetings on regional development programmes which are managed at this delegation. Interviews also indicate that there are joint visibility effort in the countries between the EU and EIB on the projects, for instance through press conferences, joint high-level missions, sites visits covered by the media, etc.

- All the projects studied have been rated “satisfactory” (74%, 11/15) or “highly satisfactory” (27%, 4/15) for this criterion. Regarding the projects rated “satisfactory”, the evaluators were told that when doing appraisal missions, EIB always meet the EU delegation (briefing and debriefing meetings). However, no specific consultation between EU and EIB, nor EIB and EU Member States have been reported in the appraisal documents. Nevertheless, they were aligned overall with EU country or regional strategies, and EU delegations interviewed confirm having been consulted.

- EIB notes that it informs the European Parliament regularly of its activity in ACP countries, as it participated on a voluntary basis in the annual EDF discharge procedure.

With regards to coordination with the ACP countries, EIB notes that there are regular exchanges of views with the ACP Group at various levels in Brussels (Committee of Ambassadors, ACP Secretariat) as well as at country level, and that it provides systematic reporting on IF (and OR) results to the ACP Working Party of the Council and the EDF Committee on a bi-yearly basis. The ACP Secretariat and ambassadors regret however expressly that they are not invited to participate to IF Committee meetings, not even as observers. They refer for instance to the ownership principle from the 2010 Paris Declaration and, as a matter of comparison, to the national/regional authorising officers for the national/regional indicative programmes under the EDF. Interviews point to different views on this request among IF Committee members, some recognising it would be useful and in line with ownership principles, others on the contrary insisting on the importance for an investment facility to keep discussions focused on assessment of bankability of individual projects according to IF criteria (vs. more political considerations) and to keep the possibility of separate discussion fora between lenders (EU MS) and borrowers (represented through the ACP Group).

The IF operational guidelines also refer to complementarity to other development partners, including other financial institutions, “(…) in order to maximize synergies, cooperation and efficiency thus minimising possible duplication of costs and unnecessary overlap”.

- With regard to ETR sample projects, the complementarity and collaboration with other development partners was satisfactory or highly satisfactory in almost all cases examined (14/15), with even a highly satisfactory score in half of the cases examined (8/15). This applies for instance to 3 of the 4 funds studied. In the microfinance fund, for instance, several development partners were involved (e.g. KfW and Norfund, through the Nordic Microfinance Initiative). Although there is no indication on the extent to which this operation was complementary/coordinated with other operations
in which these development partners were involved, the consultations conducted between EIB and these partners during the appraisal stage contributed to identify possible complementarities. An example of project with a “satisfactory” rating is provided in the box below.

**Box 3 – A SME focused bank in Central Africa**

EIB (through the IF) was the only IFI to provide a credit line to a SME focused bank in Central Africa; the only institution in the country specialized in meso finance. Despite the identified needs in terms of access to financial resources or capacity building, there is no indication that complementarity with other development partners has been envisaged (e.g. regarding loans or eventually technical assistance dedicated to financial institutions). The field mission revealed however that there were limited opportunities for such complementarities. In early 2015, the local bank approached EIB to request a 4th credit line. The appraisal mission conducted in March 2015 concluded that the credit risk was too high, given the uncertainty around the succession of the CEO, and that EIB would adopt a wait-and-see attitude before committing other funding. By October 2018, the client bank was still actively seeking a strategic investor to support the new management team in place in implementing a new growth strategy.

- **At the level of the IF overall, EIB has established some strong development partnerships**, inter alia the following covering ACP countries:
  1. **European Financing Partners (EFP)**, a joint venture between the EIB and several European Development Finance Institution (EDFIs), established in 2003 as a co-financing vehicle for private sector projects. As of June 2018, EFP had approved EUR 476m in 33 projects.
  2. **Interact Climate Change Facility (ICCF)** created in 2011 by the EIB, and several EDFIs for climate change mitigation projects. Total funds available to ICCF amount to €350m, of which €50m is from IF.
  3. **Mutual Reliance Initiative (MRI)** between the EIB, AFD and KfW, launched in 2013 with a view to “enhancing Aid Effectiveness in the spirit of the Paris Declaration / Accra Agenda and the European Code of Conduct, calling for increased complementarity and better coordinated action between donors and/or financiers”.
  4. **Boost Africa**, established in 2016 with the African Development Bank to “launch globally competitive companies from Africa seeks to harness the continent’s entrepreneurial potential, and create opportunity on the ground”.
  5. **SME Guarantee Facility**, launched in 2016 (USD 100m) in the framework of Horizon 2020, in which IF/IFE participate in the IFC arranged Global SME Finance Facility.
  6. **EU External Investment Plan (EIP)** (2017): EIB is an eligible counterpart and

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47 See Annex 3
48 As of June 2018, EFP had approved EUR 476m in 33 projects.
49 ICCF endowment €350m, of which €50m is from IF.
a key partner for the European Fund for Sustainable Development Guarantee. The focus is boosting investment in higher risk and more fragile countries in Africa and the European Neighbourhood countries.

**JC 1.6 Cross-cutting issues, involvement of ACP banks, and visibility**

**a) Cross Cutting Issues**

A cornerstone of the EIB's work is helping to ensure strong protections for people and for the environment in investment projects. The IF guidelines mention notably that “results achieved must be economically, socially and environmentally sustainable and fully integrate climate change considerations in the ACP country or region concerned”. They further specify that “for all projects, an environmental and social appraisal must be carried out to define the environmental and social impacts of the project, its associated facilities and areas of influence”. They also mention that “The impacts of projects on greenhouse gas emissions and climate resilience, climate risk and potential for carbon market will be assessed by the EIB and reported”. The EIB has a complete set of processes and guidelines to ensure a full compliance of its operations with international standards and EU commitments and policies (environmental and social standards, procurements, transparency, etc.). These standards have to be complied with for projects to receive EIB support. Compliance with E&S guidelines and standards is analysed under EQ7.

The analysis on the 15 sample projects found that:

- **All the projects examined have taken into account one or more cross-cutting issues.** Some projects had social programmes related to the project e.g. the mining project in Southern Africa and the gas fired generation, project
- **Only one project, an SME focused fund, focused specifically on women** or on youth. There is no target set in terms of women and youth employment in most sample projects. This may be because these projects were approved prior to the 2016 EIB Group Strategy on Gender Equality and Women’s Economic Empowerment. Nevertheless, in particular through microfinance related projects, the IF has supported women entrepreneurs, most notably at the MSME level (cf. EQ2).
- The financial intermediaries had to ensure that the projects to be financed were compliant with environmental standards that satisfy EIB’s requirements. EIB’s requirements are provided to the financial intermediaries at the appraisal stage.

**b) Involvement of ACP banks**

ACP national/regional development banks were involved in IF operations. IF operational guidelines state that “special emphasis will be put on the development of the local financial sector, making it an effective channel for the financing and development of small business, and on domestic ACP capital markets, with the view to fostering their capacity to mobilise domestic savings”. Analysis of sample projects shows that national or regional banks (commercial or development banks) have been involved in half of the projects (7/15). This was observed in the different types of projects:

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52 The EIB Group “Strategy on Gender Equality and Women’s Economic Empowerment” has been introduced only in December 2016.

53 Based on portfolio data from EIB.
- Two lines of credit outside Africa involved national and regional development banks.
- IF co-invested with an IFI in a new MSME bank in West Africa.
- An IFI and a regional development bank were involved with IF in the mining project.
- The wind power project was jointly funded with an IFI and a regional development bank.
- A regional development bank co-invested with IF in an Africa wide microfinance fund.
- In the second power project IFI co-financed alongside other IFIs. The participation of national/local private banks has been facilitated by the IFIs.
- In the other 8 projects there was no participation of either IFIs or regional development banks.

c) IF Visibility

The visibility of the IF has improved since the IF’s Mid-Term Review (2010), thanks notably to improved contacts and coordination at field level between EU delegations and visiting EIB staff.

The Cotonou Agreement does not specify any visibility requirement. There is no specific agreement neither about the visibility of ACP Group’s partners in the context of the IF. The only reference to visibility in the IF operational guidelines is the following: “(…) When the TA contracting authority, role has been delegated to the Promoter, the TA Cooperation agreement should clearly define the role and responsibility of the EIB and the Promoter respectively, organisational arrangements, reporting and audit requirements and visibility requirements”.

Since the IF’s Mid-Term Review (2010) there has been significant progress in improving the visibility of EIB operations in ACP countries among stakeholders (European Commission, EU delegations, local authorities, local private sector, potential promoters, etc.) This owes notably to the increased contacts with key stakeholders (see above). The EIB further indicates that there are now meetings and action plans with EIB and DG DEVCO Communications departments and with EEAS’ Strategic Communications Division.

**EIB visibility among credit line end beneficiaries remains weak.** Both the 2017 MBIL Evaluation and a 2015 report by the European Court of Auditors found that the ultimate beneficiaries were unaware that their loans were being funded by the EIB through the IF, despite a standard clause in finance contracts that require intermediaries to notify beneficiaries of IF support. This was also confirmed by interviewees during the field visits of the present evaluation with clients in Angola, the Caribbean and Cameroon. EIB notes nevertheless that progress has been made so far.

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54 The IF MTR in 2010 found that there was a lack of visibility of IF/OR operations and of EIB: ‘(…) It is interesting to note that it appeared from interviews with stakeholders in the countries visited that the EIB visibility was generally considered to be low. Indeed, in several cases stakeholders (including from the European Commission) explained that they were not well aware of the EIB activities and instruments and that contact with other agencies or IFIs was more frequent.’ (MTR, 2010).

55 “However, the clause included in sub-loan templates is very generic and usually does not specifically mention the EIB or any link that might exist between the loan and the EIB.” (EIB, MBIL Evaluation, 2017).

56 “Special Report - The ACP Investment Facility: does it provide added value?”, European Court of Auditors 2015
4.2 EQ 2 – Access to finance

Have IF operations contributed to greater access to finance (A2F) for MSMEs and other enterprises in ACPs?

According to Article 21.5 of the Cotonou Agreement, "support for investment and private sector development shall integrate actions and initiatives at macro, meso and micro economic levels (…)". The IF guidelines specify that IF shall mainly focus on the micro economic level, with an effort to be made to improve the access of SMEs to risk sharing instruments and to term finance. To this end, as detailed in the IF operational guidelines, “special emphasis will be put on the development of the local financial sector, making it an effective channel for the financing and development of small business (…)”. This evaluation question assesses the effectiveness and sustainability of IF operations in this area.

**EQ2 on Access to finance – Summary Response**

The IF, with operations implemented through intermediaries, in particular local financial institutions and investment / venture capital funds in the ACPs, has contributed to increasing access to finance for micro, small and medium enterprises. Indeed, the provision of long-term liquidity by IF to these intermediaries helped to reduce one of their barriers for financing MSMEs. Operations in local currencies were more appropriate for on-lending to MSMEs, which are mostly domestically-oriented. Findings from the present End-Term Review are consistent with those from the EIB’s 2017 Multi-Beneficiary Intermediated Loan (MBIL) evaluation, in particular that (i) while MBILs (i.e. credit lines) can be used to target specific sectors or cross cutting objectives, very little evidence was found of such targeting having occurred – 94% by value of MBILs were general in nature, while 6% were environment and climate change focused; (ii) MBILs were found to be mainly driven by demand and not by IF strategic objectives; and (iii) by value IF intermediated loans are concentrated in a few countries, most notably Nigeria and Kenya.

The IF operations studied in-depth targeted financial intermediaries that were already dedicated to the MSME segment. There were therefore no dramatic changes in their strategies or in their operations towards this segment. IF operations have contributed to increase the volume of intermediaries’ transactions with MSMEs. Furthermore, when available, TA has contributed to strengthening the capabilities of the financial intermediaries in the provision of financial services to MSMEs. It has also contributed to improve the performance of the targeted enterprises.

The analysis for EQ 2 is based upon:

- A review of the 2017 MBIL evaluation as it pertains to access to finance. Given that the MBIL evaluation was able to analyse credit lines in greater detail than was possible for the ETR, it is appropriate to use the portfolio analysis, other findings and conclusions that were set out in the MBIL report.

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57 The definition of micro and SMEs used for the analysis took account of EU and local definitions.

58 EIB, Evaluation of EIB Intermediated Lending through the Investment Facility in ACP, 2017
Review of IF business plans, operating policies and guidelines, operating and financial reports.

Meetings with EIB staff and management involved in financial sector projects; meetings at headquarters level with EU and ACP stakeholders.

Case studies on the 9 selected projects operating through financial intermediaries (among the total sample of 15 projects): five lines of credit (LoCs) and four funds. For each JC a rating has been given to the projects (see table below. Underlying analysis is detailed under the JCs thereafter. It is noteworthy that the ETR sample of 9 financial intermediary projects compares with 11 credit lines reviewed as part of the MBIL evaluation.

Field visits to three financial intermediaries and meetings with ultimate beneficiaries and other stakeholders.

General findings

The MBIL findings summarised below correlate strongly with the overall IF portfolio analysis and the outcomes from the nine IF projects with financial intermediaries.

Over the period 2010-2015, the EIB was the second largest provider of credit lines for SMEs and MidCaps in the ACP region.

In most ACP countries, limited access to finance is one of the major stumbling blocks to the development of SMEs. Nevertheless, local currency liquidity is only one of many barriers constraining access to finance and the development of local financial markets.

Although MBILs can be used to target specific sectors or cross cutting objectives, very little evidence was found of such targeting having occurred. 94% signed MBILs had ‘no transversal objectives’, while 6% were environment and climate change focused. By contrast, the AfDB and IFC are particularly active in sector-dedicated credit lines, particularly for agribusinesses, and AFD applies subsidised credit lines in favour of renewable energy and energy efficiency markets.

MBILs were found to be mainly driven by demand and not by IF strategic objectives.

By value, “…the majority of the funding volumes were approved for financing a small number of large projects, which were primarily owned by MidCaps”. This was especially the case in Nigeria where credit lines finance projects which are well beyond the “missing middle”. Although operations supporting MidCaps are de facto approved by the IF Committee, these types of operations do not fall within the IF operational objectives as they are currently defined; “supporting small or medium sized initiatives [and] broadening and deepening the local financial markets”.

While MBILs can be instrumental in catalysing changes in the intermediaries’ lending approaches (e.g. by encouraging them to extend more long term loans to SMEs), in practice, simply providing more financial resources was found to be insufficient to induce any change in intermediaries’ behaviour and the allocation system did not enable

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59 The 5 LoCs were selected to be complementary with the 2017 MBIL Evaluation. In particular, 4 of them focused mainly on micro and small enterprises (meso finance), while the fifth was dedicated to climate action projects.

60 The climate action line of credit reviewed for the ETR is the largest transaction.

61 MBIL Report page 18. See also figure 11.

62 IF Operational Guidelines (2008 and 2015). In the MBIL Report: “R2.1: The EIB should request the IF Committee to clarify its understanding of small and medium “initiatives” with a view to confirming the extent to which it wishes to support larger enterprises and/or projects through its intermediated lending.”
monitoring whether funding for the target segment (SMEs and/or MidCaps) had increased.

- By value IF intermediated loans are concentrated in a few countries, most notably Nigeria and Kenya which together accounted for 46% of the total MBIL signatures, while the top seven countries accounted for 84%. In terms of disbursements, the top four countries received 85% of all disbursements.

- In hard currency (dollar and euro) credit lines financial intermediaries on-lend to their strongest clients, who are able to bear such risk. In Nigeria, for example and the subject of an in-depth country review in the MBIL evaluation, a financial intermediary on-lent in hard currency to clients doing business exclusively in local currency.

**JC 2.1 Reaching MSMEs in need of access to finance support**

The table below provides the ratings for EQ2 and its judgment criteria, for relevant sample projects.

**Table 6 – Access to finance analysis: project ratings**

<table>
<thead>
<tr>
<th>Average Score per JC</th>
<th>Partly Satisfactory (Score 2)</th>
<th>Satisfactory (Score 3)</th>
<th>Highly Satisfactory (Score 4)</th>
<th>Not Applicable (NA)</th>
<th># projects scored for this EQ</th>
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<tbody>
<tr>
<td>3</td>
<td>2</td>
<td>5</td>
<td>6</td>
<td>9</td>
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<td>2</td>
<td>11</td>
<td>4</td>
<td>4</td>
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</tbody>
</table>

No projects rated with Score 1 (Unsatisfactory) for these judgement criteria
Source: ADE

In most of the cases analysed, IF operations reached MSMEs in need of access to finance by providing long-term liquidity initially not available to local financial intermediaries. IF operations in local currencies were more appropriate for MSMEs which were mostly domestically-oriented. 63 It should be noted that the climate action line of credit was not MSME focused.

- The Africa wide microfinance fund 64 performed better than the rest of the sample in terms of reaching MSMEs (“highly satisfactory” rating). As detailed in the case study, i) the fund has reached a significant number of microfinance intermediaries (124 investments have been made with 78 investees in 25 countries), ii) the investee MFIs increased the number of borrowers, including rural and women borrowers, iii) the

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63 This finding is consistent with the 2017 EIB MBILs evaluation: “MBILs can increase access to finance for small and medium enterprises and initiatives by providing long-term, local currency liquidity that financial intermediaries would otherwise not be able to access. This reduces the currency and tenor mismatches for financial intermediaries and enables them to provide long-term loans to SMEs and MidCaps that meet their financing needs”.

64 The Africa wide microfinance fund distinguishes itself from “conventional” funds operating in Africa by focusing its operations on rural areas, in the form of loans, guarantees and capital investments in MFIs, but also in organizations of producers which are excluded from traditional banking systems and whose key business is the export market (specifically via their affiliation to the fair trade and/or organic network).
number of MFIs branches, and therefore outreach, as well as agriculture loans, increased between 2015 and 2017. Furthermore, 71% of the portfolio is in local currencies.

- For 5 of the 9 projects analysed, MSMEs in need of access to finance have been reached, but shortcomings were identified (‘satisfactory rating’):
  - Resource availability: At the bank in Central Africa the average loan size is €166,000. The portfolio includes SMEs that might have been financed by commercial banks instead of through the bank supported by IF. More importantly, despite having a good reputation in the SME sector, the Central Africa bank has failed to identify local financing sources that were sufficiently advantageous so that it does not have to rely on IFI funding which takes time and effort to arrange. It has not created a viable business model and is therefore growing more slowly than it could given the potential demand for micro and small loans.
  - Beneficiaries’ profile and environment: a fund supporting micro finance in East Africa has a mixed record with the five MFIs that it has supported, since only two of them work with very low income groups.
  - Currency risk: in the case of the MSME bank in West Africa, as well as being a founding shareholder and providing TA, IF provided a USD credit line that was on-lent in USD to its customers. By the end of 2017 the portfolio was half in USD and half in local currency. However, there was in 2017 a rapid increase in non-performing loans (NPLs) in the USD portfolio as traders who had taken USD loans from defaulted due to a 36% depreciation in the local currency). As a result, the MSME bank has stopped USD loans unless customers are hedged and is now focusing on local currency loans. Despite the USD NPLs, the bank’s strong capital base means that it can absorb loan write-offs, although profitability has been affected. As the premier MSME bank in the country where it operates medium-term outlook remains good.

Based on the limited data available in monitoring reports (e.g. one fund made investments that supported over 6,000 jobs; support to the Central Africa bank contributed to about 500 new jobs), it could not be confirmed that the IF contributed to create or safeguard jobs in the MSMEs supported through credit lines and investments in funds. The focus of data collection for credit lines is at the allocation stage when a financial intermediary submits a potential allocation to EIB for approval. Ex post information on the performance of credit line allocations or investments by funds is more limited.

**JC 2.2 Lending by financial intermediaries to MSMEs and mid-caps targeted by global loans and lines of credit**

Eight of the nine IF operations examined under this EQ targeted financial intermediaries that were already dedicated to the MSME segment. There were therefore no dramatic changes in their strategies or in their operations towards this segment. Nevertheless, IF operations contributed to increase the volume of their operations with MSMEs. Furthermore, when available, the TA helped strengthen the

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65 Excludes the Climate Action Line of Credit
66 This finding echoes the 2017 EIB MBLs evaluation finding “(...) in practice, the mere provision of financial resources was found to be insufficient to induce any change in the intermediaries’ behaviour.”
capabilities of the financial intermediaries in the provision of financial services to MSMEs.

On average, the lines of credit operations of the sample have performed better than the funds, with an average rating of 3 (i.e. the criteria have been substantially met, with only minor shortcomings) versus 2.5 for the funds. For instance:

- The TA package was essential to the successful establishment of a new MSME bank in West Africa in 2008. At end of 2017, the Bank had over USD 40 million of assets and nearly 500 employees, serving more than 150,000 customers.
- The IF operation provided the necessary financial resources to support growth of the SME focused bank in Central Africa. No TA was provided. Despite a diversification and expansion strategy, the bank remains a modest player at country level.
- A regional multi-bank facility was exclusively dedicated to MSMEs. It has provided long term resources for MSMEs, which were scarce on the financial market in the 3 beneficiary countries (Palau, Samoa and Federate States of Micronesia).
- A microfinance bank in the Caribbean has benefitted from TA for institutional strengthening through notably the development of new products and the improvement of lending procedures. The institution has registered an expansion of its lending operations, although modest, between 2012 and 2017.

JC 2.3 Links to partner countries’ reform strategies in the design of IF operations/ JC 2.4 Influence of IF MSME strategy on ACP countries MSME Policies

EIB took into account the ACP countries’ strategies and reforms in the design of IF operations examined. EIB assessments are based on Financial Sector Reviews67, which are country-specific financial sector analysis. It is understood that they typically provide information on the macroeconomic context of the country in which the IF operation would be implemented, an overview of the financial sector, including the regulatory framework, and an analysis of the SME segment (including access to finance and institutional environment). The Financial Sector Reviews are part of the due diligence process of the EIB’s intermediated lending. EIB therefore considers beneficiary countries’ reform strategies as well as policies and strategies dedicated to the micro and SME segment in the design of IF operations.

This has been confirmed by analysis on selected projects: all the projects were rated “satisfactory” (55%) or “highly satisfactory” (45%) on their links to country or regional strategies. As detailed in the case studies, IF operations have participated to the development and the strengthening of financial intermediaries, which was a development priority in several beneficiary countries.

Achieving policy change is not part of the IF mandate. As detailed in the IF operational guidelines, the facility should support investment and private sector development mostly through initiatives at the micro economic level. Nevertheless, one could expect EIB to enhance the policy dialogues conducted by the EU, if any, in sectors related to IF operations

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67 The evaluators could not access the Financial Sector Reviews related to the relevant to the selected projects as these are internal EIB documents. The only FSR that could be reviewed by the evaluators was the Republic of Belarus FSR and Private Sector Financing, dated June 2018.
such as financial sector development in which EIB has thorough expertise. Such opportunities for joint policy dialogue could not be observed during the field missions (no policy dialogue related to the projects visited was conducted by the EU), but was noted by a EU delegation in another country (especially in energy).

JC 2.5 Strengthening competitiveness through TA

The TA provided with IF operations have contributed to improve the performances of the targeted enterprises. Four of the 9 projects covered by this EQ had TA. The overall performance of these projects was considered to be satisfactory to highly satisfactory regarding the strengthening of the competitiveness of targeted enterprises, which was measured notably through the improvement of their technical and management capabilities.

In the cases of the development bank operating outside Africa and the Africa wide microfinance fund for instance, the TA was appropriate and well designed to suit the needs of the clients. It has contributed to strengthen the overall performances of the beneficiaries. To illustrate this, the TA has been provided to a beneficiary company of the Africa wide microfinance fund that produces honey. Thanks to the support received, the company used a versatile engineer to design prototypes for wax filtering machines and candles. Following the projects, the company was able to market honey by-products on a larger scale and with a better margin than pure honey. In the case of the development bank operating outside Africa, the €4m of TA focused on building the climate action (CA) capacity within the bank, preparing suitable CA projects and undertaking more strategic studies on CA in its region. Prior to the TA the development bank’s climate action, capacity and expertise was very limited according to management.

4.3 EQ 3 – Financial Intermediaries

Have IF operations strengthened banks and other financial intermediaries (FIs) and enhanced financial deepening so that financial sectors better serve private sector needs?

According to the Cotonou agreement, the IF is expected to i) support the development (broadening, deepening, strengthening) of the financial sector in ACP countries, ii) to encourage the mobilisation of long-term local resources and iii) to channel funds through national and regional institutions that promote the development of SMEs.

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68 TA was initially foreseen for the regional multi-bank facility (SME Access to Finance Facility, signed in 2011). However, due to the misappropriation of the 1st disbursed amount in 2012, EIB suspended its cooperation agreement with the promotor (CDE). The operation was then closed in 2013 and no further activity took place. While no TA was provided to the IFE fund reviewed, there was such support provided by other shareholders, this fund provides advice to its investee companies to help address operating efficiency, IT and managerial/HR concerns.

69 The climate action line of credit (CALC – a combination of €50m for projects and €4m of TA) was a highly innovative and appropriate operation that demonstrated how important EIB IF can be. Nothing like this had or has been done by other IFIs in the region where it operates.
The EIB “Strategic Orientations for Financial Sector Operations in ACP Countries” issued in 2008 set out the “general strategic orientations for future financial sector operations in ACP countries under the IF and EIB own resources”. One of its main objectives is “the development of the local financial sectors”. These guidelines also mandate the formulation of a Country Financial Sector Strategy before undertaking financial sector operations in a given country so as to ensure a prioritisation of the operations (see JC 2.3). The 2017 IF Operational Guidelines state in 3.4.2: “Operations through intermediaries (…) These will serve notably the dual objective of: Broadening and deepening the local financial markets, in particular by pursuing and strengthening the on-going and already well-established co-operation with a network of financial institutions in the ACPs (…)”.

This evaluation question assesses the effectiveness and sustainability of IF operations in this area.

### EQ3 on financial intermediaries – Summary Response

At the level of ETR sample projects, IF operations have in general improved the viability of the supported financial intermediaries. They did so by providing medium to long-term liquidity and in four projects technical assistance to strengthen their capacity and that of their customers. More than half of financial intermediary operations reviewed (5/9) also contributed to a modest increase in financial deepening, defined as the provision of financial services with a wider choice of services geared to the development of all levels of society. Despite these important outputs, the operating performance of the supported intermediaries has nevertheless been mixed over the evaluation period, since IF support is only one dimension of the overall picture.

At a broader level, on the IF overall, ETR findings are consistent with those from the EIB 2017 Multi-Beneficiary Intermediated Loan evaluation, in particular that (i) MBILs (credit lines) are not necessarily adequate to address the core impediments to financial sector development; (ii) EIB makes insufficient use of its other instruments (equity, capex loans, guarantees and TA) to increase financial sector development; (iii) IF objectives were not consistently operationalised in project design or in contractual requirements and monitoring processes; (iv) EIB intermediated lending in ACP remains mainly demand driven; and (v) Monitoring and reporting are not sufficiently adequate to track and demonstrate policy results.

The analysis for this EQ 3 is based upon:

- A review of the 2017 Multi-Beneficiary Intermediated Loan (i.e. credit line) evaluation as it pertains to enhancing the viability of financial intermediaries supported by MBILs. Given that the MBIL evaluation was able to consider credit lines in greater detail than was possible for the ETR, it is appropriate to use the findings from the nine case studies, country review of Nigeria, portfolio analysis; as well as other findings and conclusions that the report contains.
- Review of IF business plans, operating policies and guidelines, operating and financial reports.
- Meetings with EIB staff and management involved in financial sector projects, as well as with EU and ACP stakeholders at headquarters level.
Case studies on the 9 selected projects operating through financial intermediaries (among the total sample of 15 projects): five lines of credit (LoCs)\(^{70}\) and four funds. For each JC a rating has been given to the projects. Underlying analysis is detailed under the JC thereafter.

Field visits to three financial intermediaries and meetings with ultimate beneficiaries and other stakeholders.

**General findings**

Addressing the role of credit lines in strengthening local financial sectors, the MBIL evaluation provide the following conclusions – these are in line with and confirm the findings from the present ETR:

- MBILs are not necessarily adequate to address the core impediments to financial sector development.
- EIB makes insufficient use of its other instruments (equity, capex loans, guarantees and TA) to increase financial sector development.
- As noted in the the MBIL evaluation, in some, more developed markets (possibly Kenya and Nigeria) the low EIB lending rates could potentially lead to crowding out the private sector.
- IF objectives were not consistently operationalised in project design or in contractual requirements and monitoring processes.
- EIB intermediated lending in ACP remains mainly demand driven.
- Monitoring and reporting are not sufficiently adequate to track and demonstrate policy results\(^{71}\).
- REM sheets further detail specific expectations (e.g. increasing the tenor of loans by a certain margin, proportion of SME clients). However many of these aspects cannot be specifically traced in the finance agreements with the financial intermediaries or related documents (such as allocation reporting templates). In other words, intermediaries are not aware of the specific objectives that the EIB is trying to achieve by working with them. Field visits further revealed that these aspects are also not discussed by the intermediary with the final beneficiaries. Intermediaries are only held to transfer (part of) the tenor advantage they receive from the EIB to eligible final beneficiaries.
- Development of more efficient and competitive financial markets is addressed by the EIB through capital support to selected commercial banks and through financing of local capital markets. Nevertheless, EIB could make greater use of more innovative financing structures including more complex/structured instruments such as risk-sharing guarantees, as well as making greater use of grant funds. IFE could also player a greater role in high(er) risk projects.

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\(^{70}\) The 5 LoCs were selected to be complementary with the 2017 MBIL Evaluation. In particular, 4 of them focused mainly on micro and small enterprises (meso finance), while the fifth was dedicated to climate action projects.

\(^{71}\) As explained in Section 6.1, the financial and risk counterpart monitoring works well.
JC 3.1 Viability of local/regional financial intermediaries

The table below sets out the ETR ratings for the effectiveness of IF sample operations with financial intermediaries based on improved financial intermediary viability and financial deepening. Details are provided thereafter per judgement criteria.

<table>
<thead>
<tr>
<th>JC</th>
<th>Financial Deepening</th>
<th>Overall EQ</th>
<th>Average Score per JC</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>JC 3.1 Improved FI viability</td>
<td>2.7</td>
<td>2.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

No projects rated with Score 1 (Unsatisfactory) for these judgement criteria

IF operations with financial intermediaries in the ACP countries (e.g. through commercial or development banks, investment / venture capital funds, microfinance institutions) have addressed significant needs of these financial intermediaries, including skills reinforcement through TA, mitigation of maturity mismatches through the provision of medium to long-term funding, and elimination of exchange rate risk through an access to local currency72.

The 2016-2018 Business Plan 2016-2018, inter alia, describes EIB’s support to the financial sector as strengthening the local banking sector and ultimately reducing dependence on external capital flows. Operations in this sector should be structured to serve the double purpose of channelling finance to SMEs and micro-enterprises, and of supporting the development of local financial markets. Listed below is a synthesis of the findings from the nine financial intermediary case studies.

- TA was provided to financial intermediaries in 4 out of the 9 operations analysed under this EQ (see also JC 2.5). The purposes of TA operations were notably institutional strengthening (e.g. development of new products and new credit procedure, development of new competencies in specific thematic fields such as in climate action or E&S, etc.) and establishment and management of financial institutions (e.g. in the case of greenfield projects such as the new MSME bank in West Africa). The case studies confirm the MBIL evaluation finding that TA strengthens the effectiveness of investments in financial intermediary projects. Moreover, desk analysis and field interviews indicate that TA beneficiaries were satisfied because the assistance received was well designed and appropriate, and positive results were achieved, e.g.:

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72 This finding echoes the EIB MBILs evaluation which found that MBILs had addressed a number of significant needs of financial intermediaries, notably through: i) the provision of long-term lending which helped mitigate intermediaries’ mismatch and strengthen their long-term funding; ii) access to local currency which eliminates exchange rate risks for financial intermediaries; and iii) the provision of tailored TA, which reinforced the skills of these intermediaries.
- The comprehensive TA package (about 20% from IF contribution in the project) to establish and operate a MSME bank was essential to its successful start-up (see EQ 2).
- TA helped the microfinance bank in the Caribbean to rationalise, standardise and map the lending procedures and also to develop tools, including a revision of the lending manual and the implementation of credit scoring.
- TA to the development bank operating outside Africa focused on building its own climate action (CA), preparing suitable CA projects in collaboration with beneficiary countries and undertaking more strategic studies on CA in the region where it operates. Prior to the TA the bank’s climate action/change capacity was still in its infancy according to management.
- The TA to the Africa wide microfinance fund helped improve the capabilities of its microfinance institution clients, although results achieved on the support provided for launching new products were mixed. One key lesson on that aspect is that the institution must be sufficiently robust, must manage its growth and must have a clear strategy before entering a new market.

- The provision of long-term resources to financial intermediaries has strengthened their long-term funding, allowing them to both make medium-term loans but also have a more stable funding base, a particular challenge in states in situation of fragility such as existed for two projects in the Caribbean and West Africa. Furthermore, access to local currency has contributed to eliminate the exchange rate risk for the financial intermediaries (and subsequently to end-beneficiaries). This was the case in particular for the lines of credit provided for instance to a SME focused bank in Central Africa and to the microfinance bank in the Caribbean.
- The bank reported that the EIB’s climate action line of credit was one of the most transformative instruments as it enabled the bank to strengthen greatly its climate action/change capacity. It occurred at a time when it was most needed. No other IFI, donor or development partner offered anything similar to that specific line of credit at the time. Its 15-year tenor was appropriate for infrastructure lending. This bank is now the acknowledged leading regional financial institution in climate action/change expertise.
- Financial market liquidity in the Pacific Islands, where it exists, is primarily of a short-term nature and the lack of longer term financing precludes many projects from obtaining suitable funding from local sources. The long tenor of the IF loan (15 years) was therefore an added-value given the regional context.
- The funds, in particular those dedicated to microfinance, contributed to improve the financing options available to least developed MFIs in ACPs in general. The funds also appeared to be the only option for EIB IF to support least developed MFIs (tier 2 and tier 3) in regions such as East Africa, through equity and quasi-equity instruments.

The performances of the nine financial intermediaries studied in this evaluation has been mixed over the evaluated period. The average rating for this criterion was below satisfactory at 2.6.
- The best performing financial intermediary of the sample was the development bank operating outside Africa, with notably a high capital adequacy ratio (55.4%) and a low level of NPLs (under 1%). However, the effect of the climate action line of credit, which is equivalent to about 6% of its portfolio, is modest.
The investee MFIs of the Africa wide microfinance fund have also registered good performances over the last years, partly thanks to the TA received. However, the portfolio quality of the fund deteriorated over the period 2013-2016 but improved in 2017.

The investee companies of the fund supporting micro finance in East Africa (one of the funds that received a low rating for this criteria) have experienced mixed results over the last years. The various performances are related to specific issues, ranging from management/operational issues, to country related issues (e.g. collapse of 3 banks in 2015 and interest rate capping legislation in 2016 in Kenya).

There have been both positive aspects (assets and portfolio growth) and negative (declining/low return on equity and return on assets, and increasing non-performing loans) to the performance of the SME focused bank in Central Africa in recent years during the implementation of the third IF credit line to this institution.

**JC 3.2 Financial Deepening**

The IF has contributed modestly to financial deepening73 through the financial intermediaries supported. This was in particular the case for half of such projects examined74.

- In 5 cases out of the 9 analysed in-depth for this EQ, the IF operation is judged to have contributed to financial deepening in a “satisfactory” or “highly satisfactory” way:
  - The credit line in Central Africa is the only project of the sample that has been rated “highly satisfactory” for this criterion (see Box below).
  - Despite the challenging environment, the bank in West Africa has succeeded to become the leader in the MSME sector with 56% share of the market. Nevertheless, the bank still has much to do to support the productive sectors in the West African country, most notably in the agriculture, manufacturing and services sectors.
  - The products of the Africa wide microfinance fund operations comprise debt instruments, guarantees and equity investments. According to the appraisal fact sheet, the fund provides longer term loans than other financial intermediaries in the region (maturities for loans can last up to 60 months; with regard to guarantees, the term ranges from 12 to 36 months).
  - Private sector loans have increased in East Africa over the period 2011-2016. Considering the ratio credit to private sector as percentage of GDP, the change has been stronger in Rwanda (33%) and negative but marginal in Uganda (-1.8%).
    - At the level of the fund supporting micro finance in East Africa, the loan portfolios of the investee companies have either grown or remained more or

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73 Financial deepening refers to the increased provision of financial services with a wider choice of services geared to the development of all levels of society. The size of the financial sector can be measured by indicators of the intermediation ratio such as bank credit to the private sector and capital market-based measures, e.g. capitalization ratio of stock market. As mentioned in the 2008 EIB “Strategic Orientations for Financial Sector Operations in ACP Countries”, “the IF is not equipped to deal with all dimensions of financial sector development.”

74 It should be noted that the climate action line of credit with the development bank operating outside Africa did not contribute to financial deepening given that the development institution which does not take deposits or operate like a commercial bank.
less the same from the beginning of the operation up to March 2018 (with only one exception).

- The regional Impact Financing Envelope fund is still at a relatively early stage. While the overall performance of the fund to date has been encouraging it is too early to assess what its development effectiveness will be. It should be noted that there are a number of other regional funds also based in Kenya.

- For the remaining 4 cases, the rating was “partly satisfactory”. Regarding the regional multi-bank facility for instance, despite mixed results for one participant bank it doubled loans the private sector during the period 2006-2016. The other two participant banks grew much less rapidly.

- In the case of the country specific fund, its demonstration effect has been limited, since no other private equity firm has entered the local market. Nevertheless, it was an important development of the financial sector and it has been followed by a second fund.

**Box 4 – Financial deepening at an SME bank in Central Africa**

At country level, this bank remains the only financial institution specialised in meso finance. By March 2018, its portfolio represented 5% of the overall financial sector.

In 2007, the SME focused bank in Central Africa started leasing in addition to bank loans. Leasing is not well developed in the local financial sector and is well adapted to the small companies which the bank targets.

**4.4 EQ 4 – Infrastructure**

**Have IF operations increased/strengthened the provision of infrastructure ?**

The 2012 IF Operational Guidelines state that “the establishment of the IF recognises (...) the role of the public sector in investments in basic infrastructure as a prerequisite for private sector development” and that “economic infrastructures and growth are necessary conditions for sustained poverty alleviation”. This evaluation questions assesses the IF’s effectiveness and sustainability with regard to the IF objective of increasing and strengthening the provision of infrastructure.

**EQ4 on infrastructure projects – Summary Response**

Infrastructure projects account for 19% of the IF portfolio. The bulk of the IF infrastructure portfolio (57% by number and 71% by value) has been focused on energy generation, and particularly on renewable energy generation, and to a lesser extent on thermal generation, and power distribution, transmission and grid management. The rest of the IF infrastructure portfolio focused on telecoms, transport and water. Geographically there was an over concentration of the portfolio in the central and eastern Africa region that accounted for 40% by number and 53% by value of infrastructure projects, and also the Caribbean and Pacific regions. IF has been investing mostly in relatively modest stand alone infrastructure projects and relatively little in larger projects that require sizeable amounts of project finance. IF co-invested in 10 of the 42 projects with other IFIs and development finance institutions (DFIs) – principally AfDB, IFC and European DFIs.
Four IF infrastructure projects - which are a fair reflection of the infrastructure portfolio by sector and geographically - have been examined in depth within the frame of this review. Their analysis shows that they i) have been “satisfactorily” or “highly satisfactorily implemented”; ii) led to an increased provision of infrastructure in the beneficiary countries and iii) achieved their expected developmental outcomes. All four projects have contributed to varying degrees to enhancing energy supply, the road network and telecoms in the four countries where they operate. The two power plants both led to improved national energy security while reducing dependence on imports of fossil fuels. They both provide a clean(er) source of energy. The transport project supports the expansion of the greater urban development and economic growth. The internet infrastructure project expanded urban access in the main cities of an African country. Three of the four projects are structured as public private partnerships (PPPs). This structure has contributed to the successful implementation of the four projects. However, it has also led to sustainability issues such as in the case of the gas fired electricity generation project.

Infrastructure projects account for 19% of the IF portfolio. The analysis for this EQ was based on five components:
- Review and analysis of IF Infrastructure portfolio
- Review of IF business plans, operating policies and guidelines, operating and financial reports.
- Meetings with EIB staff and management involved in infrastructure projects, as well as with key stakeholders such as EU, IF Committee members, and ACP Group representatives.
- Field visits to two infrastructure projects that included site visits, meetings with management of clients and other stakeholders.
- Case studies of the four projects selected for this evaluation which were in the infrastructure sector (out of 15 sample projects), namely: a wind power project, a transport project, a gas fired electricity generation project in Central Africa, and an internet infrastructure project (telecommunications). Two (1 each in telecoms and power) of the four operations involved site visits. As well as the power, transport and telecommunications, the infrastructure part of IF portfolio includes solid waste, water, wastewater and social infrastructure (healthcare and education).

**Overview of the IF Infrastructure Portfolio**

The distribution of the IF infrastructure portfolio by sub-sector is presented below:

<table>
<thead>
<tr>
<th>Sector Analysis of Infrastructure Investments</th>
<th>No</th>
<th>Amount €m</th>
<th>Av €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>24</td>
<td>800.6</td>
<td>33.4</td>
</tr>
<tr>
<td>Telecoms</td>
<td>7</td>
<td>95.0</td>
<td>13.6</td>
</tr>
<tr>
<td>Transport</td>
<td>5</td>
<td>117.5</td>
<td>23.5</td>
</tr>
<tr>
<td>Water + sewerage</td>
<td>4</td>
<td>99.9</td>
<td>25.0</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>12.0</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42</strong></td>
<td><strong>1,125.1</strong></td>
<td><strong>26.8</strong></td>
</tr>
</tbody>
</table>

Note - gross amounts signed before cancellations
Source ADE analysis of EIB data
It can be seen that 24 of the 42 projects (57% by number and 71% by value) are in energy generation. They comprise a mixture of:

- 14 renewable generation projects (2 geothermal, 4 hydro, 5 solar and 3 wind)
- 3 thermal generation projects (2 fuel oil and 1 gas fired)
- 7 projects in power distribution, transmission and grid management

The seven telecoms projects were in mobile networks and internet infrastructure. Transport comprised two road projects, two involving the acquisition of aircraft and other vehicles and an airport. There were two drinking water projects and two waste water projects. The other two projects were in solid waste disposal and urban development.

Geographically there was a strong concentration in the central and eastern Africa region that accounted for 40% by number and 53% by value of infrastructure projects.

<table>
<thead>
<tr>
<th>Regional Analysis of Infrastructure Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
</tr>
<tr>
<td>Central + Eastern Africa</td>
</tr>
<tr>
<td>Southern Africa + IO</td>
</tr>
<tr>
<td>West Africa</td>
</tr>
<tr>
<td>Caribbean + Pacific</td>
</tr>
<tr>
<td>Regional</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

The Caribbean and Pacific region was also over represented when compared with the small population. In contrast the SAIO and WA regions were under represented. Investments were made in 22 ACP states and territories. There were five projects in Kenya followed by four in Ethiopia, four regional projects and three in Cameroon. The infrastructure portfolio may therefore be said to be concentrated in relatively few countries.

According to IF portfolio data, IF co-invested in 10 of the 42 projects with other IFIs and DFIs – principally AfDB, IFC and European DFIs. This implies that IF has been financing mostly relatively modest stand-alone infrastructure projects and not many large projects that require large amounts of project finance. In only one project (in the power sector) in Central Africa was there co-investment with an ACP DFI – BEDEAC (Banque de Développement des États de l’Afrique).

Case Studies

The four projects selected (one each in renewable power, thermal power, a toll road and a broadband internet cable company) are a fair reflection of the infrastructure portfolio by sector and geographically. Set out below is a table summarising the project ratings from these four projects.
Table 8 – Effectiveness / Sustainability of Infrastructure projects: project ratings

<table>
<thead>
<tr>
<th>JC 4.1 Satisfactory implementation of infrastructure projects</th>
<th>Highly Satisfactory (Score 4)</th>
<th>Satisfactory (Score 3)</th>
<th>Not Applicable (NA)</th>
<th># projects scored for this EQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5</td>
<td>2</td>
<td>2</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

No projects rated with Score 1 (Unsatisfactory) or Score 2 (Partly Satisfactory) for this judgement criterion

Source: ADE

JC 4.1 Satisfactory implementation of infrastructure projects

The projects examined have been successfully implemented and contributed to enhancing national infrastructures:

The two energy projects, in wind power and gas fired generation, were rated “highly satisfactory” on criterion JC4.1. They have been successfully completed, in line with the technical description as defined at appraisal. Even with strong sponsors, both projects experienced delays or limited cost overruns, as detailed in the case studies. These projects demonstrate the importance of competent sponsors.

- The gas fired generation project started operation on 18 May 2013. Since then, the plant has been mostly operating satisfactorily and contributing significantly to the supply of electricity to the national grid in the country. In 2017 it delivered 1,193 Gown to the grid, a little over 23% of the total generation in the country.

- In 2017 the wind power project produced 75,291 MWh of energy. It contributes 25% clean energy towards a national target of 100% by 2025.

The two transport and an internet infrastructure projects were rated satisfactory.

- Regarding the transport project, only 10.5km of the 17km originally planned was actually built because of a weaker general economic outlook and reduced traffic volume forecasts for the whole toll road. Overall, however, the road has delivered the planned economic benefits and strengthened the road infrastructure.

- The internet infrastructure project has delivered on its expected outputs and results by expanding internet access in urban areas of a country in Southern Africa, although limited to major urban areas. The internet infrastructure project provides high-speed internet access for business, private customers, and public administration customers across a country in Southern Africa.

The box below provides an overview of the developmental outcomes achieved by the gas fired electricity generation project. Further details are provided in the case study.
Box 5 – Gas fired electricity generation project - developmental outcomes

The country’s electricity generation capacity was 810MW at appraisal and has grown to 1600MW in 2016. The project which brought 216MW of new capacity (13% of enhanced total capacity) has helped reduce the dependence on hydro which still remains at 57% of installed capacity. The remainder of the electricity produced is from thermal sources using fuels derived from oil.

Since the start up in 2013 the plant has been mostly operating satisfactorily and contributing significantly to the supply of electricity to the grid. In 2017 the project delivered 1,193 GWh to the grid, a little over 23% of the total generation in the country. Although no figures could be provided, it is assumed that this has contributed to improve the reliability of energy supply in the country, which is positive for MSMEs.

During project construction there were several hundred workers At appraisal, the project was expected to create approximately 40 permanent posts to operate and maintain the power plant. At completion, the project had a staff of about 60 (local) employees. By end of 2017, the total number of employees in the plant (plant staff + trainee) was 114.

The public private partnership (PPP) structure has contributed to the successful implementation of the four projects. However, this structure has also led to sustainability issues.

Three of the four projects (all except the internet infrastructure project) are structured as PPPs. The wind power project for instance was the first successfully closed commercial-scale PPP wind farm in sub-Saharan Africa. The PPP structure has proven to be effective, with private companies having been able to bring projects to completion.

The sustainability of the results of the projects has been mixed:

- The involvement of very experienced companies in toll road projects worldwide - provides considerable assurance as to the long-term sustainability of the transport project.
- For the two power plants, the two companies are tied to public utilities via off-take agreements, which, in the case of the gas fired electricity generation project, led to major sustainability concerns since the off-taker is experiencing a very tight liquidity situation. Although debt servicing has been on time, the continuing delays in payments by the state-owned off taker has resulted in the inclusion in the project in the IF watch list.\(^{75}\)

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75 Inclusion on the watch list is the first indication that a project may in the future have operational or financial problems. Projects on the watch list have not defaulted and are current on their debt service payments but they are perceived to be a higher risk than normal. As a result, there is closer supervision of the project’s performance.
4.5 EQ 5 – Direct Loans

Have IF loans strengthened enterprises and the productive sector in general?

This evaluation questions assesses the IF’s effectiveness and sustainability with regard to its objective of strengthening enterprises and the productive sector in general.

**EQ5 on direct loans – Summary Response**

Of the total population, non-energy/infrastructure direct investments account for 13% of the IF portfolio. These investments mostly targeted the mining and industry sectors. With the exception perhaps of the larger mining projects, the portfolio of IF direct investments probably had a limited impact on the development of productive sectors and national economies.

Two direct loans, namely an agri-business in a middle income African country⁷⁶, and a mining project in Southern Africa, have been examined in depth through documentary review. They have both contributed to strengthen the two beneficiary companies supported and were rated as satisfactory. IF direct loans were required for the establishment of the mine and the implementation of the agri-business project. They strengthened the two beneficiary companies examined.

The analysis for this EQ was based on four types of information:
- Review and analysis of IF Non Infrastructure Direct Investments portfolio
- Review of IF business plans, operating policies and guidelines, operating and financial reports as they relate to direct investments.
- Meetings with EIB staff and management involved in direct investments projects, in particular the two case studies, as well as with key stakeholders such as EU, IF Committee members, and ACP Group representatives.
- Case studies on the two direct investments projects selected for review (out of 15 sample projects), both of which were in Southern Africa in mining and agribusiness. The reviews were based on documents provided by EIB and publicly available documents on the two projects and background information.

**IF Direct Investments Portfolio**

The table below shows the sectors that comprise the direct investments portfolio.

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⁷⁶ As noted under EQ1, the evaluators have a different view than EIB on this agribusiness project. The evaluators’ findings are informed by desk review that included detailed discussions with officers responsible for the project.
Table 9 – Sector Analysis of Non Infrastructure Direct Investments

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
<th>Amount €m</th>
<th>Av €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining + industry</td>
<td>13</td>
<td>407.5</td>
<td>78%</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>9</td>
<td>60.1</td>
<td>12%</td>
</tr>
<tr>
<td>Tourism + services</td>
<td>4</td>
<td>53.1</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>26</td>
<td>520.7</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: amounts before cancellations
Source: ADE analysis of EIB data

Mining and industry account for half the projects by number and 78% of the signed amounts. The average project size was €31m, more than the double than for the four tourism and services projects. Agribusiness comprises just over a third of the number of projects but represents only 12% of the portfolio in amounts, due to the relatively modest average transaction amount. Although the sample comprises only two projects, the projects selected for close review (one mining and one agribusiness project) can be seen to be broadly representative.

According to IF portfolio data, in 6 out of the 26 projects there was co-financing from AfDB, IFC and European DFIs, primarily in mining and industry (cement). Aside from the large mining and industrial projects where there was co-financing, it appears that IF has been financing mostly relatively modest stand-alone direct investment projects.

Non-infrastructure investments have in general been in (i) sectors where ACP countries have a comparative advantage, notably mining, agribusiness (including forestry, agriculture and horticulture) and tourism, and (ii) building materials, especially cement.

Regionally the table shows that half of the projects were in Southern Africa and Indian Ocean, with the rest spread among the three other regions. All projects were country specific. By country there were four projects in Mauritius (in tourism and agribusiness), three in Zambia (mining) and two each in Mauritania and Mozambique, with the rest being spread out across ACP countries.

Table 10 – Regional Analysis of Non Infrastructure Direct Investments

<table>
<thead>
<tr>
<th>Region</th>
<th>Number</th>
<th>Amount in €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central + Eastern Africa</td>
<td>6</td>
<td>76.0</td>
</tr>
<tr>
<td>Southern Africa + IO</td>
<td>13</td>
<td>287.5</td>
</tr>
<tr>
<td>West Africa</td>
<td>4</td>
<td>128.8</td>
</tr>
<tr>
<td>Caribbean + Pacific</td>
<td>3</td>
<td>28.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>26</td>
<td>520.7</td>
</tr>
</tbody>
</table>

Notes: amounts before cancellations
Source: ADE analysis of EIB data
Case Studies

The two projects selected for in-depth review (a mine in Southern Africa and an agribusiness project) have been examined on the basis of documentary review but were not the subject of field visits. They scored satisfactory the ratings for effectiveness and sustainability. The IF direct loans have contributed to strengthen the two beneficiary companies supported, as follows:

- The agri-business project involved acquisition and relocation of an existing processing plant, and enabled the consolidation of operations at one site, thereby creating additional value. It is not a significant source of employment and since the plant was already pre-existing it has not been a net contributor of employment.
- After supporting the establishment of the mine and providing additional funding during a downturn in performance, the medium-term outlook for the mining project is good. It remains subject, however, to the fluctuations in the price of its minerals, something it can do little to avoid. Second, at the mine itself, in particular, there is a need to relocate the equipment and infrastructure for the extraction of ore some distance away to another part of the concession. Like many similar projects, the mine is an enclave project in a remote area. Apart from local jobs (both direct and with sub-contractors and suppliers) and a limited amount of local goods and services in neighbouring villages, the effects on the national economy in general and the private sector in particular have been limited.

In summary, the non-infrastructure portfolio is modest in comparison with the support IF provided to the financial infrastructure sectors. With the exception perhaps of mining, IF direct investments had a limited impact on the development of productive sectors and national economies.

4.6 EQ 6 – Additionality

Was EIB additional, both in helping projects and enterprises mobilise long-term local and foreign loan resources and investment and providing non-financial additionality?

This EQ assesses IF’s additionality, both financial and non-financial. EIB’s value-added includes its ability to bring in/mobilise (catalyse) to a project other commercial financial sources that are unlikely to have participated without EIB’s involvement. This reflects Annex II of the Cotonou Agreement which states that the IF operations should “...endeavour to have a catalytic effect by encouraging the mobilisation of long-term local resources and attracting foreign private investors and lenders to projects in the ACP States”. An important form of non-financial additionality lies in that EIB’s involvement provides a de facto endorsement of the viability of a project. Another type of non-financial additionality that IF can bring is the requirement

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77 In general, the mobilization of development partners’ participation is not considered as being catalytic. Commercial finance is thus what is provided by private commercial banks, financial institutions and investors. According to the OECD DAC Blended Finance Principles For Unlocking Commercial Finance for the Sustainable Development Goals issued in January 2018: “The OECD definition of blended finance is “the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries”, with ‘additional finance’ referring primarily to commercial finance.” The focus thus lies on the mobilisation of commercial finance which is not currently being directed towards development-related investments.”
that projects comply with EIB E&S standards and policies. The analysis under this EQ also considers the extent to which operations are or could be co-financed, using other sources of funding, most notably other development institutions.

### Q6 on additionality – Summary Response

The IF mostly targeted the financial sector and infrastructure (especially energy). This focus remained appropriate, especially given EIB’s proven experience and expertise in these sectors. Nevertheless, the EIB business plans do not set out sufficiently detailed assessments of where the IF can be best utilised.

Additionality has been broadly satisfactory in the sample of projects examined, with only two projects being rated as “partly satisfactory”. However, the EIB has rather “joined in” than being the “initiator” in most of the projects examined, hereby lowering its additionality. Indeed, the EIB most often invested alongside other IFIs that were leading the project, and structuring and mobilising funding. Additionality is much reduced in upper middle-income countries (UMICs) when it is dealing with strong, well established companies and relies on guarantees to reduce its risk. The review of the sample shows that:

- Four of the fifteen sampled projects score overall “highly satisfactory” on additionality ratings (the West African MSME bank and the microfinance bank in the Caribbean, a wind power project and the development bank operating outside Africa). The rating reflects the essential role that IF funding played in these projects, either with other development partners (the new MSME bank in West Africa and the wind power project) or on its own in credit lines (a microfinance bank in the Caribbean and the development bank operating outside Africa). As noted, the new MSME bank in West Africa and the microfinance bank in the Caribbean operate in situations of fragility where the financial sector is weak. Both the wind power project (first wind PPP in Africa) and the development bank operating outside Africa (climate action/change targeted credit line) were innovative projects where the role of EIB IF was strong.

- Nine of the fifteen sampled projects score overall “satisfactory” on additionality ratings. This reflects the fact that the EIB did not play a lead financing role in those cases.

- Two of the fifteen sampled projects score overall “partially satisfactory” on additionality ratings. In the case of the agri-business project in a middle income African country it is unclear why EIB IF was needed, especially since the second largest local bank guaranteed the IF loan. Moreover, no compelling justifications for the use of an IRS was evident in the documents reviewed. With one of the micro finance funds, IF might have played a greater role had it also provided TA funding.

Financial additionality primarily took the form of term loans from IF and equity investments. The rationale in the appraisal reports (ARs) for loans can be summarised as the absence of local long-term funding for the projects being financed. The analysis of the

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78 As indicated under EQ1, the evaluators have a different view than EIB on the relevance of this telecommunications project.
The analysis for this EQ was based on four types of information:

- To provide a context on how additionality is articulated and described for IF, business plans, operating policies and guidelines, operating and financial reports and other background information.
- Meetings with EIB staff and management, and meetings with EU, EU MS and ACP Group.
- A synthesis of the EQ6 sections of the 15 case studies prepared to identify where and how additionality arises, in particular sectorally and geographically.
- Field visit to five projects in Angola, Cameroon and the Caribbean to understand at the project and country level what form IF additionality actually took.

Set out below is a table summarising the project ratings for the analysis of the additionality.
Table 11 – IF additionality: project ratings

<table>
<thead>
<tr>
<th>Average Score per JC</th>
<th>Unsatisfactory (Score 1)</th>
<th>Partially Satisfactory (Score 2)</th>
<th>Satisfactory (Score 3)</th>
<th>Highly Satisfactory (Score 4)</th>
<th>Not Applicable (NA)</th>
<th>If projects scored for this EQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>2</td>
<td>7</td>
<td>9</td>
<td>4</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>3.5</td>
<td>2</td>
<td>7</td>
<td>9</td>
<td>4</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>2.5</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
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<td>2</td>
<td>3</td>
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<tr>
<td>3</td>
<td>2</td>
<td>3</td>
<td>9</td>
<td>5</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: ADE

JC 6.1 IF financing in segments that were insufficiently served

The focus of IF support on the financial sector and infrastructure (especially energy) has remained appropriate, especially given EIB’s proven experience and expertise in these sectors. As noted in the MBIL evaluation, credit lines have not been sufficiently focused. They are mostly general in nature and not targeted at precise target beneficiary groups. The business plans do not set out sufficiently detailed assessments of where the IF can be best utilised.

The ACP business plans (BPs) prepared by EIB during the evaluation period (BP 2010-2012 to BP 2018-2020) show a consistent and constant strategic focus over the evaluation period. There were no fundamental changes in the priority sectors for IF support which in the 2010-2012 BP were: i) financial sector, including microfinance institutions and private equity funds, and ii) infrastructure, including energy efficiency and adaptation to climate change, and regional projects.

The analysis of the economic situation in ACP countries included in the BPs is not thoroughly detailed. The BPs reflect how the three year plans are being implemented and include information on the implementation of the BP approved in the previous year. The four-year 2017-2020 BP covers the period up until the end of the IF mandate. It sets out, inter alia, how the EIB ACP strategy will contribute to meeting UN 2030 sustainable development goals (SDGs), most notably SDG1 (eradicating poverty) and SDG8 (decent work and economic growth). The focus areas in the 2017-20 plan are:

- Broadening and deepening of local financial sectors;
- Small and medium enterprises through credit lines and equity. There is in particular a strengthened commitment to local currency credit lines;
- Infrastructure projects, the priority being renewable energy, followed by water, transport and telecommunications.

The 2017-20 plan sets out the following overarching EIB development objectives and priorities in ACPs and OCTs:

- Promoting inclusive and sustainable private sector driven economic growth and development, with the ultimate objective of reducing poverty and contributing to the achievement of the SDGs.
- Supporting the EU’s goals of low-carbon and climate-resilient growth by investing in climate mitigation and adaptation.
- Supporting EU objectives with respect to migration.

Regionally, in Africa, the strategy complements the PIDA\(^{79}\) (Programme for Infrastructure Development in Africa), which promotes principally the development of regional and continental infrastructure projects in transport, energy, information and telecommunications. In the Caribbean and Pacific regions, there is a sharp focus on climate action and adaptation projects given the vulnerability of these regions which comprise mainly island economies vulnerable to climate change.

The launch of the Impact Financing Envelope in 2014 is key since the IFE is a dedicated window which targets projects with a higher developmental impact, but also higher risks, than traditional IF activities. In particular, it focuses on projects in countries in situation of fragility or challenging sectors that do not meet IF’s credit standards. The IFE also supports projects that will create jobs in countries affected by the large scale migration movements and the influx of refugees.

The analysis of the sample of projects shows that projects were most of the time (14 out of 15 projects) rated as “highly satisfactory” or “satisfactory” on criterion JC6.1 (IF specific added value). 7 projects were rated “highly satisfactory” due to the very strong role played by IF, including the post natural disaster credit line in the Caribbean, the first climate action credit line and an innovative wind power project in West Africa. 7 other projects were rated “satisfactory” : they are examples of projects where it was appropriate that IF provided financing. In the case of the agri-business in a middle income African country, IF additionality is scored as “partially satisfactory” as it is unclear whether IF was really required. The sponsor was a large and long established company and the credit was guaranteed by the second largest bank in the country.

**JC 6.2 IF financing brought specific added value**

EIB summarised its added value in operations outside the EU as\(^{80}\):
- Financing investment in less developed markets with higher risks and more complex challenges;
- The ability to mobilise finance on terms that usually are not easily available in these markets (e.g. longer loan tenors, grace period, etc.);
- Bringing technical expertise for the assessment of viable investments, leveraging on the EIB’s core experience within the EU;
- Ensuring compliance with EIB’s environmental and social standards, including human rights, gender, conflict sensitivity and biodiversity and ecosystems. The issue of climate change has also been integrated into the lending policies and practices of the Bank.

These objectives are consistent with the Cotonou Agreement.

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79 Supported by the EU and a number of member states.
80 EIB presentation to ADE, Luxembourg EIB headquarters, September 2018
The overall average score for financial additionality among the sample of 15 projects was a strong 3.4. The JC ratings are set out in the table above. The features of financial additionality that IF brought to the projects were: i) long term currency in US dollars or euros, ii) long term local currency loan and iii) equity. Foreign currency loans were used in nine projects, local currency loans in two (including one involving the regional Central African CFA franc which is fixed against the euro) and five in the form of equity (four as investments in venture capital and private equity funds). In one project, the MSME bank in West Africa, there was both a loan and an equity investment.

Financial additionality has therefore comprised primarily term loans from IF and equity investments. The rationale in the ARs for loans can be summarised as the absence of local long-term funding for the projects being financed. The pricing on IF loans was generally similar to that charged by other IFIs and development partners, as evidenced by the projects where IF co-financed with other development institutions. The exception to this is when interest rate subsidies have been used (up to 3% reduction) in order to make highly developmental projects bankable, such as in public infrastructure projects. The equity investments relate to the establishment of the MSME bank in West Africa and four equity funds, three of which are regional (two in eastern Africa [one focused on SMEs and the other on microfinance institutions] and one across sub-Saharan Africa one country specific (in Southern Africa). In total, seven projects were given “highly satisfactory” ratings, seven were given “satisfactory” ratings and one was given a “partly satisfactory” rating. Key findings that underpin the ratings are presented in the box below.
Box 6 – Project findings on financial additionality

- The start-up MSME bank was in one of the least developed countries in West Africa. IF was a founding shareholder alongside a group with similar banks across the world. Although the provision of a US dollar credit line turned out to be inappropriate (as it led to the bank on-lending to local traders that defaulted when the local currency depreciated) the overall additionality in a state in situation of fragility with a very weak financial sector can still be considered as strong.

- The microfinance bank in the Caribbean is a good example of the use of a local currency loan with an IRS that was greatly needed in the aftermath of a catastrophic natural disaster that had badly affected many of its customers.

- In the case of the wind power project, EIB played a critical role in bringing the partners together to structure the project. A good project is best described as a “partnership” which is how the evaluation would characterize this project. Several players needed to come together for this project to work.

- The climate action credit line involved a combination of long-term funding and substantial TA to build up the Bank’s capacity in CA/CC issues. It was a unique project that was followed up with a second similar credit line.

- The mining project in Southern Africa demonstrated EIB IF’s willingness to fund a greenfield mining project in a remote region.

- The regional multi-bank facility and credit line in Central Africa projects demonstrate the commitment of IF to support clients when other IFIs and regional banks appear reluctant to do so.

- The three IF funds (a country specific fund, one regional microfinance fund and an Africa wide microfinance fund) are rated “satisfactory” as IF invested alongside other IFIs and non-commercial investors but did not play a leading role in arranging the financing, although it was an anchor investor in both the micro finance funds.

- There was only one IFE project in the sample. While it is a suitable project for IFE due to its higher risk, a review of the IF portfolio indicates that it could and would most probably have been financed from the IF if the IFE had not been available.

- Both the transport and the gas fired generation electricity projects were appropriate PPPs where the financing was led by another IFI.

- In the case of the internet infrastructure project the “satisfactory” rating is marginal, in part because a mix of a local currency and a euro loan would have been more appropriate given that its revenues are in local currency. However, a lack of local term funding and limited activity in infrastructure in this Southern Africa country by other IFIs explains why a “satisfactory” rating was given.

- The “partly satisfactory” rating for the agri-business in a middle income African country is justified for three reasons. First, this was not a new project but the relocation of an existing one. It can be stated that IF money did not finance a new investment but at least in part the acquisition of the factory from another company. Second the borrower was a strong, well established that should have been able to finance the project locally. This is likely since the second largest bank in the country provided a guarantee. Third an IRS was given, which is not justified, especially in an upper middle-income country.
JC 6.3 Mobilisation of commercial financing in EIB projects

At the overall leverage level for IF, EIB estimates\(^ {81}\) that since it was established in 2003 it has made signed investments equivalent to 1.9 times the amount paid in by EU Member States. Moreover, total net IF investments of €5.2bn (by signature/commitment) have been made in projects costing €24bn, a ratio of 4.7 times. To imply, however, that for every €1 of IF funding an additional €3.70 (both commercial and development finance) is thereby mobilised would be unjustified because in most projects IF is not the only financing institution. IF financing often complements the financing of other development institutions such as IFC. Recent literature on blended finance also supports this finding. A 2019 report\(^ {82}\) states that for ‘Each $1 of Multilateral Development Bank\(^ {83}\) and DFI invested mobilises on average $0.75 of private finance for developing countries, but this falls to $0.37 for LICs. Expectations that blended finance can bridge the SDG financing gap are unrealistic: ‘billions to billions’ is more plausible than ‘billions to trillions’. Nevertheless, it is fair to say that the long maturities, subordinated debt and mezzanine and also equity instruments that IF has provided were important for the launch and in the implementation of projects.

On criterion JC6.3, the sample of projects shows an average score of 2.5 (see Table 11), which is below the satisfactory level (“3”). 11 projects have been rated under this criterion, excluding the four credit lines projects for which the mobilisation of commercial funding is not involved. The sample shows:

- One project, the Africa wide microfinance fund, which was rated “highly satisfactory”. IF is the single largest shareholder (21%) and its strong commitment to the fund (de facto endorsement) is considered as having been important in bringing in both private and public investors, as well as foundations.

- Five projects rated as “satisfactory”. In two infrastructure projects, in wind power and gas fired generation, EIB IF was an important investor but not the lead financial institution. In the country specific fund and the IFE fund IF and IFE were important investors but does not appear to have been actually involved in structuring the financing. In the mining project in Southern Africa IF was the largest investor and worked with the company to structure the financing that involved a consortium of international banks, and development institutions was involved.

- In the three “partly satisfactory” projects, EIB IF could have been more involved in trying to mobilise local commercial funding in West Africa, Central Africa and an agri-business in a middle income African country. In the case of credit line in Central Africa, it was evident that the bank was still heavily dependent on EIB IF after three credit lines and had not succeeded in securing sufficient local funding for its operations.

- Two projects were rated as “unsatisfactory”. A transport project is rated as “unsatisfactory” as no commercial funding was involved, which is unusual for a PPP of this type. In the case of the micro finance fund there were no private sector investors.

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\(^{81}\) EIB presentation June 2018.

\(^{82}\) Blended finance in the poorest countries: the need for a better approach - Samantha Attridge and Lars Engen, April 2019


\(^{83}\) EIB listed as one of the institutions covered.
JC 6.4 Non-financial additionality in IF projects

Non-financial additionality includes EIB’s ability to bring projects to the stage of bankability, the advice provided by EIB (technical, networking, etc.) Two forms of such additionality predominated in the sample of projects reviewed: adoption of EU or other international environmental and social standards (ESS) and technical assistance (TA), as shown in the following table.

The overall non-financial additionality rating for the sample of projects is of 2,9 (see table above). It reflects:

- Three projects rated as “highly satisfactory”: they are the MSME bank in West Africa, the development bank operating outside Africa and the Africa wide microfinance fund. For the new MSME bank in West Africa, IF provided significant investment funding and TA which was essential for its successful establishment. TA for the Africa wide microfinance fund of €1m was used to strengthen its operations (marketing and products upgrading), develop management and planning tools, improve product quality (agricultural techniques, etc.), and finance part of E&S certification processes, increasing the number of PO/SME partners having an organic, fair trade or environmental and social-friendly certification. As shown in the box below, the innovative climate action credit line involved a four year TA programme that was greatly valued by the client.
- Nine projects rated as “satisfactory” which reflect varying mixes of adopting international ESS standards, as well as the use of IRS and TA.
- Two projects rated as “partly satisfactory” (the microfinance bank in the Caribbean and regional multi-bank facility) due to a lack of documentary evidence on compliance with international ESS standards.
- For the microfinance fund in East Africa, there was no documentary evidence of any non-financial additionality.

The adoption of E&S standards was seen in most projects reviewed. There were notable exceptions, in particular the new MSME bank in West Africa and the microfinance bank in the Caribbean where, based on the documents reviewed, compliance with national ESS standards was deemed sufficient or there was no mention of ESS). In the countries where these two projects operate, national ESS standards fall a considerable way short of EU standards. In other cases such as for the SME focused bank in Central Africa and the regional multi-bank facility, the sub-projects to be financed had to be compliant with the environmental standards that satisfy EIB’s requirements. International standards also applied for the two micro finance funds (the Smart Campaign client protection principles, which are the minimum standards that clients should expect to receive when doing business with a financial institution).

IRS were used in three projects of the sample. In the Caribbean the use of IRS alongside a local currency loan to the microfinance bank in the Caribbean was very appropriate. In the wind power project an IRS was also very appropriate. For an agri-business in a middle income African country, for the reasons set out in Box 5 IRS was inappropriate.

TA was provided in four projects of the sample. Three of them (the MSME bank in West Africa and the microfinance bank in the Caribbean and the Africa wide microfinance fund) concerned financial institutions where capacity building has been essential to enhance development outcomes and reduce IF project risk. For the development bank operating
outside Africa, the IF funded extensive climate action/change capacity building, as described in the following box.

**Box 7 – Climate Action Line of Credit – Technical Assistance**

An initial total of €4m for TA from IF comprised:

1. €1.5m to assist the bank to develop a CA oriented strategy and build its climate action capacity so that it can effectively on-lend the Climate Action Line of Credit.
2. Facility of €1.5m to co-finance the project preparation and feasibility studies for sub-projects potentially eligible for the Climate Action Line of Credit.
3. €1m to co-finance up-stream feasibility studies and master-planning to be undertaken by the countries where the bank invests, amongst others, with the aim of resulting in a pipeline of projects for future climate financing.

The budget for TA was increased by €1.2m at the end of 2016. TA was provided over a period of four years.

**JC 6.5 Additionality of IFE projects**

The enlarged €800m IFE launched in 2014 was expected to be utilised primarily through credit lines (€325m) and social impact funds (€200m) and direct project loans (€195m) with the remainder on guarantees and risk-sharing facilitating instruments. IFE operations shall target countries/regions where impact financing can produce significant results in key sectors for inclusive development, especially in the Sahel region, Lake Chad area and the Horn of Africa where migration and displaced people are major issues. The IFE is deployed through 4 financing instruments: (i) Social Impact Funds, (ii) Loans to Financial intermediaries, (iii) Risk-sharing mechanisms (guarantees etc.), and (iv) Direct investment in projects. There is a particular focus on the assessment and maximisation of development impact in IFE projects, and also enhancing additionality, as well as demonstration and catalytic effects.

The inclusion of the IFE fund was justified on the basis of the following criteria: ‘As core and overarching objective, they generate a superior developmental impact with the overarching objective of poverty reduction, addressing the environmental and social challenges ACP countries are confronted with: employment, sustainability of SMEs…’ EIB staff argue that this fund would not have qualified for IF due to risk profiles with upfront expectation of losses that are difficult to mitigate, as envisaged under EIB’s Investment Guidelines (Non-EU Credit Risk Policy Guidelines/EG). However, the results to date indicate that it was less risky than expected.

Although the IFE fund clearly meets its eligibility criteria, it is likely that the MSME bank in West Africa and the micro finance bank in the Caribbean and the micro finance fund which were approved prior to the launch of IFE, would also have met IFE eligibility criteria. Accordingly, even if IFE had not existed it is probable that IF would have invested in this IFE fund. A satisfactory rating for this project is therefore justified.
4.7  EQ 7 – Environmental and Social Impact

Did IF investments generate positive environmental and social impact? Also, has the EIB implemented EU climate change mitigation policies in its IF operations?

This EQ examines EIB environmental (including climate change) and social practices and assesses the extent to which its investment contributed to generating positive environmental and social impact. This assessment constitutes an essential element in measuring the effectiveness of EIB policies and practices in supporting sustainable development.

**EQ7 on Environmental and Social Impact – Summary Response**

EIB policies and practices have historically given importance to environmental (including climate change) and social considerations. The EIB 2009 Statement on Environmental and Social Principles and Standards (ESPS) sets the policy context for the protection of the environment and human well-being. The Bank also developed an Environmental and Social Handbook outlining the promoters’ responsibilities and due diligence for EIB staff. The 2010 Mid-Term Review and this End-Term Review show that the EIB has generally well applied its E&S standards and practices during the appraisal stage of projects. Environmental (including climate change) and social impacts were generally properly assessed and appropriate mitigating measures were included in the sampled projects.

Regarding projects with financial intermediaries, this review shows that EIB E&S standards were generally applied but not sufficiently followed through. There has been a positive evolution in EIB’s approach in comparison to the situation observed during the MTR: there are no examples of projects which were approved before an EIA had been carried out and the Bank, which relies on the reports done by other agencies or the borrowers, has done due diligence on its own in its appraisal reports. There is however still evidence that the Bank continues not to follow-up the E&S situation after project completion.

The E&S effects achieved by IF infrastructure and direct loans projects varied across the projects, from positive E&S effects (e.g. wind power project, agri-business project) to mixed or limited negative E&S effects (e.g. transport project, mining project). For the three projects having tackled climate change, positive effects in terms of climate mitigation and climate adaptation were generally reported. There is also evidence that projects managed to mitigate the identified (potential) negative impacts through specific measures such as resettlement and compensation plans. It is more difficult to identify the E&S effects achieved by IF projects implemented with financial intermediaries because the reporting of E&S outcomes by FIs was of variable quality and even absent in a number of cases. Finally, the sampled projects show that IF infrastructure projects contributed positively to public infrastructure, with energy projects performing particularly well.
The analysis for this EQ7 on E&S impact was based on six types of information and analysis:

a) A contextual background on EIB E&S policies, standards and practices;
b) An overall IF portfolio review;
c) Meetings with EIB staff and management in headquarters;
d) A synthesis of the 15 case studies to assess the degree of application of E&S standards and the E&S effects achieved at project level;
e) Field visit to five projects in Angola, Cameroon and the Caribbean to understand at the project and country level how projects actually performed;
f) Follow up of E&S issues identified during the 2010 MTR.

The following table shows the ratings for the 15 projects reviewed.

### Table 12 – IF environmental and social impact: project ratings

<table>
<thead>
<tr>
<th>Average Score per JC</th>
<th>Partially Satisfactory (Score: 7)</th>
<th>Satisfactory (Score: 9)</th>
<th>Highly Satisfactory (Score: 11)</th>
<th>Not Applicable (NA)</th>
<th>IF projects scored for this EQ</th>
</tr>
</thead>
</table>
| JC 7.1, JC 7.2 and JC 7.4 on consideration of E&S standards, including climate change

**EIB E&S policies and practices**

The promotion of sustainable development – in particular the preservation of environmental and social capital – has historically been at the core of EIB’s lending strategy and practices. The Bank’s approach is anchored within the environmental principles contained in the EU Treaty. The EIB 2009 Statement on Environmental and Social Principles and Standards (ESPS) sets the policy context for the protection of the environment and human well-being. It is complemented by key EIB policy documents (such as the 2005 Statement on Corporate Social Responsibility) and the EIB Environmental and Social Handbook (the “Handbook”). The Bank also adopted its Climate Strategy in 2015, and the ACP specific Climate Strategy and the Clean Ocean initiative in 2018. EIB’s 2016

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84 This Statement builds on the EIB 1996 Environmental Statement, which has been revised in 2002 and 2004. It was under revision in 2019.
Gender Equality and Women’s Economic Empowerment Strategy\textsuperscript{85} defines its approach to promotion of gender. The main EIB policy orientations and practices are detailed below:

- The **2009 Statement on ESPS** outlines the standards that the Bank requires for the projects it finances and the responsibilities of the various parties. The EIB objective as defined in this Statement is ‘to increase environmental and social benefits and decrease environmental and social costs associated with the projects it finances, thereby maximizing social well-being’. In this Statement, the EIB commits ‘not to finance projects that do not meet the environmental and social requirements described in the Statement’; ‘to adopt a human-rights based approach’; and to ‘monitor the environmental and social performance of the projects it is financing’. Regarding the fight against climate change, the EIB undertakes to support measures such as i) promoting the renewable energy sector; ii) requiring promoters to estimate expected GHG emissions in carbon-intensive sensitive sectors; iii) promoting the development of clean technologies and of financial mechanisms for cost-effective climate change mitigation; iv) actively promoting adaptation projects; and v) encouraging promoters to identify and manage climate change risks for projects exposed to climate risks in the course of their economic life. The principles and standards are derived from EU policy and law, and reflect internationally recognised good environmental and social practices, including from MFIs.

- The **EIB Environmental and Social Handbook** \textsuperscript{86} outlines the promoter’s responsibilities in the process of assessing, managing and monitoring environmental and social impacts and risks associated with the operations.\textsuperscript{87} It provides an operational translation of the principles detailed in the 2009 Statement on ESPS around ten standards covering the full scope of environmental, climate and social issues. Initially adopted in 2007, it is subject to periodic review and undergoes continuous improvement with changes in policy and practices. Volume II of the Handbook sets the due diligence procedures for the EIB staff. The EIB also developed an e-learning course on its E&S standards\textsuperscript{88}.

- The EIB developed the **Results Measurement (ReM) Framework** to track the results of its operations outside the EU. In operation since 2012, it is the instrument to be used throughout the project cycle to assess the relevance, quality and value added of the projects financed by the IF. The framework is structured around three pillars: i) contribution to EU policy; ii) quality and soundness of the project; and iii) EIB technical and financial contribution. Pillar 2 covers financial and economic sustainability – measured by the economic rate of return and the internal rate of return – and environmental and social sustainability, measured by the e-rating (environmental safeguards assessment) and s-rating (social safeguards assessment). Indicators in Pillar 2 aim to capture the economic, social, environmental, and governance outcomes of the operation.

- The EIB introduced the **EIB Environmental and Social Impact Assessment (ESIA)** process which aims at ensuring that mitigation measures and actions are identified at all stages of the project cycle in compliance with applicable laws and regulations and EIB

\textsuperscript{85} http://www.eib.org/en/infocentre/publications/all/eib-group-strategy-on-gender-equality.htm

\textsuperscript{86} EIB, *Environmental and Social Standards*, 2018

\textsuperscript{87} The 10 standards apply to all EIB’s investment projects and cover: assessment and management of E&S impacts and risks; pollution prevention and abatement; biodiversity and ecosystems; climate-related standards; cultural heritage; involuntary resettlement; rights & interests of vulnerable population groups; labour standards; occupational and public health, safety and security; and stakeholder engagement

\textsuperscript{88} The e-learning course is accessible at: www.fs.de/EIB-ESSM
Standards. On the basis of the assessment, the promoter has to develop and implement an Environmental and Social Management Plan (ESMP) that ‘will describe the mitigation of environmental and social impacts and risks, the performance improvement as well as the opportunities’ and to put in place an integrated Environmental and Social Management System (ESMS) which outlines the set of management processes and procedures.

- **The EIB 2015 Climate Strategy** (revised in 2016 and 2017) guides EIB medium to long-term climate actions. It is structured around three strategic areas: i) reinforcing the impact of EIB climate financing, ii) increasing resilience to climate change, and iii) further integrating climate change considerations across all of the Bank’s standards, methods and processes.

### Degree of application of EIB E&S practices and standards

The portfolio includes operations specifically targeting the environment or with a significant environmental dimension. It includes a significant share of operations in the energy sector (operations include wind power, solar, hydropower and geothermal projects), a few climate action credit lines and environmental credit lines, ten operations in the agriculture sector (including forestry, aquaculture, fishing) and four operations in the water and sanitation sector. It also includes a significant share of operations in the industry sector (e.g. mining) which have an important environmental dimension.

The sample analysis shows that for the large majority (12/15) of projects examined environmental and social impacts were properly assessed and appropriate mitigating measures were included at appraisal stage. Five projects are rated “highly satisfactory” on criterion JC7.1 “Environmental and social impacts are properly analysed in projects and appropriate mitigating measures included”. These include three of the four infrastructure projects in which the EIB partnered with other IFIs and where international standards were imposed (the fourth infrastructure project, the internet infrastructure project, was rated as “satisfactory” on this criterion). The innovative climate action credit line with a development bank operating outside Africa (see box below) and the pan-African micro-finance investment fund were also rated as “highly satisfactory” under this criterion. Of note, the gas fired electricity generation project, the wind power project, the mining project in Southern Africa and the transport project are each providing informative and useful E&S reporting in compliance with EIB’s conditions. The three credit lines sampled projects are rated as ‘partly satisfactory’ on criterion JC7.1: these projects were with financial intermediaries for which clarity lacked on the E&S conditions for the beneficiaries. The 2010 Mid-Term Review also notes that for all the projects analysed during this review that “the issue of the environmental impact and of the mitigation of possible negative effects has been addressed and the rules the EIB has set in its handbook duly observed” and that the “EIB systematically ordered an EIA during appraisal stage if the legislation of the beneficiary country required it.”

Regarding projects with financial intermediaries, the evaluation shows that EIB E&S standards were generally applied but not sufficiently followed through. A key finding from the 2017 MBIL evaluation was that “As regards Environmental and Social (E&S) risks, EIB E&S safeguards are always taken up with financial intermediaries, although they are not always followed through satisfactorily”. The review of the nine financial intermediaries sample projects reveals

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89 EIB, *Environmental and Social Standards*, 2018
similar issues. Two thirds of the nine projects through financial intermediaries have a “satisfactory” or “highly satisfactory” score on JC7.2 “Financial intermediary clients include E&S conditions in loans to, and investments in, beneficiaries”. For the others, a recurrent issue was reliance on sub-project self-reporting with a lack of follow-up on E&S performance. In addition, accounting for gender and youth employment was only just being incorporated as part of the ReM framework.

**Overall, climate change issues were well addressed at appraisal stage.** At the overall IF portfolio level, 38 projects, or 13% by number (30% by value), are listed as “Energy” projects (two of which are included in this sample). In the sample of 15 projects, half of them (7) addressed climate change issues. Most of them were rated “satisfactory” (5) or “highly satisfactory” (1) on addressing climate change issues (JC7.4). The “partly satisfactory” one was a gas fired power station which produces greenhouse gases.

The End-Term Review did not systematically come across the limits in EIB’s approach to the following E&S issues identified during the 2010 Mid-Term:

- Occasionally projects were approved on the basis of a commitment by the promoter to conduct an EIA but before that EIA had been done. During this ETR, no such example could be noticed.

- The EIB worked quasi exclusively on the basis of reports done by other agencies or even by the borrowers themselves, and/or commitments of the promoters. The EIB did not or could not verify that there was no discrepancy between compliance on paper and in practice. This ETR review shows that the Bank has done due diligence on its own.

- *There is no control of what happens after project completion.* This ETR identified several projects where E&S issues were either insufficiently assessed at appraisal or, more frequently, reporting by clients was insufficient, especially for lines of credit.

**E&S effects achieved through IF projects**

The box below summarizes the available information on E&S impacts achieved by the IF infrastructure and direct loans projects examined. Depending on the 6 sampled projects, positive E&S effects (e.g. wind power project, agri-business project) as well as mixed or limited negative E&S effects (e.g. transport project, mining project) were reported. For the three projects having tackled climate change, positive effects in terms of climate mitigation and climate adaptation were generally reported.

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90 Comprising the four infrastructure projects, the credit line to a development bank operating outside Africa, the IFE fund reviewed and the agribusiness project. Micro-finance funds and credit lines do not generally consider climate change issues. The mining project in Southern Africa was approved in 2003 before climate change issues were a priority.
Box 8 – Environmental and social impacts of IF infrastructure and direct loans projects

Wind Power Project
- The project reduces the reliance of a West African country on fossil fuels for power generation, with a net reduction of 55,000 tons/year CO2 equivalent, plus reduction in NOx emissions. This is an important climate mitigation project given that clean wind power is reducing the importation of heavily polluting fuel oils for generation.

Gas Fired Electricity Generation Project
- Since the host country has yet to meet the demand for electricity, the power plant production has not resulted in a reduction of the electricity produced from fossil fuels. The country has therefore not saved CO2 emissions thanks to the power plant.
- The project uses locally extracted gas which is a cleaner source than alternatives such as heavy fuel oil or diesel. It also serves as a ‘peaking plant’, thus allowing the utility to balance hydro and other sources of power.
- The implementation of the project has affected 682 households due to the acquisition of 16ha of land from the government to build the plant and securing the right of way for a 100km transmission line. The impacts of the project on these households have been assessed and appropriate compensation and mitigation measures have been developed. Several social actions have been or were still being implemented by the project in local communities, including the construction and improvement of houses, health centres and schools.

Transport Project
- Negative E&S impacts were limited but included some involuntary resettlement and certain areas that were protected. The project involves the acquisition of 144 parcels and the resettlement of 27 families. The sponsor has developed a resettlement plan in accordance with requirements of national legislation as well as IDB safeguard policies; which are as high as those of EIB. The 2017 Environmental & Social Compliance Report (ESCR) included a section on a mangrove replanting exercise which was required as a result of roadway construction.

Agri-business Project
- The project produces a net carbon benefit through the production, inter alia, of a biofuel. It reduces - in a modest way - greenhouse gas emissions.
- The ESIA and the public consultation identified communities potentially affected by the project as well as potential beneficiaries, and employment opportunities.

Mining Project
- The mining process has a relatively low environmental impact and does not involve the use of hazardous or toxic chemicals. There was however one major environmental accident in 2010 when a settling pond at the mine breached its southern retaining wall, which resulted in the release of water, sand and clay that flowed through part of the nearby village. The liquid/slurry that was released did not contain hazardous chemicals, so that there was no lasting environmental damage.

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91 Peaking power plants generally run only when there is a high demand for electricity.
Through the establishment of the mine, electricity and mobile telecoms arrived for the first time in the surrounding communities. Local roads were also improved. An airstrip was built for the mine is an addition to local infrastructure. The mine operator also funded an association to undertake community activities in the locality of the mine.

**Telecommunications project**

- Available information does not show E&S impacts 92.

The box below provides an overview of the available information on environmental impacts achieved by IF projects implemented with financial intermediaries. Both the analysis of E&S issues at appraisal and especially the reporting of E&S outcomes by FIs was of variable quality. The social aspects are covered under EQ2.

**Box 9 – E&S issues for financial intermediaries projects**

- For 2 banks with a micro and SME focus, E&S conditions and policies were not well analysed.
- A line of credit with a specific focus on the environment both in terms of strengthening the development bank’s climate action capacity and on-lending to climate action projects was the first of its kind and illustrates how innovatively IF can be used.
- In a country specific fund reviewed climate change was not an explicit indicator under this project. However, two investee companies of the fund have potentially net positive impacts.
- The IFE fund reviewed estimates potential net carbon savings by subproject. It has invested in a number of companies focused on climate mitigation and climate adaptation related, including two internet companies that enable low-income groups to monitor electricity usage and solar power generation.
- Regional multi-bank facility: no reporting on environmental impacts in banks’ annual reports.
- Credit line in Central Africa: no reporting on environmental impacts.
- Fund supporting micro finance in East Africa: no reporting on environmental impacts.

**JC 7.3 Contribution of Infrastructure operations to improving public services**

The four IF infrastructure projects reviewed contributed positively to public infrastructure. Energy projects in particular performed well. The wind power and gas fired generation electricity projects are both rated highly satisfactory as they both benefit the population at large by providing substantial increases in electricity in the two countries where they operate. On the contrary, the internet infrastructure project serves major corporations, government, and the urban middle class in the major cities, but not low-income communities. The mining project in Southern Africa, while not categorized as an infrastructure project, did make positive contributions to local/regional infrastructure through the provision, inter alia, of power, telecoms and running water that were not previously available, as well as enhancing social infrastructure (schools and clinics).

92 As such, the 2017 annual company report notes: “There were no impacts on the environment”.
The development outcomes and sustainability of these projects are separately addressed in EQ4.

4.8 EQ 8 – IF Financial Sustainability

How financially sustainable has the IF portfolio been in recycling/reinvesting project realisations and repayments, and establishing a viable business model that strikes an appropriate balance between higher potential developmental objectives and higher project financial risks/lower potential returns?

This evaluation question assesses to which extent the IF has been in line with Annex II of the Cotonou Agreement which stipulates that it shall “be managed as a revolving fund and aim at being financially sustainable”, and IF operational guidelines which states that “a balance will have to be struck between the developmental objective and the requirement for financial viability”.

EQ8 on IF financial sustainability – Summary Response

The IF is financially sustainable. The financial performance of the IF has been satisfactory, in the sense of reasonable although not particularly high, with only modest returns on the endowment. Returns on loans exceeded those on equity investments. An increasing share of new loans and equities is financed by maturing ones – EIB estimates that since IF was established in 2003 it has made investments equivalent to 1.9 times the amount paid in by EU Member States. Specific analysis on the 15 selected projects show that the financial sustainability of this sample is also broadly acceptable given the risks that IF is prepared to take in projects. Nevertheless, the overall IF balance sheet remains vulnerable to a deterioration in the quality of the portfolio which, for example, might occur if there were to be an economic crisis in a country where IF has a major exposure. The watch list of projects has for instance increased in 2016 and 2017. Regarding the Impact Financing Envelope (IFE), as might be expected, EIB forecast higher losses on this portfolio, than for the overall IF portfolio. IFE, as intended, is taking much higher risks than IF. In particular, a major uncertainty for IFE relates to the performance of the guarantees that IFE is taking.

The EIB has overall given more emphasis to prudent management of the IF’s financial sustainability than to pursuit of higher potential development outcomes. IF’s reach in low income countries (LICs) has been modest with only 30% by value compared with 54% in low middle-income countries. Only 16% of the portfolio as a proportion of the amount of the IF endowment has been in local currency loans, compared with a limit of 40%.

Equity and quasi equity and guarantees (useful instruments but carrying much higher levels of risk) accounted for 20% of net signatures. And since 2012 there has been a move towards taking lower credit risk projects, which may have led to a rejection of high development potential projects which could not meet the higher credit standards (although

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93 The watch list flags potential problem projects but not actual projects that have defaulted.

94 Increased from 20% to 40% in 2015. Excludes IFE.

95 While the doubling of the LC limit to 40% is not a target, it is reasonable to infer that there is planned to be a significant increase in LC lending.
no evidence was seen of this). The IFE, launched in 2014, offers a new funding window for such projects; nevertheless, it may be the case that the IF is being too cautious.\textsuperscript{96}

Due to funding constraints for EIB's own resources (OR) operations in ACP countries, it was agreed in 2017 that IF would provide a limited guarantee for the Bank's OR portfolio. While there was a thorough ex-ante analysis of the risks for IF of this guarantee, the actual effects on IF financial sustainability remain to be seen.

The analysis for this EQ on IF Financial Sustainability was based on six types of information and analysis:

- To provide a context on how financial sustainability is articulated and managed for IF: business plans, operating policies and guidelines, risk management policies and handbooks (for IF, EIB and also EU as they affect EIB) operating, financial and risk management reports and other background information.
- Meetings with EIB staff and management, especially in risk management. Meetings with IF Committee members (EU MS) as well as EU and ACP stakeholders.
- Analysis of IF annual financial statements to identify the drivers of sustainability, in particular the returns on the equity and loan portfolios, as well as the overall evolution of the disbursed portfolio.
- A review of the financial sustainability of the IFE which was established in 2014.
- A synthesis of the EQ8 sections of the 15 case studies to assess their individual financial performance and sustainability and identify explanatory factors.
- Field visits to five projects in Angola, Cameroon and the Caribbean to understand at the project and country level how projects are actually performing.

It should be noted that EIB confidentiality requirements prevent detailed information on risk issues being included in this report.

\textbf{JC 8.1 IF Sustainability}

IF’s financial performance has been satisfactory. IF is financially sustainable. Returns on loans exceeded those on equity investments. Overall, the average loan return (4.7\%) was nearly 10 times that on equity investments The financial sustainability (FS) as measured by the ratio of net assets of IF (de facto capital) to MS contributions received (CR) has been broadly constant between 2012 and 2017 at between 112\% and 114\% of CR. This is reasonable but not particularly high given the significant risks in the IF portfolio.

The overall portfolio (gross investments less impairments plus unrealised equity gains) declined by almost 4\% in 2017 after growing steadily up to 2016.\textsuperscript{97} Loans have been the dominant form of financing by IF, accounting for around 80\% of the total portfolio throughout the period. The IFE portfolio\textsuperscript{98} was €82m at the end of 2017 (4\% of €2,164m

\textsuperscript{96} Based, inter alia, on the trend in the average credit quality at approval of new projects being significantly higher, i.e. lower risk.

\textsuperscript{97} The 2017 decline may be due in part to a 31\% decline in disbursements from 2016.

\textsuperscript{98} Note 23 2017 Financial Statements - disbursed IFE portfolio. There were also contingent liabilities of €65m for guarantees issued by IFE.
total portfolio). MS contributions have – as would be expected – tracked the growth of the portfolio.

Financial sustainability (FS) as measured by the ratio of net assets of IF (de facto capital) to MS contributions received (CR) has been broadly constant between 2012 and 2017. FS is at between 112% and 114% of CR which is reasonable but not high. In part the modest FS is linked to the continuing increases in CR from MS which totalled €1.39bn between 2010 and 2017 while the portfolio grew by a net €1.12bn. In addition, IF carries about 20% of its total assets in cash and near cash so that it has sufficient liquidity to fund about a year’s disbursements, which are difficult to forecast accurately.

Performance highlights are set out below:

Table 13 – IF key performance metrics (2011-2017)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>€m</td>
<td>€m</td>
<td>€m</td>
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<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
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<tr>
<td>IF Invest Facility</td>
<td>381</td>
<td>561</td>
<td>834</td>
<td>449</td>
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<td>655</td>
<td>480</td>
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<td>IF Impact Financing Envelope</td>
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<td>0</td>
<td>0</td>
<td>88</td>
<td>64</td>
<td>139</td>
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<td>Total Approvals</td>
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<td>561</td>
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<td>537</td>
<td>544</td>
<td>794</td>
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<td>Loan Portfolio</td>
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<td>Net interest + other income</td>
<td>61</td>
<td>68</td>
<td>71</td>
<td>77</td>
<td>90</td>
<td>105</td>
<td>99</td>
<td>571</td>
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<tr>
<td>Impairments</td>
<td>27</td>
<td>1</td>
<td>27</td>
<td>76</td>
<td>34</td>
<td>44</td>
<td>11</td>
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<td>Net loans result</td>
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<td>69</td>
<td>44</td>
<td>1</td>
<td>56</td>
<td>149</td>
<td>88</td>
<td>495</td>
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<td>Equity Portfolio</td>
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<tr>
<td>Dividends + realised gains</td>
<td>17</td>
<td>1</td>
<td>5</td>
<td>8</td>
<td>34</td>
<td>7</td>
<td>3</td>
<td>75</td>
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<tr>
<td>Impairments</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>22</td>
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<td>Net equity result</td>
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<td>8</td>
<td>-</td>
<td>3</td>
<td>2</td>
<td>30</td>
<td>4</td>
<td>16</td>
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<tr>
<td>Gain/loss on treasury</td>
<td>-</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>12</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Foreign exchange</td>
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<td>11</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>52</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Administrative expenses</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit/(Loss)</td>
<td>61</td>
<td>19</td>
<td>-</td>
<td>-</td>
<td>47</td>
<td>-</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Unrealised equity gains</td>
<td>17</td>
<td>27</td>
<td>10</td>
<td>78</td>
<td>8</td>
<td>-21</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Overall Profit (OP)</td>
<td>78</td>
<td>46</td>
<td>10</td>
<td>31</td>
<td>5</td>
<td>64</td>
<td>2</td>
<td>234</td>
</tr>
<tr>
<td>Source - IF Annual Reports</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Source - IF Annual Reports

Total Assets (TA) | 1.825 | 2.133 | 2.257 | 2.429 | 2.557 | 2.870 | 3.025 |
Loan return | 9.4% | 6.3% | 3.7% | 0.1% | 4.0% | 9.3% | 5.2% | 4.7% |
Equity return | 4.5% | -2.7% | -0.9% | 0.5% | 7.3% | 0.9% | -3.7% | 0.5% |

Source - IF Annual Reports
Of particular interest is:

- Considerable volatility in the level of approvals year to year, varying between €381m and €834m for the main IF. Approvals for the IFE have not grown consistently since it was launched in 2014, highlighting the challenge in finding suitable projects that meet its eligibility criteria.

- The charts below show the contrasting returns for loan and equity instruments. In only two years were equity returns higher. Overall, the average loan return (4.7%) was more than 10 times the equity returns⁹⁹. Loan impairment charges fluctuated as the right-hand chart shows. High charges in 2014 and 2015 were partially reversed in 2016. Equity impairment charges in contrast fluctuated very little.

**Figure 18 – Annual IF loan and equity returns and impairment charges**

- If the administrative costs are viewed as management fees, then the 2017 charge by EIB of €45m represents only 1.14% of total IF and IFE Contributor commitments of €3.94bn. In 2011 the fee was 1.21% (higher as this was before IFE commitments). Throughout the period management fees appear modest. Although not directly comparable, it is noted that managers of private equity funds typically charge around 2% plus a share of investment returns.

- Taken together, foreign exchange movements and returns from derivatives instruments (which relate primarily to forex instruments) were a net total charge of €100m. IF is expanding the countries where it is prepared to undertake local currency lending, using hedging where available.

**Infrastructure Package.** Due to funding constraints for EIB’s own resources (OR) operations in ACP countries, it was agreed in 2017 that IF would provide a limited guarantee of EUR 1.5bn for the Bank’s OR portfolio. The facility is a transition measure until 2020, that ‘…represents a transition measure that would enable the Bank to maintain the current level of lending to the public sector (Own Resources) in the ACP/OCT region until the end of 2020 compared to a scenario where the Bank would need to decline new project requests for public sector projects as of now until the end of the mandate¹⁰⁰’. Without the IF guarantee there would have been an end of OR public sector financing in the region in 2018. ‘The proposal will mobilise additional resources on top of what was already foreseen in the

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⁹⁹ It must be stressed that the equity returns do not include unrealised equity gains which vary considerably over time due to changes in the valuations of equity fund investments and direct equity investments. If these were included then the equity return would likely be considerably higher.

¹⁰⁰ EIB Infrastructure package for ACP/OCTs - Additional funding resources for public sector lending in the ACP region for the period 2018-2020 in response to urgent policy objectives. Presentation to the IF Committee Additional information for the second reading 28 September 2017. European Investment Bank Group and Note to the Investment Facility Committee - Subject: EIB Infrastructure Package for ACP/OCT – 4 October 2017
ACP business plan. It does not shift any resources from the private sector, but simply increases the efficiency and the flexibility in using the remaining Cotonou resources, be it for the public sector or the private sector.° It is a limited recourse envelope that is supported by a portfolio guarantee mechanism secured by cash flows from the existing and future IF portfolio in case of loan losses under the new OR public sector operations.

This is an innovative way to leverage IF assets to allow EIB to continue financing projects with its own resources up until 2020. It will allow EIB through OR to meet the strong demand for basic infrastructure in the ACP region. It does, however, represent a credit risk for IF if any of the projects financed under the facility default.

**JC 8.2 Risk management systems and policies focus on long-term sustainability**

EIB’s risk management systems are well designed and updated regularly. They are based on EIB RM practices adapted for the mandate of the IF. Compliance limits are respected, although there are no limits for the concentration of the portfolio by sector, geographically or type of project type (credit line, direct lending, funds etc.).

The Risk Management directorate (RMD) is responsible, inter alia, for assessing the credit quality of new IF (and IFE) investments and monitoring the credit quality of the IF and IFE portfolios. RM prepares for the IF Committee twice a year the Cotonou Risk Reports (CRRs) which analyse risks aspects of IF and OR operations in ACPs and OCTs. RMD is tasked with tracking the IF mandate goal of ‘self-sustainability’. This requires the establishment of a financial risk management framework with a primary focus on the preservation of IF’s paid in capital, by applying a conservative risk tolerance for financial risks that can be hedged.

Given the special characteristics of IF, EIB has developed Financial Risk Policy Guidelines (FRPGs) that are tailored to IF’s requirements with a separate financial risk management framework. Accordingly, IF has specific risk management policies which are updated regularly.

As noted in chapter 3, there has been a move towards financing lower credit risk projects. This may have led to a rejection of high development potential projects which could not meet the higher credit standards, although no evidence was seen of this. Although the IFE, launched in 2014, offers a new funding window for such projects it may be the case that the IF is being too cautious.

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101 EIB Infrastructure package for ACP/OCT - Additional funding resources for public sector lending in the ACP region for the period 2018-2020 in response to urgent policy objectives Presentation to the IF Committee on 07 September 2017

102 Other important documents related to RM are: 2015 IF Financial Risk Procedures Manual; 2015 Financial Risk Inventory and Mitigation Techniques; 2018 Non-EU Credit Risk Guidelines; and 2018 EU and Non-EU Equity Risk Guidelines
JC 8.3 Individual Project Sustainability

Overall, financial sustainability of the 15 projects has been acceptable given the risks that IF is prepared to take in projects it is prepared to support in ACP countries. Credit lines tend to be lower risk as IF is dealing with an established intermediary.

The following table shows the financial sustainability ratings for the 15 projects reviewed.

<table>
<thead>
<tr>
<th>Average Score per JC</th>
<th>Unsatisfactory (Score 1)</th>
<th>Partly Satisfactory (Score 2)</th>
<th>Satisfactory (Score 3)</th>
<th>Highly Satisfactory (Score 4)</th>
<th># projects scored for this EQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6</td>
<td></td>
<td>1</td>
<td>5</td>
<td>8</td>
<td>15</td>
</tr>
</tbody>
</table>

Only the wind power project has been rated highly satisfactory while eight (just over half) have been rated satisfactory (nine or 60% of sample at least satisfactory), while five are partially satisfactory. The overall average is 2.6 almost midway between satisfactory and partially satisfactory. Its financial and operating performance has been good with power generation exceeding design parameters. In contrast while the gas fired generation project is performing well technically, the state-owned power purchaser has large payment arrears, hence the partly satisfactory rating. This illustrates the challenge in private power projects that have to sell to state utilities.

The performance of investment funds has been mixed. The country specific fund and the IFE fund reviewed have done well, while the two micro finance funds (rated unsatisfactory) have shown that it is difficult to build a portfolio that delivers reasonable returns, especially in the small and micro enterprise end of the market. The performance of the four infrastructure projects has been mixed. It highlights the reliance on state owned utilities through off-take agreements. For micro-finance banks, the MSME bank in West Africa and the microfinance bank in the Caribbean illustrate the importance of being strongly capitalised when operating in difficult environments.

Of note with the other partly satisfactory projects:
- The ratings for the transport project and the mining project in Southern Africa reflect uncertainties looking forward: lower transport revenues and volatile commodity prices for the mine.
- The profitability of the SME focused bank in Central Africa has been modest over the last years.

Highlights on the financial sustainability of the satisfactory projects:
- The IFE fund reviewed, a regional MSME fund launched in 2014, and the only IFE project in the sample, has started well and its portfolio is of good quality.
- Providing a local currency credit line to a microfinance bank in the Caribbean with an interest rate subsidy reduced its funding costs and helped to retain profitability. It is well capitalised.
The high capital adequacy ratio of the MSME bank in West Africa should enable it to absorb expected losses on its US dollar loan book.

The development bank operating outside Africa has a very strong balance sheet with low non-performing loans due to 90% of its portfolio being to public sector clients. It has perhaps been too cautious in its support of the private sector.

The sponsor of the agri-business project is a strong 90-year-old local company.

The three participating banks under the regional multi-bank facility are servicing their loans on schedule.

**JC 8.4 IFE Sustainability**

As might be expected, EIB reports forecast higher losses on the Impact Financing Envelope portfolio, than for the overall IF portfolio. IFE is taking much higher risks than IF. A significant uncertainty pertains to the performance of the guarantees that IFE is taking.

At the end of 2017 there was a portfolio (signatures) of €283m (35% of committed €800m), as shown in the portfolio analysis in section 3.2 above. A key issue for IFE is the balance between high potential development outcomes and impacts and high potential losses. Guarantees are the smallest category (9%) but are expected to incur the highest rate of loss.

**4.9 EQ 9 – Efficiency**

*Did EIB use its human, financial, administrative and other resources to deliver IF operations in an efficient and timely manner and at reasonable cost?*

This question focuses on IF’s efficiency overall, in the sense that EIB’s lean business model in its Global Partners department is conducive to fulfilment of its specific development mandate, the term “capacity” encompassing funding, human resources, administrative set-up and internal organisation. There is attention to IF’s value for money, particularly through how it leverages its resources.

**EQ9 on IF Efficiency – Summary Response**

The EIB has implemented a lean and efficient business model, that clearly applies to IF. While it may be argued that the most level of administrative costs show cost effective management of IF, it may also be seen as limiting the scope of operations and projects that IF may support.

The various operating guidelines are clear and practically oriented to facilitate investments by IF. Tracking of development outcomes has improved since the introduction of the ReM system in 2012, which is generally well designed and based on sound development effectiveness principles. Challenges remain, nevertheless, such as on the quality of data inputs by clients (especially in the financial sector), tracking of results over the longer term, and consolidation of lessons across projects.

Blending as used by IF (grants for IRS and technical assistance) is an important tool although it is unclear whether it is used to maximum effectiveness. Global enveloppes of
blending and global authorisation reduce processing time and administrative costs compared to project-by-project blending mechanisms.

Governance of IF by the IF Committee is robust. The IF Committee is prepared to reject projects or ask for revisions. It is a highly important stage in the IF project approval process.

Overall, there has been since 2011 a modest increase in IF staffing levels, especially the expansion of local offices and desks in EU delegations. Nevertheless, the EIB IF business model remains HQ centred. EIB is much less decentralised than its key development partners, AfDB, IFC/World Bank and IDB. As a result, IF benefits from projects that are identified by its development partners with local presence in countries where EIB does not have offices/representation. It must be noted that IF can invest in around 100 countries and territories across sub-Saharan Africa, the Caribbean and Pacific region with little over 100 staff. The expansion in field presence in recent years to a total of nine offices (including desks in EU delegations) is a recognition of the need to be on the ground to increase IF’s development footprint.

For efficiency at the individual project level, sample analysis shows that implementation of projects was generally acceptable. Nevertheless, it takes about one year to move from board approval to legal agreements and nearly 3.5 years for disbursement. Infrastructure and industrial projects are the most quickly implemented while financial sector projects (especially funds) take considerably longer to disburse. This implies that credit lines and funds projects when appraised rarely have firm pipelines of how the IF funding will be invested. Based on the 22% rate of cancellations, it is possible that credit lines are sometimes being used by clients as de facto standby facilities to be used if other sources of (local) funding are not available.

The analysis for this EQ9 on IF Efficiency was based on the following eleven types of information and analysis:

- To provide a context on how efficiency is articulated and managed for IF: the Cotonou Agreement, business plans, operating policies and guidelines, and handbooks (for IF, EIB and also EU as they affect EIB) operating, financial and other background information.
- Meetings with EIB staff and management, as well as with EU and ACP stakeholders at headquarters level.
- Meetings with other IFIs and EDFIs at country level.
- Review of publicly available comparative information on the institutional set-up of IFIs and EDFIs.
- Review of IF governance mechanism, including the IF Committee.
- Review of the ReM system which monitors the development performance of projects.
- Review of how blending (IRS and TA) is used by IF.
- Analysis of project processing times for all the stages from appraisal through to final disbursement.

103 Confidential reports and information could not be obtained.
Analysis of IF annual financial statements to identify the EIB management costs and how EIB is managing IF.

A synthesis of the EQ9 sections of the 15 case studies to assess their individual efficiency.

Field visit to five projects in Angola, Cameroon and the Caribbean to understand at the project and country level what efficiency means at the level of the client and also the way that the co-location of EIB staff (representatives and desk officers) in EU delegations is working.

**JC 9.2 Governance mechanism and “regulatory and administrative” framework**

This section presents the main ETR findings with regards to (i) IF operating policies and procedures; (ii) the Results Measurement (ReM) framework; (iii) the role of the IF Committee; and (iv) blending.

**Operating policies and procedures**

There are Operating Guidelines (OG) that were drafted specifically for the IF. They have been revised and updated at regular intervals (e.g. in 2012 and 2017). The various guidelines are appropriate for IF operations to take account of the changing environment in which IF operates. Standards are high and the guidelines practical. They minimise unnecessary administrative burden to the processing of IF projects.

According to the IF operating policies, As with other EIB projects, IF transactions must:

- Be technically sound,
- be financially viable,
- be too risky for funding from own resources,
- show an acceptable economic return,
- comply with environmental protection and procurement regulations and
- Comply with EIB’s integrity requirements (AML-CFT, KYC, Tax).

**Results Measurement (ReM) framework**

Introduced in 2012, the [Results Measurement (ReM) framework](http://www.eib.org/en/projects/cycle/monitoring/rem.htm?f=search&media=search) is used from project identification and appraisal through project implementation to post-completion operations. It is designed to (i) “complement the ex-ante assessment of expected project results, of the Bank’s technical and financial contribution to the project, as well as the contribution to mandate objectives; (ii) develop monitoring and ex-post evaluation of project results; and (iii) enhance the Bank’s ability to report to internal and external stakeholders on project results achieved.” Its logical framework approach is based on a three-pillar structure:

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104 JC 9.1 is addressed jointly with JC9.5, below.

105 The OG are complemented by, inter alia, the: (i) IF Financial Guidelines and Procedures, (ii) non-EU Credit Risk Policy Guidelines, (iii) non-EU Equity Risk Guidelines, (iv) Guarantee Programme outside the EU and (v) EIB Procedural Guidelines for TA operations.


Pillar 1: Contribution to and consistency with EIB, EU and national priorities and mandates; including the other Public Policy Goals of the EIB. Climate change mitigation and adaptation must also be considered.

Pillar 2: Quality and soundness of the project at three levels mainly: (i) contribution to economic development, (ii) Environmental and social sustainability, and (iii) project viability.

Pillar 3: EIB contribution (additionality) beyond what local markets can offer in terms of (i) financial contribution (long-term financing, local currency funding, financial innovation, interest rate subsidies; (ii) technical advice; and (iii) mobilisation of commercial finance.

Conceptually, the REM framework is well designed to provide data and information on development effectiveness of the IF portfolio. The basic principles and approach is similar to what other IFIs and DFIs have been doing, such as the International Finance Corporation. An enhanced “ReM+” framework is used for projects financed under the Impact Financing Envelope. It has been expanded to cover TA operations as well. Since the ReM was introduced as recently as 2012, only a limited number of operations using it have already closed.

It is important to note that the latest time that impact is measured by the ReM is completion + three years. No additional development tracking is subsequently carried out despite the fact that IF may have an outstanding loan or equity stake for at least another five years and perhaps longer than 10 years. Development impacts (as opposed to outcomes) are long-term in nature. The ReM system is used to track development effectiveness at specific times during the implementation of a projects (such as completion and three years after) but throughout the period that IF is associated with a project.

The challenge is, however, not in the design but in how REM actually works in practice. As noted in EQs 2 to 5, the effectiveness findings from the reviews of 15 IF projects (3 of which were under the REM) on the tracking of development effects ex-post (as opposed to the ex-ante forecasts in appraisal reports) has at best been mixed. In the only project where there was a REM sheet at completion available there was no updated development outcome/impact data. Instead the ex-ante figures had simply been copied. This was clearly unsatisfactory since at completion there will be more reliable information on what outcomes/impacts a project may deliver given that the uncertainties on implementation no longer pertain.

REM like any tracking system is only as good as the data which is input. Specifically, development baselines, realistic estimated expected development outcomes/results and appropriate indicators are all required if the system is to work as planned. Moreover, IF clients are required in finance contracts to provide regular information on the chosen

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108 As shown, inter alia, by economic rate of return (ERR) and the financial internal rate of return (FIRR)

109 For both 1st (project completion) and 2nd ReM (completion + 3 years) reviews, performance is measured against benchmarks set at the beginning of the project cycle, rated and reported. The comparison between the results ex-ante and ex-post is systematic, and used in particular to improve ReM ex-ante assessments. To date no ex-post development reporting has been included in the IF annual report, although the 2017 EIB Outside The European Union - Financing with Global Impact report does contain development results for lines of credit and infrastructure projects (pages 60-61).

110 ReM has around 150 standardized, appropriate, metrics
development indicators. The choice of indicators should take account of the capacity of clients to provide the required information. Reviews of 15 projects show that in practice baselines, development objectives and appropriate indicators are often not well, or insufficiently, articulated.

Client monitoring needs to focus on compliance with development. Development reporting compliance for credit lines is more of a challenge for credit lines than for real sector projects and funds. There are no requirements for evaluations of at least a sample of projects beyond the completion + 3 years' timescale for REM sheets. At present, such evaluations are only carried out in the context of ad-hoc thematic evaluations, rather than a programme of selected individual project evaluations.

**Role of the Investment Facility Committee**

The IF Committee was set up to oversee the use of funds from the EDF managed by the Bank. Its membership includes nominees from all EU Member States, the European Commission (as non-voting member) and the EEAS and Council (as observers). EIB management responsible for ACP operations also participate in meetings. The IF Committee meets almost monthly (generally 10 times per year). Beyond the IF Committee there are semi-annual or quarterly meetings with ACP Secretariat and the annual ACP Ambassadors Day at EIB HQ. EIB also makes presentations on IF to the ACP-EU Council of Ministers, ACP-EU development finance cooperation committee, joint ACP-EU ministerial trade committee, joint ACP-EU parliamentary assembly and the European Parliament.

The IF Committee provides a direct relationship with EU MS, as noted by EIB and other IF Committee members. Key strategic documents as well as project proposals are submitted for approval or rejection directly to EU MS in their capacity as Members of the IF Committee. Consulting the IF Committee contributes also to enhancing coherence with EU and MS policies and coordination with their actions (see EQ1).

Key functions of the IF Committee are, inter alia, to review and approve: (i) IF projects; (ii) ACP/OCT three year business plans that are updated annually; (iv) Cotonou Risk Reports; (v) ACP annual reports and IF financial statements; (vi) Cotonou TA annual report; (vii) Global authorisations annual report; and (viii) ACP Impact Financing Envelope: Update on results.

EIB notes that the IF Committee plays a positive role vis-à-vis the Management Committee and the Board; and provides a high level of added value to the EIB’s approval process. It is therefore an important governance forum for IF. The project review at the IF Committee ensures an in depth-discussion with EU MS regarding development impact and financial sustainability, facilitating corresponding decisions made by the EIB’s Board of Directors. Some IF Committee members note however that they are consulted at a pretty late stage of project instruction, and the ACP Group regrets not to be member of, or at least observer at, the IF Committee (see EQ1 under JC1.4/JC1.5).

111 EIB and 24 other IFIs worked together to establish The Harmonized Indicators for Private Sector Operations (HIPSO) in 2013. There is currently a list of 38 standard reporting indicators that covers 15 sectors and industries. [https://indicators.ifipartnership.org/](https://indicators.ifipartnership.org/)
A review of IF Committee minutes shows that:

- between 2010 and 2017 eight of 114 investment projects (7%) submitted to the IF Committee were rejected. No grant proposals (IRS and TA) were rejected.
- the average time between IF Committee approval and finance contract signature (commitment) was 6.0 months. The table below analyses the time from IF Committee to signature. Almost two thirds were signed within six months with 12% taking more than two years. Half of the projects were signed in under five months. Financial sector projects are signed more rapidly than non-financial projects as the finance contracts are less complicated since IF is passing on the to financial intermediaries the task of reaching beneficiary MSMEs and other enterprises.

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Days</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shortest</strong></td>
<td>18</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Longest</strong></td>
<td>834</td>
<td>27.3</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>147</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td>183</td>
<td>6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 6 months</td>
</tr>
<tr>
<td>6 to 12 months</td>
</tr>
<tr>
<td>1 to 2 years</td>
</tr>
<tr>
<td>Over 2 years</td>
</tr>
</tbody>
</table>

Source: ADE based on IFC minutes and EIB data

Overall, it is evident that the IF Committee is closely involved in the oversight of IF and takes its responsibilities seriously. This is confirmed by several IF Committee members met. It is clearly a highly important step in the approval of IF projects. The quality of projects (the 3 pillars of REM) that are presented to the IF Committee is high with only 7% being rejected.

**Blending**

IF benefits from having a dedicated envelope for blending finance (in the context of IF, defined for as grants for interest rate subsidies and technical assistance) that was committed alongside the IF financing endowment. As a result it is able to approve rapidly applications for IRS and TA in the projects in which it invests, more efficiently than if it had to apply to EU blending mechanisms (notably regional and thematic investment facilities) on a project by project basis.

Interest rate subsidies may be necessary to make some primarily public sector projects bankable and/or compliant with internationally agreed debt sustainability agreements. Like other blending instruments, IRS can be applied to projects with clearly demonstrable environmental and social benefits which have to meet concessionality requirements imposed.

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112 IRS are provided to bring about financial viability for: (i) Infrastructure projects in Least Developed Countries, post-conflict and post-natural disaster countries, HIPC countries (ii) projects with substantial and clearly demonstrable environmental or social benefits. EIB Project Cycle and Bankability of Infrastructure Projects - Continental Infrastructure Seminar Addis Ababa, 1-3 October 2013

113 TA should (i) enhance project quality and success rate; (ii) increase efficiency and sustainability; or (iii) complement other financial products
upon ACP countries. To qualify for access to IRS it must be shown that a project would not be financeable – ‘the Blending Case’. IFE projects with their high development potential but also high financial risks are especially suitable for blending.

From its establishment, blending has been an important feature of the IF as shown by the commitments from EDFs 9 to 11. 86% of the blending resources are for interest rate subsidies (IRS). Blending allows IF to enhance the development effectiveness of its projects and reduces their financial risk. It makes IF support more attractive to potential sponsors of projects.

Project-related Technical Assistance (TA) is granted to support capacity building to prepare and implement projects especially in the private sector and to support the realisation of infrastructure projects from design to full implementation.

There are dedicated blending officers in EIB that work with IF loan officers to access blending for projects. The use of IRS is approved as part of the overall financing in appraisal reports reviewed by the IF Committee. From the 15 project reviews it is not clear whether the selection of projects for the use of IRS is consistent with the selection principle of maximising development impact.

TA is used primarily for project implementation (78%), preparation (14%) and only 8% for capacity building at clients and the beneficiaries of credit lines and funds. Most TA can be approved by the EIB Management Committee for TA operations under a Global Authorisation of up to EUR 2m per project, enabling EIB to respond more quickly.

**JC 9.3 Availability of resources for EIB to be proactive in project generation**

EIB’s approach to **project generation** in the 77 ACP countries where IF can operate is reactive rather than proactive. This is understandable given the relatively small number of staff working on such a large number of ACP countries very widely spread geographically. Like other IFIs and development finance institutions, EIB aims to form long-term relationships with clients which include follow on transactions and projects. Moreover, as the EQ8 shows the IF has been concentrated in relatively few countries and has been under represented in low income countries where it is more difficult to identify and process IF projects.

It should be noted that projects identification at the outset does not distinguish between whether IF or EIB’s own resources will be used. It is only after a project that appears to be
suitable for support has been found that a decision as to which funding source should be used is made. In general, however, OR are used predominantly for public sector projects for which a sovereign guarantee is available. Private sector projects are overwhelmingly funded by IF together with a smaller number of public sector projects.

**Staffing for IF operations** is based on allocations of time spent by EIB staff on IF projects. All employees spending time on the Cotonou mandate record it through the EIB’s ‘Time and Labour’ application, which is costed and included in the management fee charged to the IF. There are two types of involvement in IF operations:

- Departments directly involved in the appraisal, approval, signature, disbursement, monitoring and reporting of projects (OPS, PJ, JU, FI, RM, TRM)
- Corporate departments that are not fully dedicated to Cotonou and whose costs are allocated in part to IF operations.

The table below shows the growth in IF staffing levels. It is based on full-time equivalent (FTE) staff numbers and the number of people in local offices.

**Table 17 – IF staffing**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE HQ Staff</td>
<td>76</td>
<td>76</td>
<td>74</td>
<td>76</td>
<td>71</td>
<td>79</td>
<td>85</td>
</tr>
<tr>
<td>Local Staff</td>
<td>15</td>
<td>15</td>
<td>18</td>
<td>20</td>
<td>23</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>Total IF Staff</td>
<td>91</td>
<td>91</td>
<td>92</td>
<td>96</td>
<td>94</td>
<td>106</td>
<td>107</td>
</tr>
</tbody>
</table>

FTEs - full time equivalents, includes HQ staff in field offices

Source: ADE, based on IF business plans and EIB

In 2016 there was a significant increase in local staffing as new offices were opened in east, west and central Africa and the Caribbean, as the table below shows. Capacity in regional offices has been expanded to include technical specialists. Also, in 2016 and 2017 HQ loan officers have been installed in EU delegations in Barbados and Senegal. This may be a cost-efficient way for IF to increase its local presence in more ACP countries. At HQ level there has been a 20% increase in FTE since 2015.

**Table 18 – EIB field offices in ACP Countries**

<table>
<thead>
<tr>
<th>Opened</th>
<th>Type</th>
<th>HQ</th>
<th>Local</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cote d’Ivoire, Abidjan</td>
<td>2016</td>
<td>RO</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Senegal, Dakar</td>
<td>2016</td>
<td>EUD Desk</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ethiopia, Addis Ababa</td>
<td>2016</td>
<td>AU</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Barbados</td>
<td>2016</td>
<td>EUD Desk</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Dominican Republic, Santo Domingo</td>
<td>2013/2016</td>
<td>RO</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Kenya, Nairobi</td>
<td>2005</td>
<td>RO</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Cameroon, Yaounde</td>
<td>2016</td>
<td>RO</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Australia, Sydney</td>
<td>2007</td>
<td>RO</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>South Africa, Pretoria</td>
<td>2005</td>
<td>RO</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11</td>
<td>25</td>
</tr>
</tbody>
</table>

The Santo Domingo office was in fact opened in 2016, with operations having been transferred from Fort de France in Guadaloupe in 2013.

Source: EIB presentation to ADE September 2018

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114 Neither Australia or South Africa are ACP countries, but the office in Sydney is the regional office for the Pacific while the Pretoria office serves Southern Africa.
Overall, there has been since 2011 a modest increase in overall IF staffing levels, especially the expansion of local offices and desks in EU delegations. Nevertheless, the EIB IF business model remains HQ centred. Staffing levels appear modest or even low given the size and geographical scope of IF. EIB is much less decentralised than its key development partners, AfDB, IFC/World Bank and IDB (see below). As a result, IF often benefits from projects that are identified by its development partners with local presence in countries where EIB does not have offices/representation.

The table below brings together key operating indicators on IF and its development partners which focus on the private sector. The comparators comprise one multilateral institution (IFC), two regional IFIs (African Development Bank and Inter-American Development Bank) and the four most active European bilateral development banks (CDC, DEG, FMO and Proparco). Information in annual reports, web sites and other and public sources that can directly be used to compare with IF is limited (and confidential information was not available for the ETR). Geographically, it is more useful to focus on Africa as comparator information as the Caribbean and Pacific are not disaggregated.

<table>
<thead>
<tr>
<th>Field Offices</th>
<th>Sub Saharan Africa</th>
<th></th>
<th></th>
<th>Approvals</th>
<th>Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SSA</td>
<td>Carib</td>
<td>Pacif.</td>
<td>#</td>
<td>#</td>
</tr>
<tr>
<td>EIB IF</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AfDB</td>
<td>30</td>
<td>n/a</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDC</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEG</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FMO</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IADB</td>
<td>n/a</td>
<td>7</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFC</td>
<td>21</td>
<td>4</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proparco</td>
<td>10</td>
<td>1</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: ADE based on most recent financial statements and other public information
* - includes North Africa

Notes:
- SSA – Sub Saharan Africa; Portfolio amounts are committed amounts
- AfDB investments include North Africa. AfDB has 681 (39%) of its staff in regional and country offices.
- 74% of CDC approvals worldwide in 2017 were in equity (48% direct 26% intermediated),
- FMO – 21% of the €8.5bn invested between 2012-2017 was in Africa (including N Africa). 36% of committed portfolio is in Africa

Observations:
- In terms of field presence AfDB, IADB (in the Caribbean) and IFC are the most decentralised. 39% of AfDB staff work in 30 national and regional offices. IFC’s SSA operations are staffed entirely in 20 field offices and are managed from a regional headquarters in South Africa. By contrast EIB is relatively centralised with 9 regional

116 The multilateral institutions and regional IFIs are highlighted in bold. Information is from the most recently published annual reports, mostly the end of 2017, but June 2018 for IFC.
offices and desks in EU delegations. DEG and Proparco are able to co-locate in the field offices of their larger parent companies, KfW and AFD respectively. CDC and FMO are the most centralised, although CDC has a considerable number of staff working in ACP countries in funds that it has promoted. There is cooperation on projects among European DFIs through the EDFI association.

- In terms of approval volumes and portfolios, AfDB and IFC are much larger in this region than EIB or the European bilaterals. This is a reflection of much greater financial resources and large staffing levels (although precise figures are not available\textsuperscript{117}).
- IF’s approvals and committed portfolio can be seen to be roughly similar to that of FMO and considerably larger than for the other three European bilaterals.

To leverage IF’s resources, EIB has partnered with a number of development partners both on a formal and ad hoc basis to work together on projects in ACP countries (see JC1.4 under EQ1 above).

**JC 9.4 Value for money of the IF**

The costs charged by EIB to IF for making investments, managing its portfolio etc. are relatively modest. Using data in the financial statements, the implicit EIB management fee for IF has been calculated as a percentage of the commitment from EU Member States and also the actual total assets. The fee /MS endowment ratio has varied between 0.9% and 1.2% while that for actual assets under management in IF between 1.9% and 1.5%. (1.6% in 2017). These modest ratios are consistent with EIB’s stated ‘lean business model’. Data from IF business plans shows that actual IF administrative expenses amounted to no more than 64% of the maximum that could have been charged under the Cotonou Agreement\textsuperscript{118}. It is noteworthy that up to 2014 there was a significant underspend of the IF administrative budget. The underspend on the budgets in the business plans has declined sharply from 32% of budget in 2010 to 5% in 2017, mainly as a result of the increase in charges on projects for the involvement of operations support units/departments.

According to the ACP Business Plan 2018 – 2020 (3.4. Business Model), “The EIB has made a choice for a lean and efficient business model, offering a high leverage in times of constrained budgets and limited administrative costs to the benefit of both Member States and borrowers.” While it is important to make the best uses of the administrative resources available, in particular EIB staff, for a facility that can invest in three regions with around 100 countries and territories across the world, it is clear that the business model is perhaps too lean. It may be argued that the most level of administrative costs show cost effective management of IF, but also that costs are too low and prevent more of the IF being invested in complex and time consuming transactions where its development effectiveness would be higher. It could hence be limiting the scope of operations and projects that IF may support, to occasional cases. Moreover, smaller transactions in challenging low income countries and states in situation of fragility may be deemed to be too difficult and expensive to undertake.

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\textsuperscript{117} Anecdotal information which cannot be confirmed indicated more than 150 staff in AfDB worked on private sector projects while there were more than 300 staff in IFC’s SSA offices.

\textsuperscript{118} Article 3 of Annex II - After the initial two-year period, EIB remuneration of the Bank comprises: (i) a fixed component of 0.5 % p.a. of the initial endowment and (ii) a variable component of an amount of up to 1.5 % p.a. of the IF portfolio.
Although not directly comparable, it is noted that private equity and venture capital funds typically charge 2% of the amount committed to funds they manage, as well as taking a share of the capital gains (carried interest). If, for example, a fee equivalent to 2% of committed resources for the management of IF was charged by EIB, compared to 1.2% currently, administrative expenses would rise from the 2017 level of €45m to around €75m.

**JC 9.5 Individual Project Efficiency / JC 9.1 Operations respect of planning and cost-effectiveness**

Individual project efficiency has been considered for the 15 projects in the evaluation sample. The table below sets out ETR ratings. It also includes project efficiency data related to the times (in months) from IF board approval to loan/investment agreement signature and through to the first and final disbursements. In summary, the average efficiency rating was 2.9 satisfactory, with only two projects below satisfactory. The main concern relates to the long signature and disbursement times, especially for funds and LoCs.

<table>
<thead>
<tr>
<th># projects scored for this EQ</th>
<th>Average Score per JC</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

**Table 20 – IF efficiency: project ratings**

In assessing efficiency, the factors used in determining ratings were identified principally by comparing actual project implementation with planned schedule and budget.

The next table summarises the times from approval to signature and signature to disbursement for the sample. On average, legal agreements are signed almost a year after EIB board approval. The average, however, is different for the three types of project with funds being signed in only 3.6 months while credit lines take more than 1.5 years to be signed, with Infrastructure and Other (I&O) projects taking almost 10 months. By contrast Infrastructure and Other projects are the fastest to disburse with full disbursement taking an average of 20 months. This may be because of the quality of the project sponsors in implementing projects. Funds, however, have a long disbursement period of 65 months, more than five years, and are only 79% disbursed. LoCs which would be expected to sign and disburse rapidly did not in the seven projects reviewed with first disbursement taking almost four years (18.6 +27.4 months) with final disbursement a further 1.5 years after the first one. As with funds, only 80% of the signed (committed) amounts were disbursed.

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119 Under EQ 9.2 there is an analysis of the times from IF Committee approval to signature for the whole portfolio. Data on disbursement dates, however, were not available in the portfolio data provided.

120 Disbursements may, however, continue in some funds.
Overall, the average time for all 15 projects was 2.25 years from approval to first disbursement with final disbursement taking a further two years, a total of 4.25 years that appears excessively long, although Infrastructure and Other projects take an average of 3.2 years. For most investment funds it has taken considerably longer than the planned four years for the funds to be invested. This may be because the start-up time for new funds is much longer in ACP countries where venture capital/private equity is much less developed.

For credit lines the long disbursement period and 20% cancellation rates indicate that IF clients do not have an immediate need for them and may in fact use them, at least in part, as de facto standby facilities. The pipelines of prospective allocations may be much more tentative than presented by a financial intermediary to EIB. In the case of the climate action line of credit the reason for the 4.5 years to first disbursement by IF was the sequencing of the project whereby there was more than three years of climate action (CA)/change capacity at the client before the climate action line of credit projects could be identified and submitted to EIB for approval.

The disbursement percentages only take account of amounts actually contracted. In several projects, most notably the regional multi-bank facility, the amount signed was only 56% of the €25m approved due to banks withdrawing their interest in participating, while of the actual €14m has was cancelled post signature.

In terms of the individual efficiency ratings, only two projects (a new MSME bank in West Africa, and the wind power project) were rated as 4 (highly satisfactory) while 11 were rated 3 (satisfactory). The internet infrastructure project was rated 2 (partially satisfactory) while the fund supporting micro finance in East Africa was rated unsatisfactory. In both the MSME bank in West Africa and the wind power project there were strong sponsors able to implement these greenfield projects very close to schedule and budget.

The fund supporting micro finance in East Africa was rated as unsatisfactory as the project underestimated the challenges in implementing a fund investing in micro-finance banks (MFBs) in the challenging environment of East Africa. The internet infrastructure project was rated only partially satisfactory due to the limited reach of the project which was limited to upper income clients that account for only a small proportion of the population.

The 11 projects were rated as satisfactory if implementation occurred broadly in line with what was planned at the time of appraisal and signature. The transport project was implemented in accordance with a revised budget and schedule to reduce the length of the highway section due to concerns about the economic outlook in the country.

### Table 21 – Disbursement efficiency

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>LoCs</th>
<th>Funds</th>
<th>Infra+Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval to signature</td>
<td>11.8</td>
<td>18.6</td>
<td>3.6</td>
<td>9.7</td>
</tr>
<tr>
<td>Signature to 1st disbursment</td>
<td>15.3</td>
<td>27.4</td>
<td>6.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Signature to last disbursment</td>
<td>40.4</td>
<td>46.6</td>
<td>64.8</td>
<td>20.2</td>
</tr>
<tr>
<td>% disbursed/signed</td>
<td>90%</td>
<td>80%</td>
<td>79%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: ADE based on IF portfolio
5. Conclusions

This chapter presents the evaluators’ conclusions emerging from the findings of this study. It starts with an overall assessment and provides specific conclusions thereafter. The conclusions are structured in four clusters: (a) fulfilment of the Cotonou mandate; (b) results; (c) additionality; and (d) operating model. They are summarised in the figure below and developed thereafter.

Box 10 – Overall Assessment

The ACP Investment Facility has fulfilled its Cotonou mandate but did not maximise its contribution in that regard.

The IF contributed directly or indirectly to the Cotonou objectives of poverty reduction, integration into the world economy, and sustainable development. The IF strategy has been adapted and amended overtime to reflect changing EU priorities and ACP States’ needs, including developing the Impact Financing Envelope, launching the ACP migration package and the ACP infrastructure package, and increased attention to climate change. IF resources, by virtue of their higher risk-bearing capacity, provided development financing that could not have been provided through EIB own resources. Financial sustainability has been maintained to date. As recommended in the IF mid-term review, there has been closer coordination with EU headquarters and delegations, and an increase in the field presence of IF with EIB offices in a number of EU delegations.

However, as shown by the trend to higher credit quality projects and a limited footprint in low income countries, more emphasis has overall been given to cautious management of the IF’s financial sustainability than to pursuit of higher potential development outcomes. The IF’s potential for development additionality was greater, for instance in terms of reach in low income countries, local currency loans, and the use of innovative financing instruments. The EIB’s lean operating model restrains its field presence and proactivity in operations.
### Figure 19 – Set of Conclusions

#### Fulfilment of Cotonou Mandate

1. The IF pursued objectives of the Cotonou Agreement
2. The IF is financially sustainable to date
3. Dev. objectives received less attention than financial sustainability

#### Results

4. Most IF projects examined reached satisfactorily expected results

#### Additionality

5. Financial additionality was satisfactory, but not to full potential
6. The IF has done relatively little in low-income and fragile countries
7. The IF has made relatively little use of local currency lending and innovative financing instruments
8. The Impact Financing Envelope show clearer dev. additionality
9. TA and IRS were useful in several although not all cases

#### Operating Model

10. EIB’s lean operating model for IF limited the proactive role
11. IF field presence increased, but it remains relatively limited
12. IF governance remains strong and involves actively EU MS
13. Coordination with EU and dev. partners, and visibility, increased
14. Monitoring of dev. outcomes improved, but still faces challenges
A. Fulfilment of the Cotonou mandate

Conclusion 1. The IF pursued objectives of the Cotonou Agreement

The IF contributed directly or indirectly to the Cotonou objectives of poverty reduction, integration into the world economy, and sustainable development. The IF strategy has also been adapted and amended over time to reflect new EU priorities and ACP States’ needs, including developing the Impact Financing Envelope, launching the ACP migration package and the ACP infrastructure package, and increased attention to climate change. Most IF operations examined were in line with the national and regional EU development policies and were relevant to support ACP countries development strategies.

In partnership with financial intermediaries (credit lines, funds and agency lines) it has supported MSMEs and mid-cap companies and increased their access to finance. In infrastructure it has focused on energy (especially renewables) but has also invested in transport, water and sanitation, and telecommunications projects. There have also been industrial, mining and service sector projects. As a crosscutting issue, climate change is broadly addressed.

_Based on EQs 1, 2, 3, 4, 5, and 7_

Conclusion 2. The IF is financially sustainable to date

The financial performance of the IF has been satisfactory, in the sense of reasonable although not particularly high. An increasing share of new loans and equities is financed by maturing ones – EIB estimates that since IF was established in 2003 it has made investments equivalent to 1.9 times the amount paid in by EU Member States. Nevertheless, the overall IF balance sheet could weaken if there was a significant deterioration in the quality of the portfolio. The watch list of projects has for instance increased in 2016 and 2017. EIB forecast higher losses on the Impact Financing Envelope portfolio, as IFE is taking much higher risks than IF as per its mandate.

_Based on EQ 8_

Conclusion 3. Development objectives have received less attention than financial sustainability

IF Operating Guidelines stipulates that “a balance will have to be struck between the development objective and the requirement for financial viability”. In practice overall has been given to prudent management of the IF’s financial sustainability than to pursuit of higher potential development outcomes. High attention was given to the financial performance of the IF overall, and to sound risk management. Nevertheless, risk management may have been over cautious, with a move since 2012 towards taking lower credit risk projects, which may have led to a rejection of riskier high development potential projects, although no evidence was seen of this. The development additionality

121 The IF capital account (contributions plus retained earnings) is equal to 113% of contributions after 14 years, which corresponds to an effective annual rate of return of only about 1%

122 Projects that are current on their debt service obligations but for which there are indications that debt service is at increasing risk.

123 In section 1.2.1 The mandate of the Investment Facility
of the IF was broadly satisfactory, but not exploited to its full potential - see next Conclusions cluster.

Based on EQs 8 and 9

B. Results

Conclusion 4. Most IF projects examined reached satisfactorily expected results

Analysis and data on results achieved by IF projects at the portfolio level are limited and make it difficult to make an overall assessment. The EIB Multi-Beneficiary Intermediated Loan evaluation (2017) does provide such analysis for IF credit lines, though. ETR sample analysis shows in addition that operations’ effectiveness was satisfactory in about three quarter of IF projects examined (11/15), including highly satisfactory in 4 of these projects. In particular:

- IF projects implemented with financial intermediaries have generally addressed the unavailability of long-term liquidities on local markets, which is an important barrier constraining access to finance for MSMEs in ACP countries. The IF has indeed provided financial resources to a significant number of financial intermediaries (e.g. through the Africa wide microfinance fund only, 124 investments have been made with 78 investees in 25 countries), reaching in turn a significant number of end-beneficiaries (including rural and women borrowers), ranging from new clients to credit-worthy/historical clients. When available, TA has enhanced the capabilities of financial intermediaries to provide tailored financial services to MSMEs. It has also improved the performance of MSMEs. (EQ 2).

- IF projects have contributed to the development and strengthening of the financial sector in ACP countries. The projects with financial intermediaries have generally reinforced the viability of these intermediaries by addressing liquidity (e.g. lack of long-term resources) and non-liquidity related constraints (e.g. lack institutional capacity) with TA. IF financial intermediary projects have to a modest extent contributed to financial deepening. However, as also found in the Multi-Beneficiary Intermediated Loan evaluation, credit lines are not necessarily adequate to address the core impediments to financial sector development, and EIB made insufficient use of its other instruments (equity, capex loans, guarantees and TA) to that purpose. It should further be noted that the IF is not mandated to address business environment related constraints. Joint operations with national and/or regional commercial and/or development banks have been relatively limited (7 out of 15 cases examined) and there is no indication that EIB has always considered working alongside them when it might have been appropriate. (EQs 1 and 3).

- IF projects have enhanced the provision of infrastructure in ACP countries. The four infrastructure projects reviewed have been successfully implemented and are delivering expected outcomes. To varying degrees, they have contributed to enhancing energy supply (while improving national energy security and reducing dependence on imports of fossil fuels), the road network and telecoms in the countries where they operate. (EQ 4).

- IF direct loans projects reinforced the viability of beneficiary companies in the 2 projects examined (rated satisfactory). The overall impact of IF operations on productive sectors at country level remains nevertheless modest notably due to the limited size of the portfolio at country level. (EQ5).

Based on EQs 1 to 5
C. Additionality

Conclusion 5. Financial additionality was broadly satisfactory, although not used to its full potential

Overall additionality was broadly satisfactory (9 of 15 sample projects rated “satisfactory”, 4 rated “highly satisfactory”, and only 2 “partly satisfactory”). Regarding financial additionality, IF provided development financing that could not have been provided through EIB own resources. Financial additionality is however less than it might have been if the EIB had more often been the “initiator” (in most projects EIB invested alongside other IFIs that led project structuring and mobilised funding). Financial additionality is higher where IF provides equity, local currency loans, and guarantees (risk sharing products). Projects such as the new MSME bank in West Africa, a microfinance bank in the Caribbean and the climate action credit line demonstrate the strong pro-active role EIB IF is capable of playing.

*Based on EQ 6*

Conclusion 6. The IF has done relatively little in low-income and countries in situation of fragility

The IF operational guidelines state that “Particular attention shall also be given to investments in least developed countries, as well as in countries committed to undertake economic reforms, to adjust in a post conflict or post natural disaster situation, and/or to improve their governance.”124 IF has undertaken operations in more than 40 ACP countries, although its reach was wider through the large number of regional projects financed. IF’s development additionality is generally greater in low income countries and countries in situation of fragility. However, only 30% of IF signatures since 2003 have been in low-income countries (LICs), with 54% in low-middle income countries, 11% in upper middle income and 5% in high income countries. Moreover, the portfolio is still concentrated in relatively few countries, although this has declined. IF has continued to do business mainly in countries where it already has projects, such as Kenya, and Nigeria and where projects to process such as credit lines were less difficult to identify and process. It has done relatively little in more challenging regions such as the Sahel in West Africa and Central Africa.

*Based on the Portfolio analysis and EQ 1*

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124 Of the 40 “least developed countries” ACP States listed in Annex VI to the Cotonou Agreement, 26 are classified as low income countries by the World Bank, 11 as low middle income countries and 3 as upper middle income countries (E.g. Guinea and 2 Pacific islands). In addition three countries which are classified by the World Bank as LICs (Senegal, South Sudan and Zimbabwe) are not in the list of ACP LDCs.

Least developed countries (LDCs) are low-income countries confronting severe structural impediments to sustainable development. [https://www.un.org/development/desa/dpad/least-developed-country-category.html](https://www.un.org/development/desa/dpad/least-developed-country-category.html)
Conclusion 7. The IF has made relatively little use of local currency lending and innovative financing instruments

IF has made use of local currency loans, but insufficiently (16% of portfolio compared with a limit of 20% then 40%\textsuperscript{125}). IF’s development additionality is indeed greater when it can provide local currency loans and credit lines, notably those focused on-lending to micro and small businesses that trade locally. This is especially the case in projects where clients (directly or indirectly) do not have foreign currency revenues to service a euro or dollar loan from IF. Operations in local currencies rather than USD or euros are more appropriate for MSME focused credit lines where neither the financial intermediaries nor the target beneficiaries have a hedge against a depreciation of the local currency. Local currency loans where possible, or guarantees for local debt instruments, may be more appropriate for infrastructure projects where the revenues of the borrowers are in local currency, such as the price paid by off-takers for electricity in power projects.

The IF has sponsored innovative financing structures, such as the Africa Energy Guarantee Facility and Boost Africa that are designed to crowd-in of third party private sector resources for greater developmental impact. Overall, however, the IF has made relatively little use of innovative financial instruments such as risk management products (guarantees). Guarantees accounted for instance for only 3% of net signatures, almost half of which was undertaken by the IFE.

*Based on the Portfolio analysis and EQ 8*

Conclusion 8. The Impact Financing Envelope shows clearer development additionality

The IFE, introduced in 2014, provides a good example of the stronger developmental role that can be played, especially in LICs. It has made particular use, inter alia, of guarantees, although more could have been done. Annual IFE project volumes have however fluctuated, and it appears that it is being invested in an opportunistic/reactive way. While it is still too early to be definitive about the performance of its portfolio, it appears that IFE is taking higher risks than IF, as mentioned in Conclusion 2 above.

*Based on EQs 6 and 8*

Conclusion 9. Technical assistance and interest rate subsidies were useful in many although not all cases

The TA provided through the IF enhanced the capabilities of financial intermediaries to improve MSME lending and move into other sectors. Combining TA with IF investment funding both enhanced the capability and financial performance of financial intermediaries, especially micro-finance institutions. EIB could, however, have made use of TA in more financial intermediary transactions.

Interest rate subsidies are being used insufficiently in private sector projects. Although public sector projects made up 12% of the portfolio they accounted for 67% of the IRS amounts actually used. Analysis of sample projects also shows that while an IRS was appropriate for a micro-finance credit line and a wind power project, there was no strong justification in the third project it was used, an agro-processing project.

*Based on EQs 2, 3, and 6*

\textsuperscript{125} Increased from 20% to 40% in 2015. Excludes IFE.
D. EIB operating model

Conclusion 10. EIB’s lean operating model for IF limited the proactive role it could play

The EIB has made a choice for a lean and efficient business model, which clearly applies to IF. The fee /commitments ratio has varied between 0.9% and 1.2% while that for actual assets is between 1.9% and 1.4%. Although not directly comparable, it could be noted that managers of private equity funds usually charge fees of 2% of the committed capital.

The operating model, however, appears too ‘lean’ to be appropriate for the optimal investment of IF, particularly in low income and countries in situation of fragility where it takes longer to process projects. The EIB IF played a relatively reactive role in most projects examined with other IFIs leading the transactions. The lean model tends to discourage the use of innovative financial instruments. Instead the focus tends towards ‘plain vanilla’ projects in countries where IF already has operations. 

Based on EQs 1 to 9

Conclusion 11. IF field presence increased, but it remains relatively limited

Since the 2010 MTR, EIB has added offices and desks in EU delegations in six countries, so that it now has a presence in six sub-Saharan African countries, two in the Caribbean and one for the Pacific region. Nevertheless, the field presence is still relatively limited given the geographical scope of the ACP region, for example in the Sahel region. As a result, EIB management remains relatively centralised, and IF has and continues to be invested in a reactive or opportunistic manner. In particular, EIB relies on development partners such as AfDB and IFC to initiate and structure projects to which it can contribute funding, as was seen in most of the 15 projects reviewed.

Based on EQ 9

Conclusion 12. IF governance remained strong and involves actively EU MS

Governance of IF by the IF Committee is robust. The IF Committee is, inter alia, prepared to reject projects or ask for revisions, as well as approving plans, policies and financial reports. It is a highly important stage of the IF project approval process. It involves actively EU Member States and the European Commission. Whereas EIB notes that it consults national authorities at field level, the ACP Secretariat and ambassadors regret that it is not permitted to attend IF Committee meetings, even as an observer.

Based on EQs 1 and 9

Conclusion 13. Coordination with EU and development partners, and visibility, increased

As per 2010 Mid-Term Review recommendations, EIB significantly increased its collaboration with EU (and EU Member States) both at strategic and at operational levels. This includes interactions with different Commission and EEAS services at headquarters, as well as contacts at an operational level on projects with EU delegations in the field. EIB has also engaged in several strategic partnerships with IFIs and DFIs (such as the Mutual Reliance Initiative, Boost Africa, and the SME Guarantee Facility). These efforts have strengthened coordination of IF operations with EU and
development partners, to improve alignment with EU policies and strategies, and to increase the visibility of IF operations among key stakeholders. Nevertheless, as also noted by the MBIL evaluation and the European Court of Auditors, awareness in projects at the beneficiary level, especially in financial intermediation projects of the source of IF funding remains weak.

Based on EQ 1

Conclusion 14. Monitoring of development outcomes has improved, but still faces challenges.

Tracking of development outcomes has improved since the introduction of EIB’s Result Measurement (ReM) system in 2012, which is generally well designed and based on sound development effectiveness principles. It relies on the development logic for a project being properly assessed at the outset of a project, including clear baselines, targets and indicators to measure attainment of these development objectives. Challenges remain, nevertheless, such as on the quality of reporting data by clients, especially in the financial sector, and tracking of results over the longer term. There is also limited information on IF outcomes overall, as many projects (including the 15 sample projects) were launched before the introduction of ReM or haven’t yet reached ReM+3 years.

Based on EQs 7 and 9
6. Recommendations

This chapter presents the evaluators’ recommendations, which derive from the conclusions and findings of the evaluation relating to the evaluation period. The use of reflows from the IF post-2020 is the prerogative of the European Council, and at the time of drafting there is no decision on the matter. Current recommendations are made on the basis of a continuation of the 2014-2020 institutional set-up. The recommendations are structured in three clusters: (a) fulfilment of the Cotonou mandate; (b) development additionality; and (c) operating model. They are summarised in the figure below and developed thereafter, with proposed actions and indication of their level of importance.

**Figure 20 – Set of Recommendations**

<table>
<thead>
<tr>
<th>Conclusions</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fulfilment of Cotonou Mandate</strong></td>
<td><strong>Fulfilment of Cotonou Mandate</strong></td>
</tr>
<tr>
<td>1. The IF pursued objectives of the Cotonou Agreement</td>
<td>1. Better balance between dev. objectives and financial sustainability</td>
</tr>
<tr>
<td>2. The IF is financially sustainable to date</td>
<td></td>
</tr>
<tr>
<td>3. Dev. objectives received less attention than financial sustainability</td>
<td></td>
</tr>
<tr>
<td><strong>Additionality</strong></td>
<td><strong>Additionality</strong></td>
</tr>
<tr>
<td>4. Most IF projects examined reached satisfactorily expected results</td>
<td>2. Stronger focus on LICs and fragile countries</td>
</tr>
<tr>
<td>5. Financial additionality was satisfactory, but not to full potential</td>
<td>3. Credit lines to be used in a more targeted manner</td>
</tr>
<tr>
<td>6. The IF has done relatively little in low-income and fragile countries</td>
<td>4. Business Model of Funds to be reviewed more thoroughly</td>
</tr>
<tr>
<td>7. The IF has made relatively little use of local currency lending and innovative financing instruments</td>
<td>5. More local currency finance</td>
</tr>
<tr>
<td>8. The Impact Financing Envelope shows clearer dev. additionality</td>
<td>6. More innovative financing instruments</td>
</tr>
<tr>
<td>9. TA and IRS were useful in several although not all cases</td>
<td>7. IF should pursue involvement of local/regional banks</td>
</tr>
<tr>
<td><strong>Operating Model</strong></td>
<td><strong>Operating Model</strong></td>
</tr>
<tr>
<td>10. EIB’s lean operating model for IF limited the proactive role</td>
<td>8. Sharpened focus for Impact Investing Envelope</td>
</tr>
<tr>
<td>11. IF field presence increased, but it remains relatively limited</td>
<td>9. Further technical assistance and interest rate subsidies</td>
</tr>
<tr>
<td>12. IF governance remains strong and involves actively EU MS</td>
<td>10. Adapt IF operating model to strategic approach in future</td>
</tr>
<tr>
<td>13. Coordination with EU and dev. partners, and visibility, increased</td>
<td>11. Maintained visibility efforts and more explicit consultation of ACP</td>
</tr>
</tbody>
</table>

*Source: ADE*

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126 There is no Results clusters for recommendations as there is one for conclusions, as relating recommendations are addressed under the Additionality cluster.
A. Fulfilment of the Cotonou mandate

Recommendation 1. IF should seek a better balance between development objectives and financial sustainability

While maintaining the IF’s financial sustainability at a portfolio level in the longer run, greater development impact should be sought in individual projects and at the portfolio level. The IF should better prioritise operations with higher expected development outcomes and impacts (see detailed recommendations in the next conclusions cluster). It is also recommended that the risk tolerance for IF should be similar to what it was five or six years ago. While the IFE is welcomed, it has limited resources. The main IF should therefore be prepared to take on a greater proportion of higher risk projects (but still not as risky as those that IFE finances), especially those with high expected development outcomes and impacts. The approach for the complementary use of IF and IFE in ACP countries should be made explicit (see also Recommendation 8 on IFE), including which countries are more appropriate for IFE.

Based on Conclusions 2 and 3
Importance: High

B. Development additionality

Recommendation 2. IF should have a stronger focus on low income and countries in situation of fragility

Actions to do this could include the following:

- First of all a strategic review of the ACP countries should be conducted to identify in which countries, groups of countries and regions IF will have the maximum development additionality and where there are likely to be projects with the right balance of expected development outcomes/impacts and financial risk. A particular focus for consideration should be low income countries, and countries in situation of fragility or emerging from conflict. This should be undertaken in collaboration with EU and EU delegations, as well as EU Member States (for regions where they have a strong presence), and with ACP countries. Greater emphasis should be given to countries where resources are most needed to address poverty reduction and there is the highest potential impact.

- IF should only invest in upper middle income countries (UMICs) in projects where the developmental justification is high, and IF additionality very strong.

- In regional projects (credit lines and funds) where there is mix of LICs, LMICs and UMICs there should be explicit, substantial minimum proportions that should be invested in LICs so as to avoid too high a proportion going to LMICs and UMICs where it may be easier to find opportunities.

- The financial and operational viability of projects in LICs should be enhanced where appropriate with interest rate subsidies and/or significant amounts of technical assistance.

- Likely priority sectors in LICs would include infrastructure and social services, MSMEs, climate change adaptation and environmental sustainability.

- There should be a reduction in number of IF projects being made in an opportunistic way and a greater focus on actively identifying and structuring projects that have strong
development effectiveness characteristics, including poverty reduction and climate change mitigation/adaptation.

- Closer collaboration by EIB with the policy dialogue in areas where this is useful (e.g. infrastructure, private sector development, sector-wide approach programmes). This should ensure that the EIB has a clearer view on the development needs in ACP countries.

*Based on Conclusion C6*
*Importance: High*

**Recommendation 3. Credit lines should be used in a more targeted manner**
IF should more carefully identify and target specific beneficiary groups of credit lines. It should only use the general MSME product when there is a strong development effectiveness rationale, rather than the generic approach which assumes that financing MSMEs is good developmentally. When structuring credit lines, greater attention should be given to the actual need by the financial intermediary for IF funding. Specifically, the pipeline of target potential allocations should be carefully analysed to maximise the probability that disbursement of a credit line will occur within (say) two years.

*Based on Conclusion 4*
*Importance: Medium*

**Recommendation 4. Business Model of Funds should be reviewed more thoroughly**
The ETR showed under investment by funds; regional funds’ investment in countries where opportunities are easier to identify and disbursement periods frequently longer than planned. As part of the due diligence on new funds, particular attention should be paid to their proposed business models. Are they realistic in the context of the countries, regions and sectors where they propose to invest? Also do the actual fund managers have the experience and expertise (sectoral and geographic) to actually implement the proposed business models? This will require considerable due diligence on the track records and operating methods of fund managers to ensure that they are appropriate, especially in countries and sectors where the fund will be the first into a target market or offer innovative forms of finance.

In addition, it is recommended that financial intermediary operations target more closely specific sectors or cross cutting objectives, in line with IF developmental objectives.

*Based on Conclusion 4*
*Importance: High*

**Recommendation 5. IF should provide more local currency finance**
Local currency finance is particularly important in reaching MSMEs most of which trade only in domestic markets and should not be burdened with the risks of hard currency exposure. The ability to provide such local currency loans has been a key factor in allowing the EIB IF to extend its outreach in countries that were previously underserved. IF should make greater use of local currency loans than it has so far done (16% of portfolio in 2017 compared with a limit of 40%[^127]). IF should therefore not provide dollar or euro denominated loans unless revenues of the project (or ultimate beneficiary for a credit line) are in some way tied to the currency of the IF loan/credit line such as export revenues.

[^127]: Increased from 20% to 40% in 2015. Excludes IFE. While it is noted that the limit of 40% is for risk management purposes, nevertheless the increase from 20% implies a de facto increased focus on local currency loans.
or for example an increase in the electricity tariff, in the event of the local currency depreciating or being devalued. In the infrastructure sector local currency loans where possible, or local bond guarantees, may also be more appropriate, particularly where the revenues of the toll road, telecommunications company, or power company are in local currency with no provision for tariffs, tolls, etc. to be raised in the event of a depreciation/devaluation of the currency.

_Based on Conclusion C7
Importance: High_

**Recommendation 6. IF should make greater use of innovative financing structures**

IF should make greater use of guarantees and structured financial products. The high potential of all guarantee products is clearly set out in the Operational Principles and include (i) local currency loan guarantees for individual operations; (ii) asset portfolio guarantees for financial intermediaries; (iii) local currency bond guarantees; and (iv) asset securitisation. There is a need for additional innovative financing and guarantee structures at the level of both programme and individual projects to further enhance the crowding-in of third parties to enhance the development effectiveness of IF. Instruments that are adapted to the context of least developed and countries in situation of fragility, such as the IFE or guarantees, should be more widely used/explored by EIB, to increase IF operations in higher risk projects. The risk management aspects of an increase in guarantees will need to be carefully considered and mitigated so that the financial sustainability of the IF is not compromised. This is similar to the proposal in the MBIL evaluation that “In order to maximise impact in terms of access to finance and financial sector development, the Bank should continue to explore and, when feasible, use instruments that address not only liquidity constraints, but also barriers relating to the risk of lending to SMEs and to weaknesses in the capacity of financial intermediaries and SMEs.”

_Based on Conclusions C5 and C7
Importance: Medium/High_

**Recommendation 7. IF should pursue involvement of local/regional banks**

IF guidelines specify that “special emphasis will be put on the development of the local financial sector, making it an effective channel for the financing and development of small business, and on domestic ACP capital markets, with the view to fostering their capacity to mobilise domestic savings”. IF should accordingly seek, in a systematic and proactive manner, wherever possible and appropriate the involvement of local and regional, development and commercial banks in its operations. The MBIL evaluation has a similar recommendation: “When relevant, and in order to maximise impact, the needs assessments should also result in an analysis of potential coordination with partner institutions that could, in parallel, address any legal and regulatory constraints.”

_Based on Conclusion C4
Importance: High_

**Recommendation 8. The focus of the Impact Investing Envelope should be sharpened**

The IFE is in its fifth year of operation and has complemented the IF by reaching countries and projects that would be too risky for IF (although, in our sample, the one IFE project was a regional fund based in Kenya – a country well served by IF). Geographically it needs to widen its footprint, in particular the southern Africa and Indian Ocean region where at the end of 2017 it had no projects. More projects also need to be done in the Sahel and low-income countries in central and eastern Africa. By IFE
instrument, consideration should be given to increasing the proportion for risk sharing products which was almost fully utilised by mid-2018. More effort by EIB is required to build up the social impact funds part of the IFE portfolio, a key area where IFE differentiates itself from IF. Credit lines and direct investments need to be carefully structured to make sure that they meet the high impact/high risk profile required for IFE projects. This will require, inter alia, the use of innovative instruments and blended finance (both technical assistance and interest rate subsidies). It is important that the IFE strategy (see Recommendation 1) take account of what has been learnt about the opportunities and challenges for IFE since 2014. This may require an adjustment of IFE’s focus areas, which would be normal for such an innovative programme. A more radical proposal for IFE, that may merit consideration, is for it to focus on just two product lines: guarantees (and other risk management products) and social impact funds where its effectiveness and additionality may be greater.

*Based on Conclusion C8
Importance: Medium*

**Recommendation 9. Use further technical assistance and interest rate subsidies**

Technical assistance is essential for the majority of projects outside the EU to make implementation a success. The blending of TA resources with loan and equity instruments should be increased. The possible use of TA should be considered during the appraisal and project structuring of all IF projects, and in particular projects involving financial intermediaries (credit lines and funds). If blending resources allow, TA should be used for non-project related capacity building such as improving the investment climate in LICs and countries in situation of fragility, as well as for regional initiatives to promote intra-regional trade.

Interest rate subsidies (IRS) could be used in more projects, especially in LICs and regions/countries in situation of fragility. The use of IRS in upper-middle income countries should only occur in exceptional circumstances where the expected development outcomes are particularly strong and distinctive. IRS’s should only be used in low income and lower-middle income countries where a project is not financially viable without IRS and the developmental rationale is high. In exceptional circumstances IF should be able to increase the IRS beyond the normal 50%.

Global envelopes and authorisation to enable rapid processing of blending proved valuable in terms of response time and administrative efficiency, and should continue.

*Based on Conclusion C9
Importance: Medium/High*
C. EIB operating model

Recommendation 10. Adapt the operating model to the strategic approach to be pursued by IF in the future

Changing the business model in a significant way may be considered in particular in the context of planning for IF post 2020. This will require a strategic review of what IF's objectives should be under two main scenarios:

A/ A different approach whereby it is assumed that the management fee can be determined at a level whereby IF can undertake many more projects which require considerably more time and effort on the part of EIB but which have higher expected development outcomes and impacts.

B/ A continuation of the current management fee arrangements whereby the resources available to EIB are limited so that what IF can and cannot reasonably be expected to achieve (by sector, country/region and financial instrument) are constrained.

Following such a review EU MS may be asked to sanction an increase in the management fee to implement a revised strategic approach.

A/ Under the first scenario, consideration should be given to a level of fee allowing the EIB to manage the IF under a further developed operating model. The actual amount would need to be supported by an analysis that is based on clear development and business objectives. The proposed revised management fee should be underpinned by precise targets and a detailed costing analysis. For this revised management fee, EIB should commit to a significant increase in the staffing and other resources that it allocates to IF projects, including, inter alia:

- opening more offices in ACP countries, with a particular focus on LICs and countries in situation of fragility where the need and additionality for IF is greatest, such as the Sahel and the DR Congo. The model of initially putting HQ loan officers in EU delegations is a cost effective and efficient way of putting EIB staff into the field, but could also include more local hired staff;
- a significant and sustained increase in IF’s catalytic effect by structuring and leading more transactions and being more proactive in seeking to develop projects with sponsors and promoters;
- processing more technologically complex transactions, such as the greater use of risk sharing instruments;
- processing smaller transactions in LICs, states in fragile situation and smaller countries (such as island states) which generally take longer to appraise and structure due to the low level of financial development and higher economic risks;
- providing incentives for EIB staff working on IF projects to undertake more innovative projects and become more proactive in developing IF projects that will be more developmentally effective, such as the increased use of risk management products (e.g. partial risk guarantees and local currency lending);
- providing funds to EIBs own Operations Evaluation Unit (EV) to undertake more IF/IFE related studies.
B/ Under the second scenario, IF should seek for closer, more formal links with regional development banks such as perhaps the African Development Bank, Caribbean Development Bank and Pacific Islands Development Bank whereby these banks would identify projects for co-financing with IF.

Based on Conclusions 4, 10 and 11
Importance: High

Recommendation 11. Maintain visibility efforts and consult more explicitly ACP Group
IF should maintain efforts for sustained interaction and coordination with European institutions and development partners, including with regard to proactive and professional communication activities on IF operations. It is recommended to further develop visibility especially at the level of the ultimate beneficiaries of IF funding, notably for credit lines.

Moreover, consideration should be given to allowing the ACP Secretariat to have an observer position at IF Committee meetings. It is recognised that there may be on occasion certain issues that might require the recusal of such an observer to avoid potential conflicts of interest or where delicate political issues are to be discussed.

Based on Conclusions 12 and 13
Importance: Medium/High

Recommendation 12. Monitoring and evaluation of development outcomes should be improved
Monitoring and final/ex-post evaluation of IF operations’ development outcomes should be strengthened, especially for lines of credit. Greater care and attention should be paid during appraisal to formulating ex-ante development outcome targets and indicators for projects that are both appropriate for the Results Measurement system (ReM) but also are relatively easy for clients to report on promptly. Development targets/objectives, indicators and reporting requirements should be clearly specified in finance contracts, and investment agreements should enable clients to easily and promptly provide EIB with the information required for the ReM sheets. Realistic indicators and reporting requirement should be formulated for credit lines and greater attention paid to the compliance by financial intermediaries ex-post. Reporting requirements on cross cutting issues, such as gender, E&S, and youth employment, should be encouraged or strengthened, while should take account of what is realistically possible on the part of clients. Consideration should be given to the EIB Operations Evaluation Division undertaking IF individual project evaluations and thematic ones on IF operations such as the MBIL evaluation.

Also, there are the following MBIL evaluation recommendations that this report endorses: (i) “Once a sufficient number of operations reach the end of the allocation period, Services should analyse the extent to which REM ex-ante estimates are accurate and assess whether and how the REM methodology for MBILs could be improved to make it more useful in assessing expected value added ex-ante and judging the level of success ex-post”; and (ii) “The EIB should adapt tools and processes to improve monitoring and reporting against IF policy objectives. In particular, it should explore how progress towards achieving the expectations set at appraisal stage could be monitored.”

Based on Conclusions 4 and 14
Importance: Medium
EIB Management response to recommendations

Recommendation 1. IF should seek a better balance between development objectives and financial sustainability

MANAGEMENT RESPONSE: PARTIALLY AGREE

Under the Cotonou Agreement, the central objective of ACP-EU cooperation is poverty reduction, sustainable development and the progressive integration of the ACP countries in the world economy (Article 19.1). The agreement further provides that “ACP-EU cooperation strategies [...] shall aim at achieving rapid and sustained job-creating economic growth, developing the private sector, increasing employment, improving access to productive economic activities and resources, and fostering regional cooperation and integration” (Article 20.1), through long-term financial resources, including the IF. In parallel to policy objectives, the Cotonou Agreement also establishes that the IF should aim at being financially sustainable (Annex II, art. 3).

The EIB welcomes the conclusion that the IF has fulfilled the Cotonou mandate, contributing to the Cotonou objectives of poverty reduction, integration into the world economy and sustainable development. The evaluation also acknowledges that the IF implemented the strategic orientation and guidance agreed over 16 years by the Investment Facility Committee.

Nevertheless, the EIB does not agree with the conclusion that development outcomes received less attention than financial sustainability. The IF has been a very successful instrument to finance development in the private sector, create opportunities in Africa for the vibrant young population and build resilience to climate change across the Caribbean and the Pacific. IF operations have become more targeted and more specialised over time (as EU MS priority goals have evolved), addressing underserved segments of the population, like women, young people and rural communities, with a clear development impact.

The EIB also does not agree with the premise that there is always a direct correlation between higher risk and higher development impact. High impact can still come from solid promoters that present a high-additionality project. That said, the EIB does acknowledge that a greater development focus may well have a detrimental effect on the financial sustainability of the IF in the future. In this respect, it has to be noted that the operations under the IF have always been handled in line with IF operational
guidelines, Credit Risk Guidelines and Best Banking Practices. No rejections of proposed operations have been done as far as the operations were compliant with the above-mentioned guidelines (in some cases, operations not fully in line with CRGs were approved upon provision of duly justified derogations).

The EIB believes, and it is acknowledged by the evaluators, that the IFE is an important step towards higher development impact. Aware of some concerns on this matter, the EIB proposed to EU Member States to create the IFE in 2014, used for higher-risk private sector operations with the potential to have a larger impact. Its financing capacity was further increased by more than 50%, by also making the IFE partially revolving in 2016. Under the governance of the EU Member States and the European Commission, the EIB would be prepared to consider a proposal for an extension of IFE-type lending for the post-2020 period.

Recommendation 2. **IF should have a stronger focus on low income and countries in situation of fragility**

**MANAGEMENT RESPONSE: PARTIALLY AGREE**

The Cotonou Agreement covers all ACP countries with a particular focus on Least Developed Countries (LDCs). 40% of EIB financing under IF in the considered period (2003 – May 2018) are in fragile states according to the OECD Fragile State list, which is the EU reference. 41% of the net signatures relate to fragile states and least developed countries. Further, regional projects also benefit fragile states and LDCs with 50% of total signatures.

The aim of supporting least developed countries need to be balanced out with the aim of serving as many as possible of the 78 countries that conform the ACP group, in order to generate a geographical diversification and providing benefits, combined with the Own Resources capacity, to as many countries as possible.

Recommendation 3. **Credit lines should be used in a more targeted manner**

**MANAGEMENT RESPONSE: AGREE**

The recommendation to carefully identify and target specific beneficiary groups of credit lines is in line with the recommendations in the 2017 Evaluation of EIB Intermediated Lending through the Investment Facility in ACP (EIB IG/EV report), and is already being addressed via more thematic credit lines. Examples include lines focused on:

* agricultural warehouses in Malawi (approved in May 2019);*
• businesses in specific remote geographies in New Caledonia (approved by the IFC in June 2019);
• trade infrastructure in a pan-African line (signed in 2017);
• women entrepreneurs in Ethiopia (signed in November 2018);
• agricultural value chains in Kenya (approved in November 2018); and
• further agricultural sector loans being developed in southern and western Africa.

All loans are the result of extensive discussions with the financial intermediary about maturity, currency and IF objectives. The latter point is now explicitly mentioned in all loan proposals.

The part of the recommendation regarding maximising disbursement levels is already being implemented as EIB asks for indicative pipelines before the signature of a loan, and expects the full loan to be drawn within two years.

**Recommendation 4. Business Model of Funds should be reviewed more thoroughly**

**MANAGEMENT RESPONSE: DISAGREE**

The EIB carries out a thorough due diligence on investment opportunities, reviewing inter alia the target markets, the competitive environment, the proposed investment strategy and business models, the fund manager’s skills and experience, track record, pipeline, terms and conditions. This is recognised in the market by fund managers that involve EIB early in their fundraising process as well as other investors that often await for the EIB to complete its due diligence to decide if to pursue or not an investment.

It is unclear and ETR fails to lay down what further measures could make this process more thorough as the EIB is already considered a leader among IFIs in its existing requirements and due diligence. Investment Funds are by nature platforms for aggregation of investors under common rules and with a common investment target and return targets that are based on a market approach in order to mobilise financing from a diverse investor base. The EIB appraisal deliberately takes place at the fund level only, which includes the acknowledgement of a pipeline of potential investments. Investment Funds have an independent Fund Manager that works for the benefit of all Investors and EIB’s duty is to vet the Fund Manager but it would be inappropriate and counterproductive for EIB to interfere with the individual actions of the Fund Manager during the operation of the Fund and potentially hamper the Fund capacity to attract private investors.
Recommendation 5. IF should provide more local currency finance

MANAGEMENT RESPONSE: PARTIALLY AGREE

Within the limits and procedures set under the Cotonou Agreement and the IF Guidelines, the Bank can provide unhedged local currency (LC) lending to ACP countries with a proven track-record of macroeconomic stability. LC lending under the IF is expected to be undertaken on “a prudent basis” as foreign exchange (FX) risks arising from lending in domestic currencies are typically not hedged and far greater than those associated with providing credits in widely traded currencies. Consequently, LC lending can only be extended to countries ‘characterized by macroeconomic and financial stability and whose currencies are not expected to depreciate too far or too quickly during the life of the loan’.

For eligible countries, the Bank typically makes its financing available in both local and hard currency, leaving the clients (financial intermediaries and corporates) the option to choose the currency of denomination of the loan with a view to minimising currency mismatches on the clients’ balance sheet. It is worth noting that more sophisticated banks in larger markets or across different countries may of course choose hard currency funding and manage FX risk in their own treasury. For clients choosing the LC option, FX risk is entirely borne by the IF. As per the IF Guidelines, FX risk assumed by the IF is to be adequately priced and contained within acceptable limits. To this end, an FX risk premium is added to the EIB standard pricing to mitigate FX losses that the IF might incur.

As highlighted in the 2017 intermediated lending evaluation, EIB LC loans provided EIB clients long-term LC funding that would have not been otherwise available.

Following a period of rising volumes of LC lending, macroeconomic conditions in ACP countries (in particular in Sub-Saharan Africa) have deteriorated over the past few years, resulting in considerable exchange rate volatility/sharp depreciations and more challenging conditions for LC lending (e.g. in Ghana, Mozambique, Nigeria and Zambia). The IF is bound to price FX risk. Consequently, higher volatility has reduced the anticipated LC portfolio growth, despite the EIB being one of the few IFIs able to provide LC loans. A number of countries, particularly in West Africa, are now seeing greater economic growth, and this is expected to expand the opportunity for IF loans, including in local currencies.

With reference to infrastructure projects, it should be noted that these are long-term investments with a maturity often exceeding 20 years. Given the macroeconomic uncertainty and currency volatility that generally characterise ACP countries and their currencies, it would be extremely challenging, if at all possible, to price FX risk for loans.
with a maturity of 20-40 years. The tenor for EIB LC lending has rarely exceeded 10 years. Realistically, therefore, the primary market for LC lending will remain with financial institutions and corporates for medium-term facilities.

**Recommendation 6. IF should make greater use of innovative financing structures**

**MANAGEMENT RESPONSE: PARTIALLY AGREE**

As already highlighted in the management response to the intermediated lending evaluation, the use of more riskier and/or more complex structures, beyond the traditional products, is already on-going on a case-by-case basis depending on market, counterpart and risk features of each region/country covered. Examples include the ACP Migration Package, the ACP Infrastructure Package, the Africa Energy Guarantee Facility and Boost Africa.

The use of innovative financing instruments that leverage additional finance may help to sustain projects in developing countries. The EIB is willing to set up more complex and innovative financing structures under the IF, building on the strong foundation of the existing portfolio of the IF, IFE and Infrastructure Package operations.

**Recommendation 7. IF should pursue involvement of local/regional banks**

**MANAGEMENT RESPONSE: AGREE**

The EIB takes note of the recommendation and would like to underline that we are already working with many local and regional financial intermediaries as our clients – and are shareholders in some of them - such as: the Caribbean Development Bank, the Banque Ouest Africaine de Developpement, the East African Development Bank, the Eastern and Southern African Trade and Development Bank, the Bank of Africa, the African Export-Import Bank, along with many commercial banks from the ACP region.

**Recommendation 8. The focus of the Impact Investing Envelope should be sharpened**

**MANAGEMENT RESPONSE: PARTIALLY AGREE**

The EIB agrees on the fact that the role of IFE could be strengthened under the IF to respond to the needs for innovative financial products and to enhance the development of risk-sharing products with higher development impact.

However, restricting the use of the IFE to social impact funds and guarantees as suggested in the Evaluation does not match market needs. For example, as a direct response to market demand, the IF Committee approved in 2019 a change in the
allocation for Direct Finance, from Loans to Financial Intermediaries, in order to support more private sector and project finance operations. This was a clear signal that EU Member States believe that the four IFE instruments should be preserved.

However, the EIB acknowledges that the geographical coverage could be widened in order to have an impact in a broader range of jurisdictions.

**Recommendation 9. Use further technical assistance and interest rate subsidies**

**MANAGEMENT RESPONSE: AGREE**

EIB experience indicates that the provision of Technical Assistance (TA) has a positive impact on the disbursement of funds and the implementation of projects. The benefits accrued in terms of additionality often extend beyond the project’s time frame and often lead to direct spill over effects into wider groups of local beneficiaries. Therefore, the EIB underlines the need to have a dedicated grant envelope for technical assistance and concessional finance from the EU budget and/or the EDF to replicate the existing one.

An increased TA envelope would be necessary to meet the requirements of often more complex operations to mitigate the higher degree of project and performance risk and to achieve the increased development impact proposed by the current evaluation report. Such a TA envelope should be complemented by an increased availability of EU blending resources not just in terms of technical assistance and interest rate subsidies (IRS) but also in terms of investment grants and financial instruments and to develop first loss products or other innovative financing.

The proposal to expose the IF to more projects in LIC and fragile countries, for which social infrastructure projects are prioritized, inherently requires the Bank to be able to allocate larger envelopes of TA for local capacity building measures. In addition, IRS and Investment grants are also essential in order to limit increases in public debt levels and debt exposure by the beneficiary countries.

The proposed increase in the TA envelope would also be justified in the private sector if the EIB were to undertake upstream or sector studies or review regulatory frameworks, in order to improve the investment climate in beneficiary countries. Similarly, sector-specific TA, for instance for developing agri-business value chains, might not develop new projects in the very short term but would considerably strengthen the chances of increased food production, leading to increased level of exports which could then be supported by dedicated EIB funding in the longer term.
Further justification for additional TA is to support more thematic lines proposed by the EIB which are aligned to EU priorities, such as Migration, Gender Equality, Climate action, Clean Oceans and energy outreach (to be approved in 2019-2020) which often have cross-dimensional benefits particularly in contributing to the attainment of multiple SDGs.

The availability of global authorization mechanism (under which the approval process is delegated to the EIB Management Committee) also for blended finance would streamline the approval process and would enable the Bank to respond more promptly to funding requirements.

Recommendation 10. Adapt the operating model to the strategic approach to be pursued by IF in the future

MANAGEMENT RESPONSE: NOTED

The EIB acknowledges the recommendation for a strategic review of the EIB business model in ACP countries. The two options suggested by the evaluators (A and B) will be discussed in the context of the negotiations of the 2021-27 Multiannual Financial Framework and of the possible creation of the European Bank for Sustainable Development.

The EIB takes note of option A, which suggests an increase in the IF management fee in order to increase the EIB field presence, process more complex and smaller transactions, mainly in low-income and fragile countries. As this option entails a substantial adjustment of the EIB business model in ACP countries, clear endorsement from the IF Committee and the EIB governing bodies, as well as close coordination with the European Commission and the European External Action Service (EEAS), would be needed.

As regards option B, which recommends seeking closer and formal links with regional development banks to originate projects, it is worth to mention that co-financing represents already a significant share of the EIB’s lending outside the EU. Indeed, the largest share occurs in the ACP countries, with 62% of EIB signatures by volume under the IF and the Bank’s own resources in 2018 co-financed in partnership with Development Finance Institutions, including regional development banks.
Recommendation 11. Maintain visibility efforts and consult more explicitly with ACP Group

MANAGEMENT RESPONSE: AGREE (with regard to the visibility efforts)

NOTED (with regard to the potential future role of the ACP Secretariat)

The EIB is pro-actively pursuing enhanced coordination and cooperation with the EC, EEAS and EU Delegations, including through proposing a series of concrete measures to take this forward. The common communication effort within the EU family and also with other European Development partners on projects is a key part of this, both at local level with partner countries and towards the EU citizen.

The ETR suggests to enhance visibility at the level of the ultimate beneficiaries of the IF funding. This is in line the recommendation made by the European Court of Auditors (ECA) in the “Special Report on The ACP Investment Facility: does it provide added value?” (SR No 14/2015), which requested to make sure that financial intermediaries include a reference to the Investment Facility in their on-lending contracts so that end beneficiaries are informed about the source of the funding. However, the EIB would like to underline that according to the preliminary analysis undertaken by the ECA on the follow-up of the Court’s Recommendations, this recommendation is considered as fully implemented. The systematic reference to the source of financing in the loan contracts between the financial intermediaries and the final beneficiaries is already the subject of a clause in all EIB financial intermediation contracts.

Finally, as regards the consultation with the ACP Group, discussions are held at various levels (Committee of Ambassadors, ACP Secretariat), regional and national. The role of the ACP Secretariat as well as the implication of the ACP Group in oversight of projects implemented under the Cotonou Agreement is part of the overall discussion in the post-Cotonou negotiations. The EIB will implement the principles agreed on governance by decision makers at political level.

Recommendation 12. Monitoring and evaluation of development outcomes should be improved

MANAGEMENT RESPONSE: PARTIALLY AGREE

We agree with the recommendation in general and consider the appropriate measures are already being taken. The processes are in place to ensure the quality of the results and to refine the framework further. The evaluation notes (p.81) that “conceptually, the REM framework is well designed to provide data and information on development effectiveness of the IF portfolio. The basic principles and approach are similar to what
other IFIs and DFIs have been doing”. The framework is constantly evolving and, in particular, improvements are being made to further refine some of the monitoring indicators. Further strengthening is underway on gender as part of the EIB Gender Action Plan (as raised in the recommendation) and on other social aspects, including exploring other new indicators. As the recommendation also endorses, new indicators must be realistic, balancing the ambition of more detailed indicators with what is reasonably measurable by the client. The EIB is in regular dialogue with other IFIs to exchange views on how best to improve and further harmonize our respective indicators. In terms of financial sector operations, the EIB has one of the most rigorous data collection processes among its peers and the current methodology is considered robust and most reasonable to capture the underlying financing of the SMEs.

As the conclusion (13) stresses, there is “limited information on IF outcomes overall, as many projects (including the 15 sample projects) were launched before the introduction of ReM or haven’t yet reached ReM+3 years”. As the ReM was only introduced in 2012 only a few of the operations using the ReM at appraisal have reached completion. As more projects will be completed regular stocktaking will help to further improve the completion process and will help to draw lessons learned. A first pilot on financial sector operations at completion has already yielded some lessons that are currently being implemented. This process is also responding to the recommendation made in the recent ACP MBILs evaluation. In recognition of the progress made that recommendation has been closed.

Since 2016, the EIB’s Economics Department has been implementing, in partnership with the Global Development Network (GDN) a program to carry out in-depth impact studies of selected IFE projects. So far, five impact studies were produced and presented to the IF Committee. Ten additional studies are expected by 2021. The EIB-GDN program has proven to be a strategic and innovative way to implement impact studies in an academically rigorous and lean way, with a scientific committee of high quality and reputation, while training a set of talented local researchers. The IF Management Fee has covered staff allocated to the Economics Department to fulfil IFE reporting as well as the ReM+ framework and the EIB-GDN programme.

The independent Operations Evaluation Division (IG/EV) has signalled its willingness to undertake more IF-related evaluations. IG/EV’s three year rolling work programme is discussed with key stakeholders and approved by the EIB Board of Directors on a yearly basis. As part of this process, stakeholders, including the IF Committee, may suggest topics that are of particular interest and importance to evaluate at a given moment. IG/EV takes these suggestions into account to the extent possible, keeping in mind that IG/EV’s mandate requires IG/EV to cover all of the EIB Group’s activity.
EIB Management response to specific case studies

The EIB welcomes the positive findings of the ETR that most of the IF projects examined reached satisfactorily expected results. However, the EIB disagrees with the evaluators’ views and findings on three projects out of the 15 analysed during the desk phase: the Impact Finance Envelope Fund, the agri-business and the telecommunications project.

**Impact Finance Envelope Fund** (cfr. Box 2 page 34)

The evaluation report states several times that “this investment likely would have been eligible for the IF with or without the IFE window” because of the highly competitive venture capital / private equity market in Kenya.

The EIB does not agree with this statement. First of all, in 2014, at the time of the approval of the operation, the market in Kenya was not competitive. EIB was amongst the few IFIs with a venture capital window. This operation was eligible under the IFE because of 1) the higher risk and 2) the higher impact. The higher risk was mainly due to the fact that the Fund would invest in (high risk) early stage companies focusing on services and/or products for the low income population. Moreover, this was a first-time team / fund.

The EIB did not participate in the first closing of the fund because the IFE window was not available yet. Once the IFE was set up, the EIB participated at the second closing of the fund helping to catalyze additional investors.

**Agri-business project** (cfr. EQ1 page 29, JC 1.2 and 1.3 page 33, Q6 page 58, Box 6 page 63)

The ETR questions the relevance of the agri-business project given the context of the country and the nature of the projects. The EIB does not agree as the project is highly aligned with the development strategy agreed between the EU and the National Government. The project is linked to the substantial support package provided by the European Commission to the country to restructure its sugar sector to mitigate the anticipated substantial socio-economic impacts from the latest reforms of the EU Common Market Organization (CMO) for sugar.

Moreover, the ETR wrongly states that “the agri-business project involved acquisition and relocation of an existing processing plant, and enabled the consolidation of operations at one site, thereby creating additional value. It is not a significant source of
employment and since the plant was already pre-existing it has not been a net contributor of employment”.

This is not correct as the project is not a relocation of a functional factory but a construction of a new plant using “used equipment” of an old, town-locked factory that was not functional and had stopped operation many months before, with staff being made redundant, before the promoter bought it in a distress situation at a symbolic price. The baseline for the new project in terms of employment and development impact is therefore a non-operational brownfield industrial site that was prone to be dismantled in any case, irrespective if the promoter took it over or not.

According to the evaluation, the IF was not really needed in an African middle-income country nor was the IRS justified. The EIB believes that this investment was legitimate under the IF. The EIB provides longer term finance for physical projects that are highly aligned with EU development objectives as has been recognised throughout the analysis of the evaluators. In the particular case of this project it is unlikely that a biofuel project with this risk profile (volatility, offtake, supply) would have received equivalent level of enabling support on a stand-alone basis.

The sugar market is highly volatile and project cash-flow generation capacities are not stable. Loan financing of ethanol plants is very complex and difficult. Actually, the previous plant entered distress precisely due to a lack of financing. The most likely alternative scenario for the financing of this project would have been (if at all) equity type.

Therefore, the EIB support through the IF has been highly additional to the project. Moreover, IF support is also justified in middle-income countries if it is in line with the development and resilience strategy of the country. In this case, IF financing was used to prepare the sugar sector for the anticipated impact of EU CMO sugar reform on the country.

Finally, the plant contributes significantly to climate change mitigation through the production of biofuel that replaces fossil equivalents in transport and to circular economy principles by making use of and adding value to a low value by-product of sugar production process. The unsustainable environmental profile of the pre-existing, non or intermittently operating plant is well documented by the evaluator.

**Telecommunications project** (cfr. EQ1 page 29, JC 1.2 and 1.3 page 33)

The ETR questions the relevance of this project and states that the impact on rural/poorer segments of society was limited.
As already highlighted to the evaluators, this project has to be assessed taking into account the context and the situation in the country at the time of project appraisal and preparation.

The private sector in the country was dominated by politically exposed persons to a degree that made it extremely difficult to identify projects acceptable from a compliance and reputation risk point of view. The fact that the sponsor was a joint venture between a reputable European company and a fully state-owned company allowed the project to qualify for the IF support. The IF received many other financing requests from businesses in the country, but which were declined on compliance grounds. In addition, given the political and macroeconomic context, very few International Financing Institutions were present in the country and particularly in the private sector. Therefore, the EIB believes that the IF support was highly relevant and additional.

Due to the political situation and legislative framework of the country, the company operated under a provisional license which represented a highly significant risk for its operation and also for any financier (in particular an international one). During the loan structuring phase, it was possible to identify how this risk could be mitigated to an acceptable level from a credit perspective, but this was only possible as the EIB loan was coming from IF resources. Therefore the IF’s specific risk bearing capacity was instrumental in this operation. The same can be said about the long term maturity offered by the IF loan, which is essential for an infrastructure project. The company could not access such long-term financing at an affordable cost via the commercial banks either in the country or internationally. As such, the IF loan’s added value was very relevant.

As for the impact of the project on poorer segments of the population, it has to be noted that internet infrastructure projects also serve low-income communities and enables schools, universities, other public services and internet cafés to be connected. The long-term impact of the project is expected to benefit a larger part of the population. This effect comes from all mobile technology projects in the developing world even it is only focusing on the high-income segments in the beginning. The trickle-down effect will take time to materialize as in many infrastructure projects, but it will definitely have a very strong developmental impact in the long run as broadband connections allow for new businesses to develop that will in turn lead to creation of new employment.