DG ECFIN

Mid-term evaluation of EIB's external mandate

Final report

March 2010

COWI

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List of abbreviations and acronyms

ACP	Africa, the Caribbean and the Pacific
AFD	Agence Française de Développement
AIDCO	Europe-Aid Co-operation Office
ALA	Asia and Latin America
BiH	Bosnia and Herzegovina
CA	Conseil d'administration (EIB board)
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CEDB	Council of Europe Development Bank
Comm	European Commission
COP	Corporate Operational Plan
CSO	Civil Society Organisation
CSP	Country strategy paper
DCI	Development Cooperation Instrument
DEV	DG Development
DG	Directorate General
DG ELARG	DG for Enlargement
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECFIN	Economic and Financial Affairs
EDF	European Development Fund
EERP	European Economic Recovery Plan
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
ESF	Energy Sustainability Fund
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FGD	Focus Group Discussion
FYROM	Former Yugoslav Republic of Macedonia
FRY	Former Republic of Yugoslavia
HDP	Historically disadvantaged persons
IF	Investment Facility
IFI	International Finance Institution
IPA	Instrument for Pre-Accession Assistance
IPF	Infrastructure Project Facility
ISPA	Instrument for Structural Policies for Pre-accession
KfW	Kreditanstalt für Wiederaufbau
KPI	Key performance indicator
MeHSIP	Mediterranean Hot Spot Investment Programme
MEP	Member of European Parliament
MIP	Multi-annual Indicative Programme
MIPD	Multi-annual Indicative Planning Document
MISP	Municipal Infrastructure Support Programme (in Serbia)

MOF	Ministry of Finance
MoU	Memorandum of Understanding
MS	Member states
MW	Municipal window
NDEP	Northern Dimension Environmental Partnership
NGO	Non-governmental organisation
OSPI	Other significant performance indicators
PAF	Pre-accession facility
PAM	Pre-accession mandate
PCR	Project completion report
PPF	Project Preparation Facility
PPP	Public-private partnership
RCF	Risk Capital Facility
RG	Reference group
RELEX	DG for External Relations
SAA	Stabilisation and Association Agreement
SADC	Southern African Development Community
SAP	Stability and association process
SCWP	Steering Committee of Wise Persons
SEN	Southern Eastern
SEE	South-eastern Europe
SFE	Special FEMIP envelope
SFF	Structured finance facility
SME	Small and medium sized enterprise
TA	Technical assistance
TEN	Trans-European Network
TOR	Terms of Reference
UfM	Union for the Mediterranean
VA	Value added
WB	West Balkans

Executive summary

Since 1963 the EIB has been increasingly active outside the EU. The EIB's activities outside the EU make up an average of around 10% of the EIB's outstanding total activities, amounting to EUR 8.8 billion in 2009, of which EUR 4.3 billion was in candidate and potential candidate countries.

Under the external mandates, the EIB supports EU external policies through financing operations covered by an EU budgetary guarantee in support of economic, environmental, and social sustainable development in Pre-accession, Mediterranean, Eastern Neighbours, Asia and Latin America, and South Africa. The activity in these regions is complemented by the EIB activity at own risk, specifically authorized by its Board of Governors under Article 16 of the EIB Statute.

In the Decision of the European Parliament and Council of 13 July 2009 (633/2009/EC) that granted an external mandate to the EIB for the period 2007-2013, a mid-term evaluation was requested.[1] The present evaluation covers loans under the mandates for the period 2000-2006 and the first years of the 2007-2013 mandate until end 2009. Risk capital and technical assistance (TA) activities of the EIB in the countries covered by the above decision are also included in the scope of the evaluation. The overall scope of the evaluation will henceforth be referred to as the *Programme*, cf. also the definition of the TOR.

Evaluation focus and approach

The overall purpose of the evaluation is to serve as a support for amending the decision on the EIB external mandate, including the possible increase of the guarantee ceiling by EUR 2 billion.

The main objectives of the evaluation is, first, to provide an in-depth evaluation of the relevance, performance and value-added of EIB operations against their specific regional objectives. Second, to assess the consistency of mandate operations with relevant EU external policies and strategies and of the additionality and value added of EIB operations in the first years of the 2007-2013 mandate.

The evaluation was conducted from March 2009 to January 2010 by a team of 10 international evaluation consultants. The main methodologies used were extensive document review, key informant interviews, focus group discussions

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[1] This was also foreseen in Council Decision 2006/1016/EC, which was nullified by the Court of Justice and which has been replaced by Decision no. 633/2009/EC of 13 July 2009 of the European Parliament and of the Council.

and 10 country case studies of 12 EIB operations in all regions of the external mandate.

I. Conclusion

Relevance

With the exception of the Eastern Partners mandates, the Programme relevant EU policy objectives identified for both mandate periods are broad. The Commission was not requested to provide guidance to the Bank on the interpretation of "EU policy objectives" for mandate loan operations.

The broadness of the mandate introduces the risk that some operations only have a marginal value added and that some key EU policy objectives are not sufficiently targeted.

In the Eastern Partners mandate the important policy objectives is explicitly mentioned and the risk of targeting other objectives is averted.

Pre-accession countries
The identified EU policy objectives do not contain any requirement as prioritization in mandate lending. As foreseen in the Council decision, the EIB operations reflected the priorities enshrined in the Accession and European Partnership agreements. These agreements are very broad and cover general objectives in all sectors. Further, the EIB has applied its own operational objectives, those for Member states, to operations in pre-accession countries.

The agreed upon sector indicators for EIB mandate lending in the *candidate countries* shows operations to be consistent with EU policy objectives.

Judged from the same indicators, mandate loan operations in the *potential candidate countries* in 2000-2007 is fully consistent with EU policy objectives for the period. In the present mandate, lending is dominated by global loans – whose final beneficiaries are mainly SMEs and municipalities which account for just below 60 pct. of the total. This is an exceptionally high concentration of the loan portfolio on this loan type judged from the experience from the previous mandate period and in other regions.

Mediterranean region
All Programme components in this region have been found relevant.

Eastern Neighbours
EIB Programme operations under all *Eastern Neighbours* mandates comply in full with the EU policy objectives as reflected in the Council decisions for the three mandates.

Asia and Latin America
With the exception of a transport sector project in the mandate period 2007-2013, all Programme operations have been found relevant.

This large project, a loan for the widening of the Panama Canal, accounts for 1/7 of the mandate ceiling for Latin America. Based on a thorough review of the Board report, the evaluation team has concluded that it is questionable that this project support EU presence through FDI or technology/know how transfer or to "environmental sustainability including climate change".[2]

South Africa
EIB mandate loan operations conform in full to EU policy objectives taking into account the financial instruments that the EIB has available in its mandate lending, namely loans with interest rates set on a cost recovery basis for the Bank. The work of the EIB in overseeing the implementation of the Risk Capital Facilities has contributed to ensure policy objective consistency.

Effectiveness

Feasibility of EU policy objectives
Assessing the effectiveness of the Programme requires that the identified EU policy objectives may feasibly be reached with the Programme instruments that the Bank has at its disposal.

In particular, the joint Council and European Parliament decision on the present mandate from July 2009 includes explicit references to the need to foster social and economic development impact. The findings of the evaluation show that the feasibility of this aspect is particularly questionable due to limited access to concessional funds and staff capacity.

Furthermore, in some areas of the external mandate, we find that too many objectives are set for the Bank to reach.

The process of identifying these objectives, the appreciation of the available instruments, and interviews with Bank and other stakeholders point to that this feasibility requirement is not always fulfilled.

First, with respect to the pre-accession countries the Bank is envisaged to encourage institution building in cooperation with other IFIs and with DFIs. Given that the EIB is a MS owned bank, which in accordance with its statutes is to finance projects, the institution building aspect is not specifically targeted.

Similarly, in the Eastern Partners countries, the Bank is to "enhance its activities in the countries concerned in line with appropriate conditionality consistent with EU high level agreements….on political and macro-economic aspects".

In Asia and in Latin America a multitude of objectives are set including expansion to more countries including the less prosperous ones, focus on environmental sustainability, and support of EU FDI, and the transfer of technology and know how. Given the small sizes of the regional mandates, we find it too ambitious to set this many objectives and that the associated costs in doing so should be taken into account.

In South Africa, the Bank is expected to assume a role as a development partner for the promotion of the poorer part of the economy, the so-called 'Second Economy'. Given that the EIB is a bank that finances viable projects, this can only be done indirectly, through support of the 'First Economy'.

In South Africa, we have also found that the Bank can play a role in the regional economic integration in Southern Africa; an important EU policy objective in the area. The instruments for doing so are not available as mandate loans are targeted for operations in South Africa and as the risk capital investments cannot achieve the separate regional objective set as it conflicts with other operational objectives to be reached simultaneously.

Monitoring and reporting by the Commission
The Article 21 consultation for Commission providing 'no objection' to individual mandate loan operations is a formal statutory requirement. The consultation documents, although brief, do contain some elements based on which policy consistency can be assessed. These elements should be reinforced. It should be noted that ex ante monitoring also takes place earlier in the appraisal process.

The Commission reporting to the Council and Parliament on EIB mandate loan operations does not adequately include the assessments required on contribution to EU policy objectives fulfilment. During the 2000-2007 mandate period the reporting was even on EIB objectives and priorities only.

In both mandate periods the value of this reporting as an ex-post monitoring instrument is diminished by the fact that the Council decisions defining reporting requirements stipulate that the reporting is to take into account the operational objectives of the EIB. Thus, the Commission reporting until now on EIB mandate loan operations has limited value as a monitoring tool of consistency with EU policy objectives. Provided that clearer operational guidance is given to EIB, reporting against agreed objectives will become feasible.

Mandate operations by country
Diversification of operations in the countries of a region is required only in the external mandate for ALA for the present mandate period.

Judged from the signed and pipeline operations in Latin America the geographic scope is the same as in 2000-2006. Given that 1/3 of the ceiling is as yet not earmarked for specific operations, the targeted broadening for the mandate period as a whole is still achievable. The concentration on countries is high with high shares for Brazil and Panama; the latter is particularly high taken into account the small size of the economy.

This broadening is more of a challenge in Asia. Signed and pipeline operations cover 4 countries so far against 10 in 2000-2006. About EUR 300m of the mandate is not yet earmarked with the average operation size so far in the present mandate, including signed and pipeline operations, close to EUR 100m.

Given the focused nature of the ALA mandate, operations need to be carried out in the countries where bankable operations can be identified. However, this argument is not sufficient to explain the high concentration risk of the portfolio on individual countries, in Latin America Brazil and Panama, in Asia China, India, and Vietnam.

Loan disbursement rates
The effectiveness of the general mandate for 2000-2007 using disbursements as an indicator is rather less than using loan signatures as an indicator as the disbursement rate for the mandate as a whole is only 75 pct. The disbursement performance is relatively low for project loans in the pre-accession countries and in the Eastern Neighbours region with disbursement rates of 64 pct. respectively 28 pct. This figures would improve by including the time dimension (i.e. year of signatures), for example, most operations in Eastern Neighbours have been recently signed, especially when comparing to the other regions.

In the pre-accession countries, the low rate in part reflects the emphasis on the financing of large public sector projects. Large sized projects are often complex in nature increasing the risk of implementation delays and the inclusion in the portfolio of very large loans increases the risk of low disbursement rates. The low disbursement rate also reflects the political environment in the beneficiary countries and sometimes insufficient implementation capacity of the promoters.

The low Eastern Neighbours disbursement rate includes an 85 pct. disbursement rate on the NDEP mandate for environmental priority projects, which have benefited from strong support for implementation. The broader mandate for Russia and Western NIS has a disbursement rate as low as 1 pct. demonstrating the need for technical assistance and support for project preparation as well as project implementation and for beneficiary support to the project.

Disbursement rates are normally relatively high for private sector operations as demonstrated previously.

Absorption capacity

Mandate loan absorption capacity of the promoters helps determine disbursement rates but also the availability of bankable projects. Absorption capacity may be developed through the provision of EIB non-financial value added to operations and Commission funded TA, both targeting the enhancement of promoter capacity.

The evaluation found a mixed picture of the absorption capacity in the regions under review from very high in ALA and in South Africa to rather lower levels in other regions where constraining factors are the human resources (EIB staff and TA) available for project development. The broadness of the pre-accession and Mediterranean mandates increase financing possibilities by widening the range of eligible projects whereas constraints on EIB credit risk taking decrease capacity in these and all other regions.

Constraints on absorption capacity, such as limited EIB staff and TA, are particularly relevant for complex projects such as smaller municipal projects. This reduces Programme effectiveness by affecting those projects which contribute significantly to key EU policy objectives.

Global loans

Global loans are a means of channelling mandate loans to SMEs and small scale municipal infrastructure projects. As to SMEs, the external policy objectives do not address any sector targeting or specific SME size. Based on a sample of global loans, the allocations have been channelled to a variety of economic activities.

The EIB in its global loan operations has adopted the EU definition of an SME, i.e. with less than 250 employees, except for Turkey where the limit is set at 500 employees. In a number of countries this threshold is considered 'too high' for an SME. However, about 1/3 of the allocations have been made to enterprises with less than 50 employees and another 1/3 to enterprises with 50-249 staff. With an SME definition instead of less than 250 staff, 2/3 of the allocations are below this threshold.

The above practice has not been fully enforced since 2 pct. of the sub-loans have been extended to companies with more than 500 staff.

Contractual requirements
The project case studies show that the number of contractual undertakings of finance contracts with sector conditionality are few, and with limited monitoring of and enforcement.

Monitoring of contractual requirements in general is not found satisfactory. The e-survey of EIB staff showed that time constraints for the majority often or very often affected monitoring and project follow-up.

Both factors reduce Programme effectiveness.

Operating procedures
The EIB does not develop *regional lending strategies* for use among others in the strategy dialogue with the Commission with a view to increasing the effectiveness of Mandate loan operations.

The statutory constraint on *EIB risk taking* is an important factor in the selection of projects to finance. Since 2004, the Bank has allowed for increased risk taking in the Mediterranean region through provisioning in its accounts for losses on the projects where acceptable external risk cover could not be obtained at a reasonable cost or not all. In the present mandate, 1/4 of the mandate loans signed benefit from such risk cover. The concept was extended to other mandate beneficiary countries in 2007 but has been much less used in these regions. The provisioning is allowed for projects with a relatively high degree of effectiveness.

The credit risk policy guidelines of the Bank show an attitude to risk taking on individual operations, which is very cautious and in the view of the evaluation excessively cautious. However, a positive sign has been identified in the increase in the use of EIB Structured Finance Facility (SFF) outside the EU over the last few years.

The VA and the ESIAF frameworks assess among others the contribution of mandate loan operations to the reaching of EU policy objectives. For the group of pre-accession countries the objectives set are those applying to MS. Since the VA framework does not cater for indicators and benchmarks relevant for external mandate operations, effectiveness is adversely affected. In the assessment, financial sustainability ('bankability') and a requirement of cost coverage are more important considerations.

The evaluation has found that cost coverage considerations of the Bank reduce Programme effectiveness through its impact on staff resources and on project selection i.e. targeting less complex projects with larger financing tickets.

The limited *staff resources* made available by the Bank for mandate loan operations have been found to impact not only monitoring but also to reduce effectiveness through the project selection process.

Framework for Programme activities
In some regions availability of TA for project preparation and implementation is limited, which will impact project selection in line with that deriving from staff resource constraints internally in the Bank.

Lending in local currency is only possible if the Bank can obtain exchange risk cover. This would typically be through borrowing in the same currency. The EIB has been found to pursue such opportunities actively in some regions. For example, in South Africa this has been done successfully where a very high share of lending in Rand has provided important value added to the country.

The increased use of equity funds in the channelling of risk capital funds in the Mediterranean has been found to improve Programme effectiveness.

Cover of Community guarantee
In the first mandate period, the wording of the guarantee meant that all operations for which third-party guarantees and risk sharing could not be achieved, by default would be provided a full risk cover (comprehensive guarantee). This would apply to all sovereign and sovereign-equivalent risks as well as to all other public sector risks. However, since the EIB, in accordance with its statutes, would accept sovereign and sovereign-equivalent risks only for public sector operations, the risk exposure was limited to these two types of risks.

The new mandate introduced a risk limit on sub-sovereign public sector exposures. This limit has been set at a rather low level and has been found to effectively constrain operations in one country only, but it does have a wider impact on project selection away from sub-sovereign risks.

Risk capital and TA
The risk capital and TA Programme operations have been found effective in reaching EU policy objectives as these objectives are clearly stated and explicitly targeted at the operational level of these activities.

Value added to beneficiaries
The project case studies point to the Bank providing financial value added to public sector projects mainly through the longer tenor on its loans. In the private sector, the longer tenors are available as well but not always in demand. For the shorter maturity loans of the Bank in the private sector, the financial value added is more limited, and in a single case study there was none.

As to the non-financial value added identified in the project case studies, some positive contribution of the EIB was demonstrated with potential for more provided although staff resources are a constraint in the provision of this form of value added to the beneficiary.

Additionality
The funds provided in the 'not-for profit' public sector operations of the Programme for the funding of projects have on the whole been found additional to those available in market through the longer maturities and grace periods.

In the private sector, the additionality of the EIB loans is less clear. In countries where borrowers demand maturities identical to those available in the market, EIB loans are not additional. In other countries with less well developed banking markets, the longer tenors of EIB loans makes the EIB funds additional.

The non-additionality of EIB funds have been found to apply to the loans under the support to foreign direct investment objective of the ALA. In 'normal' financial market conditions, the EIB competes with commercial banks for lending to EU enterprises to co-finance their investments in the region. The Bank may be the stronger competitor in terms of financial value added (e.g. loan tenor) but this does not make the funding any more additional.

Given the very limited size of the ALA mandates as compared to absorption capacity, the EIB lending to European enterprises necessarily must be provided to a limited number of EU enterprises which benefit from the possibly longer tenor of the EIB loan and the free-of-charge of a political guarantee. In practical terms, the EIB often lends for FDI financing to those companies known to the Bank already through financing of their investments within the EU. The value added of these operations are only supported as long as "EU presence" is an objective in the external mandate.

EU horizontal policies

The EIB is a bank that finances projects and its statutes do not provide for any *development policy* orientation of the Bank. The Bank's shareholders may direct such orientation but this has not been their focus so far.

Further internal but also external constraints limit the development role of the Bank. The wording of the external mandate adopted in July 2009 introduces socio-economic and thus development oriented objectives in the mandate. These objectives cannot be feasibly reached with the given set up of the EIB and the external framework conditions under which the Bank operates.

The policy of the EIB on *off shore financial centres* and tax havens is now in accordance with the conclusions of the G-20 summit in April 2009. The evaluation has identified mandate loans where offshore centres have been used but have not found evidence of tax evasion. The risk capital funds in South Africa are channelled mainly directly to enterprises with a few to equity funds that are locally based.

The *money laundering* issue is addressed now through the introduction of a clause in the global loan finance contracts prohibiting the use of funds to the purpose. A global loan case study contract was signed before the adoption of this policy but as the operation is with a recognized bank of good understanding, the introduction of the clause is very unlikely to have made any difference. In general, the EIB has global loan operations with reputable banks only and we not find money laundering to be any risk in these mandate operations.

As to *environmental standards,* the requirements applied for the period under review are without precise performance criteria. The environmental standards adopted from this year provides for a more effective contribution to EU environmental policies.

The *procurement requirements* of the Bank call for open tenders and are consistent with EU policies. The lack of staff resources for sufficient monitoring poses a risk for mismanagement of procurement procedures, a risk that materialized in one of the case studies.

The Copenhagen criteria that are the framework for operations in the pre-accession countries are not always accorded full attention in the appraisal of mandate loan operations. This covers issues as promotion of a market economy, equal treatment, and avoidance of distortion of competition.

Cooperation and coherence

Cooperation with the Commission

The early consultations between the Commission and the EIB for strengthened consistency with the external policy objectives of the EU has led to presentation of strategy papers of the Commission whereas the documents presented by the Bank has had limited strategic orientation. The EIB does not generally prepare lending strategies. So far, the impact of these consultations has been limited.

The consultations are particularly important in the regions where the mandates are non-targeted and where no programming takes place, i.e. in the pre-accession countries, in ALA, and in South Africa.

The FEMIP framework in the Mediterranean with the continuous involvement of the Commission reduces the need for consultations. In principle, the targeted nature of the external mandate for the Eastern Neighbours region means that consultations are not strictly necessary. However, in practice these consultations have allowed the Commission verify compliance with broader framework conditions in the different countries.

Cooperation is close on the risk capital and TA components of the Programme.

Coherence with Commission actions
In the present mandate period co-financing with the Commission has been more limited than under the previous mandate. This reflects in part that fewer co-financing means have been available in the regions where the Commission have provided such funds in both periods

The ISPA and IPA programmes are in support of transport and environment infrastructure projects. EIB lending to the former sector has been important and to the latter relatively low as compared to the totality of projects funded.

In other areas than co-finance, coherence with Community actions for maximising synergies is particularly important in the regions with a broad mandate, i.e. the pre-accession countries, the Mediterranean region, and South Africa.

The synergetic effects of coherence in actions are constrained in the pre-accession countries where the EIB applies its own lending objectives that are complementary to the operational objectives of Community programmes. The coherence in actions is limited also by the relatively low level of EIB lending to environmental infrastructure projects, which is a focal action area of the programmes managed by the Commission. This is also due to the high needs for concessional funding in this area.

In the Mediterranean region, coherence is ensured through the programming set up of FEMIP. In South Africa, no noteworthy level of coherence is achievable since the Community actions are in the form of budget support and mainly to the poorer Second Economy.

In South Africa as well as in ALA, regional cooperation is a Community priority area of action in the present mandate. In RSA this means that the regional integration objective becomes of secondary importance as the mandate loans and risk capital operations are dedicated operations in the country.

The close cooperation on risk capital and TA activities and in particular the setting of very targeted objectives for EIB Programme activities ensures coherence in actions to the extent feasible.

Cooperation and co-financing with other IFIs and with DFIs
The Council decision on the present mandate stipulates increased cooperation and co-financing in EIB mandate lending. However, before this decision the level of cooperation and co-financing was already high reflecting a statutory provision in this regard.

A number of MoUs had been entered into before this decision and the co-financing rate on mandate loans was at the level of 50-60 pct. in 2005 and 2006.

The nature of some of the cooperation agreements entered into for the execution of the present external mandate is different in that they are less strategic oriented and with more commitments of an operational nature. This applies to the mutual reliance agreement with the KfW and the AFD for the Mediterranean region and the tri-partite MoU (EC-EBRD-EIB) in the Eastern Neighbours region.

Both agreements have the potential for introducing development policy orientation in mandate lending since KfW, AFD and, partially, the EBRD all have a development orientation. The mutual reliance agreement dates from May 2009 and it is too early to draw any conclusions.

The small size and the nature of the ALA and South Africa mandates limit the scope of cooperation and co-financing with other IFIs, although this may develop in particular when the EIB is to reinforce its support climate change projects and pursue development-oriented activities. The more development oriented nature of the partner institutions in particular in South Africa also play a role.

Consistency and coherence of other EIB actions
The Council decision encourages the EIB to increase its operations outside the Community without recourse to the Community guarantee in particular in the pre-accession countries and the Mediterranean region but also in investment grade countries of other regions.

In the pre-accession countries, the own risk own resources lending continued under the PAF, which ceiling was increased. Under the previous mandate this form of lending in the Programme relevant countries were all consistent with EU external objectives. In the present period the PAF lending form of lending in the Programme relevant countries has been largely confined to Croatia and private sector operations, almost exclusively in Turkey, since an investment grade rating is required for sovereign lending. The global loans thus extended for SME on-lending is policy objective consistent whereas this is not the case for the other private sector operations.

All own risk resources lending in the Mediterranean region contributes to the reaching of identified policy objectives in the region.

The Energy Sustainability Facility for investment grade transactions is highly relevant. It is the only one set up for these borrowers outside the pre-accession countries and the Mediterranean region.

The actions of the FEMIP Trust Fund have been found complementary to those of the FEMIP Support Fund and in turn to mandate loan operations.

Coherence with EIB actions under the ACP external mandate are not relevant for considerations because of the compartmentalized nature of the mandates for ACP respectively the Mediterranean region and South Africa.

Efficiency

Mandate loans
Cost benchmarking of EIB mandate lending with loan operations of other IFIs is not possible because of the differing objectives and tasks assigned the different institutions. The Bank has been found an institution with a high degree of cost awareness with a view to reduce unit costs as well as to improve cost efficiency. However, not all unit cost reductions realized have improved cost efficiency i.e. preserved effectiveness at lower costs.

Staff productivity in terms of signed loan volumes per staff has increased but this has been at the cost of prioritising less complex and larger operations. More staff is required for mandate loan operations to ensure improved portfolio 'quality' in this regard.

The mutual reliance agreement with the KfW and AFD has been likely to improve not only Programme effectiveness but also its efficiency through delegation of appraisal and monitoring to one of the three institutions. On the other hand, the agreement indicates the *lead role* in project preparation and appraisal of the EBRD (cf. 10.3.2). However, while EBRD is responsible for the establishment of a project pipeline in practice each institution conducts its own specific appraisal while sharing the basic information and - to the extent possible - carrying out joint appraisal missions. This reflects two important facts: the superior experience and structures of the EBRD in the region and the limited staff resources at the EIB for mandate implementation.

With the limited results so far, the dialogue and early consultation process between the Commission and the EIB still needs to develop to become efficient.

Risk capital operations
The risk capital component of the FEMIP Support Fund has been found running efficiently since investments are made through equity funds with local market knowledge and lower staff costs.

The Programme activities of the RCF in South Africa are confined to overseeing and approving the operations of the fund manager. This has been found done efficiently given the multitude of EU policy objectives at the level of individual operations that have to be monitored.

Technical assistance
The technical assistance component of the FEMIP Support Fund has been found cost efficient by way of definition since services are performed by external consultants following public tender.

II. Recommendations

The following presents the general recommendations under four headings followed by specific recommendations for the regional mandates.

External mandate

1 *Review of external mandate*: If practically possible for the present mandate, the <u>feasibility</u> and <u>number</u> of objectives set in the Council decision for some of the regional mandates should be reviewed and amended to take

better into account the instruments available to the Bank and the sizes of the regional mandates.

2 *Stronger operational content in mandate*: The Commission together with EIB should ensure the undefined horizontal objective such as "environmental sustainability" in the Parliament and Council decision to be given operational content through appropriate operational guidelines.

3 *Mandates ceilings should not be targets*: Greater importance of all parties involved should be attached to the Council decision stipulation that the regional mandate ceilings are maxima only and not targets to be reached. Such recognition will help eliminate that operations that provide marginal value added to the reaching of the, now clearly defined, external policy objectives of the EU.

4 *Decreased concentration risk*: The concentration risk of the mandate loan portfolio should be controlled. It should be considered if maximum shares should be set on a country basis for operations under each regional mandate such as to avoid as in the present mandate to commit 1/7 of a mandate in a single operation with one country. It should also be considered whether maxima should be set on a regional mandate basis for the size of individual operations. To consider also is whether maxima should be set for the extension of global loans to SMEs in individual countries such as e.g. to avoid a loan portfolio structure as presently in the potential candidate countries where close to 60 pct. of the signed operations are global loans.

The increased portfolio diversification deriving from the setting of country, loan size, and/or global loan maxima will reduce portfolio risk e.g. as to portfolio disbursement rates and as to credit risk exposures. It will also increase the portfolio diversification as to contribution to external policy objectives and reduce the risk in this regard as well.

Commission - EIB collaboration

5 *Strengthened commitment in dialogue*: The procedure of dialogue and early consultation between the Commission and the EIB introduced for better consistency of EIB mandate loan operations with EU external policy should be strengthened and made committing for both parties. A crucial part of these consultations will be the proposed operational guidelines (cf. recommendation no. 2).

6 *Multiannual EIB lending strategies*: In order to further improve the early consultation procedure, EIB should be required to develop multiannual financing strategies for each regional mandate based on the above operational guidelines. This process will help clarify the definition of EIB own operational financing objectives in mandate operations.

7 *Improved Article 21 consultation:* The Article 21 consultations should include among the consultation documents explicit and clear information on the contribution of the operation to EU policy objectives at an operational level and should also address the extent to which any horizontal policy objectives, not only the environmental ones as today, are affected as well as the impact of the operation on the reaching of these objectives.

Extend of guarantee cover

8 *Community guarantee cover under the mandates should not be available to investment grade borrowers*: The own risk own resources 'facilities' lending of the Bank is, as far as public sector operations is concerned, confined to borrowers with this rating. Such facilities are not available for operations in all sectors or countries. Such that the mandate guarantee cover is presently used also to cover the risk on investment grade borrowers.

9 *The types of EIB loan operations eligible for Community guarantee cover need to be clearly defined: The Council decision for* the present mandate provides for 'EIB eligible investment projects'/'EIB Financing Operations'. The eligibility of operations should be better defined in rel*evant dimensions in the operational guidelines (cf. recommendation 2).*

10 *The setting of the ACR limit should be amended:* This will ensure that sufficient number of value-added operations in the sub-sovereign sector could be financed by EIB whilst a limited impact on the guarantee liability exposure of the Guarantee Fund.

11 *Introduction of guarantee premium for obtaining Community guarantee cover*: This should be considered to ensure more risk-return efficient use of the guarantee cover. In particular, the charging of a guarantee premium for political risks (on private sector operations) should be considered given that the other issuer of such guarantees, MIGA of the World Bank, offers such guarantees at a risk-adjusted premium.

Other general recommendations

12 *More staff required to increase Programme effectiveness:* The decision on the release of the optional EUR 2 billion guarantee cover under the present mandate should take into account the impact that the staff resource constraints of the Bank have on the effectiveness of mandate lending and the comparatively limited development orientation of Bank lending operations so far. With a more ambitious mandate in terms of development orientation and to ensure a higher value added to final beneficiaries, the current level of EIB staff – in terms of number and expertise - and TA resources should be carefully assessed. The reinforcement of resources dedicated to the project appraisal, monitoring and local presence would increase the effectiveness of the mandate.

13 *Stronger local presence and local capacity*: EIB local presence in mandate countries should be strengthened to ensure effective coordination and follow-up on projects. Likewise, sufficient technical staff resources could be available among the staff in the local offices.

14 *Maximum size of SME to be context specific*: The maximum size of an SME in a Programme operation should be defined on a regional mandate basis.

15 *Most value for money when using financial intermediaries for risk capital funds*: In the future channelling of any risk capital funds from the Community budget under the ENPI and DCI regulations, it could be investigated whether EIB as a Union institution or the direct channelling to other financial intermediaries is more effective and/or efficient.

Specific recommendations for regional mandates

16 In the group of *pre-accession countries* the need is particularly high for the Commission to define clearly and with an operational content EU operational objectives and priorities. The scope for improved coherence with Community actions is equally high and the information provided by the EIB for the Article 21 consultations should demonstrate such coherence including support to institutional type Community actions. No recommendation will be provided for any change of mandate size. In the present framework the mandate will be utilized given the high absorption capacity of Turkey.

17 In the *Mediterranean region* the region-wide EU policy objectives should become explicit in mandate loan operations including the initiative for de-pollution of the Mediterranean where important synergies with FEMIP Support Fund TA may be achieved in the next few years. An envelope for regional projects could be considered as could a general mandate increase subject to a review of absorption capacity for Programme relevant projects.

18 The *Eastern Neighbours* regional mandate should be adapted to boost the number of operations through i.a. increase in available TA resources, increase in staffing levels of EIB, and making the MOU between EIB, EBRD and the Commission more flexible.

19 The *Asia and Latin America* mandate should be refocused and increased. The FDI objective (incl. transfer of technology and know how) should be eliminated: the additionality, if any, of lending to EU enterprises in this regard has been found very limited. It is questionable whether large EU enterprises expanding outside EU should benefit EIB loans with a free of charge political risk guarantee. Regional cooperation should be introduced as an operational level objective. This would greatly increase the potential for complementarity with Community actions in this priority area of the EU. The undefined "focus on environmental sustainability (including climate change mitigation)" should be given an operational content in the operational guidelines by the EIB and the Commission.

20 In *South Africa* the Programme objectives should be narrowed and the mandate size increased. Support to the private sector should be in the form of global loans and risk capital operations. As to direct project loans to the private sector, the Bank at times competes with local financial institutions. Furthermore, the staff resources available are too limited to justify involvement in this type of operation which are more demanding as to appraisal and as to monitoring. At the same the absorption capacity in the public sector is high given the investment needs of the country. In order to enable the reaching of the EU regional economic integration objective, a regional mandate lending envelope for the co-finance South African investment in other SADC countries should be introduced.

1 Introduction

In January 2009, the Directorate General for Economic and Financial Affairs (DG ECFIN) appointed COWI A/S (DK) to conduct a mid-term evaluation of the EIB's External Mandate for lending outside the EU.

The contract was signed in March and a kick-off meeting was held on 31 March. An inception report was submitted on 15 May 2009, presenting the main findings of the inception phase and an outline of the approach and methodology to be applied for the implementation of the evaluation.

1.1 Scope of the evaluation

1.1.1 Overall scope

The Council Decision of 19 December 2006 granting an external mandate to the EIB for the period 2007-2013 calls for this mid-term evaluation to be performed.[3]

Annex II of the decision gives the TOR and the scope of the evaluation, which is to cover loans under the mandate for the period 2000-2006 and the first years of the 2007-2013 mandate, until end 2009. Also included are the risk capital and technical assistance (TA) activities of the EIB in the countries covered by the above decision. The overall scope of the evaluation will henceforth be referred to as the *Programme*, cf. also the definition of the TOR.

The kick-off meeting for the assignment clarified the scope given that the draft final report is to be submitted before the end of 2009. The evaluation is to include EIB operations under the Programme until end June 2009.

1.1.2 Definition of EIB operations under the Programme

The *loan operations* of the EIB under Council mandates in the period under review ('mandate loans') may be divided into project loans and global loans.

Project loans are made available directly to the beneficiary. The beneficiary is not necessarily the borrower, e.g., the Ministry of Finance of the beneficiary country could be the borrower for onwards channelling to the project beneficiary.

[3] Council Decision 2006/1016/EC. The Court of Justice later nullified the decision, which has been replaced by Decision no. 633/2009/EC of 13 July 2009 of the European Parliament and of the Council.

Global loans are credit lines extended to local development finance institutions, banks, and government agencies for on-lending to the beneficiary. The former types of institutions are the borrowers. Beneficiaries are in most cases either small or medium-sized enterprises or small municipalities.

Mandate loans are provided to countries eligible according to the Council decisions and are funded from the own resources of the Bank.

Risk capital operations are equity or quasi-equity investments in private sector enterprises and are funded from the EU budget. The Bank manages budget funded risk capital facilities in the Mediterranean region. Additionally, the EIB oversees the management of a risk capital facility in South Africa.

Technical assistance operations are also funded under the EU budget. A programme is set up in the Mediterranean region with the overall objective of financing TA in support of EIB investments. TA is also provided for in South Africa as part of the risk capital facility and is limited to the beneficiaries of the investments under this facility.

1.2 Evaluation objectives

The overall aim of the evaluation is to provide an input to the mid-term review of the EIB external mandate. The evaluation will serve as a support for amending the decision on the EIB external mandate, including the possible increase of the guarantee ceiling by EUR 2 billion.

The TOR of the Council Decision state two main objectives for the evaluation:

a. In-depth evaluation of the relevance and performance (effectiveness, efficiency and sustainability) of EIB operations against their specific regional objectives as originally set within the relevant EU external policies as well as of their value added.

b. Assessment of consistency with the relevant EU external policies and strategies and of the additionality and value added of EIB operations in the first years of the 2007-2013 mandate in the framework of the specific regional objectives in the 2007-2013 mandate and of the corresponding performance indicators to be set by the EIB.

In these assessments, value added of EIB operations is measured against three elements: support of EU policy objectives, the quality of the projects themselves, and alternative sources of financing. The assessments should cover:

a. Analysis of the financial needs of the beneficiaries, their absorption capacity and the availability of other sources of private or public financing for the relevant investments;

b. The assessment of the cooperation and coherence of actions between the EIB and the Commission;

c. The assessment of the cooperation and synergies between the EIB and international and bilateral finance institutions and agencies.

1.3 Overview of report

Chapter 2 of this report covers the evaluation approach and methodology as well as its organisational framework. Chapter 3 presents the mandates of the EIB included in the Programme as well as a brief overview of the activities of the Bank in those countries outside the EU not covered by this evaluation, namely the countries of sub-Saharan Africa, the Caribbean, and the Pacific Ocean.

Chapters 4-8 address, in accordance with standard evaluation criteria, the relevance of the Programme including a detailed analysis of project financing volumes by region, country, and sector.

The assessment of Programme effectiveness is presented in chapter 9.

Chapter 10 covers the consistency of EIB Programme operations with those of the EU and those of International Financial Institutions (IFI) and national Development Finance Institutions (DFI). This chapter shows the cooperation of the EIB with the EU, with other IFIs and with DFIs also to impact the Programme efficiency that the following chapter 11 addresses.

Finally, chapter 12 presents the conclusions and recommendations of the evaluation.

2 Evaluation approach and research methodology

This chapter presents the evaluation approach and research methodology applied in the evaluation process.

2.1 Approach

This mid-term evaluation of the EIB's external mandate, i.e. the Programme, encompasses two general mandates and three specific mandates over the period 2000-2009 as well as technical assistance and risk capital operations. While the evaluation is labelled mid-term evaluation, it also contains ex-post elements since the first general mandate expired in 2006.

In accordance with the detailed Terms of Reference (cf. Appendix 1), the evaluation is a comprehensive one encompassing a range of evaluation criteria. The applicability of the evaluation criteria included in the TOR (pp. 8-9) have been considered in light of the objectives listed in the TOR (p. 7) and the requirements of the general EU Evaluation Guidelines.

According to the EU Evaluation Guidelines, a mid-term evaluation should focus on relevance, efficiency and effectiveness and should assess the consistency of an intervention. Applying the EU Evaluation Guidelines, the following evaluation criteria are used:

- Relevance
- Effectiveness
- Efficiency

Impact and sustainability are normally only used in ex-post evaluations where there is a better opportunity to evaluate long-term effects of an in intervention.

However, since the TOR require a focus on results and impact, in the selection of the project case studies part of the assignment, the evaluation have prioritised those that are fully or close to fully disbursed. As a part of the effectiveness assessment, the evaluation of the case studies has centred on results, short-term impacts (actual or expected), and, whenever possible, *probability* and *potential* for long-term effects.

'Consistency' incorporates the assessment of coherence and synergies in the way the term "coherence and synergies" is used in the objectives of the evaluation (detailed TOR p. 9 and below).

The main evaluation questions
Relevance 1. To what extent are programme objectives relevant to the needs, priorities, problems and issues it was designed to address and to what extent are EIB programme objectives relevant in relation to broader EU policies and strategies?
Effectiveness 2. To what extent are the results of the Programme in line with the objectives and to what extent do EIB operations contribute to the effectiveness of the programme?
Efficiency 3. To what extent is the cost at which results have been achieved reasonable, considering costs of comparative interventions, and to what extent do EIB operational setup and the modalities for selection/lending of projects contribute to the efficiency of the programme/projects?
Consistency/coherence 4. To what extent has the Programme been complementary/supportive/ contradictory to other EU policies and programmes and to what extent has EIB exploited potential for synergies through cooperation with other stakeholders?

2.2 Organisation

A Steering Committee of Wise Persons (SCWP) supervises the evaluation as per the requirements of the Council decision calling for the mid-term review. The EIB Board of Governors has appointed the members of the SCWP, which are experts with in-depth experience of international financial institutions and also include a representative of Europe’s civil society organisations.

The committee has been tasked with supervising and providing strategic direction to the evaluation and making recommendations on changes to the present mandate including the release of an optional EUR 2 billion for EIB lending under the mandate.

Members of the Steering Committee of Wise Persons
Michel Camdessus, Former Managing Director of the International Monetary Fund
Kemal Dervis, Administrator of the UN Development Programme and former World Bank Vice President
Norbert Kloppenburg, Member of the Board of Managing Directors of KfW Bankengruppe
Manana Kochladze, Regional coordinator for Caucasus, CEE Bankwatch network
Richard Manning, Former Chair of the OECD’s Development Assistance Committee
Luis Martí Espluga, Former Executive Director at the World Bank Group
Sauli Niinisto, Speaker of the Parliament of Finland
Ewa Osniecka-Tamecka, Vice-Rector of the College of Europe, campus in Poland
Mario Sarcinelli, Lecturer of Monetary Economics
Jean-Louis Biancarelli, EIB representative
David McGlue, Commission representative

A Reference Group (RG) is responsible for the day-to-day running of the evaluation work, including providing significant amounts of background documents and statistical data. The members of the Reference Group are representatives of DG ECFIN (as evaluation manager), DG RELEX, DG AIDCO, DG ELARG, DG DEV, and the EIB.

2.3 Methodology

The complex nature of the evaluation necessitates the use of multiple evaluation instruments and involvement of many different stakeholders. The main data collection instruments are:

- Desk research of Council, Commission and EIB documents (including those listed in Annex 1 of the assignment Terms of Reference)
- Statistical analysis of Programme activities
- Interviews
- Electronic questionnaire
- Letter to Member States
- 10 country case studies with 12 project case studies

The relevance aspect of the evaluation is based mainly on desk research and statistical analysis. Interviews, electronic questionnaires, and the case studies are also important inputs to the effectiveness and efficiency aspects of the evaluation.

2.3.1 Approach to desk research

The desk research has included the following areas of analysis:

- Content of external mandates for EIB lending
- Agreements on risk capital facilities and technical assistance for EIB management
- Analysis of EU policy objectives by region and country and policy initiatives during the respective mandate periods
- Analysis of EIB strategies and Programme operations
- Analysis of Programme activities from the beginning of 2000 to end June 2009

As reflected in the TOR of the Council decision, this evaluation is to address the consistency of Programme activities with the external policy objectives of the EU.

For the purpose of clarity and to follow the overall intension of this review exercise as indicated in the Council's invitation to strengthen the link between the relevant EU policy objectives and the EIB activities outside the Community, the evaluation has attempted to structure the term "EU external policy objectives" in a way that is intended to be logic and transparent. The objective is to make it possible to assess the degree to which EIB's operations are in conformity with EU policy objectives in the regions, including the operational implication of this policy.

To enable such an analysis, we defined EU policy at two levels.

First, the country and regional strategy level, which have been explored through identifying Commission documents on country and regional *strategies* and on the pre-accession process. Second, country and regional *operational* objectives which have been identified through Commission documents on country and regional action-plans and on pre-accession. Third, in the regions where the mandates given in the Council decisions are targeted, EU operational objectives may be considered defined with the extension of the mandate.

In selecting this approach, the evaluation fully acknowledges that the operational objectives as identified above cannot be considered as exhaustive, in particular considering that the Council decision itself recognises in Recital 8 that, ‘by ensuring overall coherence with Community actions EIB financing should be complementary to corresponding Community assistance policies, programmes and instruments in the different regions’. Therefore, a broader perspective is needed to assess the relevance of EIB projects. In this context, the EIB's Board of Governors is entrusted with the right and duty to set EIB's operational policy objectives while at the same time "be consistent with and support EU policy objectives" (cf. recital (8) of the 2006 Council decision). The evaluation also recognises that each mandate operation has been approved by the Commission as part of the procedure provided for in Article 21 of the statutes of the EIB.

Thus, while the EIB pursues the operational policy set by its Board, the proposed approach will explore to what degree EIB's operations have successfully managed to cover all or only some of the broad range of EU policy objectives, which were guiding EU actions outside the EU in the period 2000-2009.

The selected approach will help inter alia to assess the complementarity and synergies of EIB financing with EU budget resources, as specified in Article 3 of the Council decision.

The most important types of document for the policy objective identification at the strategy level and at the operational level are shown in the box below.

Policy objectives	Means of verification
Strategy level	Council regulations Council decisions Cooperation and partnership agreements Summit declarations Commission communications Country strategy papers
Operational level	Financial assistance instruments (regulations) Council decisions on external mandates Multiannual Indicative Programming Documents and Multiannual Indicative Programmes Country actions plans Commission communications

The strategy level objectives have been sub-divided into those at the strategic framework level applying to both mandate periods under review and the strategy objectives specific to each mandate period.

The regional and country strategy objectives cover part of or a full budget period. Similarly is the case for the operational objectives at the regional and country levels.

In the identification of objectives, whether at the strategy level or at the operational level, we include only the objectives with Programme relevance i.e. objectives that Programme activities may feasibly support.

The regulations on Community financial assistance cover as a minimum a whole region and are according to the TOR (section (3)) among the legal bases against which EIB activities are to be evaluated.

In addition to the specific operational objectives defined for Programme activities, the evaluation also assesses EIB contribution to EU policies of a cross-cutting nature. Such policies include e.g. broad EU development policies, environmental requirements, procurement procedures, and development of a market economy. Policies of this nature are not specifically addressed in the TOR, however a member of the evaluation Reference Group pointed out their relevance in the assignment.

The contribution to these policies cannot be assessed by examining Programme activities at the aggregate portfolio level. The nature of individual operations will need to be examined. This is done either through project case studies or assessment of other individual Programme operations.

2.3.2 Statistical analysis

The evaluation is to examine project financing volumes and disbursements and to examine the effects at the project, sector, regional, and country level.

The EIB has provided primary data for signed mandate loan operations from the beginning of 2000 to end June 2009. This database showed signed loans by mandate and country, giving for each the signed, disbursed and cancelled loan amounts. Statistics on individual risk capital and technical assistance operations of the Programme in the same period have been supplied as well.

The TOR of the assignment foresees the statistical analysis of this evaluation to cover 2009 in full. However, given the need to deliver the final report before the end of 2009, the RG agreed to limit the analysis to operations signed until the end of June 2009. In order to cover as best as possible operations in 2009, information on Board approved loans not yet signed has been supplied separately and analyzed separately. This information is available also on the EIB website.

In addition, the Bank has provided statistics on individual sub-loans in a sample of 10 global loans, which the evaluation team selected. The collection of these data followed a request from the SCWP for an analysis of the end-use of the global loans extended.

The primary data for other Programme activities were supplied as part of the loan database and through making available relevant reports in final or draft form.

Based on these primary data, sector breakdowns by main sector as well as other indicators have been established.

Mandate loan operations
The statistical analysis of the mandate loans has followed a portfolio approach on a regional and a country basis allowing sector analysis at the two levels.

The EIB primary data also included a sector grouping of mandate loans. This grouping was based on a version of the NACE classification of economic activities that the EU has adopted (revision 1.1 from 2002) where groups of activities are labelled 'sections' with global loans included as a separate 'section'. This classification was found not to match the objectives of this evaluation and the stipulations of the TOR. For these reasons a 'true' sector breakdown has been defined for the purpose of the statistical analysis.

This breakdown is in order to match first, the requirements derivable from the mandates and from the identified EU policy objectives at the operational level. By way of example, the general mandate for 2007-2013 makes specific reference to investments in transport, energy, telecommunications and environmental *infrastructure* for 'Eastern Europe, Southern Caucasus, and Russia'.

Next, in the context of Programme relevance, the sector breakdown is defined to give a representative breakdown of the actual sector breakdown of the EIB loan portfolio by type of sector and by type of lending instrument. In the latter regard, this means the inclusion of global loans as a separate category mostly used to fund SMEs or small municipal projects through financial intermediaries (local banks).

These considerations result in the following sector breakdown by type of infrastructure and type of lending instrument:

- Transport
- Energy
- Environmental infrastructure
- Telecommunications
- Productive sectors
- Education and health
- Other public infrastructure
- Global loans

Environmental infrastructure conventionally includes water supply, wastewater collection and treatment, and waste management projects as well as 'curative' environmental investments covering, e.g., rehabilitation of dumpsites and waste deposits.

Lending for education and health infrastructure is a separate category since in some regions/countries, the volume of EIB loans extended is relatively important.

The sector breakdown of the EIB portfolio of signed loan agreements for each mandate on a regional, respectively country basis has been compared with the identified EU regional and country objectives for loan operations, i.e. Programme relevance.

Mandate specific loan portfolio data by region and by case study country have also been used to assess Programme effectiveness. By comparing signed loan amounts with disbursed loan amounts, the planned effects (loan signatures) may be compared with the actual effects (disbursements). However, due to the time lag between signing of loan agreements and start of project implementation, and hence loan disbursement, this effectiveness indicator is used only for operations under the mandates extended in the budget period 2000-2006.

Sub-loans of global loan operations
The 10 global loans selected were extended to commercial banks and development banks in Egypt, Indonesia, Macedonia, Romania, Serbia, South Africa, Syria, and Turkey (3 loans). The statistical analysis further included information on sub-loans under the two global loans selected as project case studies cf. section 2.3.6.

The total sample comprised 716 sub-loans. As indicator for the end-use a sector classification was established. Since these loans in most cases are targeted the private sector, the classification has to be different from the one for mandate loans overall.

The sector breakdown defined has a main division into public sector and private sector borrowers. Sub-loans to the public sector are group by type of infrastructure financed. The sub-loans to the private sector are as far as possible grouped into economic activities. The sub-loan classification established is as follows:

Borrower	Sector/activity
Public sector	Transport
	Energy
	Environmental infrastructure
	Other public infrastructure
Private sector	Trade and services
	Hotels
	Manufacturing
	Other

The category 'other' in the private sector comprises loans to activities not being for trade and services, hotels, and manufacturing e.g. to the construction sector and loans where the activity could not be determined from the information available. The loan data from the EIB supplied the name of the sub-loan beneficiary, its NACE classification and a brief (one sentence) description of the project financed. This information was not in all cases sufficient to determine the area of activity.

Risk capital facilities
The relevance of the risk capital facilities are assessed by comparing identified EU policy objectives with the nature of the risk capital operations in terms of private sector outreach and any other specific objectives. Another indicator of relevance is Commission approval of individual operations.

As to effectiveness, an indicator similar to that of loan operations is the actually carried out investments compared to the approved ones. Again, due account is taken of the time lag between operation approval and execution.

Technical assistance
The statistical analysis of the technical assistance facilities for relevance will focus on the end use of TA funds.

2.3.3 Interviews

Three types of interviews have been applied in the evaluation process:

- Key informant interviews including EIB staff, relevant IFIs, DFIs, and NGOs.
- Focus group discussions (FGD) with Commission staff in different Directorates General (DG).[4]
- Semi-structured follow-up interviews.

Interviews with EIB staff have been completed and have been followed by e-mail correspondence with interviewees on any additional issues to be highlighted.

The evaluation team conducted these interviews at the head office of the EIB in Luxembourg and at the local offices of the Bank visited (Egypt, South Africa, and Tunisia).

The interviews at the head office comprised operational as well as non-operational staff. The evaluation team had defined to the Bank with which divisions it wanted to meet. The Bank then selected the staff member(s) from each division to interview. It must be assumed then that the selected staff can adequately represent their respective divisions and inform on its working procedures. In most cases, heads of divisions were met with at times supported by senior division staff.

All interviews took their starting point in lists of issues for discussion in the respective work areas of the various divisions. In Luxembourg, some of the interviews were conducted in the presence of an EIB member of the RG. Selected IFIs and DFIs have been met with in the course of the field missions. In addition, phone interviews have been conducted with head office representatives of relevant IFIs and DFIs. The EIB has provided the list of contacts.

2.3.4 Electronic questionnaires

An electronic questionnaire was submitted to EIB loan officers and to relevant staff of the projects department (PJ) of technical experts.

Key focus areas of the questions were: process of identification and preparation of mandate loans, assessment of cooperation with IFIs/DFIs, value added of mandate loans, use of external technical assistance, staff rewards, and incentives.

The questionnaire was approved by the Reference Group. The result is shown in the table below.

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[4] DG RELEX, DG DEV, DG AIDCO and DG ELARG.

	Total submitted	No. of responses	Response rate
Loan officers	75	46	61%
PJ staff (technical staff)	82	52	63%

Box 2-1 Questionnaire response rates

2.3.5 Letter to Member States

A letter was sent to the Member States' Financial Counsellors containing three questions focusing on soliciting MS views on the role of the external mandate, and the complementarity between the EIB mandate operations and national programmes. Two questions addressed the support to the accession process and complementarity with other EU instruments and were posed to the 12 new MS only. All together 23 MS responded to the survey. The result of the survey has been included following what is relevant to the analysis.

2.3.6 Country case studies

The evaluation assessed 10 case study countries and 12 mandate loan case studies. The country case studies served two main purposes:

- assessment of the country mandate loan portfolio
- assessment of one or two mandate loan operations

Additionally, and to the extent relevant, the country studies and related field missions covered risk capital and technical assistance Programme activities.

Methodology
The country case studies are divided between an assessment of EIB Programme operations at the country level and an assessment of a specific mandate loan operation. The assessment of the country portfolio aims at evaluating:

- the value added and effectiveness of EIB operations at programme level to the case country
- synergies with the actions of other IFIs, DFIs and Community financing instruments
- EIB operational procedures as perceived by beneficiaries and other stakeholders
- EIB loan conditions and any perceived barriers to lending
- EIB conditions for other Programme activities.

The loan operation assessment at country level has its starting point in country extracts from the statistical database.

At the level of individual loan operation, the assessment aims at evaluating:

- to which extent specific EIB financed projects contribute to Programme objectives (relevance)
- to which extent specific project objectives have been achieved
- the EIB non-financial contribution to the selected operations.

Selection of case study countries and mandate loan case studies
The selection of case study countries took two main criterion into account:

1. Geographic balance such that all regions of the external mandates were presented.
2. Inclusion of the most important borrowing countries while also ensuring the representation of smaller countries.

The selection of mandate loan case studies was at the outset based on the criteria shown in Box 2-2.

In practice, the selection process was more complex as it was more difficult than envisaged to identify projects where project completion reports had been prepared, and for mandate loan period 2007-2013, loans that were close to fully disbursed. The 'close to full disbursement' was defined to include loans which had been at least 2/3 disbursed, a criterion which only 9 operations fulfilled.

1.	Project completion reports have been carried out for the selected project loans and global loans have been fully allocated for projects from 2000-2007. Projects in 2007-2013 are to be close to fully disbursed
2.	Cases for project evaluation complementary to performed and on-going EIB evaluations of projects co-funded from mandate loans
3.	Diversified sector distribution of cases taking into account relative importance of regions and countries and any explicit EU policy objectives
4.	Include project and global loans according to relative importance in total lending
5	To the extent possible and relevant select projects where EIB financing has been carried out in cooperation with other IFIs/DFIs
6.	To the extent possible and relevant select projects with innovative financing features in the country concerned and/or loan operations complementary to the making available EU budget funds (risk capital)

Box 2-2 Mandate loan case study selection criteria

Reflecting a balance between direct project loans and global loans, the mandate loan case studies comprised 10 project loans and 2 global loans. The country case study for Serbia covered 1 project loan and 1 global loan, the Tunisian one 2 project loans whereas the country case study on Lebanon included a global loan operation. The 7 other case study countries involved the assessment of 1 project loan operation.

Box 2-3 presents the case study countries and the mandate loan case studies.

Country	Sector	Project
Romania	Transport	Road rehabilitation V (EUR 240m, signed 2002)
Serbia	Global loan	Banca Intesa global loan (EUR 40m, 2006)
	Transport	Belgrade urban renewal project (EUR 90m, 2003)
Turkey	Transport	Tramway line construction in Antalya (EUR 19m, 2008)
Egypt	Energy	Power plant construction (EUR 160m, 2004)
Tunisia	Prod. sectors	Steelworks modernisation (EUR 35m, 2003)
	Transport	Enfidha airport construction (EUR 70m, 2009)
Lebanon	Global loan	'Private sector facilities' (EUR 60m, 2007)
Brazil	Telecomm.	Vivo cellular project (EUR 250m, 2007)
Laos	Energy	Construction of hydropower plant (EUR 42m, 2005)
South Africa	Prod. sectors	Establishment of steel sheet processing plant (EUR 13m, 2008)
Russia	Environment	Construction of flood barrier (EUR 40m, 2005)

Box 2-3 Case study countries and mandate loan case studies

The RG requested the Laos project case study to be a desk study as the project promoter was too engaged in project implementation and monitoring activities to accommodate a visit from a team of consultants.

The case country field missions included interviews with relevant stakeholders including ministries, project beneficiaries, the EU Delegation, IFIs, DFIs, and bilateral donors. The evaluation identified relevant stakeholders with input from the Bank. Where necessary, the EIB provided relevant contact details.

The evaluation team organised the field missions fully independently in some cases and in other cases with the assistance of Bank staff. Stakeholder interviews for the purpose of this evaluation were conducted without the presence of Bank staff. To the extent possible information and assessments received from individual stakeholders have been validated by means of other sources.

The information collected during the country case study missions has been compiled into country case study reports and feed into in particular the effectiveness and efficiency analysis, but also the relevance assessment of the Programme.

3 The external mandates

This section presents in overview form the mandates, the guarantee conditions and coverage, any sector priorities, and other relevant priorities. A more comprehensive discussion of the guarantee cover provided under the two general mandates is part of the effectiveness analysis of the Programme.

According to article 18 of the statutes of the EIB, the Bank can only lend outside the EU from its own resources and at its own risk if authorized specifically to do so by its Board of Governors in an unanimous decision.

This decision can be either for authorizing individual loan operations for co-finance of investment projects or for the setting up of a credit line type operation, a so-called 'facility' which allows the Bank to lend in specific regions for specific types of projects up to a maximum amount within a given period of time.

All other lending from own resources has to be in the form of separate mandates entrusted to the Bank.

EIB lending outside the EU under facilities or under mandates accounts for about 10 pct. of the total lending of the Bank.

The mandates of the Council for the EIB lending outside the EU covered by the mid-term review comprise for the evaluation period two general mandates and four specific mandates. Each general mandate covers the length of a full EU budget period, 2000-2007 or 2007-2013, respectively.

The specific mandates cover shorter periods, in one case overlapping between budget periods.

Outside the scope of the mid-term review are the financing operations of the Bank in countries in Africa, the Caribbean and the Pacific (ACP). Since this assignment is also to address the potential for synergies with actions in the ACP countries, this chapter includes a brief presentation of the institutional framework for the ACP external mandate and the financing instruments available to the Bank.

3.1 2000-2007 general mandate

3.1.1 Coverage

The Community guarantee is extended "in support of the Community's relevant external policy objectives".[5]

The mandate provides for a global (portfolio) guarantee covering 100 pct. of an operation within an overall limit of 65 pct. of the credits *opened* (signed) including related sums such as accrued interest.

The mandate ceiling is EUR 19,460 m with a breakdown by region as illustrated in Table 3-1.[6]

Region	Amount (EUR m)
Central and Eastern Europe	9,185
Mediterranean countries	6,520
Latin America and Asia	2,480
South Africa	825

Table 3-1 Overview of the 2000-2007 general mandate cover

3.1.2 Sector priorities

The Council Decision does not include sector priorities other than (indirectly) for the candidate countries[7] where EIB lending is to reflect the priorities of the accession partnership for each country, cf. recital (18) of the Mandate Decision.

3.1.3 Other features

Recital (18) further states that the EIB Board of Directors is responsible for the setting and review of Bank operation objectives and for the measurement of their fulfilment of relevant EU policy objectives.

The same recital also calls for EIB financing to support Community policies and to enhance coordination with the Community's other financial instruments.

Furthermore, according to the recital, the EIB should manage mandate loan operations to ensure regular consultation between the EIB and the Commission to ensure coordination of priorities and activities and to measure progress towards the fulfilment of relevant EU policy objectives.

The mandate under initial Council decision (December 1999) authorized lending on the West Balkans to Albania, Bosnia and Herzegovina (BiH) and the Former Yugoslav Republic of Macedonia (FYROM). Later amendments al-

[5] Council Decision 2000/24/EC of 22 December 1999. A 'codified' version of this Decision replacing Council Decision 2000/24/EC was approved by the Council on 23 June 2008 (Council Decision 2008/580/EC).

[6] Table 3-1 presents the updated 2004 figures.

[7] The candidate countries at the time of granting the mandate included Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia, and Cyprus.

lowed for EIB lending to Croatia[8] and the Former Republic of Yugoslavia (FRY).[9]

Whereas the mandate extended in 1999 did not include any specific lending objectives on the West Balkans, the amendments for Croatia as well as for FRY call for support to "investment activities in infrastructure and in private sector development", i.e. very broadly based objectives. By deduction, these operational objectives may be taken to apply also for Albania, Bosnia and Herzegovina, and FYROM.

3.2 2007-2013 general mandate

3.2.1 Coverage

The Community guarantee is to cover losses under loans or loan guarantees on EIB investment projects that are consistent with and support EU external policies and should be complementary to corresponding Community assistance policies, programmes, and instruments.

The guarantee still covers 100 pct. of an operation, but the global (portfolio) guarantee has been narrowed in scope to cover 65 pct. of the credits *disbursed* less repayments and including related sums.

As will be noted from the programme effectiveness discussion, the distinction is of relevance since not all signed loans are fully disbursed and as the disbursement period may be extended. Disbursements are of course the better indicator for Community risk exposure.

The mandate ceiling of the EIB operations is set at EUR 25,800m with an optional EUR 2 billion to be released subject to the outcome of the mid-term review process ending by mid-2010. As previously, the mandate is broken down into binding regional ceilings, but this time also with sub-regional ceilings, cf. Table 3-2.

Region	**Amount (EUR m)**
Pre-accession countries	8,700
Neighbourhood and Partnership Countries	12,400 *Of which:* Mediterranean: 8,700 Eastern Europe, Southern Caucasus and Russia: 3,700
Latin America and Asia	3,800 *Of which:* Latin America: 2,800 Asia: 1,000
South Africa	900

Table 3-2 Overview of the 2007-2013 general mandate cover

[8] Council Decision 2000/688/EC.

[9] Council Decision 2001/778/EC.

Re-allocation between the regional sub-ceilings is possible for the EIB by up to 10 pct. of the regional ceiling whereas the regional ceilings are binding.

3.2.2 Sector priorities

The operational content of the 2007-2013 general mandate is much higher compared to its predecessor. While the Council Decision provides specific guidance on targets and priority sectors in all the regions covered by the mandate decision, the decision also refers to "the protection of the environment" and states that "energy security of the member states should form part of the EIB's financing objectives in all eligible regions". Thus, energy security and environmental protection are horizontal objectives valid for all regions and countries.

Region	Targets and priorities
Pre-accession countries	Priorities of Accession and European Partnerships, and Stabilisation and Association Agreements for each country In West Balkans, progressive shift from reconstruction to pre-accession support Institution building For candidate countries to move from mandate financing to EIB's own resources, own risk financing
Mediterranean countries	Enhance focus on private sector development
Eastern Europe, Southern Caucasus and Russia	Transport with priority to Trans European Network axes with cross-border implications for one or more MS Energy (strategic supply and transport) Telecommunications Environmental infrastructure with particular priority to NDEP projects Close cooperation with EBRD (based on tripartite Memorandum of Understanding between the Commission, EIB and EBRD)
Asia and Latin America	Complementary to actions financed by Community budgetary instruments In support of EU objectives focus on: - environmental sustainability (incl. climate change) - energy security projects - support of EU presence through foreign direct investments - transfer of technology and know-how Work with local companies in particular within environmental sustainability and energy security In Central Asia, focus on energy supply and energy transport projects with cross-border implications and on close cooperation with the EBRD (re Memorandum of Understanding between the Commission, EIB and EBRD)
South Africa	Infrastructure projects of public interest (incl. municipal infrastructure, power and water supply) Private sector support (including small and medium sized enterprises (SMEs))

Table 3-3 Targets and priorities by region in the 2007-2013 general mandate

Table 3-3 summarizes the targets and priorities of the regional mandates extended for 2007-2013.[10] The Council decision does not make any reference to the nature of the "EU objectives" and sectors of action that the EIB actions should support in Asia and Latin America. As can be seen from the table, these objectives are for the EIB narrowed to address specific dimensions of project finance.

In 2008 the European Court of Justice decided to annul the originally adopted general mandate from 2006. The basis for this dispute lies in which of the Articles of the Treaty should be the basis for the external mandate.

The 2006 decision was based on Article 181a EC only, which concerns economic, financial and technical cooperation with third countries. However, the European Parliament had requested that Article 179 EC also be added as a legal basis, as EIB operations also fell within the scope of development cooperation policy. The Court of Justice decided that decision has two components, one of which concerns development cooperation falling under Article 179 EC, while the other concerns economic, financial and technical cooperation with third countries other than developing countries, falling under Article 181a EC.

Based on this Court of Justice decision, new text has been included in the version of the mandate that was adopted by the Parliament and Council in July 2009.

In this mandate the Council states that “EIB financing operations should [...] contribute to [...] the Treaty promoting and consolidating democracy and the rule of law, human rights and fundamental freedoms, and to the observance of international environmental agreements to which the community is a party”.[11]

The decision also refers to how EIB financing operations in developing countries should foster “sustainable economic and social development of these countries”. None of these dimensions were mentioned in the previous mandate or in the annulled Council Decision 2006/1016/EC.

3.2.3 Other features

The Council Decision stresses that in addition to granting the Community guarantee, the EIB is encouraged to increase operations outside the EU without recourse to the Community guarantee (in particular in pre-accession countries, Mediterranean countries and other countries with investment grade rating).

In Asia and Latin America (ALA) the Bank is to "endeavour" to cover a larger number of countries especially the less prosperous ones. With this wording, the statement is not a specific target but actions to be carried out on 'best efforts' basis, i.e. if feasible projects exist.

The mandate emphasises that “consistency” between EIB operations and the EU policies should be strengthened through “systematic dialogue” and “early consultation” between EIB and the Commission on strategic documents (e.g.,

[10] Council Decision 2006/1016/EC.

[11] Council Decision No. 633/2009/EC.

country and regional strategy papers), EIB strategic documents and EIB project pipeline and other policy and operational aspects.

To maximise synergy, efficiency, and risk sharing, EIB operations should increasingly be carried out in cooperation with other IFI/DFI and/or through co-financing with these institutions.

EIB should further enhance coordination and cooperation with international/European financial institutions, cooperation on sector conditionality, participation in global initiatives such as those promoting aid coordination and efficiency.

The Council decision also recommends combining EIB financing with Community budgetary resources (grant, risk capital, interest rate subsidies, technical assistance through IPA, ENPI, the Instrument for Stability, and (for South Africa) the DCI.[12]

3.3 Specific mandates

The four specific mandates, which were all extended in the budget period 2000-2006, feature clearly stated and easily verifiable objectives.

3.3.1 Reconstruction of the earthquake-stricken areas of Turkey

In 1999, before the issue of the general mandate for the following budget period, the Council established a separate mandate for the reconstruction of the earth quake stricken areas of Turkey. The mandate had a ceiling of EUR 600m for “reconstruction in Turkey over three years” for “financing of investments projects to be carried out for the replacement, rehabilitation or reconstruction of infrastructural or industrial installations”.[13] When the general mandate was decided upon, this special facility became an extension of the global guarantee under the Council decision. The guarantee cover is identical to that of the general mandate for 2000-2007.

3.3.2 EIB Special Action Programme

In December 2000, the Council established a separate mandate for Turkey in the form of a Special Action Programme in support of the consolidation and intensification of the EC-Turkey customs union.[14]

The mandate was included under Decision 2000/24/EC which was amended accordingly. Therefore, the guarantee cover for the Special Action Programme mandate is identical to that of the general mandate 2000-2007.

Under this specifically targeted programme, the Bank were to support private sector investments (incl. SMEs), investment in transport, energy and telecommunications improving the links between EU and Turkish infrastructure, investments supporting the direct investments of EU enterprises, and, if appropri-

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[12] IPA (Instrument for Pre-Accession Assistance), ENPI (European Neighbourhood and Partnership Instrument), and DCI (Development Cooperation Instrument) are the key financing instruments of the Commission for the present budget period.

[13] Council Decision 1999/786/EC of 29 November 1999.

[14] Council Decision 2000/788/EC of 4 December 2000.

ate, installations for technical installations facilitating the functioning of the Customs Union. The envelope for this specific mandate was EUR 450m.

Given the specific objective of this mandate, it cannot be deduced that other mandate loans to Turkey should support the same type of investments.

3.3.3 Environmental projects in the Baltic Sea basin of Russia

This mandate, with a ceiling of EUR 100m, grants a Community guarantee for projects in Russia with a strong environmental objective and requires EIB to cooperate and co-finance with other international financial institutions to ensure “reasonable risk sharing and appropriate project conditionality”.[15] The Council Decision also states that such projects should be of significant interest to the EU.

The mandate is geographically limited to projects in the Baltic Sea rim of Russia, notably the St. Petersburg and Kaliningrad areas. The Northern Dimension Environmental Partnership (NDEP) provides a framework for setting relevant priorities for the mandate. The Community guarantee covers the full amount of signed loans including related sums.

3.3.4 Certain types of projects in Russia and Western New Independent States

Following on from the former Russia Baltic Sea basin mandate (cf. section 3.3.3), this mandate grants a Community guarantee cover of EUR 500m.[16] The mandate was to build on the “comparative advantages” of EIB within “environment as well as transport, telecommunication and energy infrastructure on priority Trans-European network (TEN) axes having cross-border implications for a Member State”. Appropriate work-sharing between the EIB and EBRD is required.

The Western New Independent States comprise Belarus[17], Moldova, and Ukraine. The guarantee covers the full amount of signed loans and related sums.

3.4 Risk capital and technical assistance

Risk capital in the context of this evaluation is funds made available from the Community budget for investment as equity or quasi-equity in SMEs. Quasi-equity is subordinated or conditional loans. Funds may be channelled directly to the beneficiary enterprise or indirectly through equity funds.

The financial returns from the risk capital investments that the EIB undertakes flow back to the Community budget. Funds for technical assistance are also from the Community budget in the form on non-repayable grants.

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[15] Council Decision 2001/777/EC of 6 November 2001.

[16] Council Decision 2005/48/EC of 22 December 2004.

[17] The inclusion of Belarus was subject to future decision of the Commission, which however did not materialise during the period of the mandate.

3.4.1 Mediterranean region

The Community financial instruments governing the financial support to the countries of the region in the two budget periods under review each allow for EIB management of risk capital and technical assistance funds.[18]

In 1997, the Commission and the EIB entered into a risk capital funds management agreement, which is still valid. The agreement in general terms stipulates that the budget funds are for investments in the private productive sector and in the financial sector of the beneficiary countries.

For the period 2001-2006, risk capital funds of EUR 200m were made available for Bank management. From 2003 and covering the period until end 2006, TA funds of EUR 105m was allocated under the FEMIP[19] Support Fund. A framework agreement governing the use of TA funds was signed in 2003. The agreement stipulates that the funds are earmarked for the support of Bank investment activities within the FEMIP framework whether related to risk capital operations or to lending.

In the present budget period the Bank manages a combined risk capital and TA envelope of EUR 32m/year for the region.

For the sake of good order it should be mentioned that the EIB also manages the so-called FEMIP Trust Fund, which is funded by contributions from individual EU member states and the Commission. The evaluation of this fund is outside the scope of this evaluation, which covers Community funded risk capital and technical operations only.

3.4.2 South Africa

As part of its development cooperation with South Africa, the EU provides risk capital and technical assistance funds for the development of SMEs under an agreement labelled "Risk Capital Facility" (RCF). The TA under this facility is made available to the beneficiaries of the risk capital funds of the RCF.

The provision of the funds targets employment creation and economic empowerment for historically disadvantaged persons (HDP) i.e. persons discriminated against during the apartheid regime.

The local, government-owned development finance institution, Industrial Development Cooperation (IDC), has been entrusted with the management of the funds. The role of the EIB is to evaluate and approve proposals for risk capital investments and provision of TA, and to report on and evaluate the IDC management of the budget funds. The Bank is remunerated for these services.

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[18] For 2000-2006 the MEDA regulation (Council Regulation no. 1488/96) especially article 6 and for 2007-2013 the ENPI regulation (Regulation (EC) no. 1638/2006) especially article 15. It should be noted that the MEDA regulation specifically mentions risk capital and interest subsidies to be managed by the EIB. Technical assistance funding results from a "financing agreement" signed between the EC and the EIB.

[19] Established in October 2002 cf. section 5.2.1. The remainder of the 105m is expected to be committed by the EIB in 2010.

The first financing agreement was entered into in 2002 and provided for EUR 43.9m of risk capital funds and TA funds of EUR 11m for 'business support'.[20]

In 2006, an agreement on a new risk capital and TA facility was entered into for a total amount of EUR 50m of which EUR 46.3m for risk capital investments, EUR 3.7m for implementation and policy support, including evaluation and audit of the operation.[21] In addition, up to EUR 5m for “business support” (TA) is made available from reflows of the first RCF and IDC resources.[22]

3.5 ACP mandate

The framework for the operations of the EIB in the ACP countries is the ACP-EC Partnership Agreement signed in June 2000 in Cotonou (Benin). The agreement, conventionally referred to as the 'Cotonou agreement', covers a period of 20 years with revision every 5 years, the first one having taken place in 2005. The ultimate objective of the agreement is poverty alleviation.

Signatories to the agreement are the ACP states, the EU member states and the Commission. Financing under the agreement is provided from the budgets of the member states through the European Development Fund (EDF).

The funds available under the agreement are committed according to financial protocols covering periods of 5-6 years. The protocol in force covers the period 2008-2013 and is referred to as the 10th EDF (with previous protocols covering the Cotonou agreement and earlier ACP-EC cooperation agreements).

The EIB has been entrusted with the management of the financial assistance available under the Cotonou agreement for investment projects in the ACP countries. The financing instruments available to the Bank are:

- The ACP Investment Facility
- Grants for financing interest subsidies and TA
- Own resources lending with MS guarantee

The ACP Investment Facility (IF) is a EUR 3,137m risk-bearing revolving fund to foster private sector investments either through direct support to the sector or through support to establishment of the economic infrastructure on which the private sector depends for its development.

The amount available comprises EUR 2,037m from the 9th EDF and EUR 1,100m from the 10th EDF. The IF may provide assistance in the form of loans, equity, and guarantees.

Grants are available for financing interest rate subsidies and TA up to an amount of EUR 400m of which at most EUR 40m for project related TA.

[20] Financing agreement between the EC and South Africa concerning 'Private sector support programme - Risk Capital Facility' (SA/1002/00).

[21] Financing agreement between the EC and South Africa concerning 'Support to the Risk Capital Facility' (SA/007/04).

[22] Financing agreement between the EC and South Africa concerning 'Support to the Risk Capital Facility' (SA/007/04).

The ceiling for own resources lending is EUR 2,000m for the period of the 10th EDF, i.e. 2008-2013. The member states are joint guarantors on these loans with the guarantees covering the full loan principal and all related amounts.

Operations are supported within the public as well as the private sector. In 2008 projects promoted by private sector operators accounted for 41 pct. of the signed amounts, hereunder global loans to SMEs. 24 pct. of signatures included a regional dimension supporting measures to promote regional integration.[23]

On a sector basis 63 pct. of the signed loans were in the economic infrastructure sectors of water, energy, telecommunications, and transport with 30 pct. to the financial sector, notably global loans, with the remainder 7 pct. being investments in direct support of the industrial sector in the beneficiary countries.

Under the respective EDF protocols the European Commission manages grant funds. National and regional indicative programmes agreed with the beneficiary states or regional organizations determine the use of funds. Assistance is available also for actions covering all ACP states and for regional cooperation.

In the context of this mid-term evaluation it should be mentioned that South Africa, although a signatory to the Cotonou agreement, does not benefit from the financial dispositions of the agreement.

This applies also to the EDF funded Regional Indicative Programmes for the countries of the Southern Africa Development Community (SADC) of which South Africa is a member. The country can participate in the actions under this programme but its participation has to be funded from other sources, more specifically from the Community budget under the separate national indicative programme for South Africa. The EU additionally makes financial resources available to South Africa through the guarantee cover provided under the general mandates covered by this assignment.

The policy context of the set up of these regional programmes is the priority the EU attaches to regional economic integration in the SADC countries.

The scope for the EIB to contribute to the reaching of this objective as well as scope for synergies with the EIB activities under the Cotonou agreement will be addressed later in this report and in the country report for South Africa.

[23] Annual Report 2008 for "Investment Facility - ACP-EU Cotonou Partnership Agreement".

4 Programme relevance in pre-accession countries

The general mandate for 2000-2006 with the amendments from 2000 and 2001 was extended to the countries of Central and Eastern Europe (CEE), which covered all the CEE countries that had applied for EU membership as well as all countries of the West Balkans.

The mandate extended for 2007-2013 on the other hand is extended to lending in 'pre-accession countries'. Following the terminology of the DG ELARG website, this group may be subdivided into 'candidate countries' and 'potential candidate countries'.

Candidate countries are those with official candidate status, since late 2005 comprising Croatia, FYROM, and Turkey. All other countries of the West Balkans are potential candidate countries; being countries that have been promised the prospect of EU membership 'as and when they are ready'.

However, throughout almost the entire period under review, the countries of the West Balkans have formally been potential candidate countries. In June 2000, the European Council held in Santa Maria da Feira in Portugal concluded that all the countries of the Western Balkans are potential candidates for EU membership.

The term 'pre-accession countries' as defined above may then be used for the full review period of this evaluation. This is important in particular as it helps define the EU policy framework for the countries of West Balkans.

Turkey will also be included in the group of pre-accession countries. The 2000-2006 mandate initially included Turkey as part of the Mediterranean regional mandate. At the Feira European Council referred to above, Turkey was considered part of the enlargement process and hence a pre-accession country.

Already at the Helsinki European Council in December 1999, Turkey was considered as part of the group of pre-accession countries to benefit from pre-accession assistance and even considered a "candidate state".[24] In terms of defining EU policy objectives for Turkey, the country should then be included as a candidate country for the full review period.

[24] At the Luxembourg European Council in December 1997, Turkey was confirmed eligible for EU accession.

First, the chapter will deal with programme relevance for the region and next, programme relevance for the case study countries of Romania, Serbia, and Turkey.

The identification of any adopted EIB lending strategies for the implementation of the external mandates and fulfilment of EU policy objectives in this and the following chapters addressing Programme relevance is based on strategy documents that the EIB has made available to the evaluation and on interviews with relevant stakeholders.

4.1 EU programme objectives for the region

In the establishment of EU programme objectives for the region of pre-accession countries, a distinction should be made between those for all pre-accession countries and those specifically targeting the countries of the West Balkans (WB).

In the 2000-2006 mandate, Turkey is addressed separately since the country was not covered by any broader regional strategy.

4.1.1 Overall strategic policy framework

Programme relevant EU objectives at the overall strategic level covering the full period under review are summarized in Box 4-1.

Overall strategic policy framework	
Enlargement process for pre-accession countries	1. "Copenhagen criteria" for *candidate* status: i) stable institutions (democracy, human rights, rule of law) ii) a functioning market economy iii) ability to assume the obligations of membership 2. For *accession*: transposition, implementation, and enforcement of the acquis communautaire.
Stability and Association Process for pre-accession countries of West Balkans	1. Stabilise countries and encourage swift transition to market economy 2. Promote regional cooperation 3. Eventual membership of the EU

Box 4-1 Overall strategic policy framework in pre-accession countries

The *Copenhagen criteria* were set at the European Council in Copenhagen in December 1993 as criteria for countries to receive official *candidate status*. In that regard, the criteria apply to all potential candidate countries.

The requirement for actual *accession* regarding transposition of EU legislation into European law as well as implementation and effective enforcement thereof was set at the 1995 Madrid European Council. The individual countries may negotiate transition periods for implementation of relevant directives and regulations. This accession requirement would apply to all pre-accession countries since the ultimate aim is accession.

The *Stability and Association Process* (SAP) for West Balkans commenced in early 1996 following the peace agreement of the previous year when a General Affairs Council meeting concluded among other things that a process for ensuring stability in the region could be started.

The long-term aim of the SAP is to replicate the transition process of the CEE countries towards reaching candidate status.

4.1.2 Regional strategy objectives

Box 4-2 below summarizes Programme relevant regional strategy objectives for each budget period.

Regional strategy objectives	
2000-2006	
Candidate countries of CEE: Enhanced pre-accession strategy	The enhanced strategy is to enable all applicants to become members of the EU with the highest possible alignment with the acquis communautaire prior to accession.
Turkey: Pre-accession strategy	Mobilisation of the investment needed to bring its industry and infrastructure up to Community standards through EU investment support.
Pre-accession countries of WB: SAP	Regional objectives contained in a dynamic adjustment of SAP strategic objectives, including in 2003 emphasizing TEN transport and energy projects and pan-European transport corridors, as well as small enterprises
2007-2013	
Candidate countries	Transposition and implementation of the acquis.
Potential candidate countries of WB	Continuation of SAP with increasing focus on reforms to approach European standards, increased focus on equitable and sustained economic development, including creating favourable conditions for SMEs.

Box 4-2 Regional strategy objectives in pre-accession countries

Objectives 2000-2006

The *enhanced pre-accession strategy* was launched at the European Council meeting in Luxembourg in December 1997 for the 10 applicant states of CEE (excluding Turkey). Its two key components are introduction of accession partnerships with the individual applicant country and increased pre-accession aid for better compliance with accession priorities.

The accession partnerships define the principle, priorities, intermediate objectives and conditions for preparing for accession[25] and are the key reference for defining the EU policy objectives to be targeted by EIB financing, as foreseen in Recital 18 of Council decision 2000/24/EC. The evaluation recognises that these partnerships include a very broad set of priorities, thus leaving ample scope to the EIB governing bodies to define EIB operational objectives. The country partnerships will be dealt with in the section on EU programme objectives on a country basis for the selected case study countries.

The pre-accession strategy for Turkey is contained in the Accession Partnership agreement entered into in 2000.[26] The agreement considers the EU investment

[25] Cf. Council Regulation (EC) 622/98 on assistance to the applicant states in the framework of pre-accession strategy, and in particular the establishment of Accession Partnerships.

[26] Council Decision 2001/235/EC.

grants made available as a catalyst for attracting co-finance of projects relating to pre-accession priorities among others from the EIB.

In the *West Balkans*, the SAP is not only a policy framework, but also a regional strategy. For instance, the Commission SAP annual report for 2002 defines SAP as a "strategy for accession".[27] With the increased stability in the region, overall objectives have changed with much more focus on accession.

The SAP initially envisaged Stabilisation and Association Agreements (SAA) with each country of the WB to be drawn up when sufficient progress in economic and political reform had been achieved.

The General Affairs and External Relations Council Meeting held in Thessaloniki in June 2003 defined "The Thessaloniki Agenda for the Western Balkans - Moving towards European integration". The agenda includes the drawing up of European Partnerships to replace the SAA, which would identify priorities for action in supporting efforts to improve alignment with EU policies and standards.

The Council invited the Commission to liaise with the EIB in order to present by year end a plan for the public investments needed for financing of priority transport networks for better connection of the WB with EU member states. The Council took note of the priority attached under the TEN Energy Guidelines of the EU to improve power distribution connections between the WB and the EU. Environmental protection is cited as an important element of sustainable development.

In this regard "the Regional Environmental Reconstruction Programme for South Eastern Europe" (REReP) had been set up in 2000 already under the Stability Pact as the main component to help improve the environmental policy framework in WB with a view eventually to compliance with the obligations of the environmental acquis of the EU.[28]

The Thessaloniki Agenda emphasized the importance to improve the environment in which SMEs operate and the countries of the WB were invited to commit themselves to the principles enshrined in the European Charter for Small Enterprises. This charter was adopted at the Feira European Council in June 2000.[29]

The charter emphasizes the need to facilitate the development of small enterprises. The Charter itself welcomes initiatives by the EIB to increase funding available to start-ups and high technology enterprises, including equity instruments.

Objectives 2007-2013

The pre-accession strategy objectives for the candidate countries for 2006-2007 are outlined in a 2006 communication from the Commission: "Enlargement strategy and main challenges 2006-2007".[30] Focus is to be on the transposition

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[27] COM (2003) 139 final: "The Stabilisation and Association Process for South East Europe - Second Annual Report".

[28] COM(2004) 202 final: "The Stabilisation and Association Process for South East Europe - Third Annual Report".

[29] Annex III to the conclusions of the Presidency of the Council held 19-20 June 2000.

[30] COM (2006) 649.

and implementation of the acquis as was the case for the candidate countries of the 2000-2006 period.

The enlargement strategy paper for 2007-2008 stresses the need to prepare future member states for fulfilling their (acquis) obligations upon accession.[31]

A separate Commission communication in 2006 outlines the WB regional strategy within the SAP framework.[32] The Programme relevant strategy is linked to the Community financial assistance provided for 2007-2013 to co-fund infrastructure investments and regional development. The Commission sees a continued need in the WB to move from reconstruction to economic development and integration, and foresees in this regard EIB mandate lending to play a more important role in the financing of infrastructure projects.

The Communication emphasizes the importance of creating favourable conditions for SMEs through reform efforts and for the small enterprises by pursuing the Small Enterprises Charter process.

4.1.3 Regional operational objectives

Box 4-3 summarizes EU policy objectives at the operational level in the two budget periods in line with the methodology outlined in section 2.3.1 and where we have been largely confined to identifying the operational objectives from the Community financial instruments in force in the two budget periods.

Operational objectives 2000-2006
For the period 2000-2006 the relevant Community financial instruments are the PHARE programme, the ISPA programme for candidate countries, and the CARDS programme for the countries of the West Balkans.

No joint regional objectives can be identified from Accession and European Partnership (EP) agreements. The concept of an EP was introduced only in 2003 for the countries of the West Balkans and most agreements were entered only in 2006.

As part of the PHARE programme the Commission in 2002 set up the Municipal Finance Facility for co-funding of municipal infrastructure investments with the EIB, EBRD, KfW, and the Council of Europe Development Bank (CEDB) in smaller and medium sized municipalities including the Programme countries of Bulgaria and Romania. This facility signifies the operational importance to the EU of providing such infrastructure covering the sectors of transport, energy, and environmental infrastructure. A Cross Border Facility objective under PHARE had the same objective.

Agenda 2000 is a comprehensive action programme launched in 1999 to strengthen Community policies and establish a financial framework for the EU for the period 2000-2006 in the view of the upcoming enlargement. The Programme relevant actions are the introduction of a new financial mechanism in the form of the Instrument for Structural Policies for Pre-Accession (ISPA) and

[31] COM (2007) 663 final.
[32] COM(2006) 27 final.

a redirection of the financial assistance under the existing PHARE programme[33] to become a pre-accession financial instrument.

Funds from ISPA were earmarked for large-scale investments in environmental and transport infrastructure[34] in order to help align applicant countries to Community infrastructure standards by co-financing investments.

From 2000, funds under PHARE would focus on institution building and related supporting (and small-scale) investments. PHARE would no longer support environmental and transport infrastructure investments.

The importance to the EU of the need for ensuring the implementation of the necessary (public) investments for acquis compliance is in evidence also by the fact that Agenda 2000 doubled the amount of pre-accession aid available to the candidate countries of CEE.

By far the larger investment needs are found in environmental infrastructure where the environmental acquis sets specific requirements for the type of environmental services to be provided, entailing large-scale investments. In 1997, the Commission estimated the environmental needs of the candidate countries of CEE at some EUR 120 billion or corresponding to about 4 pct. of their combined GNP.[35] By way of comparison, ISPA funds for environmental investments would be about EUR 0.5 billion per year in total.

The investments in the transport sector on the other hand are to comply with Community guidelines for establishing Trans-European Networks (TENs) and developing pan-European transport networks.

At this operational level, the focus of ISPA is on co-financing investments for the candidate countries to assume the obligations of membership. Therefore, the relevant focus area for the EIB in connection with ISPA would be to co-finance environment and transport infrastructure investments.

Indeed, article 5(2) of the regulation states that the Commission is to ensure consistency and coordination of measures undertaken under ISPA with EIB operations, including not only mandate loans but also those under own risk, own resources 'Pre-accession Facility' of the Bank, cf. later discussion.

Turkey would also benefit from ISPA and PHARE funds for pre-accession.

For the *West Balkans* pre-accession countries, operational objectives are contained in a Council Regulation for Community assistance to the region (CARDS).[36]

Under the CARDS regulation, the guarantee cover to the EIB under the mandate is considered to be an integral part of Community assistance, cf. recital (16) on the need for amending the existing mandate (extended later in 2000). Article 6 makes specific mention of the EIB lending mandate.

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[33] Council Regulation no. 3906/89 (EEC) establishing the PHARE programme.

[34] Cf. Council Regulation (EC) 1267/1999 on establishing ISPA.

[35] European Commission: "Compliance Costing for Approximation of EU Environmental Legislation in the CEE Countries", April 1997.

[36] Council Regulation (EC) 2666/2000 on assistance for Albania, BiH, Croatia, FRY and FYROM (CARDS Regulation).

Regional operational objectives	
2000-2006	
All	*PHARE:* Provision of municipal infrastructure (transport, energy, environment)
Candidate countries (incl. Turkey)	*Agenda 2000*: Increased financial aid for co-financing investments required to assume acquis obligations
Potential candidate countries	*CARDS regulation:* Community assistance for reconstruction, sustainable economic development, and social development, including environmental rehabilitation implemented by financing investments and institution-building programmes.
2007-2013	
Candidate countries	*IPA regulation:* Adoption and implementation of the acquis communautaire
Potential candidate countries	*IPA regulation:* Acquis alignment and social, economic and territorial development including infrastructure investments. *Among which especially Infrastructure Project Facility:* Municipal projects in transport, environment, energy, health and education sectors with priority to environmental investments especially in water supply and waste management.
All pre-accession countries	*Multi-beneficiary MIPD 2007-2009 and 2008-2010:* - infrastructure investments on transport, energy, environmental infrastructure, and from 2008 the social field - private sector support incl. SMEs - energy efficiency (from 2008) *Crisis response package: launched in Nov 2008 and approved end 2009* - increased support to micro-enterprises and SMEs - investments in energy efficiency - increased support to municipal investments *Feb 2009: Joint IFI action plan:* Rapid and sizeable financial assistance to strengthen banks and support lending to the real economy, SMEs in particular.

Box 4-3 Regional operational objectives in pre-accession countries

Finally, in 2003 the work under the REReP led to the development of a priority environmental investment programme for the countries of the WB with a list of environmental infrastructure projects to be developed and implemented.

Operational objectives 2007-2013

IPA regulation
For candidate as well as potential candidate countries, the operational objectives of Community funding are set within the framework of the new and single financial instrument of the EU, the Instrument for Pre-accession Assistance (IPA).[37]

[37] Council Regulation (EC) no. 1085/2006.

The objective of the IPA regulation is the progressive alignment of the beneficiary countries with the standards and policies of the EU, including where appropriate the acquis communautaire, with a view to membership.

Assistance for all beneficiary countries may include among other things reconstruction and regional and cross-border cooperation.

Targeted for the candidate countries is adoption and implementation of the acquis communautaire, including the investment related parts of the acquis as was the case for the stipulations of the ISPA Regulation in force until end 2006.

Assistance to potential candidate countries may include 'some' alignment with the acquis and social, economic and territorial development, including infrastructure investments and investment related activities in particular in the areas of regional, human resource and rural development.

As part of the IPA assistance regional (multi-beneficiary) Multi-annual Indicative Planning Documents (MIPD) have been defined covering regional assistance to all beneficiary countries. This form of MIPD will hence include regional operational objectives.

The first such programme covers the period 2007-2009.[38] The programme sees the EIB as a main actor (along with other IFIs and DFIs) in the provision of infrastructure (including energy, environmental infrastructure and transport), in improving financial intermediation, and in the strengthening of the market economy hereunder access to finance for SMEs which is considered a major obstacle to development of the private sector.[39]

Provision of energy, transport, and environmental infrastructure are seen as prerequisites for private sector development. The MIPD sees the Commission co-funded set up of project preparation facilities (PPF) in these sectors as a means to attract funding from IFIs, including the EIB, for implementation of investments.

Such IPA funded PPFs have included for the West Balkans support to project preparation under the Danube-Black Sea (DABLAS) task force for protection of water and related ecosystems, and an Environmental Project Preparation Facility.[40] The emphasis on environmental infrastructure projects is linked not only to needs but also to the fact that project preparation for these types of projects is more comprehensive involving capacity building and training to improve operational and financial performance and to ensure the sustainability of the projects.

The multi-beneficiary MIPD for 2008-2010 highlights the need for support from IFIs in 3 strands: infrastructure investments in transport, environment, energy, and in the social field, energy efficiency, and private sector development including facilitation of investments of SMEs.[41]

[38] Commission decision C(2007) 2005 of 29 May 2007.

[39] Pp. 12 and 29-31 of the MIPD.

[40] Commission project fiche on "IPA Centralised Programme - Horizontal Programme on Environment in the West Balkans".

[41] Commission decision C(2008) 3585 of 17 July 2008, pp. 24-25.

Under the first strand in 2008, the Commission set up, with the support of the CEDB, the EBRD, and the EIB, the Infrastructure Project Facility (IPF) for funding of project preparation and for co-funding of investments.[42] The EIB is an implementing agent under the IPF that co-finances investments. The IPF-MW (Municipal Window) has environmental investments as its priority.

Formally, all pre-accession countries are eligible under the IPF. However, in practice the three candidate countries are not eligible since these countries have rather more national IPA funds available for regional development and for use for project preparation and co-financing of transport and environmental investments[43], i.e. in line with the investment needs for acquis adoption. The implementing regulation for IPA sets transport and environmental infrastructure investments as the first two priority areas in regional development.[44]

As highlighted in the IPF Municipal Window fiche, all pre-accession countries have set the financing of water supply and waste management investments as short or medium-term priorities in their Accession Partnerships (candidate countries) and European Partnerships (potential candidate countries).[45]

In February 2008 it was agreed to create a broader Western Balkans Investment Framework (WBIF) also including investments in other socio-economic sectors such as the private sector (incl. SMEs) and energy efficiency. The WBIF was discussed and endorsed by the ECOFIN Council for official launch by the end of 2009.

The IPA regulation foresees the possible involvement of the EIB in co-financing of IPA projects as an EIB representative may be an observer on the IPA Committee as regards issues of relevance to the Bank.

According to the regulation, it is the Commission and the MS that are to ensure coherence between IPA assistance and other Community and MS assistance as well as that of the EIB.

Crisis response package

As part of its European Economic Recovery Plan (EERP) launched in November 2008[46] and mainly targeted MS, the Commission prepared a "crisis response package" for all pre-accession countries, which was eventually approved end-2009.

From the side of the Commission, financial assistance under the 2009 IPA Programme in an amount of EUR 120m is made available for micro credits (EUR 10m), SME loans (EUR 10m), lending to energy efficiency projects (EUR 30m) and to municipal investments (EUR 60m).[47]

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[42] The IPF operational objectives in box 4-3 are given in a Commission project fiche on IPF TA (p. 1) and in a Commission project fiche on IPF investment grants (MW).

[43] Project fiche on IPF-TA p. 17.

[44] Commission Regulation (EC) no. 718/2007 art. 147.

[45] Project fiche on the Municipal Window of the IPF, p. 2.

[46] Communication from the Commission to the European Council: A European Economic Recovery Plan, COM(2008) 800 final, 26 November 2008.

[47] Commission staff working paper: "EU regionally relevant activities in the Western Balkans 2008/09", SEC(2009) 128 final, 3 February 2009.

The Commission communication on the EERP expects the Community investment grants to leverage IFI loans of EUR 500m.

Joint IFI action plan
In February 2009, the EBRD, the World Bank Group, and the EIB Group announced a joint action plan to support the banking sectors and lending to the real economy, in particular SMEs in Central and Eastern Europe. The plan includes loan *commitments* of up to EUR 24.5b and covers the EU-10, Western Balkans, Turkey, Eastern Neighbours and Central Asia.

The EIB commitment is EUR 11.0b of which about half, EUR 5.7b, are undrawn amounts under existing global loans to SMEs. The commitment is said to be "part of the EIB volume increases under the EERP". This is so given that the EERP also covers the 10 new MS from CEE that are also covered under the Joint IFI Action Plan.

According to the communiqué the Bank pledges by end April 2009 to have committed an additional EUR 2.8b to SME credit lines in the MS and the pre-accession countries; an increase of 50 pct. bringing up the commitment total to EUR 8.5b against the EUR 11.0b target.

The EU gave the plan its full backing also as it addressed the considerable exposures of some EU banks in other MS and in pre-accession countries.

4.2 EIB regional strategies and operations

The programme instruments available to the EIB in pre-accession countries cover mandate loans only.

4.2.1 Mandate period 2000-2007

Except for a few sector specific strategies (e.g. water sector in Romania), no separate regional mandate lending strategies were drawn up for either candidate countries or for potential candidate countries. Instead, information contained in other strategy related documents of the Bank including the relevant Corporate Plans (COP) has been drawn upon.

Lending strategies in candidate countries
The candidate countries benefiting from mandate loans comprised Bulgaria, Hungary, Lithuania, Romania, Slovakia, Slovenia, and Turkey.

In line with the 1999 mandate decision, loans to other candidate countries with higher credit standing (usually investment grade[48]) and with projects of better quality and lower risk were extended at the own resources and own risk of the Bank. These loans were extended under the Pre-accession Facility (PAF) established in 1998 in accordance with the provisions of article 18 of the Bank's statues. The PAF was renewed in 2000 for running until 2010 with a ceiling amount of EUR 19,500m.

The mandate lending was highly concentrated country-wise with 55 pct. going to Turkey, 28 pct. to Romania, and 7 pct. to Bulgaria. The share of the remain-

[48] A credit rating of at least BBB according to the Standard & Poor's methodology.

ing countries was low as the countries were transferred to benefit only from PAF loans.

Since only the credit standing of a candidate country would determine whether a loan would be under the mandate or under the PAF, and in the absence of a mandate specific lending strategy, lending objectives under the mandate are identical to those of the PAF.

For the candidate countries, EIB's Corporate Operational Plan (COP) 2001-2003 sets the following priority objectives:

- consolidation of support for transport/TENs
- increased support to the environment with water and sanitation as key sectors, but also targeting energy savings and waste disposal
- expansion of support to private sector, including support to innovative SMEs through global loans
- lending to health and education projects in a cautious but progressive manner

The COP defines these four objectives under the heading "Prepare Candidate Countries for Accession". As further objectives for this group of countries, the COP sees support to the information and knowledge based economic sectors with progressive phasing in of the Innovation 2000 Initiative (i2i).

The decision of the Board of Governors of the EIB in 2000 to renew the PAF[49] authorises lending in "all sectors normally eligible for EIB financing, notably in areas of key European Union policy".

The areas referred to are transport infrastructure, energy and telecommunications, environment and municipal investments, SMEs and industry, and "when possible and appropriate" investments in the health and education sectors. Close attention should be given to projects fostering regional development, promotion of industrial competitiveness and employment.

A later document to the Board of Directors reviewing the lending policy in accession countries confirms the sectors eligible according to the Board of Governors' decision and makes no distinction between lending under the PAF (own risk) and under the mandate.[50]

The first three lending objectives set for the candidate countries are in conformity with the EU operational objectives. The fourth lending objective, i.e. health and education projects, which were not among EU operational objectives in these countries, were nevertheless identified as priorities in the accession partnerships and thus relevant for EIB financing.

Mandate loan portfolio in candidate countries

The sector breakdown of EIB mandate lending to candidate countries in the period 2000-2006 is shown in table 4-1 with the transport sector being the most important with almost half of the total.

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[49] Board of Governors: Minute of the Decision of 4 January 2000 requested by letter (PV/00/01).

[50] "The Bank's operations in the accession countries of Central and Eastern Europe - Review of current and future lending policy" dated 24 July 2001 (CA/350/01).

Loans to environmental infrastructure projects account for 5 pct. of the total.

Lending to education and health projects is the third largest sector with 12 pct. of the total. The single most important loan is of EUR 400m for "Science and research promotion" in Turkey and was signed in July 2007.

The objective of the loan is to "strengthen Turkey's science and research capabilities". This loan co-financed physical investments (acquisition of equipment) and expenses linked to the implementation of research projects, including academic staff costs.

The Community guarantee is to cover "EIB-eligible investment projects"[51] but also at the same time "EIB financing operations".

The EIB Board of Directors agreed that the recurrent costs of an R&D project are eligible for EIB financing as is the case for EIB loans in the EU and thus admissible for cover under the Community guarantee. The information submitted by the Bank for the article 21 consultations for Commission 'no objection' to loan appraisals explains that the loan is to co-finance Turkey's national contribution to science and research programmes at various government research agencies.

It is noted that this interpretation of recurrent costs is different from the Community financial assistance rules for co-funding of R&D projects under the ERDF Regulation, under which only infrastructure investment costs are eligible for support.[52]

Sector	**Signed loans**		**Share of volume**
	no.	EUR m	pct.
Transport	37	3,358	49
Energy	4	261	4
Environmental infrastructure	9	363	5
Telecommunications	2	85	1
Productive sectors	4	259	4
Education and health	6	810	12
Other public infrastructure	5	382	6
Global loans	20	1,370	20
Total	**87**	**6,887**	**100**

Table 4-1 Mandate lending by sector to candidate countries 2000-2007

Finally, loans to the productive sectors include a EUR 160m loan to a car manufacturer in Slovakia (Volkswagen). The evaluation team has not found loans to the productive sector with the exception of SMEs to be consistent with EU regional operational objectives. However, the 1999 accession partnership agreement with Slovakia identified support to competitiveness and FDI as a priority and therefore the loan has been deemed relevant for EIB financing.

[51] Article 1 of Council Decision 2000/24/EC.

[52] Applies for co-financing of projects in the R&D sector under the European Regional Development Fund cf. Regulation (EC) no. 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) no. 1783/1999.

Lending strategies and mandate loan portfolio in potential candidate countries

The COP 2001-2003 has no specific lending objectives for this group of countries and mentions relevant, general constraints in lending, namely lack of mature projects and absorption capacity.

The COP 2002-2004 provides information on lending to the West Balkans (section 2.1.5) and explains that a 'Quick start infrastructure programme' has been launched for the Balkans.

Loans of these may be found in the transport sector and by extending global loans. These two loan types account for 75 pct. of the total portfolio in the Balkans, cf. Table 4-2.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	27	1,296	50
Energy	8	425	16
Environmental infrastructure	3	52	2
Telecommunications	0	0	0
Productive sectors	1	25	1
Education and health	4	168	7
Other public infrastructure	0	0	0
Global loans	25	611	24
Total	**68**	**2,577**	**100**

Table 4-2 Mandate lending by sector to potential candidate countries 2000-2007

The sector breakdown of lending concerning transport and energy projects is consistent with the Thessaloniki Agenda for the Western Balkans from June 2003, and may also be seen in the context of the very broad general mandate lending priority of supporting investment activities in infrastructure. The additional mandate priority of private sector development is consistent with the share of global loans in the portfolio.

4.2.2 Mandate period 2007-2013

Lending strategies in pre-accession countries

The main strategic document of the Bank for lending to pre-accession countries regardless of accession status is the COP. The plan for the COP 2007-2009 and later versions set identical strategic lending objectives for the EU member states and for the group of pre-accession countries.

The coinciding of objectives for all lending in Europe is confirmed from the definition of pillar 1 (consistency with EU objectives) of the Bank defined value added performance indicator. Table 1 on p. 10 of this COP showing 'Other Significant Performance Indicators' (OSPI) distinguishes between value added for operations *in* Europe and value added for operations *outside* Europe. Furthermore, only the mandate loan operations outside Europe have as pillar 1 "contribution to mandate objectives and priorities" in spite of mandate lending taking place in Europe as well.

Similarly, the Key Performance Indicator table on p. 9 sets aggregate value added targets in Europe, respectively outside Europe.

The COP defines for the member states and the pre-accession countries alike that consistency with the pillar 1 EU objectives will be ensured by reaching the following priority lending objectives:

1. Economic and social cohesion and convergence within the enlarged EU
2. Implementation of i2i initiative (from 2009 'Knowledge economy')
3. Development of TENs (energy and transport)
4. Support for SMEs
5. Environmental sustainability
6. Sustainable, competitive and secure energy
7. Human capital (health and education sectors)

On the surface, objective 1 of economic and social cohesion should only apply to existing Member States. However, a review of documents made available for the project case studies shows the pre-accession countries to be covered by this objective as well.

Although objective 2, the i2i initiative (Innovation 2000) is targeted to MS, the OSPI table shows that it covers accession countries as well; the objective was renamed 'knowledge economy' in 2009.

The Bank eligibility codes for loans under the different objectives show that objective 3, TEN development also includes 'major transport corridors in the pre-accession countries'.

Objective 1 has no formal linkage to EU policy objectives given the different definitions of the concepts. Neither the knowledge economy (no. 2) nor the human capital lending objectives (no. 7) are EU operational objectives following the 2007-2009 multi-beneficiary MIPD. The other 4 objectives are in line with the MIPD.

The health and education sectors became EU operational objectives with the MIPD for 2008-2010. The IPF established under this MIPD assigns the priority to environmental infrastructure investments. The EIB lending strategy for the pre-accession countries as presented in the COP refers to a broader horizontal project dimension of 'environmental sustainability'.

A requirement of environmental sustainability is an integral part of EU co-funded investment projects and should naturally be mirrored in the projects that the EIB co-finances with the use of mandate loans cf. also the later discussion of EIB contribution to EU horizontal policies.

The 'environmental sustainability' priority lending objective of COP 2007-2009 was renamed in the COP 2008-2010 to 'environmental protection and sustainable communities'. This renaming highlights a relatively broader definition of environmental sustainability as compared to that implicit in the mandate decision.

According to the Bank's Eligibility Guidelines, projects in the sub-group 'sustainable communities' include those in urban infrastructure, cultural heritage, social housing, urban public transport, and health care. Those in 'environmental protection' are the more traditional environmental (infrastructure) projects.

The 2006 mandate decision stipulates the environmental *protection* sub-group as a general horizontal objective, i.e. applying also for pre-accession countries. By including 'sustainable communities' sub-group in its priority lending objective from 2008, the former sub-group is no longer a separate horizontal lending objective of the Bank as identified in the COP of the Bank. A broader definition of 'environmental sustainability' in itself makes it less transparent whether the specific environmental projection objectives have been achieved resulting in that it becomes more difficult to set benchmarks performance indicators and monitor achievements in this sub-group of projects.

The evaluation team has also noted that the Value Added Sheet obligatorily attached the Board report for approval of a loan operation defines the pillar 1 heading to be 'Contribution to EU Objectives". However, the sub-division of this heading comprises 'COP Priority Objective(s)' and 'Other Objectives' and thus not explicitly any *EU* objectives.

The 2009 mid-year review of the COP for 2009-2011 notes that "activity in the West Balkans is expected to increase significantly in 2009, reflecting specific requests in each of the countries for EIB intervention and support to public sector and SME investments to act against the economic crisis".[53]

Mandate loan portfolio in candidate countries

The candidate states benefitting from mandate loans are FYROM and Turkey, with Turkey accounting for EUR 2,559m of signed loans in table 4-3 or 96 pct. of the total.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	4	1,124	44
Energy	1	100	4
Environmental infrastructure	0	0	0
Telecommunications	0	0	0
Productive sectors	0	0	0
Education and health	1	335	13
Other public infrastructure	1	300	12
Global loans	5	810	32
Total	**12**	**2,669**	**104**

Table 4-3 Mandate lending by sector to candidate countries 2007-end June 2009

The most important sector is transport and comprises rail and urban transport projects in Turkey.

No loans have been extended for supporting upgrading environmental infrastructure.

The loan in the 'education and health' sector covers an R&D project in Turkey to co-finance purchase of research equipment and academic staff costs at 15 universities in Turkey and was extended in June 2009.

[53] Report to Board of Directors: "2009 Mid-year Review", Document 09/391, July 2009.

The MIPD for Turkey in force covering 2008-2010 includes as one of its components human resource development.[54] The component has 4 priority axes but neither of which addresses higher level education. The MIPD for 2007-2009 points out that the bottleneck at Turkish universities is their low intake as compared to the demand for places.[55] As reflected in the MIPD, strengthening of the R&D sector is not a key priority of the Accession Partnership.

According to the Board report for this "Academic Research Centres project", the EIB contribution to the project is to "assist in removing budgetary constraints".[56] [57]

Also included in 'other public infrastructure' is a loan of EUR 300m to render public buildings in Istanbul more resistant to earthquakes.

The share of global loans in the portfolio is at 32 pct. considerably higher than in the previous mandate period when the share was 20 pct. A detailed examination of the regional mandate loan portfolio for candidate countries shows most of these loans, EUR 500m out of EUR 810m to have been signed in June 2009.

The loan signings in June comprise a global loan in Turkey of EUR 400m and one in FYROM of EUR 100m. They should be seen as a response to the financial crisis within the framework of the 'Joint IFI action plan'.

The EU 'crisis response package' to the pre-accession countries from November 2008 is yet to be approved for which reason no portfolio impact can be recorded.

Mandate loan portfolio in potential candidate countries

Table 4-4 shows the sector breakdown of lending to potential candidate states.

As at end June 2009 global loans, all extended for on-lending to SMEs account for 57 pct. of the total against 24 pct. in the previous mandate.

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[54] Commission Decision of 2008 on a Multi-annual Indicative Planning Document (MIPD) 2008-2010 for Turkey.

[55] Commission Decision of 2007 on a Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Turkey, Component IV- Human Resources Development, section 1.2. The MIPD is drawn up in conformity with the 'Community Strategic Guidelines on Cohesion 2007-2013' (COM(2005) 0299).

[56] Document 09/126 dated 12 March 2009 (CA/424/09).

[57] Since the spring of 2008 Turkey and the IMF have been negotiating a new standby arrangement where one of the stumbling blocks has been the increasing budget deficit. Included in negotiations is also control of the public debt burden.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	6	170	18
Energy	2	28	3
Environmental infrastructure	2	65	7
Telecommunications	0	0	0
Productive sectors	0	0	0
Education and health	1	70	7
Other public infrastructure	2	75	8
Global loans	8	545	57
Total	**21**	**953**	**100**

Table 4-4 Mandate lending by sector to potential candidate countries 2007-end June 2009

The large part, or EUR 340m, has been signed since the adoption of the Joint IFI action plan in February 2009 and in Serbia. Given that the appraisal period for a global loan operation can be quite brief, and as appraisal of all loans commenced in 2009, the global loans signed may be taken as an action plan response.

The country case study report for Serbia includes a detailed analysis of the global loans signed.

The portfolio of Board approved but not yet signed global loans shows an equal amount of credit commitments (about EUR 350m) of which EUR 240m appraised this year. By way of comparison, the portfolio of approved loans in other sectors is just below EUR 220m of which one operation (EUR 180m) relates to a finance contract signed in 2006.

A EUR 25m loan to municipal investments in health, education, sports and national heritage was signed in June 2009 as an add-on to a EUR 50m operation from December 2008.

4.3 Programme relevance in case study countries

The case study countries for the region of pre-accession countries are Romania, Serbia, and Turkey.

The country case study reports in Appendix 4 include an examination of EU policy objectives at the strategy and operational level. The overall strategic policy framework is of course identical for all countries of the region. The country case study reports include an analysis of EIB lending strategies and Programme portfolios for the respective case study countries.

4.4 Conclusions

For candidate and potential countries alike EU policy objectives have been very broadly defined for both mandate periods under review, encompassing a wide range of Programme relevant sectors.

The EIB mandate lending by sector in the *candidate countries* has been relevant to EU policy objectives.

The Joint IFI action plan has impacted SME lending in 2007-2013 through extension of global loans.

Mandate lending in *potential candidate countries* in 2000-2007 appears in full conformity with EU policy objectives for the period as a whole.

In the present mandate period, the Joint IFI action plan for SME support dominates lending activities. Global loans corresponding to more than 1/3 of the loans to potential candidate states in the period 2007-end June 2009 were signed following the adoption of this plan, all in Serbia.

Data on approved but not yet signed operations show a similar importance of global loan operations. The concentration of the loan portfolio in this sector is now very high. However, in the most important country, Serbia, the demand for credit is reported low.[58] In the present mandate, the global loan share is as high as 57 pct.

[58] The discussion of Programme effectiveness in chapter 9 will analyse the actual draw down of the recent global loan facilities for SME on-lending.

5 Programme relevance in Mediterranean region

5.1 EU programme objectives for the region

5.1.1 Overall strategic policy framework

Programme relevant EU objectives at the overall strategic level covering the full period under review are summarized in Box 5-1.

Overall strategic policy framework	
To 2008: Euro-Mediterranean Partnership	*Economic and financial partnership:* - favouring the economic conditions of growth - reforming key economic sectors - establishing a free trade area by 2010
From 2008: Union for the Mediterranean	1. Economic and financial partnership 2. Regional dimension including: - de-pollution of the Mediterranean Sea - establishment of maritime and land highways - a Mediterranean solar energy plan; and - the Mediterranean Business Development Initiative focusing on micro-enterprises and SMEs

Box 5-1 Overall strategic policy framework in Mediterranean region

The Euro-Mediterranean Partnership (EMP) builds on the 'Barcelona process' launched in 1995 by the EU member states and 14 countries of the Southern Mediterranean. It also encompasses partnership arrangements for political and security dialogue and for social, cultural and human issues.

The component of the economic and financial partnership relevant for the instruments available to the EIB favours the economic conditions of growth, which includes support for investments.

The Union for the Mediterranean (UfM) initiative agreed upon in July 2008 is a reinforced partnership and a re-launch of the EMP. The UfM also builds on the Barcelona Process. Compared to the EMP, it offers more balanced governance, increased visibility to the population, and a commitment to tangible regional and trans-national projects.[59] The latter dimension is the one of EIB relevance.

The EIB was a stakeholder in the set-up of the EMP as well as the UfM.

[59] Annex to "Joint Declaration of the Paris Summit for the Mediterranean", 13 July 2008.

5.1.2 Regional strategy objectives

Box 5-2 below summarizes Programme relevant regional strategy objectives for the period under review.

Regional strategy objectives	
2000-2004	Barcelona process and EMP
2004-2006	*European Neighbourhood Policy:* - Poverty alleviation and employment creation - Security of energy supply to the EU - Promote energy efficiency - Improve transport efficiency - Promotion of good environmental governance
2007-2013	*Strengthened European Neighbourhood Policy:* - Reinforced efforts for reaching ENP objectives *ENPI interregional programme strategy 2007-2013:* - Promotion of infrastructure investments including the use of resources to leverage loan financing *Horizon 2020 initiative:* - de-pollution of the Mediterranean by 2020

Box 5-2 Regional strategy objectives in Mediterranean region

Objectives 2000-2006

The EMP was supported by the main Community instrument, the so-called 'MEDA regulation' issued in 2000.[60] The regulation is issued within the overall framework of the EMP and makes specific reference to the EMP in its recitals.

In May 2004, the Commission issued a European Neighbourhood Policy (ENP) Strategy Paper, following endorsement of such strategy development at the Thessaloniki European Council in June 2003. The policy covers the Eastern and Southern neighbours, the latter being the Southern Mediterranean countries.

Promotion of energy efficiency includes use of renewable energy and new energy technologies including clean coal. The *security of energy supply* includes the establishment of Euro-Mediterranean energy networks. In the *promotion of good environmental governance* in the ENP, identified key areas include water quality, waste management, and air pollution.

The financial support of the ENP in the Mediterranean countries is mainly through the MEDA regulation and the EIB, including with financial support from the EU.

Objectives 2007-2013

The experience from the implementation of the ENP led in December 2006 the Commission to issue a 'Communication on strengthening the European Neighbourhood Policy'.[61] The strengthened ENP does not include additional Programme relevant objectives compared to the 2004 ENP strategy paper.

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[60] Council Regulation (EC) no. 2698/2000 amending Regulation (EC) no. 1488/96 on financial and technical measures to accompany (MEDA) the reform of economic and social structures in the framework of the Euro-Mediterranean partnership.

[61] COM(2006) 726 final dated 4 December 2006.

The strengthened ENP also provides for strengthened financial cooperation. The main means of this is a new Community financial instrument, the European Neighbourhood and Partnership Instrument (ENPI) [62], which includes a new Neighbourhood Investment Facility (NIF) to support among others EIB lending operations, and the new lending mandate of the EIB for the region cf. section 5.1.3 that follows.

The Horizon 2020 initiative has its origins in a Euro-Mediterranean conference on the environment and the cleaning up of the Mediterranean held in Cairo in November 2006. This so-called 'Cairo declaration' also sets a timetable for achieving de-pollution by 2020 and invites the Commission to coordinate the new partnership of the Horizon 2020 initiative.

5.1.3 Regional operational objectives

Box 5-3 summarizes EU policy objectives at the operational level in the two budget periods.

As for the pre-accession countries and as per the methodology outlined in chapter 2, EU operational objectives are mirrored in the financial instrument developed for the implementation of the regional strategy.

Operational objectives 2000-2006

The operational objectives for the period are derived from the MEDA regulation. The regulation provides for Community financial assistance in particular in the form of grants and risk capital, the latter included funds to be managed by the EIB. Assistance mentioned is also the own resources loans of the EIB, cf. article 7(4) referring to lending to the "production sector".

The EIB is a Commission partner in the regulation with the two institutions being committed to improving collaboration on the implementation of risk capital operations and the channelling of interest rate subsidies. The Commission is to ensure effective coordination of the Community assistance including that of the EIB. On its side, the Bank is to ensure conformity of these measures with the provisions of the MEDA regulation.[63]

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[62] Regulation (EC) no. 1638/2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.

[63] In a tri-partite agreement (undated) between the Turkish government, the EU and the EIB covering "Framework convention and technical cooperation under the MEDA programme and under other financing agreements of the EIB in Mediterranean countries", the Bank explicitly accepted the MEDA regulation as the operational framework as the regulation defining "the rules relating to the implementation of financial and technical measures to underpin social and economic reform under the Euro-Mediterranean partnership".

Regional operational objectives	
2000-2006	*MEDA regulation:* Contribution to implementing the economic and financial partnership of the EMP with priority areas: - job creation and private sector development incl. SME support - creation of an economic environment favourable to accelerated growth - improvement of social services including in health, water supply, sanitation and housing - upgrading of economic infrastructures in particular in transport, energy, rural and urban development - establish physical infrastructure necessary for regional trade including transport, communication and energy
2007-2013	*ENPI regulation:* Measures within the following areas of cooperation: - environmental protection and natural resource management - poverty reduction - promotion of health and education - private sector support incl. SMEs - energy, telecommunications and transport sectors including renewable energy, energy efficiency and clean transport - cross-border cooperation *Horizon 2020 initiative:* - IFIs, DFIs and donors define in 2007 priority projects for de-pollution of the Mediterranean - from 2008 onwards develop prioritized pipeline and prepare projects for implementation.
From 2008 additionally (as part of ENPI)	*Neighbourhood Investment Facility:* - investments in priority sectors of energy, environmental infrastructure, and transport - support to SME development and the social sector

Box 5-3 Regional operational objectives in Mediterranean region

Operational objectives 2007-2013

The Programme relevant operational objectives are derived from article 2 of the ENPI regulation. Additionally, the mandate decision provides for 'enhanced' support to the private sector.

Article 5 of the regulation stipulates that the Commission and the MS are to ensure coherence between assistance under ENPI and that provided by the EIB. According to article 15, ENPI funds may be channelled to the EIB for loan financing, equity investments, guarantee funds, and investment funds for Bank management, for which the Bank will be remunerated (art. 23).

The Horizon 2020 operational objectives mirror the actions of the timetable established with the Cairo declaration announcing the initiative in November 2006.

The additional objectives introduced in 2008 are those of the NIF, which provides co-funding to the operations of the EIB and European DFIs[64] and in this context are directly relevant to the EIB. The social sector includes conventionally the education and health sectors. The NIF objectives are included in the ENPI interregional programme strategy for 2007-2013.

5.2 EIB regional strategies and operations

5.2.1 Mandate loans 2000-2007

In the initial part of this mandate period, until October 2002, the EIB lending strategy for the region may be derived from the COP.

The 2001-2003 COP defines as lending priorities for the Bank:

- projects that support the Euro-Med Partnership objective of creating an area of economic stability and prosperity; and
- joint ventures involving EU companies and synergy with local financial networks using in particular risk capital.

No specific priority will be given to private sector lending since the absorption capacity and the prospects for risk sharing are assessed as limited.

The priorities mirror the EU policy objectives of the EMP which is provided for at the operational level in the MEDA regulation.

Following a request from the March 2002 European Council in Barcelona to reinforce EIB action in the Mediterranean, FEMIP (the Facility for Euro-Mediterranean Investment and Partnership) was set up in October 2002.

The Bank accepted this proposal and restructured all its operations in the region into FEMIP, covering not only mandate loans, but also loans from own resources at own risk, risk capital operations, and technical assistance. Risk capital and TA funds from the Commission were provided for in accordance with the provisions of the MEDA regulation.

The brief of the inaugural meeting of the Policy Dialogue and Coordination Committee of FEMIP, defining the first FEMIP business plan, suggested the Bank to continue expanding its "core lending activities" and to develop activities targeting private sector development and leverage by EU risk capital.[65]

This targeting is not only for direct lending to the private sector, but also for developing an environment conducive to private sector development, including development of the physical and human capital required. The business plan thus incorporates lending to 'conventional' infrastructure investments such as in roads and energy, but also in the health and education sectors'.

In December 2003, the European Council endorsed the ECOFIN Council decision to reinforce FEMIP. In November 2006, the ECOFIN Council encouraged

[64] ENPI Interregional Programme Strategy Paper 2007-2013 and Indicative Programme 2007-2010 p. 10 .

[65] Policy Dialogue and Coordination Committee: "The FEMIP Business Plan", Barcelona, 18 October 2002.

the EIB to further develop the FEMIP instruments in order to overcome the obstacles to more effective financing of the private sector, in particular SMEs.

Due to the background and the setting of the FEMIP, EU policy objectives and EIB strategic lending priorities coincide in a productive manner. This is confirmed from reviewing the Programme relevant operational objectives identified in Box 5-3 above.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	23	1,518	21
Energy	25	2,613	36
Environmental infrastructure	17	844	12
Telecommunications	1	100	1
Productive sectors	9	415	6
Education and health	5	350	5
Other public infrastructure	5	410	6
Global loans	16	925	13
Total	**101**	**7,174**	**100**

Table 5-1 Mandate lending by sector to the Mediterranean region 2000-2007

The major part of lending under the 2000-2007 mandate has targeted the operational objective of upgrading economic infrastructure in the transport and energy sectors cf. table 5-1. The private sector development objective is reached mainly through the extension of global loans to SMEs.

5.2.2 Mandate loans 2007-2013

The FEMIP operational framework has been gradually more integrated into the Euro-Med policy framework and become more transparent on operational targets.

A FEMIP Advisory Committee with representatives of partner countries was established in 2006. FEMIP thus has a firm political anchoring. With regards to transparency, FEMIP annual reports have been prepared since 2004 and operational plans are available from 2008, the first one covering the period 2008-2010. The drawing up of these plans started following a decision of a meeting of the Euro-Mediterranean Partnership (EMP) Ministers of Finance in Limassol in May 2007.

The operational plans clearly outline general policy considerations and operational policy guidelines for the plan period in conformity with the strategy objectives of the ENP and the EMP (now UfM) framework.

The FEMIP annual report for 2007 summarizes the objectives of EIB lending in the region, whether under the mandate or from own resources at own risk:

- Develop the economic infrastructure of the partner countries, emphasizing private sector growth and the creation of a business friendly environment.
- Develop SMEs via global loans to local financial institutions for on-lending to these enterprises.

The report earmarks the mandate loans for development of the private sector and of infrastructure (in the broad sense of this word).

For the operational plans reviewed for this budget period, overall priority areas and sectors are:

- Support for the ENP regional strategy and the EMP strategy framework
- Support for private sector development
- Support for improving the business environment (transport infrastructure, energy supply, environmental protection and water supply, health and education sectors)
- Support to microfinance and tourism development.

In the most recent operational plan for 2009-2011 that was formally adopted in July 2009, telecommunications was added to the sectors of the third objective, cf. the citing of this sector as a target one in recital (11) of the 2006 mandate decision. Research, development and innovation also became priority areas of support.

Table 5-2 gives the sector breakdown of mandate lending in the region.

Compared to the previous mandate, the share of lending to transport, energy, and environmental infrastructure projects is unchanged. Regarding the latter, the lending to this sector shows the reaching of the general environmental protection lending objective of the mandate decision in terms of signed operations. Direct support to the private sector has increased so far with global loans accounting for 24 pct. of the signed loans compared to 13 pct. in the previous mandate period.

Sector	**Signed loans**		**Share of volume**
	no.	EUR m	pct.
Transport	6	497	17
Energy	8	1,121	39
Environmental infrastructure	5	381	13
Telecommunications	0	0	0
Productive sectors	2	185	6
Education and health	0	0	0
Other public infrastructure	0	0	0
Global loans	9	677	24
Total	**30**	**2,861**	**100**

Table 5-2 Mandate lending by sector to Mediterranean region 2007-end June 2009

The first three elements of Box 5.1 (UfM) were formally integrated into the FEMIP operational plan for 2009-2011 at a FEMIP ministerial meeting held in July 2009. This confirms the continued consistency of FEMIP objectives with those of the EU and the partner countries.

Given that the UfM dates from July 2008 and the usual time required for project identification and appraisal, the additional, regional feature cannot yet be reflected in EIB mandate loan operations shown in the table above.

Approved but not yet signed operations at end June 2009 link up directly with the operational objectives of the NIF.

5.2.3 Risk capital investments

Risk capital funds from the EU budget have been channelled to the EIB for management pursuant to the MEDA and ENPI regulations.

According to the relevant EC financing decision, "the objective of FEMIP is to provide capital to the private sector of Mediterranean partner countries on terms that are not available locally. Risk capital will be invested directly or indirectly in order to (i) support the private sector, i.e. enable the creation, restructuring or growth of enterprises and to (ii) strengthen the role of the local financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector".

The Commission approves all individual operations on risk capital which serves to ensure the relevance of this part of the Programme.

5.2.4 Technical assistance

Grant funds from the EU budget are channelled to the EIB under the FEMIP Support Fund in accordance with the provisions of the MEDA and ENPI regulations.

According to the relevant EC financing decision "technical assistance will be mobilised to strengthen FEMIP operations in the Mediterranean region, with a special focus on private sector development."

All TA is in support of EIB investment activities under FEMIP (loans, risk capital) and as such consistent with EU policy objectives. As is the case for the risk capital part of the FEMIP Support Fund the Commission approves all individual operations in this way ensuring Programme relevance.

The TA funds available under FEMIP have actively supported the Horizon 2020 initiative and contributed to Programme relevance in this area. As this initiative is in its early project preparatory stages TA is the only feasible Programme instruments available to the EIB.

FEMIP TA projects include the appointment of external consultants for the pipeline establishment foreseen for 2007 and currently for the preparation of prioritized investment projects.

As to the former this resulted in the issuing a report entitled "Horizon 2020 - Elaboration of a Mediterranean Hot Spot Investment Programme" available on the EIB website. The report defines criteria for investment eligibility under Horizon 2020 and establishes a long list of 131 eligible projects in the countries of the southern Mediterranean.

This pipeline project identification has led to the ongoing FEMIP funded TA project on selecting priority projects and preparing these projects for implementation including establishing a feasible financing plan.

5.3 Programme relevance in case study countries

The case study countries for the Mediterranean region are Egypt, Lebanon, and Tunisia.

The country case reports in Appendix 4 include an examination of EU policy objectives at the strategy and operational level. The overall strategic policy framework is of course identical for all countries of the region.

The country case study reports include an analysis of EIB lending strategies and Programme portfolios for the respective case study countries.

5.4 Conclusions

All Programme components in the Mediterranean region are found relevant.

6 Programme relevance in Eastern Neighbours

In the context of Programme operations, the region of 'Eastern Neighbours' comprises Russia, Western NIS i.e. Belarus, Moldova, Ukraine, and Southern Caucasus (Armenia, Azerbaijan, and Georgia).

In the 2000-2006 mandate period, only Russia and the countries of western NIS were eligible for mandate lending, but only under specific mandates, cf. chapter 3. In 2001, a specific mandate for projects in the Baltic Sea rim of Russia with strong environmental objectives was adopted (the NDEP mandate). In 2004, the Council granted a specific mandate covering Russia and Western NIS for EIB lending to projects in the environment, transport, telecommunication, and energy sectors (the Russia/Western NIS mandate). In this mandate the inclusion of Belarus was subject to future decision of the Commission, which however did not materialise during the period of the mandate.

The general mandate for 2007-2013 includes the entire region although the inclusion of Belarus is still subject to future decision.

Mandate loans are the only Programme operations in the Eastern Neighbours countries.

6.1 EU programme objectives for the region

6.1.1 Overall strategic policy framework

No relevant overall strategic policy framework has been identified for *all* the countries covered under the Eastern Neighbours region. A relevant strategic policy framework covering the period under review is summarised in Box 7.1.

The Eastern Partnership was entered into in 2009, i.e. at a time too late to be of any relevance for the purpose of this evaluation.[66]

[66] The Eastern Partnership was launched as "a specific Eastern dimension of the European Neighbourhood Policy" at the Prague Summit on 7 May 2009. The initiative covers Armenia, Azerbaijan, Georgia, Moldova, Ukraine and Belarus (the latter depending on the development of its relations with the EU). Russia is covered through separate initiatives.

Overall strategic policy framework	
Russia	*Partnership and Cooperation agreement (1997):* *Economic cooperation:* to increase business and investments and cooperation in energy, environment, transport, science and technology *EC-Russia Summit (2001):* "*Common spaces*" including i.a.: - Promote trade and investment - Strengthen cooperation in many sectors such as energy, transport, information and communication technologies.
Other Eastern Neighbours	No framework identified

Box 6-1 Overall strategic policy framework for Eastern Neighbours

For Russia, the Partnership and Cooperation agreement (PCA) covers a wide range of policy areas including political dialogue; trade in goods and services; business and investment; energy; environment; transport. A new overall agreement is currently being negotiated. The PCA established the framework for the subsequent agreement on the four "common spaces". Of Programme relevance is the objective to strengthen cooperation within energy, transport, information and communication technologies.

The Eastern Partnership entered into in 2009, i.e. at a time too late to be of any relevance for the purpose of this evaluation. However, the making operational of the Eastern Partnership under the four platforms of cooperation will be of relevance for EIB strategies for the region. In particular, as a number of *flagship* initiative will be launched. One of these will be an "SME Facility" where EIB and EBRD have been requested to join forces.

6.1.2 Regional strategy objectives

Box 6-1 below summarizes Programme relevant regional (national for Russia) strategy objectives for the different mandates.

Since the Eastern Neighbours region, except Russia, is also covered by the ENP introduced in 2004, the strategy objectives are identical to those of the Mediterranean region from that year onwards.

Regional strategy objectives	
2000-2004	*EU Common Strategy on Russia (1999)* [67] Address common challenges as environment, energy supply, nuclear safety.
2004-2006	*European Neighbourhood Policy:* - Poverty alleviation and employment creation - Security of energy supply to the EU - Promote energy efficiency - Improve transport efficiency - Promotion of good environmental governance
2007-2013	*Strengthened European Neighbourhood Policy:* - Reinforced efforts for reaching ENP objectives

Box 6-2 Regional strategy objectives in Eastern Neighbours region

Objectives 2000-2006
The EU strategy for Russia was launched in 1999 with identification of several areas of cooperation. The subsequent identification of the four "common spaces" in 2001 and its subsequent being made operational has been the basis for the cooperation.

As previously mentioned, in 2004 the Commission issued a European Neighbourhood Policy (ENP) strategy paper covering regional strategies in the countries of Eastern and Southern (Mediterranean) neighbours.

Promotion of energy efficiency includes use of renewable energy and new energy technologies including clean coal.

Improved transport efficiency includes improvements of the physical transport infrastructure networks connecting the Union with the neighbouring countries.

In the *promotion of good environmental governance* in the ENP, identified key areas include water quality, waste management, and air pollution.

Objectives 2007-2013
As already discussed for the Mediterranean region, in December 2006 the Commission issued a 'Communication on strengthening the European Neighbourhood Policy', which did not include any additional Programme relevant objectives as compared to the 2004 ENP strategy paper, nor for the Eastern Neighbours.

6.1.3 Regional operational objectives

The regional operational objectives of mandate lending are precisely defined in the relevant mandates which define the eligible sectors, and in the case of the NDEP mandate also the eligible region. Box 6-2 shows the operational objectives of the respective mandates.

[67] EC (1999/414/CFSP) "EU Common Strategy on Russia", 1999.

Regional operational objectives	
2001-2007	*NDEP mandate:* Projects in the Baltic Sea basin of Russia under the NDEP *Russia/Western NIS mandate:* - environmental infrastructure - transport, telecommunications and energy infrastructure projects on priority TEN axes
2007-2013	*Eastern Neighbours regional mandate:* - transport; - energy; - telecommunications; and - environmental infrastructure projects.

Box 6-3 Regional operational objectives for Eastern Neighbours

The NDEP mandate projects are to have a strong environmental objective and be of significant interest to the EU.

In the Russia/Western NIS and the 2007-2013 mandate, all projects are to be of 'significant' interest to the Community. Priority is to be given to be given to projects on the extended major TEN axes with cross-border implications for one or more MS.

The definition of the concepts of 'strong environmental objective' and 'significant Community interest' is unclear, meaning that this dimension cannot be assessed in the Programme relevance analysis.

6.2 EIB regional strategies and operations

6.2.1 Mandate period 2000-2007

As to the NDEP, the COP for 2002-2004 (section 2.1.3) reiterates the text of the Council decision with EIB lending to be targeting environmental projects with significant EU interest as defined under the NDEP.

Similarly, the COP 2006-2008 (point 255) mirrors the Council decision for the Western NIS/Russia Council mandate. Lending is for environmental infrastructure projects as well as those within transport, telecommunications, and energy infrastructure on priority TEN axes with cross-border implications for a (EU) member state.

The EIB financed three environmental projects under the NDEP mandate with signatures totalling EUR 85m as compared to the mandate ceiling of EUR 100m.

Under the Western NIS/Russia mandate, the EIB has signed two loan agreements, both for transport infrastructure projects with EU relevance. The mandate ceiling is EUR 500m.

6.2.2 Mandate period 2007-2013

The COP 2008-20010 contains the strategic considerations for the new and much increased mandate for operations in this region (paragraphs 159-161).

EIB financing operations in these countries will be carried out in close cooperation with the EBRD, following the tripartite MoU (2006) between the Commission, the EIB and the EBRD (cf. 10.3.2).

EIB will be financing projects of significant interest to the EU in transport, energy, telecommunications and environmental infrastructure. Priority will be given to projects on extended major Trans-European Network axes, projects with cross-border implications for one or more Member States and major projects favouring regional integration through increased connectivity. In the environmental sector, the EIB will give particular priority to projects in Russia, which are within the framework of the Northern Dimension Environmental partnership. In the energy sector, strategic energy supply and energy transport projects are of particular importance.

The business plan for Russia and Eastern Neighbours referred to earlier sets as lending priorities the exact objectives of the mandate decision.[68] This follows naturally from the fact discussed above that the mandate is targeted.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	1	20	7
Energy	1	150	50
Environmental infrastructure	1	18	6
Telecommunications	1	115	38
Productive sectors	0	0	0
Education and health	0	0	0
Other public infrastructure	0	0	0
Global loans	0	0	0
Total	**4**	**303**	**100**

Table 6-1 Mandate lending by sector to Eastern Neighbours 2007-end June 2009

Table 6-1 shows signed mandate loans as of end June 2009. The total Eastern Neighbours mandate for 2007-2013 is EUR 3,700 m.

As to be expected all loans are within the narrow sector framework of the regional mandate.

The pipeline of approved but not yet signed loans at end June 2009 includes operations in total size well exceeding the signed loan amounts so far.

6.3 Programme relevance in case study countries

The case study country for the Eastern Neighbours region is Russia.

The country case report in Appendix 4 includes an examination of EU policy objectives at the strategy and operational level. The overall strategic policy framework is of course identical for all countries of the region. Included also is analysis of EIB lending strategies and Programme portfolio in Russia.

[68] Armenia, Azerbaijan, Georgia, Moldova, and Ukraine.

6.4 Conclusions

EIB Programme operations under all Eastern Neighbours mandates are fully consistent with and support the EU external policy objectives (at the strategic and operational level) as reflected in the Council decisions for the three mandates.

7 Programme relevance in Asia and Latin America

7.1 EU programme objectives for the region

In the establishment of programme objectives for the ALA region consisting of Asia and Latin America, objectives are identified at the overall strategic policy framework level, the regional policy level and at the regional operational level.

7.1.1 Overall strategic policy framework

Programme relevant EU objectives at the overall strategic policy level covering the full period under review for each region is summarised in Box 7-1.

Overall strategic policy framework	
2000: The Asia-Europe Cooperation Framework (AECF)[69]	*In the economic and financial fields:* - strengthening two-way trade and investment flows - cooperation in priority industrial sectors, focusing on high technology sectors of common interest, for example, agro-technology, food processing, bio-technology, information and telecommunication (including e-commerce), transport, energy, environmental engineering, etc.
1999: A new EU-Latin America partnership on the eve of the 21st century[70]	*In the economic and financial fields:* - cooperation on the social, economic and political aspects of the information society - private sector investments in infrastructures and services and promotion of trade and investment relations of mutual interest - regional/territorial integration and interconnectivity - regional integration and economic cooperation.

Box 7-1 Overall strategic policy framework for Asia and Latin America

The main strategic policy framework for the cooperation between Europe and Asia has been the Asia-Europe Meeting (ASEM) held every second year since 1996. An Asia-Europe Cooperation Framework (AECF) was adopted at the ASEM meeting in 1998 and updated at the 2000 Summit.

[69] European Commission (2000) "The Asia-Europe Cooperation Framework" (AECF).

[70] COM (1999) 05 "A new European Union-Latin America partnership on the eve of the 21st century"; COM (2000) 670 final "Follow-up to the first summit between Latin America, the Caribbean and the European Union".

The agreement set out the underlying principles, objectives, priorities and coordination mechanisms of the ASEM process. In the economic and financial fields, the agreement stressed the need for increased investment flows between Europe and Asia and stressed the need for enhanced cooperation in specific sectors as telecommunication, transport, energy and environment.

The EU and Latin America have enjoyed a Strategic Partnership since the first bi-regional Summit in Rio de Janeiro (Brazil) in 1999. The summit listed 11 priority actions of which one of them focused on trade and the private sector.

Further, the challenges of the information society were also a key priority for the collaboration, including the role played by the private sector in investing in infrastructure and services (e.g. telecommunication).[71]

In 2005, the enhanced the partnership in order to, i.a., help the Latin American countries attract more European investment. Of significant Programme relevance is the subheading of "territorial integration and interconnectivity" where the communication encourages European and Latin American financial institutions to support territorial integration by means of interconnective network infrastructure, e.g., in the energy, water, transport, telecommunications and research sectors. Direct reference is also made to the enabling role of EIB's external mandate in ensuring the Bank's support for regional integration activities.

7.1.2 Regional strategy objectives

The European Union's regional strategic cooperation with Asia and Latin America is based on regional strategies launched at different intervals for both regions.

[71] In parallel to the Rio Summit, relations between the Latin America countries and the EU have evolved as sub-regional cooperation with i.a. the Andean Community (founded in 1969, comprising Bolivia, Colombia, Ecuador & Peru) and the cooperation with Mercosur (common market of the south between Brazil, Argentina, Paraguay, and Uruguay).

Regional strategy objectives	
2000-2006	
Latin America	[same as in strategic policy framework]
Asia[72]	Strengthening the EU's political and economic presence across the region raising this to a level commensurate with the growing global weight of an enlarged EU and stressing, inter alia: - Information and communication technology (high-tech), transport and energy. - Environmental challenges, promote sustainable resource management and address urban and industrial environmental problems.
2007-2013	
Latin America[73 74]	Create a climate favourable to trade and investments. Facilitate trade and investment in Latin America in sectors with strong growth potential, particularly information and communication technologies, aerospace and automobile industry, engineering and metal working, energy, the environment, infrastructure and transport.
Asia[75]	Environment Support for investments (SMEs)

Box 7-2 Regional strategy objectives for Asia and Latin America

Objectives 2000-2006

In Latin America, the Rio Summit initiated a process whereby a regional programme was developed in 2002 covering the period 2002-2006. The regional programme refers to the outcome of the Rio Summit as presented in Box 7.1.

In 2001, a new regional framework for enhanced cooperation with Asia was adopted.[76] The main objective (cf. Box 7-2) was to strengthen the EU's political and economic presence across the region and, of relevance to the Programme, focusing on further strengthening the mutual trade and investment flows between EU and the region and strengthening the joint efforts on global environmental and security issues. The strategy goes on to emphasise that "a particular attention should also be paid to the high-technology sector which will help determine our common future, such as information and communications technology, transport and energy. The EIB will continue to play its role in supporting European investment in the region".[77]

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[72] COM(2001) 469 final "Communication from the Commission – Europe and Asia: A strategic framework for enhanced partnership".

[73] COM (2005) 636 final "A stronger partnership between the European Union and Latin America".

[74] E/2007/1417 "Latin America: Regional Programming Document 2007-2013".

[75] EC (2005) "Strategy Paper and Indicative Programme for Multi-Country Programmes in Asia 2005-2006".

[76] COM(2001) 469fFinal "Communication from the Commission – Europe and Asia: A strategic framework for enhanced partnership".

[77] Ibid. p 16.

Objectives 2007-2013
A Regional Programme (RP) for Latin America was adopted in 2007, covering the period 2007-2013. Of Programme relevance and under the last priority on "regional integration", measures are proposed to "promote a dialogue and institutional capacity building on policy....the connectivity of infrastructure networks and environmental protection to provide a secure and effective framework to foster sustainable investment flows to promote the region's sustainable development".

Other relevant measures in the strategy are the promotion of "interconnectivity and regulatory dialogue at Latin American level, especially under the new EIB mandate". The proposed sectors are "strategic, policy and technology sectors, the Information society, the environment, cultural, audiovisual, research, higher education, and energy".

In 2005, a regional programme was launched for Asia that focused on, inter alia, programmes that support trade, investments (SMEs) and the environment.

7.1.3 Regional operational objectives

Programme relevant EU objectives at the operational level are summarised in Box 7-3.

Objectives 2000-2006
Until 2006, most of the financing of the cooperation between EU and Latin America and Asia was governed by Council Regulation (EEC) no. 443/92 on financial and technical assistance to, and economic cooperation with, the developing countries in Latin America and Asia.

The regulation had a relatively detailed strategic content with detailing of sector priorities. However, according to an evaluation of the regulation, it lost much of its relevance since strategies towards both regions have evolved considerably since 1992.[78] However, those sector priorities mentioned in the regulation are also found in subsequent regional cooperation frameworks.

The stipulations of the general mandate include foreign direct investments of European enterprises.

Objectives 2007-2013
A new framework for delivering external assistance was introduced in 2006 with the regulation on the financing instrument for development cooperation (DCI).[79] Articles 6 and 7 specifically mention areas of importance to Latin America and Asia. However, both articles also link back to Article 5, which sets out actions in a number of diverse areas of cooperation. Box 7-3 lists the Programme relevant objectives from these articles.

In Latin America, the regional integration objective includes the interconnection of network infrastructures, an area where "complementarity with activities supported by the European Investment Bank" should be ensured.

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[78] EVA-EU Association (2002), "Evaluation of ALA Regulation 443/92" - ref. 951614.
[79] Regulation (EC) No. 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation.

Regional operational objectives	
2000-2006	*Financial assistance regulation*[80]*:* - environmental protection, natural resources and sustainable development - regional cooperation in the field of the environment, telecommunication, energy, private sector (SME) support *General mandate 2000-2007:* - projects of interest to both the Community and the countries concerned
2007-2013	*Development Cooperation Instrument:* - water supply - sustainable energy technologies - develop economic infrastructure incl. transport - increased use of information and communication technologies - promote regional integration - promote sustainable development *General mandate 2007-2013:* - in support of EU objectives focus on environmental sustainability including climate change, energy security projects, support of EU presence through foreign direct investments, transfer of technology - complementary to EU funded actions

Box 7-3 Regional operational objectives in Asia and Latin America

The indications in the 2006 Council decision for the ALA mandate (Recital (12)) serve to focus the scope of EIB financing in ALA countries. The additional target of energy security projects in the decision would appear to apply to the countries in Asia, in particular Central Asia.

The separate operational objective expressed in the Council decision of complementarity to EU funded actions under the DCI opens up a challenging task of expanding activities also in less prosperous countries. The feasibility of this objective remains to be seen. EIB operational staff confirm that these actions do not support specific investment projects either in the form of TA or of investment grants. Conceptually, however, the objective serves to demonstrate that the mandate lending should support the objectives expressed in the DCI.

7.2 EIB regional strategies and operations

Mandate period 2000-2007

<u>EIB lending strategy</u>
The COP 2001-2003 summarizes in section 2.2.4 the Bank's objectives for mandate lending under the heading 'projects of mutual interest in ALA'. These objectives comprise:

- contributing to presence in ALA of European corporates and banks;
- provide global loans to subsidiaries of European banks for support of their lending activities with smaller enterprises in the region;
- responsiveness to demand from private sector.

[80] Council Regulation (EEC) No. 443/92 of 25 February 1992 on financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America.

Additionally, priority will be given to financing of the private sector including SMEs.

In April 2001 an internal policy paper was drawn up outlining the EIB lending objectives for the remaining period of the mandate.[81] The paper argues that as compared to the first 15 months of the mandate, increased diversification of lending should be targeted as well as a reduction of the average loan size and increased emphasis on global loans.

The paper also outlines another instrument to strengthen the 'mutual interest objective' of the mandate and the COP, namely to investigate the potential for local currency EIB borrowings through bond issuance in order to enable lending in local currency and protect borrowers against exchange rate fluctuations.

Since the mandate decision confines the EIB activities to be indeed those of 'mutual interest' also referred to in the COP, and since the various regional agreements reviewed in Chapter 7.1 are also quite general, it has been up to the Bank to render operational the EU policy objectives for the region, cf. the discussion above.

Mandate loan operations by sector
Table 7-1 shows the sector breakdown of lending in ALA under the 2000-2007 mandate.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	4	143	6
Energy	11	550	22
Environmental infrastructure	2	80	3
Telecommunications	8	457	18
Productive sectors	15	745	29
Education and health	0	0	0
Other public infrastructure	0	0	0
Global loans	14	569	22
Total	**54**	**2,545**	**100**

Table 7-1 Mandate lending by sector to ALA 2000-2007

Based on additionally provided information, the loans from the Bank have indeed supported foreign direct investments (FDI) of EU enterprises in Asia as well as Latin America, including companies such as Volkswagen and Phillips, i.e. companies of a size and standing that can obtain finance for such investments in the commercial banking market.

The EU operational objectives for the period are broad ranging from general private sector support to cooperation in the fields of transport, energy, telecommunication and the environment. The sector breakdown of EIB mandate lending is in line with these broadly defined objectives.

Mandate period 2007-2013

EIB lending strategy

[81] 'Policy objectives under ALA III mandate' (2000-2007) dated 26 April 2001.

The relevant COP does not discuss in any detail the specifics of the lending strategy for the region other than reiterating the mandate objectives of lending in ALA, namely environmental protection and sustainability, including climate change mitigation, energy security projects, and support of EU presence (FDI and technology/know-how transfer). In point 266, planned actions are on marketing (pipeline establishment), identification of renewable energy projects and investigating the scope for local currency lending in Brazil and China.

A note to the Management Committee dated 7 March 2007 gives the detailed strategic objectives and operational guidelines for ALA (summarised in the letter to the Commission from August, cf. above).

The main strategic objectives cited are:

1. Alignment with EU cooperation strategy
2. Broadened business focus to two sectors, namely support of EU presence and projects that contribute to environmental sustainability including climate change mitigation
3. Broadened geographical scope
4. Reduced reliance on Community Guarantee for lending in ALA investment grade countries
5. Increased cooperation with the EU, other IFIs and EDFIs.

All these objectives mirror the specifics of the mandate decision (notably recital (12)).

<u>Mandate loan operations by sub-region and sector</u>

Table 7-2 shows mandate lending in Asia respectively Latin America as of end June 2009 under the present mandate. The additional breakdown by sub-region reflects the separate mandates for each with ceilings of EUR 1,000m respectively EUR 2,800m.

The three operations in Asia relate to renewable energy and to mitigating measures following a natural disaster including reforestation; clearly an environmental protection measure. All operations mirror EU policy objectives.

In Latin America, the two loans in the <u>transport sector</u> should support the operational objectives of developing transport infrastructure with focus on environmental sustainability including climate change, support of EU presence through foreign direct investments (FDI), transfer of technology or transfer of know how. Signed loan amounts correspond to EUR 29m respectively EUR 396m.

The smaller of the two loans is to a subsidiary of a Belgian company (investment in container port terminal), i.e. is eligible as an FDI.

The larger one concerns a capacity expansion of the Panama Canal and is extended to Panama Canal Authority, an autonomous entity of the Government of Panama. This means that the project is not an FDI. It has to be judged instead in terms of contribution to environmental sustainability and technology/know how transfer from European companies.

As we have found the project of questionable relevance, it will be discussed in the sections that follow.

EIB claims that the project is eligible for EIB finance due to its considerable support to business opportunities for European contractors. The Board report[82] notes that a first project component has already been awarded to an EU based contractor, that European companies have performed some of the design studies and that all qualified bidders are very likely to be of European origin. Furthermore, three out of the four world-class consortia prequalified for the construction of the new set of locks have a very strong participation of European companies. From a wider perspective, the project supports EU presence in Latin America by enhancing trade possibilities". An annex to the Board report states project relevance also by the project resulting in CO_2 emission reductions "in the long term", however without further analysis.

According to the evaluation team, the reference in the Board report to works/studies of European contractors is not sufficient to justify the notion of transfer of technology and know-how as required under the mandate. Further, as the project components that the EIB loan is to co-finance are still to be tendered, there is no certainty for European tenders to be involved.

The loan agreement has been signed and the EIB cannot bail out if it turns out that the contract is to co-finance non-European companies.

The Board report bases its assessment of relevance on the "business opportunities" to European companies. But these are indeed opportunities only. No transfer of European technology/know how is certain.

Likewise, the Board report argument of project relevance through "enhancing trade possibilities" for the EU is not strong According to the Council decision environmental sustainability, FDI, technology transfer or know how transfer must be involved.

According to the Board report "significant environmental impacts for a project of this size are inevitable, particularly during construction" (p. 3). In addition to diverting traffic to the Canal, the project should also be expected to increase traffic in itself and increase emissions. Furthermore, the report gives no information on how the emission reductions have been calculated.

The nature of the project as targeting improved transport infrastructure has climate change only as a side effect, not an objective. The mandate text provision of operations having "focus" on environmental sustainability appears not easy to justify in view of the objectives of this project.

[82] "Panama Canal Expansion Project", document 08/238 (CA/417/08)

Sector	**Signed loans**		**Share of volume**
	no.	EUR m	pct.
Asia:			
Transport	0	0	0
Energy	2	250	68
Environmental infrastructure	0	0	0
Telecommunications	0	0	0
Productive sectors	0	0	0
Education and health	0	0	0
Other public infrastructure	1	119	32
Global loans	0	0	0
Total	**3**	**369**	**100**
Latin America:			
Transport	2	425	37
Energy	1	15	1
Environmental infrastructure	1	27	2
Telecommunications	4	619	54
Productive sectors	0	0	0
Education and health	0	0	0
Other public infrastructure	0	0	0
Global loans	1	50	4
Total	**9**	**1,135**	**100**

Table 7-2 Mandate lending by sector to ALA 2007-end June 2009

The energy sector loan in Latin America is in the field of renewable energy. The single global loan is for financing renewable energy and energy efficiency projects, hence with explicit targeting of environmental sustainability.

Based on the limited project information available, the pipeline of approved but not yet signed mandate loans in Asia appears Programme relevant.

The similar pipeline for Latin America includes loans for power distribution, which is among the EU operational objectives if environmental sustainability is in focus or FDI is involved. This cannot be assessed from the information available.

If all approved operations are signed, the mandates will have been utilized by about 2/3 in each region.

7.3 Programme relevance in case study countries

The case study countries for ALA are Brazil and Laos.

The country case study reports in Appendix 4 include an examination of EU policy objectives at the strategy and operational level. The overall strategic policy framework is of course identical for all countries of the region. Included also is analysis of EIB lending strategies and Programme portfolio in the two countries.

7.4 Conclusions

With the exception of one operation, all the signed mandate loan operations are found relevant in support of EU policy objectives.

In the mandate period 2007-2013 questionable arguments were found in support of Programme relevance for the loan to the Panama Canal project.

8 Programme relevance in South Africa

8.1 EU programme objectives

8.1.1 Overall strategic policy framework

Programme relevant EU objectives at the overall strategic level covering the full period under review are summarized in Box 8-1.

Overall strategic policy framework	
Trade, Development and Cooperation Agreement	- *Economic cooperation* to restructure and strengthen industry including SMEs, improve access of South Africans to affordable, reliable and sustainable sources of energy, and develop tourism and transport infrastructure. - *Development cooperation* to contribute to the sustainable and harmonious social and economic development of South Africa, enhance living conditions and delivery of basic social services.

Box 8-1 Overall strategic policy framework in South Africa

Since 1999, the Trade, Development and Cooperation Agreement (TDCA) has been the framework for trade relations, economic cooperation, and development cooperation between the Republic of South Africa (RSA) and the EU.[83]

The TDCA designates the EIB as a partner in cooperation, providing long-term loans for the financing of investment projects.

The EU support to South Africa's role in the African Agenda is relevant in the context of the financing instruments available to the EIB, cf. discussion in the analysis of Programme effectiveness.

8.1.2 National strategy objectives

Box 8-2 below summarizes Programme relevant regional strategy objectives by budget period as identified in EU country strategy papers (CSP).

Pursuant to the (provisional[84]) entry into force of the TDCA, the Council and the European Parliament in 2000 issued a regulation governing the form of development cooperation with South Africa[85], covering the period 2000-2006.

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[83] Official Journal of the EC L 311, 4 December 1999.

[84] The TDCA entered formally into force only in May 2004 following ratification by all parties.

In this regulation, the Council and the Parliament instructed the Commission to draw up a joint EU-RSA country strategy paper. The regulation also provides for the channelling of risk capital funds to among others the EIB.

National strategy objectives	
2000-2006	*Country strategy paper 2003-2006:* - equitable access to and sustainable provision of social services - equitable and sustainable economic growth - regional cooperation and integration
2007-2013	*Country strategy paper 2007-2013:* - promote pro-poor, sustainable economic growth including in the Second Economy - improve basic services for the poor incl. water, sanitation, energy, waste management, and communication

Box 8-2 National strategy objectives in South Africa

Objectives 2000-2006

For the purpose of this assignment, the first CSP available for review covered 2003-2005 (later extended to include 2006 as well).[86] The paper shows that a strategy may have been drawn up for 2000-2002, but also that its objectives were similar to the one for 2003-2005.

The joint country strategy paper designates the EIB as a partner in development cooperation (as opposed to the economic cooperation also provided for in the TDCA). The Bank is invited to contribute to the strategy implementation through loans financed from own resources.

The provision of social services is to focus on the needs of the poor and include health, water and sanitation. The broad cooperation area of equitable and sustainable economic growth is to contribute to the acceleration of growth, equity and employment.

Objectives 2007-2013

Following the expiry of the 2000 Regulation for development cooperation in 2006, the Council and the Parliament issued a regulation valid until end 2013 establishing a financing instrument for development cooperation covering not only RSA, but also countries of ALA, Central Asia and the Middle East.[87]

The regulation defined the areas of cooperation to which Community financial assistance should be channelled. Article 25 includes as types of financing funds made available to the EIB (or other financial intermediary) for the purpose of providing loans, risk capital, and contributions to guarantee funds.

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[85] Regulation (EC) no. 1767/2000 of 29 June 2000 on development cooperation with South Africa.

[86] South Africa European Community Country Strategy Paper and Multi-annual Indicative Programme for the period 2003-2005.

[87] Regulation (EC) no. 1905/2006 of 18 December 2006 establishing a financing instrument for development cooperation.

Pursuant to its article 19 and consistent with the objectives of the regulation, a joint EU-RSA CSP was drawn up for 2007-2013.[88] The Second Economy targeted is the underdeveloped economy with high levels of poverty and the First Economy is the developed, wealthy part.

8.1.3 National operational objectives

The objectives have been identified from the from the country strategy papers, the multi-annual indicative programmes (MIP) with agreed upon areas of action and the EU-RSA agreements on the provision of risk capital and technical assistance.

National operational objectives	
2000-2006	*MIP and EU-RSA risk capital agreement:* - equitable access to and sustainable provision of social services - equitable and sustainable economic growth - regional cooperation and integration - investments in provision of water supply and sanitation services to the previously under-served population - employment creation and economic empowerment of HDPs through provision of risk capital and TA
2007-2013	*MIP and EU-RSA risk capital agreement:* - employment creation with emphasis on the Second Economy and economic empowerment of HDPs - improved access to public services and increase quality of service delivery - economic integration of Southern Africa *Country strategy paper:* EIB operational objectives defined as: - priority infrastructure investment programmes - promotion of private sector growth - support for SMEs through global loans

Box 8-3 National operational objectives in South Africa

Linked to the CSP for 2003-2006 an MIP covering the same period was drawn up. The MIP in force linked to the CSP 2007-2013 covers the full period.

Box 8-3 summarizes Programme relevant EU policy objectives at the operational level in the two budget periods.

Operational objectives 2000-2006

The operational objectives of the MIP include the broader strategic objectives of the CSP.

The separate and more specific objectives are clearly development oriented. Mandate loans are a less well suited financial instrument for achieving development objectives as an important element of conditionality is required to ensure affordability of the social services provided. Other instruments are required re also the specific mentioning of risk capital and TA for one of these objectives.

[88] Cooperation between the European Union and South Africa: Joint Country Strategy Paper 2007-2013.

Operational objectives 2007-2013
In addition to the development oriented operational objective of the MIP, the country strategy paper for the period includes operational objectives for the EIB as endorsed by the Commission.

The EIB operational objectives defined in the CSP are identical to those of the external mandate, which calls for support to infrastructure project of public interest and private sector support including SMEs.

The MIP includes as a non-focal area regional and pan-African support with a view to alleviation of poverty by focusing on economic integration of Southern Africa, including development of regional infrastructure.

Specific operational objectives for RCF operations
The agreements between the government of the RSA and the EU set specific operational objectives for the two RCF.

RCF I has as far as equity and quasi-equity investments are concerned job creation for HDPs, and to increase the number of new HDP managers, owners and skilled employees. The objective of the TA part of the RCF I, the so-called business support grants, is that it is to reach the beneficiaries of the equity investments.

The objectives of the RCF II investment scheme are HDP job creation of which 30 pct. for women, increasing the number of HDP managers and owners including women, and contribution to the Black Economic Empowerment (BEE) scheme that requires 25 pct. HDP ownership. The objective of the business support grants in RCF II is still to reach the beneficiaries of the equity investments.

The above objectives are mirrored in cooperation agreements between the IDC and the EIB, which the Commission has endorsed. The Bank ensures the operational objectives to be complied, i.e. in effect the relevance of this Programme activity.

8.2 EIB country strategies and operations

The relevance of the EIB Programme activities is assessed against the broader EU policies and the EU operational objectives. In particular to the operational objective in both mandate periods covering increased regional integration.

8.2.1 Regional integration objective of Programme

The identification of EU operational objectives in section 8.1.3 showed cooperation and economic integration in the Southern African region to be a separate objective in both mandate periods. The EU itself has regional cooperation programme in the region cf. the discussion later in this chapter on the potential for synergies with the EU financial assistance in the ACP countries.

As far as mandate lending is concerned, the feasibility of reaching this objective is constrained by the fact that the mandate only provides for lending within South Africa. Any cross-border, regional projects require the partner country to provide own co-funding on the part of the project within its borders.

The provisions of the RCF I facility[89] does not allow for the risk capital investments of South African based SMEs in the neighbouring countries. Improved regional cooperation is not an objective that can be reached in practice.

The RCF II facility sets as a result increased South African SME investments in neighbouring countries, more specifically a target of 15 such investments.[90] However, in practice this turned out to be a non realistic objective as there simultaneous objectives that had to be targeted at the same in particular increased black empowerment. The EC and the RSA therefore agreed in 2008 to modify the regional integration objective such that it would apply on a "best efforts" basis only.

8.2.2 Mandate loans 2000-2007

The COP 2001-2003 has no mention of the South Africa mandate (nor has the one for 2002-2004). No other EIB strategy documents covering South Africa have been made available.

Judged from the statistical breakdown of EIB lending is concerned, mandate loan operations are within the Country Strategy Paper priority areas of co-operation of improved access to social services (including environmental) and to promote equitable and sustainable economic growth to contribute to the acceleration of growth, equity and employment. Table 8-1 gives the details.

[89] Financing agreement between the European Community and the Government of the Republic of South Africa concerning private sector support programme - risk capital facility (SA/1002/000).

[90] Financing agreement between the European Community and the Republic of South Africa concerning support to the risk capital facility (SA/007/04), annex II.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	1	50	5
Energy	4	218	23
Environmental infrastructure	2	185	20
Telecommunications	0	0	0
Productive sectors	1	25	3
Education and health	0	0	0
Other public infrastructure	2	60	6
Global loans	8	410	43
Total	**18**	**948**	**100**

Table 8-1 Mandate lending by sector in South Africa 2000-2007

The sizeable share of global loans in the period covers not only on-lending to SMEs, but also on-lending to small municipalities for the provision of municipal services mainly through the Development Bank of South Africa.

8.2.3 Mandate loans 2007-2013

The COP for 2008-2010 contains some overall strategic considerations for RSA operations (paragraphs 168 and 169).In the COP it is indicated that - in line with the mandate - future EIB financing will focus on priority infrastructure investment programmes and the promotion of private sector growth. Commitments are expected to amount to EUR 200m annually for the next three years.

Guidance on lending strategy can also be sought in the official letter of the Bank in August 2007 already referred to from the head of the directorate for operations outside the EU.

According to this letter, the EIB lending strategy for South Africa will mirror the mandate decision as well as be consistent with the stipulations of the joint EU-RSA CSP for 2007-2013, including its EIB operational objectives. The letter notes that about two thirds of mandate lending is expected to be channelled to public infrastructure projects, one third going to the private sector.

Sector	Signed loans		Share of volume
	no.	EUR m	pct.
Transport	0	0	0
Energy	0	0	0
Environmental infrastructure	0	0	0
Telecommunications	0	0	0
Productive sectors	3	53	16
Education and health	0	0	0
Other public infrastructure	1	150	46
Global loans	2	120	37
Total	**6**	**323**	**100**

Table 8-2 Mandate lending by sector in South Africa 2007-end June 2009

Judged from the sector breakdown of mandate lending, EIB mandate loan operations are fully consistent with EU policy objectives, cf. table 8-2, more specifically those set for the EIB in the country strategy paper.

The private sector growth objective is covered by operations in the productive sectors and in one of the global loans, i.e. about 1/3 of the signed operations and in line with the target set by the Bank.

The sector 'Other public infrastructure' comprises an operation for the extension of a framework loan for the financing of affordable social housing and related urban infrastructure through different intermediaries. This mandate loan also supports the country strategy objective of providing pro-poor social services.

8.2.4 Risk capital operations

The Commission has set up two risk capital operations in RSA, on in 2001 and one in 2006. Funds are managed by a local, state-owned development finance institution, the Industrial Development Corporation (IDC). The EIB ensures that operations are consistent with the operational objectives of the funds management agreement and monitors overall portfolio performance.

The evaluation team has reviewed the approved operations and validated that all are fully consistent with the specific operational objectives when taking into account the amendment in 2008 of the regional economic integration objective. So far no investments with a regional dimension have been carried out.

8.3 Conclusions

EIB mandate loan strategies and operations supports in full EU policy objectives given the financial instruments that the EIB has available in its mandate lending, namely loans with interest rates set on a cost recovery basis for the Bank. EIB's task to oversee the risk capital activities of the IDC has contributed to ensure policy compliance.

South Africa was selected as a case study country. Appendix 4 includes the country case report for South Africa with the same structure as for other case study countries. However, having already been covered in this chapter, the identification of EU policy objectives at the strategic and operational level and EU lending strategies will be in summary form only based on the information presented in this chapter.

9 Effectiveness of Programme

The assessment of programme effectiveness focuses on the factors defining the scope of EIB operations under the Programme, and on the effectiveness of actual Programme operations on a portfolio basis comprising also inputs from country and project case studies. A detailed analysis of project financing volumes by region, country, and sector is included in the previous chapters.

9.1 Monitoring and reporting of the Commission

Efficient checking of EIB operations by the Commission may help ensure that EIB Programme activities conform to EU policy objectives. The following presents the procedures in place with respect to the mandate loans.

Additionally, cooperation and ensuring the coherence of EIB and Commission may contribute to Programme effectiveness. These aspects are addressed in chapter 11.

At the level of individual operations, Article 21 of the EIB statutes call for 'no objection' of the Commission to EIB financing operations. According to article 3(3) of the Council decision for the present mandate an EIB financing operation will not be eligible for a Community guarantee if the Commission delivers a negative opinion within the framework of the Article 21 consultations provided for in the statutes of the EIB.

Article 3(4) defines the Commission role in monitoring of the consistency of the EIB financing operations with the external policy objectives. A similar clause was included in the Council decision for the previous mandate.

9.1.1 Article 21 consultations

The Council decision for the present mandate includes for the first time a provision that an EIB financing operation cannot be included under the cover of the Community guarantee in the event that the Commission delivers a negative opinion under the Article 21 consultation. The consultation takes place before a detailed loan appraisal is allowed to start.

Framework for consultations
A regularly updated vade-mecum outlines the procedures for the consultations. The purpose of the consultations is to check specific projects against Community legislation in force and Community policies.

According to the vade-mecum cooperation relating to the definition of policies, strategies and priorities should occur through cooperative processes independent of the Article 21 procedure.

The Bank provides a brief summary of project information to the Commission requesting an opinion and is required to submit at least information regarding the following issues:

- Category of the loan (direct project loan, global loan, other)
- Promoter/intermediary
- Description of purpose and location
- Estimated investment costs
- Environmental aspects
- Procurement procedures with specification of which EU procurement legislation, if any, is relevant
- In case of enlargement related operations, brief indication to what extent the loan is in line with priorities laid out in the European/Accession Partnership agreements

Consultation documents

The Article 21 consultation documents reviewed by the evaluation do not include explicit information on operational consistency with EU policy objectives. Even in the absence of this information, the Article 21 document, although brief, does contain sufficient information to assess policy consistency.

According to information from the Commission, there have been no formal negative opinions on proposed operations.

However, in several instances, the consultations have led the EIB to review certain aspects of the project (cf. the case study in Brazil), impose certain conditions or have stressed the need for the EIB to focus their further appraisal on certain aspects. In other cases, the project has been put on hold or withdrawn by the Bank following the observations raised by the Commission.

The focus group discussions with the four DGs selected point to that several representatives of these DGs consider the procedure more of "an information sharing mechanism with no surprises", i.e. a formal procedure, rather than a real monitoring instrument for compliance with EC policies.

The DG covering the pre-accession countries (DG ELARG.) stated that no one in the DG feels responsible for objecting to an EIB project received through the Article 21 consultation if it is not in a clear way in direct opposition to prevailing policies.

DG RELEX finds that the Article 21 procedure documents are often not very well elaborated, which makes it difficult to assess the projects.

The real monitoring takes place much earlier in the process e.g. through informal channels of information exchange in the form of meetings between the relevant units in the DGs and their counterpart in the EIB operational divisions or through the provision of TA by the Commission in the early phases of a project.

This picture of the importance of the Article 21 consultations at the Commission is, however, not uniform. The Delegation in South Africa reported at a meeting during the field mission that the RSA projects are scrutinized for their relevance and expected effectiveness. This would then be in place of earlier consultations with EIB operational staff (based in Luxembourg) on the matter.

According to EIB operational staff interviewed, the Article 21 consultations have seldom resulted in significant changes. Projects would have been discussed already with Commission staff.

The Article 21 consultations address individual operations. Each operation that receives 'no objection' is found by the Commission to be consistent with EU policy objectives. This form of consultation means that it cannot be assessed whether other operations would have contributed more to the same objectives. This requires a portfolio approach to this ex ante monitoring, which is the one now targeted in the policy level discussions of the Commission and the EIB.

9.1.2 Commission reporting to the Parliament and Council

Mandate period 2000-2007
At the level of the ex-post reporting on the activities under mandate in 2000-2007, the 1999 Council decision required the Commission to provide on an annual basis to the Parliament and the Council an assessment of the EIB mandate loan operation contribution to fulfilling the "Community's relevant external policy objectives taking into account the operational objectives".

This reporting would presuppose information from the Bank in this regard, which the Commission can obtain in accordance with the stipulations of the guarantee agreement underlying the mandate decision. The information provided would allow the Commission to provide feedback to the Bank on consistency with relevant external policy objectives.

The evaluation team has reviewed the annual reports of the Commission for the mandate period. As regards Programme relevance, the reports covering activities in each year of the period 2000-2006 address "*EIB* objectives and priorities" instead. Only in the 2007 report, the year of the expiry of the mandate, is the contribution to EU external policy objectives addressed.

This form of reporting reflects an interpretation of the reporting requirements of the mandate decision contained in article 2. The Commission is to report on the "contribution of the lending under this Decision to the fulfilment of the Community's relevant external policy objectives *taking into account the operational objectives and appropriate measurements of their fulfilment to be established by the EIB for lending under this Decision*" (own italics).

Mandate period 2007-2013
The monitoring foreseen in the present mandate in article 3(4) of the Council decision is to be done in accordance with the provisions of article 6 of the Decision.

Under point 1 of this article the Commission is to report annually on mandate operations to the Parliament and the Council. The report is to include an assessment of impact and effectiveness of the operations at the project, sector, country, and regional level. An assessment is also to be made of the EIB contribution to the fulfilment of the external policy objectives of the EU, *taking into account the operational objectives of the EIB itself*.

The Council decision requires in article 6(2) the EIB to supply to the Commission annual reports on EIB financing operations and on the fulfilment of the external policy objectives of the EU, including cooperation with other IFIs.

The EC-EIB guarantee agreement drawn up in compliance with article 8 of the Council decision also addresses EIB reporting requirements. The reporting requirement of article 7.03 is, however, worded differently in that the report is to cover "fulfilment of the external policy objectives of the EU….taking into account the operational objectives of the Bank".

This different wording is entirely consistent with the reporting requirement of the Commission detailed in article 6(1).

Referring back then to article 3 of the Council decision which heading is 'Consistency with the policies of the EU', article 6 introduces that the Bank should take into account its own operational objectives in mandate lending.

Article 6 (1) also requires the Commission to provide information on Programme effectiveness at the project, sector, country, and regional level.

Review of the Commission report for EIB mandate loan operations in 2007 shows loan data for the old and the new mandate presented combined. This means that the operations under the new mandate with its more specific requirements are not reported separately for the assessment of effectiveness.

The report submitted by the Bank on "The impact and value-added of EIB external lending in 2008" presents how the EIB has supported EU policy objectives "taking into account the operational objectives of the EIB".[91]

The evaluation team has already pointed out that the COP sections on EIB lending objectives in the pre-accession countries are not identical to those that may be derived from EU policy documents in the Programme relevant areas. The reason being - as indicated in Chapter 2 - that the EIB Board of Directors sets EIB operational objectives. The EIB objectives are those that apply also for all EIB operations in the Member States.

The report sets the strategic EIB lending objective for the region as equal to the term "pre-accession support" (p. 5) as made operational in the lending objectives. The mandate lending objectives given in the report for the pre-accession countries are *exactly identical* to EIB's own lending objectives cf. p. 7 of the report.

9.2 Mandate loans by country

The TOR requires an assessment of mandate loan signatures and disbursements. The Council decision for the previous mandate did not include any requirements concerning the country distribution of the regional mandates. The present mandate includes such requirement for the ALA region.

[91] "EIB contribution to the report on the impact and value added of the EIB external lending in 2008".

Given that the EU external policies are defined on a country by country basis, a general assessment of the contribution of the Community financial assistance in the form of guarantee cover on EIB loans is relevant.

Appendix 3 provides a breakdown of the signed and disbursed loans under the two general mandates by region and by country. This section addresses the country breakdown only. The detailed analysis of disbursement rates is deferred to the section that follows.

Given the specific stipulations of the Council decision for the present mandate as to ALA, this part of the assessment will be relatively more comprehensive.

Pre-accession countries
The 2000-2007 mandate for the region initially covered its 10 candidate states, Albania, BiH, and FYROM. Croatia, Serbia and Montenegro became eligible later and Turkey was moved from the Mediterranean region to the group of pre-accession countries.

Most of the lending to the countries with investment grade ratings was from EIB own resources and at own risk, i.e. outside the mandate. Turkey, Romania, and Serbia were the three main beneficiary countries accounting for about 90 pct. of the signed loans when excluding those candidate states that did not benefit from mandate loans through its full period (Croatia, Hungary, Lithuania, Slovakia, Slovenia). This corresponded to the share of the 3 countries in the combined population.

In the present mandate, the number of eligible countries is 8. However, Croatia, being investment grade, does not benefit from mandate loans. Turkey is by far the dominant beneficiary followed by Serbia. The other, and smaller, countries of the region presently account for 12 pct. of the signed mandate loans (corresponding to their population share).

Mediterranean region
The Mediterranean region covers 9 countries (excluding Libya which is not eligible under the mandate) of which Algeria presently is not entering into loan operations with the Bank.

In 2000-2006 the three dominant borrowing countries were Egypt, Morocco and Tunisia with shares of 31, 21 respectively 26 pct. of the total when excluding the loans to Algeria in this period. By comparison, the population shares (excluding Algeria and Libya) are 49 pct., 20 pct. and 7 pct. Tunisia has a disproportionately high share as compared to its population but also to the size of its economy (8 pct. of the regional GDP) whereas the converse is the case for Egypt (42 pct. GDP share).

The picture is similar in the present mandate where 25 pct. of the loans signed are with Tunisian borrowers and 15 pct. extended to Egypt. The shares are disproportionately high so far in Lebanon (15 pct.) and Jordan (9 pct.). Since the data cover only 2½ years of the mandate no conclusions can be drawn.

Eastern Neighbours
The Eastern Neighbours region presently includes 6 countries (excluding Belarus). Lending so far is confined to three countries with only 8 pct. of the mandate committed so far and no disbursements.

Russia and Ukraine account for 90 pct. of the population of the region and 95 pct. of the GDP, so a high degree of concentration is to be expected.

The poor mandate performance in the region may be attributed to more factors including some country specific ones:

- The targeted nature of the mandate
- The often poor project preparation and implementation capacity of promoters in countries of the region means fewer 'bankable' projects
- Projects in Russia cannot get the sovereign risk cover through government borrowing or government guarantees, which makes it more difficult for the EIB to identify 'acceptable risk' projects.
- Co-finance of projects with the EBRD; an institution with different objectives of the EIB focusing on transition impact and private sector support
- Limited TA available to the EIB for project preparation and implementation
- Very limited staff resources available at the EIB with 4½ full time professional staff to cover the whole region, which compares with a mandate of EUR 3,700m.

The mandate is reserved for projects in transport, energy, telecommunications and environmental infrastructure.

Interviews with staff show that the Russian government does not want to be the promoter and borrower on infrastructure projects and wishes transactions to be executed on a PPP (Public-Private Partnership) basis. The EIB statutes sets limits on which risks the Bank can take if sovereign type risk is not available as it will not be in a PPP structure. A challenge is also the fact that the PPP legal framework in Russia presently is not fully in place. This means that the Bank will need to identify projects with other security structures.

The nature of the mandate and the poor promoter capacity both mean that the operations in the region will be much more staff intensive than the current staff allocation leaves room for.

Using this mandate up to its ceiling by end 2013 is not realistic against this background, which helps explain the low utilization rate of the mandate. This being said, it is important to note that the previous mandate in region, the one for Russia and Western NIS was not very intensively used. The mandate ceiling was only EUR 500m over 4 years of which EUR 230m was signed and EUR 3m disbursed.

Asia and Latin America
The ALA region covers 35 countries. The 2006 Council decision requests the EIB to "endeavour" to widen the geographic scope of operations and include also the less prosperous ones.

Country	Signed loans 2000-2007	2007-2013	Pct. of total 2000-2007	2007-2013
	EUR m	EUR m	pct.	pct.
Asia:				
China	56	119	6	32
India	50	150	5	41
Indonesia	189	0	20	0
Laos	42	0	4	0
Maldives	50	0	5	0
Pakistan	79	0	8	0
Philippines	219	0	23	0
Sri Lanka	160	0	17	0
Thailand	26	0	3	0
Vietnam	68	100	7	27
Total	**939**	**369**	**100**	**100**
Latin America:				
Argentina	219	0	14	0
Brazil	840	450	52	40
Colombia	100	100	6	9
Ecuador	40	0	2	0
Honduras	20	0	1	0
Mexico	86	50	5	4
Nicaragua	0	15	0	1
Panama	95	424	6	37
Paraguay	0	69	0	6
Peru	100	0	6	0
Uruguay	0	28	0	2
Regional	106	0	7	0
Total	**1,606**	**1,135**	**100**	**100**

Table 9-1: Mandate lending by country in ALA by sub-region

Table 9-1 presents a breakdown of signed loan operations in ALA by country in the two mandate periods.

So far in this mandate period, the geographic scope of operations has narrowed as compared to the 2000-2006 period especially in Asia. However, since the present mandate covers 2½ years of operations only, no final conclusions on scope can be drawn from the signed loan statistics.

In order to better highlight this scope for the purpose of this evaluation, we have examined also the EIB project pipeline of operations under appraisal and the approved but not yet signed operations (available on EIB website).

In Asia this pipeline is seen to correspond to mandate loans of EUR 310m for operations in India, Pakistan, and Vietnam (2). If all pipeline projects are signed, the mandate ceiling of EUR 1,000m will have been utilized to close to 70 pct. and loans extended to projects in 4 different countries (10 in 2007).

In Latin America the pipeline corresponds, as judged from the website information, to loans of EUR 737m. Again assuming all pipeline projects to be signed, the mandate ceiling (EUR 2,800m) will have been utilized by around 2/3 with loans extended in 8 different countries, the same number as in 2000-2006.

However, the degree of concentration among these countries will be high with Brazil and Panama the two most important borrowing countries by far.

Panama, a country with a population of 3.3m, accounts for 37 pct. of the already signed loans in Latin America (2 loans). The Panama Canal project alone (EUR 400m) absorbs 1/7 of the mandate ceiling.

The priority in the Council decision for the EIB to increase lending in the less prosperous countries is more difficult to comply with in practice. For the EIB this requires the complementary actions of the EU in terms of TA and in particular investment grants to be available in order for the financing package to be sufficiently soft. According to EIB operational staff, the poorer countries of the region are offered funding on concessional terms from other IFIs. As noted earlier, the required EU co-financing is not available.

South Africa
Since this regional mandate covers one country only, no comments are warranted.

Minimum size of EIB loan
In all countries the Bank operates with a minimum investment cost to undertake an operation cf. discussion later in this chapter. This has not be seen to affect the country breakdown of lending. What it does impact is the type of loan selected. In the smaller countries, in particular in the pre-accession region, framework and global loans are more intensively used. In South Africa, the loan size requirement limits the direct lending to the private sector, a mandate target sector, in which project sizes are generally smaller.

9.3 Mandate loan disbursement rates

The signed loan amounts show the anticipated effects of the operations from the side of the Bank whereas the disbursed loan amounts are indicative of the actual effects of the mandate loan operations. However, it should be noted that disbursement rates are often time dependent.

Following loan signature it may still take some time before disbursements can start due to e.g. finalization of contract arrangements. In addition, the disbursement profile for project loans will usually have a relatively low share of the loan disbursed in the early implementation phase, which is the period where the less costly site preparatory works are carried out.

For these reasons, only mandate loans for the period 2000-2007 should be reviewed for analysing intended against actual impacts of mandate loans.

Table 9-2 shows signed and disbursed loan amounts by region and the disbursement rate by mandate loan type and in total for the 2000-2007 general mandate and the two mandates for Eastern Partners in this period. The amounts signed shown are net of loan cancellations.

Assessed first at the regional level overall, disbursement rates are quite uniform around 70 pct. with the sole exception of ALA, which has a disbursement rate of 80 pct. on average. This may be attributed to the larger share of lending to the private sector with its higher absorption capacity. Furthermore, in the private sector is not only the incentive is higher for a speedy implementation but also, and more, importantly, projects are less complex and with shorter implementation periods.

In South Africa the disbursement rate is adversely affected by the signing of a loan late in the mandate period in order. According to Bank staff the signing would use up the mandate in the most efficient manner, the loan being the second tranche of a large scale energy infrastructure project. Without this operation, the disbursement rate would at 77 pct. be almost as high as in ALA. This testifies to the high absorption capacity in the country and to better prepared projects when the loans are signed.

	Loan amounts		Disbursement rates		
	Signed.	Disburs.	Projects	Global	Total
Regional mandate:	EUR m	EUR m	pct.	pct.	pct.
Pre-accession countries	9,078	6,416	64	95	71
(Candidate states)	(6,554)	(4,712)	(64)	(100)	(72)
(Potential candidates)	(2,524)	(1,704)	(65)	(81)	(68)
Mediterranean region	6,335	4,849	77	76	77
Eastern Neighbours	315	88	28	n.a.	28
Asia and Latin America	2,135	2,028	97	84	95
South Africa	829	673	72	98	81
Total	**18,692**	**14,055**	**72**	**90**	**75**

Table 9-2 Disbursement rates (net) by regional mandate and type as of end June 2009

The loan disbursement rate in the Eastern Neighbours region is particularly low overall. This conceals, however, that the three loans under the targeted NDEP mandate have been fully disbursed (EUR 85 m in total) against a disbursement rate of 1 pct. for the broader Russia/Western NIS mandate with signed loans of EUR 230m and a disbursement total of EUR 3m. Major differences between the two mandates are that project preparation funds have been available under the NDEP and that the selected projects have been true priority projects for the national level stakeholders as well. These factors help explain the difference in effectiveness in terms of the disbursement rate indicator.

Appendix 3 gives details of disbursement rates per country for each regional mandate in 2000-2007 and in 2007-2013. The tables point to that disbursement rates are linked also the political climate and the maturity of the economy.

By type of operation, disbursement rates on global loans are superior. The nature of these credit lines is such that project preparation in effect is delegated to the borrowing bank with the EIB approving the sub-loans and ensuring timely disbursements. The contractual arrangements may be finalized quicker among others as no government guarantees are involved.

If the global loans are targeted SMEs and if SME support is an operational objective, the global loans may be an effective instrument in reaching this objective. Global loans may also be used for targeting small scale municipal investments, i.e. a sector of the market that the Bank cannot reach because the small scale of these investments and hence too high loan appraisal costs to justify a direct loan. The end-use of funds available under global loans is analysed elsewhere in this chapter.

Disbursement rates have been found to vary widely by year and by regional mandate. Table 9-3 shows disbursement rates by year of loan signature and by regional mandate. The disbursement rates are calculated as the total disbursements as of 30 June 2009 for the loans signed in any given year with loan cancellations during the year deducted. Project loans are only included in the table since the global loan disbursement rates on the whole are quite uniform.

	Pre-accession	Mediterranean	ALA	RSA	Russia/ WNIS	Total
Year:	pct.	pct.	pct.	pct.	pct.	pct.
2000	96	100	100	n.a.	n.a.	98
2001	87	100	100	100	n.a.	96
2002	74	88	100	n.a.	100	81
2003	70	87	86	100	n.a.	79
2004	70	82	100	67	n.a.	80
2005	14	38	100	100	100	37
2006	38	54	94	68	n.a.	53
2007	61	n.a.	100	20	1	51
Total	**64**	**77**	**97**	**72**	**28**	**72**

Table 9-3 Project loan disbursement rates (net) by year and mandate end June 2009

The very low disbursement rates for the loans signed in 2005 and 2006 for the pre-accession countries in particular but also the Mediterranean region should be noted. To note is also the low disbursement rate overall for the pre-accession countries.

The evaluation has requested the operational departments of the Bank for information on the background to the low disbursement rates. This was done by supplying a list of individual project loans with signed and disbursed amounts with highlighting of those loans for which further information was requested.

Project loan disbursement rates in pre-accession countries
The low disbursement rate in 2005 in the pre-accession countries is mainly due to the signing of a EUR 450m to co-finance the construction of the Bosporus tunnel. This loan alone accounted for about half of the project loans signed in that year. This loan has not yet been drawn upon but the project is still 'alive'. In 2006 a loan for tunnel construction also impacted disbursement rates adversely.[92] A loan of EUR 400m was signed for purchase of rolling stock of which less than 10 pct. has been drawn. The loan corresponded to 40 pct. of the

[92] The reason for the delays are largely due to the archaeological finds of the roman Byzantine port (see http://www1.voanews.com/english/news/europe/History-Impedes-Progress-on-Istanbul-Transportation-Project-74996672.html). The Bank indicated that it is proactive in supporting project implementation via a FEMIP TA funded international PIU with regular EIB project engineer attendance at monitoring meetings.

signed loans. In both years the disbursement rates are also impacted by slow progress on projects in the West Balkans.

The disbursement rate for project loans in this region is presently low, about 55 pct. The background to this ranges from a variety of factors from lack of resources for beneficiary project preparation and project supervision, redefinition of government priorities with change of government, the split of Serbia and Montenegro, delays in Parliament ratification of government guarantees, and social resettlement issues to be solved. Overall, the two key factors are lack of funds for project preparation and supervision, and the political environment in the region.

In the pre-accession countries, however, even the first years of the mandate period before the countries of the WB became eligible, show low disbursement rates. The breakdown by country in Appendix 3 shows the disbursement rates to be below average those two countries that were only eligible for mandate loans until 2006, namely Bulgaria and Romania. The lending to Bulgaria was quite small and the country is well known to have difficulties in moving projects in the implementation phase. The disbursement rate for the project loans (net of cancellations) to the country was 62 pct. at end June 2009.

Romania, on the other hand, was the single most important country under the pre-accession mandate until 2003. In the period 2000-2006 project loans of EUR 1.8b were signed of which 92 pct. in 2000-2003. The disbursement rate (net of cancellations) is 67 pct. at end June 2009 for the period as a whole as well as for the years 2000-2003.

In our view, a disbursement rate of 2/3 on loans signed on average 7 years ago is not fully satisfactory. On the one hand, this involves an opportunity cost to the extent that the mandate might have been used for more productive purposes in disbursement terms. On the other hand, it is also indicative of the best available projects designed to meet the Acquis at that time.

In the period 2000-2003 project loans signed in Romania amounted to about EUR 1.6 billion of which 60 pct. in the transport sector. The disbursement rate on these loans at end June 2009 was 49 pct. The low disbursement rate is attributable almost exclusively to two projects only, the construction of a motorway (6 pct. disbursed, loan of EUR 200m) and a road rehabilitation project (25 pct. disbursed, loan of EUR 240m). This last project is the one selected for the mandate loan case study and the loan is still under disbursement. The reason for the delay is explained in the case study report and involves factors that are within the project as well as outside (see Appendix 4.1).

Project loan disbursement rates in the Mediterranean region

The analysis of the information received on the status of loans in the Mediterranean region shows the comparatively low disbursement rate in 2005 attributable to operations in Lebanon, Syria, and Tunisia. In Lebanon the 2006 war has delayed these and other projects in the country. In Syria disbursement delays derived from an extended project preparation period on an environmental project, procurement difficulties including tender failure, delayed government ratification procedures and poor implementation capacity of the promoter.

In Tunisia two relatively large projects signed that year due to the government changing the institutional set up in the PPP structures envisaged for the projects. Even without this wish for change, projects with PPP structures are invariably more time consuming to prepare and to implement. The additional value added from signing projects with such features more than outweighs the delays in terms of impact. Both are still on track for implementation.

In 2006 the low disbursement rates are too a large part attributable to extended project preparation periods for some environmental projects cf. also discussion later in this section. On two projects in Tunisia, the Bank intervened in order for adequate TA to be provided to one project respectively ensure procurement procedures acceptable to the Bank.

Project loan disbursement rates by type of infrastructure financed
As was in evidence in the identification of EU operational objectives, support to improvement of transport, energy and environmental infrastructure are key priorities for the EU, in particular in the pre-accession countries but also in the Mediterranean region and in South Africa.

In assessing the EIB contribution to EU policy objectives a relevant aspect for consideration is the disbursement rates for EIB mandate lending in these key sectors cf. table 9-4.

	Signed	Disbursement	
		Amount	Share
Sector:	EUR m	EUR m	pct.
Transport	6,224	3,598	58
Energy	4,193	3,247	77
Environmental infrastructure	1,460	766	52
Total	**11,877**	**7,611**	**64**

Table 9-4 Project loans by sector under general mandate 2000-2006 end June 2009

Taking into account the special cases of the two loans (EUR 950m) to the Bosporus tunnel project, the disbursement rate in the transport sector would be 68 pct. Doing so, the lending to environmental infrastructure projects stands out. This is not only because of its low disbursement rate of 52 pct. but also because of its low share of total lending under the mandate as compared to the priority attached to it.

In a way, these two aspects are interlinked. As exemplified in the discussion of the level of disbursement rates, more intensive project preparation is required for environmental infrastructure, with external TA often required. The need for more extended project preparation and need for TA helps explain the low disbursement rate for the sector.

As opposed to e.g. the transport sector, the beneficiary very often needs project preparation assistance given that the project itself typically will involve upgrading of environmental standards and introduction of new technologies. According to EIB, the problems of slow implementation for municipal environment projects (current disbursement rate in Romania water sector is 57%) is common to EIB and EC and particularly affect Romania & Bulgaria, and stems for more general institutional weaknesses in the public administration.

EIB has provided the following additional information to give a full overview of all EIB funding to Romania (including non-mandate operations): EIB co-financed 32 individual projects via 6 individual or grouped loans. All were co-financed with the EC ISPA or PHARE. The overall lending of EUR 240m for projects with a total investment cost of EUR 1222m. Of these only 2 loan operations were under the mandate.

Joint IFI action plan
A very recent example of an action that at least for the present time contributes to low loan disbursement rates is the Joint IFI action plan from February 2009. IFIs including the World Bank, the EBRD, and the EIB joined forces to make available credit lines for banks in Central and Eastern European countries.

This action was discussed during one of the field missions when the team met with the 2nd largest bank in Serbia. This bank had received several calls from IFIs about the set up of credit lines but always declined due to lack of demand and sufficient availability of funds to cover the existing demand.

Nevertheless, and since the objective of this action and immediate indicator of success is signed credit line agreements, the Bank has established new global loan facilities with significant amounts of funds but with limited demand.

This form of action implies an opportunity loss and loss in overall Programme effectiveness, if disbursement rates remain low. A recent IMF review mission to Serbia pointed to that the adverse impacts of the financial crisis have subsided at least at the present time.[93]

9.4 Absorption capacity

The variation in disbursement rates between regions may possibly reflect also differences in absorption capacity. The discussion of the country breakdown of mandate lending has already pointed to some of the indicators for effectiveness, namely population and GDP. In the Mediterranean region, these indicators were not sufficient since the country breakdown of lending was found to vary considerably from that to be expected from these indicators.

At the country as well as the regional level, important indicators for absorption capacity in the context of the external mandates are:

- scope of regional mandate
- population of region (country)
- size of regional (national) economy
- surface area and population density
- EIB non-financial value added
- external TA available
- willingness to take the credit risk of the lender

The broader the mandate scope, the wider the range of potential projects to finance. The larger the population and the wealthier the country, the higher project needs for the low to middle income countries of the mandates. The surface area and population density impact directly on investment needs in the energy, transport, water and wastewater sectors.

If the EIB has sufficient staff resources to devote to project preparation and promoter assistance during implementation, then also more complex projects may be financed. In the same direction pulls availability of external TA. Inherent in both indicators is that absorption capacity is not a static concept but

[93] Press release of 1 September 2009 (www.imf.org/external/np/ms/2009/090109.htm)

something that can be developed with relevant assistance and support from the outside.

Finally, as the EIB has statutory constraints on the credit risks the Bank may take, the credit standing of the borrower the security available on the loan is of importance as well.

The table below summarizes the main indicators on a regional basis. ALA is excluded since the size and population of this region is very large when compared to the small mandate size, totalling EUR 3,800m in the present period. This means that, in spite of the targeted nature of the mandate, it can be concluded on these grounds alone that the 'mandate absorption capacity' is high in the region.

Indicator	**Mandate scope**	**Popu lation**	**PPP adj. GDP**	**Ext. TA**	**Mandate size**	**Man-date/regi onal GDP**
Region:		m	USD b		EUR m	times
Pre-accession countries	broad	87	1,073	x	8,700	8.1
Mediterranean region	broad	195	1,367	x	8,700	6.4
Eastern Part-ners	narrow	217	2,847	(x)	3,700	1.3
South Africa	broad	49	493	-	900	1.8

Table 9-5 Mandate absorption capacity indicators by region (2007-2013 mandate)

The extent of non-financial value added of the EIB in operations will be discussed later in this chapter.

The ratio of the regional mandate to regional GDP shows the mandate size in proportion to the regional economy. The higher this ratio, the larger is the mandate in proportion to the economy. In this context, the pre-accession countries and the Mediterranean region are accorded much larger mandates as compared to Eastern Partners and South Africa.

The broadness of the mandates in the pre-accession countries, the Mediterranean region, and South Africa increases absorption capacity. The RSA mandate is relatively small. According to the SA Treasury, the country can absorb rather larger amounts of loans given its substantial infrastructure investment needs and its current funding gap in this area.

The Eastern Partners mandate is very narrow but small relative to the size of the economy. As discussed earlier, staff resource availability (and consequently non-financial VA) at the EIB to be the absorption capacity indicator that effectively constrains mandate operations.

The e-survey of EIB loan officers asked about the degree of difficulty in identifying new projects of acceptable value-added in terms of mandate objectives. The answers provided a mixed picture on mandate absorption capacity with 28 pct. finding it easy or very easy and 35 pct. finding it difficult or very difficult.

9.5 Global loan allocations

The setting up of global loans supports EU policy objectives. The most often observed purpose of the global loans that the Bank extends is to make finance available for SMEs; an important objective in pre-accession countries and part of the private sector support operational objective in the Mediterranean region and in South Africa.

The global loan structure may also be used to target other objectives. In the countries of the West Balkans, banks make finance available for local authorities. Promotion of investments in municipal infrastructure is targeted in the potential candidates and in South Africa. In South Africa a government development bank (Development Bank of South Africa) is tasked with lending to smaller municipalities.

Global loan type structure are in this regard a means for reaching the smaller municipal infrastructure investments that the Bank, due to cost recovery reasons, will not find a financially feasible size for a direct loan. At the same time the project preparation is 'outsourced' to the intermediary bank with the EIB approving all individual allocation and disbursement requests.

Global loan allocations by sector
The 12 global loans in the sub-loan analysis were extended to commercial banks in Egypt, FYROM, Indonesia, Lebanon, Serbia, South Africa, and Turkey and to development banks in Romania and in Turkey.

This last operation in Turkey was not quite the typical global loan but an environment and energy sector framework loan for small scale municipal infrastructure investments. This framework loan was deliberately included in the sample to illustrate the flexible use of the global loan concept.

Table 9-6 shows the allocations of the 12 global loans in the sample by type of borrower and by sector.

The about 20 pct. allocation share to public sector borrowers is due almost entirely to allocations made in the energy sector under the environment and energy sector framework loan mentioned above. This framework loan includes no allocations for environmental infrastructure projects. The average allocation size on this framework loan is much higher; a feature of framework loans.

Taking this framework loan into account, municipal investments are still a feature of global loan allocations. According to EIB operational staff, the global loans in the West Balkans are often targeted SMEs and small municipalities at the same time. As discussed elsewhere in this chapter, the global loan structure has been used in the past to co-finance small scale municipal projects with the Commission.

In South Africa the 5th global loan credit line with the Development of South Africa was signed in June 2009 for an amount of EUR 60m to support small scale municipal infrastructure investments.

Sector	No. loans	Total	Avg.	Share of total
	no.	EUR m	EUR m	pct.
Public sector:				
Transport	13	11	0.8	1
Energy	31	148	4.8	16
Environmental infrastructure	22	13	0.6	1
Other	23	26	1.2	3
Sub-total	89	198	2.2	21
Private sector:				
Manufacturing	306	364	1.2	39
Trade and services	44	33	0.7	4
Hotels	111	181	1.6	19
Other	166	159	1.0	17
Sub-total	627	737	1.2	79
Total	**716**	**935**	**1.3**	**100**

Table 9-6 Global loan allocations by sector

As to lending to the private sector, the shown breakdown by economic sector is the one, that the available data allows made and with the productive sectors as the dominant group. Their 'real' share may well be higher given the large residual group 'other', which includes loans, which sector could not be determined

The finance contract for the individual global loan stipulates the sectors eligible and that targeting can be made. With the general policy objective of SME support this is not necessary and allows more flexibility to the intermediating banks to select the 'best' projects.

Overall, the global loan credit lines are an instrument of the EIB to reaching not only this SME support objective but also the objective of improvement of municipal infrastructure. The section on disbursement procedures discusses a barrier to effectiveness in the latter regard.

Global loans by size of SME

In its approval of allocations under the global loans the EIB has adopted the EU definition of an SME as an enterprise with less than 250 employees. In Pre-accession countries the limit is also 250 with the exception of Turkey where the Bank uses 500 as approved by the Board in 2009.

During the field mission some national level stakeholders expressed the view that this size was 'too large' to cover the 'true' SME sector in the country. Commission DGs have also raised the issue of the SME definition applied being appropriate in the context of the external mandate lending. The comments applied not only to global loans but also to risk capital operations where the same SME definition is used.

The size of the enterprises benefiting from global loan allocations is one indicator of the SMEs recorded in the operations. The EIB global loan data received includes information on number of employees for most allocations. For about 1/5 of the allocations, the number of staff is 'zero'. This is either because the allocation is to a public sector entity or as the information has not been provided.

Table 9-7 shows allocations under the global loans in the sample by number of employees. The table excludes the environment and energy sector framework loan in Turkey, since this operation is not a 'true' global loan.

The table shows about 2/3 of the global loan allocations by number have been extended to enterprises with less than 250 staff. An SME definition with below this threshold is one sometimes used in lower and middle income countries.

No. of employees	Number of sub-loans	
	no.	pct.
1-49	249	36
50-99	104	15
100-249	120	17
250-374	37	5
375-499	33	5
500 and above	14	2
Public sector/n.a.	144	21
Total	**701**	**100**

Table 9-7 Global loan allocations by SME size

The table also shows that a very small number of allocations, 2 pct. of the total, have actually benefited non-SMEs. These sub-loans were extended under the global loans in Egypt in particular but also in Serbia and in Turkey.

All in all, the actual SME definition applied has been rather less important than the fact that the SMEs in the beneficiary countries demanding sub-loans are in effect much smaller than the EU definition threshold.

The effectiveness of the global loans selected for the mandate loan operation case studies of contributing to EU horizontal policies will be addressed in alter section of this chapter.

9.6 Contractual requirements

An aspect of the call for increased coordination with other IFIs and with DFIs is the inclusion of, when appropriate, cooperation on sector conditionality (recital (16)).

In the context of this call it is appropriate to address the extent to which covenants and other contractual requirements for improved effectiveness is already in place in the existing finance contracts of the Bank and to which extent through active monitoring ensures compliance with contractual undertakings.

This has been done through the sample of finance contracts covering the project case studies of this evaluation. Some projects do include contractual undertakings with wider impacts e.g. as to beneficiary restructuring and as to tariff adjustment clauses.

We have observed in the case studies that even monitoring of simple information requirements clauses in the finance contracts such as forwarding of progress reports has not always been made in accordance with contractual provisions. In one case study, where the promoter had informed the field team that the required progress report had not been submitted but that nobody had taken notice, Bank staff attributed the monitoring failure to a lack of monitoring resources that had been acute for some time.

In another case study, compliance with the procurement requirements of the Bank had not been adequately monitored. This contributed to the promoter' using other requirements than those required by the Bank (international open tender) were used. The Board report had pointed the mismanagement of procurement procedures as a major project risk.

In the e-survey of staff 52 pct. of operational staff and 66 pct. of the technical experts replied that time constraints often or very often affected the quality of their work in terms of monitoring and follow up. Only 4 respectively 8 pct. replied that it never had an impact.

Staff interviewed point out that with the pressure on productivity increases measured by signed operations per staff and reflected in the higher cost coverage required, they have no other choice than to reduce monitoring to fulfil the productivity targets.

9.7 EIB operating procedures

9.7.1 Lending strategies

The review of EIB lending strategies in chapters 4-8 shows that the Bank develops few internal strategies at the regional or at the country level with e.g. prioritization of actions between different sectors, as it relies on EU strategies developed by the Commission and endorsed by the Council and Parliament. This contrasts with for example the EBRD and any other Multilateral or Bilateral Development Banks.

As discussed earlier in this chapter the Council decision for the present mandate foresees EIB strategic planning documents to be developed (article 3 (1b). The Bank has so far provided relevant sections of the COP and the FEMIP Operational Plan to the Commission.

9.7.2 Acceptable credit risk to the Bank

Article 18 of EIB statutes
Article 18(3) of the Bank's statutes makes the granting of a loan to a borrower other than a member state conditional either on the obtaining of a guarantee from the member state or on other adequate guarantees.

By extension the same provisions must apply for mandate lending to other than member states.

For loans to public borrowers other than the state not considered "sovereign risk" and that do not benefit from a sovereign guarantee, the statutory requirement of "other adequate guarantees" is a an effective constraint on the capacity of the EIB to lend to municipalities.

The concept of what may be considered "sovereign risk" in itself is an issue in the cases where "adequate guarantees" cannot be provided cf. discussion elsewhere in this chapter. A separate issue is also the concept of 'adequate guarantees' in itself.

In the form of externally available 'adequate guarantees', a guarantee from the sovereign is the only feasible option. For lending to the private sector security of e.g. appropriate bank guarantees can be obtained. Private sector banks do not extend guarantees to public sector borrowers.

Bank staff interviewed confirmed this constraint on the Bank's actions in the municipal sector seeing the Bank as always needing a sovereign guarantee if co-financing municipal infrastructure investment.

Interviews with relevant stakeholders (Ministries of Finance) in the case study countries pointed to that the continued availability of sovereign guarantees to non-sovereign borrowers is not presently an issue with possible exception of Egypt. Interviews with operational staff, on the other hand, showed this to be an issue. This is underlined by the need to use the Community guarantees provided for under the present mandate to non-sovereign public borrowers cf. discussion elsewhere in this chapter.

In the broader context, macroeconomic policy considerations also influence on the availability of sovereign guarantees. In the early part of the period under review and in the experience of the evaluation team, the IMF constrained the Romanian government in the issuance of sovereign guarantees.

The availability of sovereign guarantees for public sector infrastructure projects has had an impact on EIB project selection in the past. The COP 2002-2004 mentions in section 2.1.4 the availability of state guarantees for "infrastructure projects of public interest" as a constraint on lending.

Since energy and transport projects more frequently has a sovereign or sovereign-risk equivalent borrower, the constraint is more limiting as far as environmental infrastructure projects are concerned where the borrower is usually a municipality. Given that environmental infrastructure is an EU priority sector in the pre-accession countries overall Programme effectiveness has been effected by the constraint in this region resulting in relatively few loans for environmental infrastructure. These types of projects were mostly financed by EU grants.

Presently, in Serbia, the stand-by arrangement with the IMF agreed upon in November 2008 contains as a "quantitative performance criterion" a ceiling on the contracting or guaranteeing by the public sector (incl. the government) of new external non-concessional debt.[94] EIB loans are non-concessional. If the ceiling becomes an effective one, the Bank's scope of activities in Serbia will be reduced.

Internally, the Bank may itself mitigate credit risk in an operation by providing a risk cover that may be considered adequate guarantees. In 2001, in order to allow the Bank better to participate within the EU in the co-finance of Community priority projects, the so-called Structured Finance Facility" (SFF) was established.[95]

The facility consists of provisions set aside in the accounts of the Bank to cover risks on those individual operations where the adequate, and required, security is not available from external sources. The Board of Governors of the Bank sets

[94] IMF press release 1 Sept 2009 (http://www.imf.org/external/np/ms/2009/090109.htm).

[95] EIB Corporate Operational Plan 2006-2008.

the overall ceiling for such SFF provisions, which has been increasing over time.[96]

With the SFF concept the Bank is able to co-finance projects otherwise deemed worthy but where the overall credit risk was not acceptable.

Initially the SFF concept covered operations within the EU but it has been gradually extended to cover mandate loan operations where external guarantees cannot be provided or where such guarantees are considered to costly as compared to expected project benefits. In December 2007 the geographic scope of the SFF was extended to pre-accession countries, Eastern Neighbours countries, ALA, and South Africa. According to Bank staff the SFF is not much used outside the EU. The project examples found by the evaluation are characterized by relatively high value added in terms of contribution to reaching EU policy objectives.

In the Mediterranean region a similar facility is in operation since December 2004 already in the form of a 'Special FEMIP Envelope' (SFE). The SFE is used for operations in the financial sector, in major industrial and infrastructure projects including transport, and in the tourism sector. The case study of a global loan in Lebanon for SME on-lending and the Enfidha Airport case study in Tunisia are examples of the use of the SFE.

The ceiling in capital under this SFE is EUR 425m of which EUR 106m has been used so far on 16 projects, predominantly in the private sector. 15 of these operations have been signed under the present mandate and represent a signed loan amount of about EUR 775m. This amount corresponds to little over 1/4 of loan signatures; a quite significant share.

About 1/3 of the loans signed with SFE cover are global loans extended in Lebanon. Although this country has a well developed financial sector the extension of global loans under the previous mandate was constrained by the absence of adequate guarantee cover for the EIB. In the 2½ years of the present mandate, global loans totalling EUR 350m have been signed in the country as compared with EUR 110m in the previous mandate as a whole. The findings during the field mission showed important financial value added from global loan operation in terms of the longer tenors enabled by the EIB credit.

This internally generated 'adequate guarantee' through provisioning per definition expands the range of potentially fundable projects, thus increasing Programme effectiveness. The SFE facility has contributed to reaching the private sector support objective of the Mediterranean mandate.

Three constraints exist in practice for use of 'internal' risk cover. First, the ceiling on the SFF type operations set by the Board of Governors. Next, the fact that SFF type operations have been found to impose a bigger strain on staff resources for loan structuring and thirdly that these operations with their generally smaller size and lower success rate (in terms of loan signature) provide a lower cost coverage.[97]

[96] In 2007 the EIB set up a Risk Sharing Finance Facility targeted i2i, SMEs and energy projects in MS and pre-accession countries.

[97] EIB Corporate Operational Plan 2007-2009, p. 6.

As discussed elsewhere, staff resource availability and cost coverage both contribute to setting the frame for which operations are selected for appraisal.

Credit risk policy guidelines
The bank has developed specific credit risk policy guidelines for operations outside the EU to harmonize its practice.

According to the COP 2007-2009 "refinements of the Bank's credit policy, loan grading and risk pricing systems will enhance the possibilities for risk taking and enhanced value added for the promoter".[98]

Increased risk taking may increase Programme effectiveness. Recital (3) of the 2006 Council decision addresses this issue by encouraging the EIB to "increase its operations outside the EU without recourse to the Community guarantee".

The key element in the loan gradings are the assumed default probability rates. EIB officials interviewed considered the assumptions of the Bank and of the EC-EIB guarantee agreement conservative in the context of the mandate loan operations, which limits the possibilities to pursue more risky private sector operations and riskier public sector / municipal projects (cf. chap 9.9.2). As regards operations on the own risk of the bank, these are concentrated on few pre-accession countries, China and to a limited extend in the MED countries.

9.7.3 Value-added framework and ESIAF

The Bank presently uses two methodologies for assessing - among others - the contribution of individual loan operations to policy objectives; the value-added framework[99] in MS and pre-accession countries and the Economic and Social Impact Assessment Framework (ESIAF) [100] [101] in all countries outside Europe. The degree of policy contribution is a Key Performance Indicator (KPI) of the Bank.

Value added framework in pre-accession countries
The methodology is used at appraisal stage in order to identify the value-added by the Bank. It consists of identification of value-added within three areas or 'pillars':

Pillar 1	Pillar 2	Pillar 3
Consistency of the operation with EU policy objectives	Quality and soundness of the underlying investment	EIB contribution to the project

Under each pillar, the operation is assessed according to several subcategories and each of these is rated according to their contribution being "high", "me-

[98] Ibid p. 6.

[99] EIB, Document 07/247 to the Board of Directors (June 2007), "Value Added Methodology Improvements and 2006 Results".

[100] EIB internal guidelines, "ESIAF: Guidelines for implementation", 4 February 2008.

[101] EIB, Board of Directors, document 08/52, "Extension and adaptation of the Economic and Social Impact Assessment Framework (ex-DIAF) to all operations (including financial sector operations) outside the EU and pre-accession countries", February 2008.

dium", "moderate" or "low". The sub-pillar scores are added in order to reach a final score under each pillar.

In pillar 1, the assessment consists of the contribution of the operation to **EU** policy objectives based on the translation of these objectives into operational lending objectives in the EIB Corporate Operational Plan (COP).

According to EIB's own understanding, operations scoring "moderate" or "low" will be screened-out at an early stage of the appraisal process. Projects that are of particular relevance to the specific EU objective associated with the COP priority objective will automatically be rated as "high".

A detailed assessment of the quality and soundness of the project is performed as part of pillar 2. The subcategories on which the assessment is performed are the following: "economic and financial sustainability", "environmental sustainability" and "quality of the promoter's management". If relevant, specific technological aspects are also assessed (e.g. energy efficiency).

EIB's contribution to the project is the subject of pillar 3. Obviously, financial value added of EIB is a key component to assess (e.g. maturity, co-financing, choice of currency, catalytic effect). Pillar 3 also includes assessment of the non-financial value added of the EIB: support to project preparation (sectoral advice, feasibility study, etc.), technical assistance funded from EIB's own resources (or through EIB managed trust fund) or support to a project implementation unit.

We note that contribution to the objectives of the external mandate is not part of the value added assessment for the pre-accession countries. As discussed in chapter 4, the (different) lending objectives of the EU MS apply in the assessment of value added.

ESIAF in regions outside Europe
ESIAF has since 2007 been used for all direct project loans and for all financial sector operations outside Europe irrespective whether the operation is under mandate or at EIB's own risk.

Overall, ESIAF follows the three pillar system of the Bank's value-added framework. However, ESIAF is not only meant as a tool for project appraisal but also for identification and selection of projects. The three pillars are slightly different from the value-added (VA) framework:

Pillar 1	Pillar 2	Pillar 3
Contribution to overall mandate objectives and priorities	Quality and soundness of the project	EIB contribution to the project

The following features distinguish ESIAF from the VA framework.

In pillar 1, the key dimension of the assessment is the project's contribution to overall objectives of the general mandate, including consistency with EU policy objectives (as opposed to the VA framework which assesses against consistency of the operation with EU policy objectives) and its contribution to specific regional objectives in the mandate.

Pillar 2 has been expanded to take into account the social and environmental impacts of all investment operations. Likewise, the assessment of financial sector operations has been modified to take into account among others the quality of the operating environment.

The assessment undertaken in pillar 3 is similar to that of the VA framework but ESIAF stresses the importance of assessing the non-financial contributions (e.g. improvement of project design and provision of technical assistance).

According to the Bank's internal guideline, one of the key challenges in applying ESIAF is to ensure consistent rating of similar project dimensions across projects and to aggregate ratings for individual indicators into a rating for a particular pillar. For these reasons, the Bank's internal guideline provides some explanation as to how the different dimensions of the pillars should be rated.

One of the more complicated issues in the assessment of pillar 1 is whether the project is in consistency with and support EU strategies and policies. The internal guidelines stress that since EC documents (high-level policy documents, national or regional action plans, indicative programmes) "rarely cover areas in which the EIB is expected to be active…..justification… will therefore often have to be based on indirect arguments".

The term "indirect arguments" is understood as, for example, consistency with national priorities or strategies or through requests for assistance from relevant national authorities. Hence, EIB's internal guide suggests several sources of information based on which to establish consistency with EU strategies and policies for the mandate loan operations outside the EU.

The importance of the VA and the ESIAF frameworks are crucial for the selection of projects. However, this is also influenced by the Bank's cost coverage requirements cf. the section that follows.

9.7.4 Cost recovery

Cost coverage of loan operations
Article 19 of the Bank's statutes provides for loans to be extended at market conditions with interest rates set such that "the income there from shall enable the Bank to meet its obligations, to cover its expenses and to build up a reserve fund as provided for in Article 24".

The COP for 2009-2011 gives the present operational policies on cost coverage and reserve build up from loan operations.[102]

The cost coverage is defined as the excess of lending and other revenues over the total of operating costs and depreciation of fixed assets. The surplus that is considered an appropriate level of margin is set at 126 pct. of the sum of operating costs and the costs of depreciation in 2009 as compared with indicative targets of 133 pct. in 2010 and 138 pct. in 2011.

The surplus is to cover borrowing costs, provisions, losses on loans and growth plans.

The COP for 2009-2011 at the same time sets a goal for the return on own funds of 5 pct. The background to the targeting of a return rate is a request from

[102] EIB Corporate Operational Plan pp. 24-26.

the Bank's shareholders for the Bank to finance its growth through self-generated funds, i.e. profits, rather than the shareholders paying in new share capital.

The COP for 2008-2010 reports on p. 30 loan losses of EUR 0.4m in 2006 with expected losses for each of the three following years below EUR 0.2m. The COP 2009-2011 does not include loan loss data.

The degree of cost coverage has been a Key Performance Indicator in the COP since the COP for 2007-2009, i.e. since the entry into force of the present mandate.

The table below shows achieved cost coverage since 2005 and to the extent information is available, the budgeted targets for the respective years.

	2005	2006	2007	2008	2009
Cost coverage ratio:	pct.	pct.	pct.	pct.	pct.
Budget	n.a.	n.a.	124	129	132
Actual	118	135	141	147	n.a.

Table 9-8 EIB cost coverage ratios 2005-2009

The degree of cost coverage has increased 2½ fold between 2005 and 2008. In the two years where data are available, the actual cost coverage has been much higher than the budgeted ones.

The statutory provision on cost coverage refers to loans in the plural and not necessarily in the singular. The COP cost coverage is also at the portfolio level. This means that planned surpluses on one operation at least in principle may be used to cross-subsidize another operation for example if this last one provides an advantageous economic cost-benefit return.

Review of the business plan prepared for the countries of the Eastern Partners mandate shows cost coverage to be a concern at this lower portfolio level as well.[103]

In the survey where staff were asked if the duration and cost of project appraisal impact on the selection of which projects are proposed (Fact-Sheet A stage) for detailed appraisal, 60 pct. of loan officers and PJ staff responded "never" or "seldom", 21 pct. "very often" or "often" and 18 pct. "sometimes". While the majority of EIB officers considered cost coverage as having no or limited influence on project selection, 39 pct. of the respondents deemed cost coverage as a relevant issue, which influences project selection. The results were confirmed by part of the operational staff interviewed which stated that cost coverage may be an issue in the project selection process. A 'too small' loan will not be considered if some degree of cost coverage cannot be ensured.

Indicative minimum loan sizes
EIB staff were questioned about the approximate minimum loan size for a '*standard'* loan operation.

The background to this question is the nature of a loan operation. Most of its costs are fixed in the sense of being unrelated to the size of loan. These fixed

[103] Business Plan 2007-2013 Russia & Eastern Neighbours dated 24 November 2008.

costs relate to project appraisal, set up of the contractual framework and monitoring.

The level of fixed costs of course depends on the complexity and type of the loan operation itself. As to complexity, an example mentioned by the Bank itself in its COP is the loans under its Structured Finance Facility cf. discussion elsewhere. Cost coverage is a concern because of complexity and because of loan size.

As to type of operation, an EIB staff member gave as an example an environmental project in Russia (under the SFF) took 3 times as many resources to prepare than a much larger loan in the telecommunications sector. In project finance a generally recognized fact is that environmental projects are more costly to prepare and appraise and to monitor. A difference in costs by types of operations also exists for project loans and global loans. The latter involves less appraisal costs and the bank loan data base points to the appraisal period being shorter.

On the other hand, the revenues from a loan operation are almost exclusively variable, namely directly proportional to the size of the loan at a given level interest of rates. Because of the risk based loan pricing of the Bank, interest rates on projects with a high-risk profile (which are often complex projects) may be higher.

The Bank receives an appraisal fee on most of its operations. Information from the case study projects showed this fee to be relatively low and staff confirmed that it would far from cover all direct and indirect operating costs including overheads.

The fundamental imbalance in a loan operation in financial terms is then between on the one side costs that are fixed and on the other side revenues that are variable. Because of this imbalance, a minimum investment cost is required. For a 'standard' loan operation staff assessed the minimum investment cost to be in the order of EUR 25m. A review of the mandate loan database confirms this assessment (cf. Appendix 3 which includes information on the average loan size per country). The average size in Montenegro is small due to the split up of 'old' loans following the dissolution of the union with Serbia.

One of the project case studies is an operation where a high economic value added could be expected in terms of benefits and development impacts for the country where the operation is located (South Africa). Because of loan cancellations after signature, the loan size turned out to be only EUR 13m. According to EIB operational staff, if the loan had been this small at the time of project identification, the Bank would have requested an increase in its financing contribution.

Appendix 3 shows an increasing trend in the average loan size so far under the present mandate of EUR 101m against EUR 61m under the 2000-2006 mandate; i.e. an increase of more than 50 pct.

. Direct project loans required in the 'standard' case an investment cost of at least EUR 25m and with the average loan now being EUR 100m. Although global loans can finance projects up to EUR 25m, they have been mostly used to co-finance small projects with allocation sizes of well below EUR 1m and have been rarely used to co-finance projects of a bigger size. Thus, the EIB has so far had a modest coverage of medium sized projects. This is bound to impact effectiveness adversely as experience shows that small scale economic infrastructure projects may well provide higher value added to the country than the larger ones.

The EIB receives requests for financing from clients and examines them by their own merits under the VA or ESIAF framework. However, cost coverage considerations may impact on the availability of staff resources, which in turn would be less inclined to undertake more complex or smaller projects. This could also be influenced by the fact that the total volume of financing signed or disbursed plays a role in the performance evaluation of operational staff. Again, environmental infrastructure projects are more complex and usually involve extra loan establishment since they would be municipal projects with the government as guarantor only, such that a guarantee agreement is also required.

Finally, cost considerations impact on the level of monitoring of individual operations. This was the observation of staff at EIB local offices. Some project beneficiaries interviewed had either noted fewer monitoring visits from the Bank at the country level or at project level, that there had been no such missions although they would have been appreciated by the beneficiary.

9.7.5 Staff resources

A letter from the EIB to the Commission in August 2007 on lending strategies and operational objectives mentions that in view of the staff resources available for the RSA mandate the lending program would have to strike "an appropriate balance between relatively straight forward public sector operations and very resource-intensive operations with a high value-added", the resource intensiveness being defined as relating either to the operation being smaller or in the private sector".

This letter then states that availability of staff impacts directly on the operations carried out and thus again on the overall effectiveness of the Programme in South Africa. Some, smaller operations with high value added may not be considered because of lack of staff.

In the South Africa operation of the Bank at present the lack of staff extends to in-house monitoring. The involved staff members describe the need for more monitoring staff as "acute". One loan officer covers mandate loan operations in the country.

Interviews with Bank staff in the different operational areas confirmed limited staff resources as a significant constraint and as having an impact on project selection, in particular in the divisions carrying out operations outside Europe.

In the e-survey 40 pct. of staff replied that time constraints often or very often affected the quality of their work in terms of project identification and appraisal. 17 pct. found time constraint to have an impact some times. 28 pct. found time constraints rarely to be a problem and 15 pct. stated that time constraints never had an impact. A share of 40 pct. finding quality of work at least often to be affected by time available, we find demonstrate scarcity of staff resources to be an issue of importance.

The division responsible for the EUR 3,700m Eastern Neighbours mandate has 5 full-time operational staff in Luxembourg. 2 cover Russia, 1 Georgia and in part Ukraine, 1 Moldova, Azerbaijan, and Armenia, and 1 part of Ukraine. This same staff member also covers the 5 countries of Central Asia included in the ALA mandate.

The two divisions in ALA have 4 operational staff each. These divisions are according to the Council decision for the current mandate expected to extend loans to a larger number of countries than the 18 covered in the previous mandate.

In the Mediterranean region, the norm is 1 per country, which has been so for a long time. Operational staff explains that they could do more, and more demanding types of projects if more staff was available. An example given is a solar energy project where also coordination with grant co-financiers would be required. Environmental projects in general were found more time consuming. In the preparation for the field mission to Egypt, the team observed that the loan officer for Egypt was on a longer term leave of absence without formal replacement.

Staff in the operational divisions cover not only mandate loan operations but also loans on own resources and at the Bank's own risk as well as some monitoring and portfolio management activities. In selected areas staff from other directorates, notably PJ, are involved as well.

Project beneficiaries interviewed during the field missions have also observed the limited staff resources not only on the operational side but also on the technical support side. National level stakeholders as well IFIs and DFIs in the countries with which the EIB collaborates also commented on the scarcity of EIB staff resources and their impacts at the operational level.

The latter reflected in the absence/reductions of monitoring missions from project engineers and in the time required by the legal department of the Bank for drawing up of finance contracts and the setting of the conditions precedent for these contracts. In one documented case, the delays in drawing up finance contracts, led to the withdrawal of one operation from Bank co-finance.

Those beneficiaries with working experience with the Bank through more projects appear to know that the Bank staff resource availability and general modus operandi is such that simpler, less complex and resource demanding operations are those that the Bank wishes to finance.

9.7.6 Disbursement procedures

Observations made during the field missions point to that the Bank's disbursement procedures is facing the choice between maintaining control rather than trusting the entity that the Bank has already approved once as an acceptable collaborator. This may affect effectiveness as well as efficiency.

The efficiency aspect is addressed in the chapter that follows.

Interviews conducted during the field missions pointed to that some borrowers would be reluctant to enter into new operations with the Bank because of what was found to be resource-demanding disbursement procedures The issue has been found of relevance for operations in the private sector, which in the Mediterranean region and in RSA are priority sectors of support.

Different disbursement procedures are applied for global loans. The most frequently used appears to be disbursement only after the allocation has been approved and then only in a minimum, relatively large disbursement size as compared to the loan amounts of the individual allocations. To the extent that the sub-loans are for municipal borrowers, then loan effectiveness (and efficiency) may be affected by the allocation approval process. A more flexible global loan disbursement procedure that avoids this problem exists. The borrowing bank may obtain pre-finance with later approval of allocations and this bank carrying the risk of non-approval, meaning that any non-approved sub-loan has to be repaid. However, this procedure is only applied by the EIB for well known reliable borrowers in order to limit the risk that the intermediary takes decisions not in line with the EIB requirement.

Given that the EIB has carried out a credit risk assessment of the borrowing bank and an appraisal of its global loan placement capacity, it should be considered if such procedures can be extended to a larger number of borrowers to the benefit of Programme effectiveness, while maintaining a sufficient control of the use of the global loan by the intermediary through appropriate monitoring.

9.8 Framework for Programme activities

9.8.1 Available financing instruments

Whereas the financing instruments are precisely defined in the carrying out of the TA activities of the Programme, more instruments are available for mandate loans and for risk capital investments.

The financing instruments available and actually used must be considered when assessing the effectiveness of Mandate loan operations.

Mandate loans
In mandate loan operations, the Bank can dispose of direct project loans and global loans, as argued previously with interest rates reflecting underlying costs and perceived credit risk.

Previously interest subsidies were available in the Mediterranean region to soften lending terms for loans with a positive environmental impact. This is no longer the case. Instead the Commission makes investment support available in the form of NIF investment grants cf. earlier discussion. This would make for an effectiveness gain as the subsidies become transparent and are not linked to one financial intermediary.

In the public infrastructure operations that are key focal areas of the Bank, external assistance would often be required during preparation to compensate for weak promoter capacity.

The Bank has much less easy access to such funds than e.g. the EBRD that benefits from trust fund arrangements with its shareholders in the sourcing of funds for project preparation. This leads of course to the selection of projects with less need for project preparation cf. also the comments on loan disbursement rates in a separate section of this chapter. The fairly recent set-up of the Commission TA facilities such as under the NIF or through the IPF-TA in the West Balkans the goes some way in reducing, albeit not eliminating the problem.

Most mandate loans are extended in EUR or USD. The Bank's statutes in Article 18(6) stipulates that the Bank is to protect itself against exchange risks "by including in contracts for loans and guarantees such clauses as it considers appropriate".

Consequential to its statutes and for obvious prudential reasons the Bank only lends in other currencies than the EUR to the extent that the foreign exchange risk can be hedged. This is possible as a general rule in the major currencies, but much less so in the local currencies of the mandate loan beneficiary countries.

The Council decision for the present mandate in recital (11) calls for cooperation by beneficiary countries to for actions to facilitate EIB activities in particular for issuance of bonds in the local markets.

Such local bond issuance may be used for Programme lending in local currency and with this ultimately improve Programme effectiveness as the exchange risk is lifted off the borrower.

However, local bond issuance is not the only funding mechanism for EIB borrowing in local currency. The capital market outside the country of the currency, the so-called Euro-market may be more flexibly used also for obtaining longer maturities than available in the domestic market. The Bank's policy is to make local currencies available on the mandate loan if matching funds may be obtained in the market.

In 2008 the Bank could make available local currency loans in Turkey and in South Africa.[104] In Russia and Egypt local currency loans have been extended in earlier years but only for relatively small amounts.

By way of example in South Africa it has been possible to increase the share of EIB lending in rand considerably to 68 pct. of the total for mandate loans extended in the period under review (2000-2009). In 2007 as well as in 2008 all disbursements were in rand, in 2009 so far the share is 85 pct. Further to improving Programme effectiveness information from the field mission showed the availability to borrow rand to provide considerable value added to the country.

In compliance with its statutes, the finance contracts provide for that the disbursement in any given currency e.g. rand is subject to its availability, which again is a reflection of the statutory requirement of exchange risk protection.

The Bank's borrowing activities in rand has also had positive repercussions on the neighbouring (ACP) countries, which currencies are linked to the rand.[105]

[104] Briefing note no. 13 for annual press conference 2009: "EIB borrowing activities in 2008".

[105] Report from EIB evaluation department: "Evaluation of borrowing and lending in rand", September 2007.

Risk capital
On the risk capital side, the increased use of equity funds for selecting (relatively smaller) investments under the FEMIP risk capital facilities is an indicator of not only increased effectiveness, but also increased Programme efficiency.

A wider range of beneficiaries may be targeted at the lower costs of the experts in the local market and with the market knowledge and insight. Findings during one of the field mission confirm this line of reasoning.

This reflects also an adaption of the working modalities of the FEMIP risk capital operation towards changes in the market as more equity funds, many of regional character and some with European co-investors.

From the most recent FEMIP risk capital annual report[106] it may be derived that 11 pct. of the allocations under the first MEDA risk capital facility went to equity funds against 60 pct. under the second one under the MEDA regulation. Under the ENPI regulation in force 97 pct. of investments by amount are made through dedicated equity funds.

9.8.2 Use of local offices

In the regions covered by the external mandate the EIB has established local offices in Turkey (2), Morocco, Tunis, Egypt, and South Africa. Whereas the three former offices cover one country, the two latter offices cover a larger region of countries. All offices have the character of representative offices and support to appraisal of new operations is only done exceptionally. The offices each have one or two professional staff seconded from Luxembourg none of which are technical staff (engineers).

When the offices were set up they were envisaged to serve a representative role with national stakeholders, to support the operational divisions in project identification and in monitoring, and to improve the coordination with the EU delegation and with the IFIs and DFIs with local offices of their own.

The Commission assessment of FEMIP in 2006 pointed to the need for reinforced local presence of the EIB in the FEMIP further to the 3 local offices already then established and of the partnership role of FEMIP to be enhanced.[107]

Interviews with project beneficiaries and other external stakeholders have shown that the mainly representative role of the existing local offices and the absence of a local presence in other countries are considered an element that reduces the non-financial value added to beneficiaries. It is also seen to reduce the capacity of the EIB to cooperate effectively in the field with the EU and with IFIs/DFIs in mandate loan operations.

The local offices at the same time report that the monitoring missions from Luxembourg to support project implementation have become fewer in the face of cost cutting measures to improve cost coverage.

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[106] FEMIP Risk Capital Operations, Annual Report 2008, p. 25.

[107] COM(2006) 592 final: Assessment of the Facility for Euro-Mediterranean Investment and Partnership and future options.

Beneficiaries expect project monitoring to include staff with technical expertise, since this expertise is not available in the local offices. They compare this situation with that of other IFIs and DFIs represented, with at least some engineering expertise in their local offices.

The interviews with IFIs and DFIs showed the scope of these offices to be much wider with active participation in project development from seconded engineers. The offices would typically have between 4 and 10 professional staff, including staff hired locally. The interviews exclude the likes of the World Bank and the IFC, which have substantially larger local offices but also a broader mission.

The IFIs/DFIs interviewed in Serbia where the EIB does not have a local office had mixed views on the need for one. For the cooperation required on larger scale and relatively less complex transport projects, the absence of a local office was deemed to be justified.

The DFI interviewed (KfW) with a broader and more development oriented focus in the environmental infrastructure sector saw the absence of the EIB as a problem in the EU/IFI/DFI coordination work that takes place within the framework of the Infrastructure Projects Facility (IPF) of the Commission and which targets municipal infrastructure investments.

The DG charged with running the IPF, DG ELARG, shared this view and added that the absence of an EIB local office impacted adversely on the effectiveness of the IPF where the EIB is the largest player in terms of funding availability. The Bank was found by this DG to be unable to substantively follow up with municipalities on project proposals as opposed to the EBRD and the KfW which both have local offices.

The EU Delegation representative in Belgrade interviewed covering the key areas of municipal infrastructure investments confirmed that coordination efforts on projects, involving also other IFIs/DFIs, was hampered by the lack of a local EIB office.

In countries where the EIB does have a local office, staff resources was pointed out as an issue since the technical skills in demand were not available among the staff in the offices. Also, it was found that since the Egypt office is a regional one covering several countries, it constrains the availability of local staff for projects in Egypt. A similar situation was found in South Africa, where the office is also regional.

9.9 Cover of Community guarantee

The types of risks covered under the general mandate guarantee schemes can help determine the type of operations carried out under the respective mandates.

9.9.1 Mandate period 2000-2007

The guarantee under the 2000-2007 mandate covers all payments not received by the Bank under mandate loan operations up to a ceiling of 65 pct. of the total volume of signed loans.

The mandate provides for risk sharing under this global guarantee: If the EIB is able to obtain non-sovereign guarantees, the Community guarantee only covers more closely defined political risks. The decision "invites" the EIB to cover 30 pct. of its mandate lending from non-sovereign guarantees as far as possible on a regional mandate basis.

Obtaining non-sovereign guarantees is realistically only possible for lending to the private sector. With support of European FDI in ALA as an objective, the risk sharing mechanism could best be applied in this region. The target of risk sharing overall helps explain why the share of private sector lending in ALA was particularly high.

The wording of the guarantee meant that all operations for which third-party guarantees and risk sharing could not be achieved, by default would be provided a full risk cover (comprehensive guarantee). This would apply to all sovereign and sovereign-equivalent risks as well as to all other public sector risks. However, since the EIB, in accordance with its statutes, would accept sovereign and sovereign-equivalent risks only for public sector operations, the risk exposure was limited to these two types of risks.

9.9.2 Mandate period 2007-2013

For the present mandate the Commission wished a clearer definition of the risks covered by the comprehensive guarantee. Recital (3) of the Council decision calls for a clarification of the nature of the coverage of the Community guarantee as to covering risks of a 'sovereign' nature or of a 'political' nature.

The guarantee agreement entered between the Commission and the EIB pursuant to article 5 of the Council decision provides in annex II this clarification. For the purpose of this evaluation only the sovereign risk definition is of relevance.

Operations with a State or guaranteed by a State
According to article 5 of the Council decision, full risk cover (comprehensive guarantee) is provided for all "operations entered with a State or guaranteed by a State".

The agreed approach between the parties to the guarantee agreement for EIB operations under the mandate is that the 'State' is not only the sovereign, i.e. the Ministry of Finance. The concept of 'State' may also cover 'sovereign-equivalent' risks.

The operations with the 'State' covered by the comprehensive guarantee may be one of three types:

1. An operation with the state or with a state guarantee (explicit support from the State)
2. An operation with a borrower which statutes provide for 'strong implicit support' from the State which is equivalent to a demand guarantee.
3. Sovereign-risk equivalent operations

The sovereign-risk equivalent operation is defined on an expected loss basis. The expected loss comprises default probability on the operation and the recovery rate on defaulted payments.

The Bank's own credit risk assessment has to clearly demonstrate that the credit risk on such operation is no higher than on an operation with the sovereign itself.

Because of an assumed lower recovery rate (cf. below), the expected loss on such borrower is higher than that for the sovereign unless the borrower has a credit rating above that of government. This means in the 'normal' case that some form of credit enhancement is required.

An example given by EIB staff serves to show how the process works: South Africa has two government owned development finance institutions, the Industrial Development Corporation (IDC) for private sector support and the Development Bank of South Africa (DBSA) for lending to municipalities. The Bank has global loan operations with both.

The Bank assesses neither institution to have 'strong implicit support' from the government. They are then analysed with a view to being considered 'sovereign risk equivalent'.

The Bank assumes a recovery rate of 50 pct. on defaulted payments of these institutions against 80 pct. for the sovereign.

Credit enhancement is then required for both institutions. It is available for the IDC as it has a higher long term rating than that of the government itself. This serves to offset the assumed lower recovery rate. The IDC is considered sovereign-equivalent risk and benefits from the comprehensive guarantee as an 'operation with the State.

DBSA also has a higher rating than the government. However, the bank has obtained three credit ratings in all from recognised rating agencies and one of them is not higher. In the Bank's internal (Moody's equivalent) loan grading system, the DBSA rating is not sufficiently high to offset the assumed lower recovery rate. DBSA is then not considered sovereign-equivalent risk; it can benefit from the comprehensive guarantees available for this type of risk but it will counted against the sub-sovereign limit of EUR 2 bn.

The evaluation find the recovery rates that the Bank assumes for sovereign and sovereign-equivalent risk operations conservative given also that the Bank has preferred creditor status and the fact that arrears on the loans of any country will lead the Bank to suspend its operations in that country.

Appropriate credit risk assessment
Article 5 of the Council decision provides a comprehensive guarantee for other public sector risks, namely on government- owned and/or government-controlled enterprises or institutions not considered 'sovereign risk' and on regional or local authorities provided these entities that have "an appropriate EIB credit risk assessment". These operations will henceforth be referred to as 'sub-sovereign public sector operations'.

Article 5 of the Council decision further stipulates that the definition of appropriate credit risk is to take into account the "credit risk situation of the country concerned".

The guarantee agreement between the EC and the EIB drawn up pursuant to article 8 of the decision and in particular introduces the definition of appropriate credit risk (ACR). A technical note develops in detail the concept of appropriate credit risk.

Since the concept is that of an appropriate EIB credit risk assessment, its development takes its starting point in the expected loss methodology of the Bank for loan grading that was introduced in the preceding sub-section consisting of a combination of default probability and recovery rates.

Against this background a credit risk is considered "appropriate" if it exhibits limited deviations from the credit risk of an operation with the 'State' in the country concerned.

The expected loss on a standard operation with the State is termed the 'reference expected loss', i.e. assuming an 80 pct. recovery rate. The standard operation has a tenor of 15 years, a grace period of 5 years and 'standard' covenants.

The 'notional expected loss' on the other hand is defined as the expected loss on the actual sub-sovereign borrower operation with the actual loan covenants but still with the same tenor and grace period as in the 'standard operation' with the State'. A 50 pct. recovery rate is assumed.

The tenor and grace period are of importance since default probabilities increase with the term of the loan.

The credit risk of an operation with the State is then measured by the reference expected loss whereas that of the actual sub-sovereign operation is the notional expected loss. The deviation of the sub-sovereign credit risk from the sovereign risk is then defined as well.

The second step required for the definition of appropriate credit risk is then to determine the limits to this deviation. As mentioned, the Council decision requires the credit risk of the country in question to be taken into account.

The beneficiary countries are divided into four different categories according the Bank's rating of sovereign risk operations (Moody's terminology). Category I countries are those with investment grade rating (Aaa - Baa3). Category II countries have a rating between Ba1 and Ba3. Category III countries are rated B1-B3 and category IV countries have ratings below B3.

The tolerance limits for the difference between the notional expected loss and the reference expected loss are then to be higher, the higher the country rating cf. the table below. The limits are defined through multiplication factors set under the Guarantee Agreement.

Credit rating	**Appropriate credit risk if**
Category I countries	Notional loss on operation at most **5** times reference loss
Category II countries	Notional loss on operation at most **3** times reference loss
Category III countries	Notional loss on operation at most **2.5** times reference loss
Category IV countries	Not appropriate credit risk

Table 9-9 Country credit rating and appropriate credit risk

The Commission has defined sub-sovereign operations in category IV countries not to exhibit any appropriate credit risk. In these countries, the EIB can carry out only mandate loan operations with the State or with sovereign guarantee. In the Moody's terminology used operations in category IV rated countries are considered entailing 'substantial risks'.

Maximum for appropriate credit risk exposure
Recital 18 of the Council decision stipulates that the Guarantee Fund for External Actions should continue to provide a liquidity cushion for the Community budget against losses on EIB operations.[108]

The Guarantee Fund presently works with a 9 pct. provisioning rate in proportion to its total guarantee liabilities.

It is in this context that article 2.06 of the guarantee agreement sets a maximum amount for the exposure on the sub-sovereign public sector operations considered 'appropriate credit risk' (ACR) at EUR 2 billion overall and EUR 400m per country.

The background to the setting of this overall limit is given in the technical note referred to earlier in this section. Based on assumed default probabilities and recovery rates for sovereign and sub-sovereign public sector operations, the note calculates the maximum appropriate credit risk exposure that the Guarantee Fund can tolerate and finds this maximum to be EUR 2 billion.

It is well beyond the scope of this evaluation to undertake an in-depth assessment of these risk tolerance calculations. A separate review in this area is ongoing.

The adopted EUR 2 billion limit on ACR exposure defines the scope for the EIB co-finance of sub-sovereign public sector operations, such as municipal infrastructure investments, that do not have a sovereign guarantee.

Interviews with EIB staff as well as information supplied by the Bank show the ACR limit to be effective already by now in selected countries in terms of being binding for the selection of operations for actual appraisal.

The table below shows the actual and potential exposure by country under the EUR 2 billion ACR limit as of end June 2009.

The actual exposure is defined to include the loans for which finance contracts have already been signed and those with Board approval secured. The potential exposure is derived from the mandate loan operations under appraisal in their early stages with fact sheets prepared.

Country	Actual exposure			Potential	Total
	Signed	Approved	Subtotal	Appraisal	
	EUR m	EUR m	EUR m	EUR m	EUR m
South Africa	120	252	372	115	487
India	150		150	100	250
Russia		100	100	100	200
Egypt	130		130		130
Moldova	20		20		20
Ukraine			0	65	65
Serbia			0	50	50
Total	**420**	**352**	**772**	**430**	**1,202**

Table 9-10 Exposure by country under non-sovereign public sector risk limit end June 2009

[108] This fund is to cover losses on all loans extended with Community guarantee and was established according to Regulation (EC; Euratom) no. 2728/94 of 31 October 1994.

In terms of actual exposure, the country limit for South Africa for non-sovereign public sector operations is very close to used up. This will pose a serious constraint for those public sector operations in the pipeline that are not with the 'State' as previously defined.

This is exacerbated by the fact that the IDC, an important borrower of the Bank, in September 2009 was downgraded by Moody's to the same credit rating level as that of the Government of South Africa.

Two of the borrowers under the ACR limit for the country, the National Roads Agency (NRA) and the national power supplier, ESKOM, have previously benefited from sovereign guarantees. Since end June 2009 a guarantee for NRA has been obtained. ESKOM on the other hand, the government now considers a more autonomous enterprise and a sovereign guarantee may not be available.

For Russia, the current non-availability of sovereign risk operations for the EIB means that public sector operations will need to fit in under the EUR 400m threshold for non-sovereign public sector risk or that the Bank will be able to obtain other forms of acceptable security; the latter being less than likely.

The guarantee agreement between the EC and the EIB drawn up pursuant to the Council decision stipulates that a review of the definition of Appropriate Credit Risk as defined in annex II to the agreement will be carried out at the latest in 2010.

This review will provide an opportunity to address the assumed default probability rates and recovery rates for the provisioning of the Guarantee Fund, the taking into account of political risk exposures, and the setting of the appropriate credit risk limits by borrower rating categories.

9.10 Risk capital and technical assistance

9.10.1 Risk capital

The FEMIP risk capital funds are found effective in reaching EU policy objectives because of the way the facility is operated with Commission approval of individual operations.

The agreement on EIB monitoring and quality assurance of the RCF facilities in South Africa and the way EIB manages these tasks effectively contributes to Programme effectiveness. A distinguishing feature is the very detailed and specific operational objectives of the facilities with pre-defined indicators.

9.10.2 Technical assistance

The TA funds under the FEMIP Support Fund are earmarked EIB investments. In the narrower sense this increases overall Programme effectiveness as it lends support to EIB projects that might not otherwise be available.

The fund has financed 23 actions for specific project preparation activities of which 10 have resulted in actual projects being implemented whereas 7 have had a negative outcome and 6 are ongoing. A negative income is not indicative of the ineffectiveness of the TA, on the contrary it has served to demonstrate that the project supported is not a feasible one.

The FEMIP Support Fund has also supported the carrying out of 78 other projects some of which relate to broader market and technical issues that in some case may also serve as inputs to feasibility assessments of projects. Others are in direct of support of project implementation through the funding of Project Management Units.

In the global sense, the earmarking of funds for project preparation may not be the most effective one. As discussed elsewhere, in the area of investment support the Commission in the Mediterranean region has moved away from earmarking funds for the EIB by no longer making interest subsidies available for EIB loans. Instead, investment grants under the NIF are made available to all eligible IFIs and DFIs.

9.11 Effectiveness of specific operations

9.11.1 Project selection and identification

Projects are normally identified based on requests from the potential borrower/promoter. In most cases the prioritisation is based on programming with the national authority.[109] When project identification is not based on programming with the national authority, it will in most cases be private sector projects.

The staff survey (PJ staff and loan officers) indicated that when it is to be decided, which projects to be subject to a detailed appraisal, available resources play an important role. 21% of PJ staff and 22% of loan officers finds that the expected duration and cost of appraisal often or very often play an important role. Likewise, 28% of PJ staff finds that the availability of PJ staff often or very often impact project selection. The same is valid for loan officers, with 27% confirming this to be the case. On average, only 17 and 32% respectively find that these issues never impact the selection.

The consequence of dependency of resources in the selection process may be that the selected projects are not the most important for the beneficiary countries or the most relevant to contribute to EU policy objectives.

9.11.2 Consistency with and contribution to EU policy objectives

The EIB has provided the mid-term evaluation with 37 evaluations of specific projects implemented since the adoption of the first mandate. In these evaluations project relevance is assessed and reported in relation to:

- EU/EIB objectives (eligibility)
- Mandate and/or country objectives

The assessment of relevance in these evaluations is broader than a specific assessment of only "the consistency and contribution to EU policy objectives" dimension. All projects are either assessed good or satisfactory in relation to project relevance. This would not be the case if projects were not consistent or

[109] In the questionnaire submitted to loan officers and PJs in EIB, 75% of the respondents answer that project prioritization and selection for appraisal is based on programming with the national authority.

contributed to EU policies. This is also confirmed when consulting the specific text of the evaluation reports.

The relevance of EIB projects to EU policy objectives was also mainly positively assessed by Member States. However, some MS indicated that the basis for assessing EIB support to EU policy objectives was not available and asked for more clarity on which EU policy objectives that EIB's external lending projects support.

Satisfactory project relevance is in accordance with the findings from the 12 project case studies carried out as part of this evaluation. However, projects have also been identified, which the evaluation team do not find relevant. These include a loan is to "strengthen Turkey's science and research capabilities" and a loan to a car manufacturer in Slovakia. These loans are further discussed in section 4.2.

That most but not all projects are relevant in relation to EU policies and strategies are also confirmed by the questionnaire to loan officers and technical staff (PJs). On average, 55% of PJs and loan officers find that EIB mandate loan operations are linked to EU policies and strategies. However, 15% of the loan officers and PJs responded some link or no link of EIB mandate loan operations to EU policies and strategies.

It is also worth noting that 33% of the loan officers/PJs responding to the questionnaire find it difficult/very difficult to identify new projects of acceptable value-added in order to comply with external mandate requirements.

It is important to bear in mind that the assessment of project relevance not necessarily says something about the overall portfolio relevance of EIB's operations in relation to the EU regional strategic and country operational objectives This is further discussed by region in chapter 4 to 8 and in the country case reports to be found appendices of the main report.

9.11.3 Quality and soundness of projects

The EIB evaluations have assessed the *performance* of the 37 specific projects. Performance covers the criteria: Effectiveness, efficiency, sustainability, environmental and social performance. As shown in the table below, all projects are, with a few exceptions assessed "good" or "satisfactory" in relation to these criteria. The mid-term evaluation has not carried out detailed assessments of criteria, but our observations confirm the conclusions of the EIB project evaluations.

Rating	**Good**	**Satisfactory**	**Unsatisfactory**	**Poor**
Effectiveness	30	7		
Efficiency	17	15	4	1
Sustainability	12	20	5	
Env. & social performance	12	22	2	

Table 9-11 Performance ratings from EIB project evaluations (36 projects rated)

9.11.4 Financial and non-financial contribution made by EIB to projects

In the EIB's own evaluation of individual projects, financial and non financial contribution is rated as one. Most of the projects are rated "good" or "satisfactory", with 19% (7) out of 37 projects rated "unsatisfactory" or "poor".

The EIB contribution to specific projects is mainly financial. EIB offers financing which is important for the beneficiaries for long term investments. These are in most cases loan conditions for investment loans, which are competitive compared to conditions offered by other IFIs both in terms of interest rates and repayment and grace periods.

Non-financial contributions are for investment projects mainly provided through conditions in the finance contract and in some cases technical assistance (TA). The most common requirements are:

- Establishment of a PMU/PIU acceptable to the EIB
- Environmental requirements
- Requirements regarding the procurement procedures

Based on the country case studies, TA from EIB is in most cases quite limited compared to that of the development banks. In a few cases, external TA was brought in financed from the loan. This is e.g. the case in one of the case studies, namely the Road Rehabilitation V project in Romania.

Based on the EIB evaluations, the EIB Evaluation department has provided the following observations and recommendations in relation to non-financial contribution, which the evaluation team fully supports:

- When the EIB identify risk factors associated with weak promoters and immature projects sufficient allowances should be made available for these within the project structure. The EIB should introduce a formal review of the project once it has been sufficiently developed. This should if necessary be done with the help of TA.
- In some cases strategic issues such as sector maintenance spending, institutional restructuring and tariff levels continue to impact on the ex post performance of projects. The EIB should contribute more actively to the development of sectors and institutions.

9.12 Value added of EIB operations

The following section highlights the financial value-added and non-financial value-added of EIB operations based on the findings of the 12 project case studies. In both dimensions the value added to the beneficiaries are considered.

9.12.1 Financial value added

The overall assessment of the project in **Romania** is that the financing decision was taken at a too early stage in the preparation of the projects (road sections) to be financed by the loan. However, compared to other IFIs the advantages were that the costs of the loans were low, EIB had very flexible procedures and the EIB staff knew Romania well.

In the **Serbia** case study the advantage to the borrower on the project loan case study were the financial conditions in general. The borrower on the global loan for the case study found the loan terms attractive enough but the disbursement and allocation procedures to access funds too cumbersome.

In the **Turkey** case study, and according to the promoter, the EIB offered by far the most favourable loan conditions to be obtained at the time.

In the **Egypt** case study the beneficiary pointed out the long tenor of the EIB loan but found also that interest rates now were less attractive than in the past.

In both project cases in the **Tunisia** case study, the key incitement to selecting the EIB lies in its capacity to provide loans with long term maturities and grace periods, despite less advantageous interest rates.

In terms of interest rates, the stakeholders interviewed for the Lebanon case study mentioned that the financial market is competitive, and that alternative sources of funds could be made available at more attractive interest rates compared to EIB's offering. Nevertheless, through the global loan facility, Lebanese enterprises have better access to long-term financing at an acceptable rate.

For the **Brazil** case study. comparable financing was not available at the time for alternative sources of finance. The Promoter, VIVO, stresses the importance of the seven year tenor and two-year grace period.

In the **South Africa** case study the EIB provided no financial value added. The private sector borrower could have obtained better loan terms in the local market but did not do so as the operation initially was linked to other projects in ACP countries.

9.12.2 Non-financial value added

In the **Romania** case study technical assistance and professional guidance from the project officers of the EIB - and a "no objection regime"- was recognised by the authorities. Likewise, very good EIB expertise in the sector was recognised by the implementing institutions.

In the **Serbia** case study, the beneficiary for the project did not find that the EIB provided non-financial value added other than in the field of procurement. The TA required during implementation was provided by and funded from the EAR. The borrower on the global loan received sufficient advice on operating procedures. A local office of the EIB was found to have provided non-financial value added for both.

In the **Turkey** case study, EIB provided valuable assistance in relation to the procurement process. In particular, they helped provide detailed tender specification in order to avoid only competition on the price. The promoter expressed that they would have appreciated training in international accounting procedures used by EIB as they were not familiar with these.

The beneficiary of the power plant in the **Egypt** case study had appreciated ad hoc assistance of the EIB initially on specific technical issues to be solved but this form of assistance had become less easily available.

As to the **Lebanon** global loan case study, the participation of the EIB allowed Bank Audi, as an intermediary, to increase its long-term funding sources and to expand its long-term lending activities to private sector enterprises, in particular to SMEs. Furthermore, the EIB, through its interaction with Bank Audi, has increased the awareness level of the borrower in considering environmental and social aspects in the appraisal and monitoring of projects. The availability of EIB credit through Bank Audi and other banks in the same global loan facility is a clear signal in the region about its confidence in Lebanon's economic prospects and its private sector, and acting as a catalyst for other local and international financial institutions in providing credibility to the Lebanese private sector and the financial market.

The EIB did not provide technical assistance to the **Brazilian** promoter, VIVO, as part of the loan agreement but EIB nevertheless refers to the many technical discussions during due diligence. Moreover it would seem that VIVO's interactions with the EIB and the EC provided some of the impetus for VIVO to finally migrate to the GSM network. In that sense, EIB (and by implication the EC) is believed to have created significant non-financial value added to the project.

The beneficiary of the mandate loan in the **South Africa** case study reported that it received very limited non-financial value added from the Bank: appraisal was restricted, there were no monitoring missions and no staff to consult with. A local office would have been appreciated. The beneficiary was in regular contact with the IFC as co-financier.

9.13 Additionality of Programme

Assessing whether the funding provided under the Programme is additional to or replaces funds available in the market support funds can never be precise since it is a hypothetical comparison with a 'what if' situations. It also links to the value added discussion of the preceding section.

The country case studies, review of individual operations, and discussions with stakeholders point to that a partial assessment with indicators of additionality is possible.

Mandate loans
In the public sector, to the extent that the EIB finances economic infrastructure e.g. power plants with a relatively long asset life, the EIB can offer maturities and grace periods that are not available in the market.

In the cases where the EIB finances the purchase of shorter life equipment and recurrent costs (R&D projects), loans to match the shorter life are available in the equipment. As far as the recurrent R&D costs are concerned the case for non-additionality of EIB funding is much clearer: these costs are not new, they are already held, but funded from other sources.

In one country (Egypt) the investments of the beneficiary were also funded by local banks although with a few years shorter tenor than that the one offered by the EIB. In the broader and longer term perspective we believe care should be shown in EIB (or other IFI/DFI) lending not 'crowding out' the local banks. Instead, co-financing with these banks could possibly be an option, bringing also value added to the financial sector.

In the cases of supporting the investments of 'for-profit' public sector enterprises and where loans from commercial banks can be made available, the additionality of EIB funding should be demonstrated for the Bank approving the loan. The case studies did not include any examples of co-financing with commercial banks.

In the private sector the additionality of EIB lending has been found less in some of the case studies. The borrowing banks demand for their on-lending loans with relatively short maturities and variable interest rates; this product is available in the market in South Africa and Serbia. On the other hand the global loan funds under the Lebanon cases study were additional through its tenor longer than that of the 'market'.

Additionally, the mandate global loan case study in Serbia showed that the allocations made to municipalities were not additional to funds available in the market. This is so for the simple reason that the municipalities are obliged to hold a public tender for borrowing. In such a case the investment decision has been made and the municipalities would have obtained from other, although less attractive sources.

In South Africa, EIB operational staff informed the team that the draw down on EIB global loans in the private sector was at times adversely affected as the EIB credit lines 'competed' with the local banks. The mandate loan case study covered a private sector operation. The borrower had also obtained funding from a local development finance institution, the IDC. The IDC also provided the guarantee required on the EIB loan, i.e. had a credit exposure from the guarantee in the size of the EIB loan. According to the borrower IDC would have provided loan funds instead of the guarantee. This could even have been done at an interest cost lower than that of the EIB when including the cost of the guarantee.

In Latin America and in Asia the external mandate continues to target private sector operations in the form of the FDI of large and reputable European enterprises of good standing such as VW and Metro of Germany. These companies would be able to obtain funding in the market for these investments in which sense the EIB may be competing with commercial banks cf. the section that follows.

A staff paper from March 2007 on "Strategic Objectives and Operational Guidelines for Bank Lending in Asia and Latin America" addresses among others the increased liquidity of international capital markets and the financial deepening of the local financial sectors. These developments have resulted in a "reduced competitiveness of the Bank's traditional financing products offered in ALA". If EIB finds competitiveness an issue then EIB loans would not appear to be funds otherwise not obtainable. Following the onset of the financial crisis the position of the EIB in ALA is obviously different now. However, this is a global phenomenon, in evidence also by the Joint IFI Action Plan in the pre-accession countries earlier referred to.

Finally, we have observed that arguing for the additionality of the Bank lending is an issue not addressed in the appraisal and Board reports reviewed.

Risk capital and technical assistance
The interviews with beneficiaries of risk capital funds met with during the field missions all pointed to that the funds made available from the Community budget were all additional to funding available in the market.

Technical assistance funds are per definition additional as they are not available in the market.

9.14 Contribution to EU horizontal policies

9.14.1 Development policies of the EU

According to the TOR, the legal basis for this evaluation with respect to the part covering the general external mandate in 2007-2013 Council decision 2006/1016/EC of 19 December 2006. The decision was made in accordance with article 181a of the EC Treaty, which refers to the economic, financial, and technical cooperation with third countries.

The decision addresses the EIB contribution to development policies in three areas. First, through the stipulation on cooperating 'where appropriate' with other IFIs and DFIs on sector conditionality. The section on IFI cooperation addressed the EIB contribution. Next, in ALA the EIB should endeavour to progressively expand to cover more countries including the less prosperous ones. Finally, in South Africa, EIB is formally designated (since 1999) a development partner in the Trade and Development Cooperation Agreement.

External and internal constraints limit the contribution of the EIB to EU development policies.

The external constraints include the lack of funds from the Commission for technical assistance and project preparation and for the co-financing investment through grants in order to render the loans of the EIB with 'cost recovery' lending rates affordable and attractive.

In ALA, the less prosperous countries of these regions have soft lending from other IFIs and DFIs available. Financial assistance for TA will often be needed, and the beneficiary would have concerns about the affordability of external borrowings. The Bank does not and can not, according to its statutes, lend on concessional terms, the funding package cannot be enhanced through EU investment grants, and Commission funded TA is not available.

The developmental aspect is more at the forefront in South Africa where the Bank as mentioned is a designated development cooperation partner. All Community financial assistance in the country is budgetary support and cannot be earmarked for specific projects. With the regard due to the financial viability of the projects financed, this means that the Bank has to target those that can sustain the lending terms that the Bank is able to offer.

We note that in recital (15) of the Council decision, opportunities to combine EIB co-financing with EU budgetary resources should be sought. In the two regions there are no such opportunities.

The internal constraints are the cost coverage policies with background in the EIB statutes and the operational application of this statutory requirement. First, a return of own funds of 5 pct. is set as a target, next the degree of excess of operational revenues over costs has been increasing over time, and finally individual loan operations are also to recover costs, in spite of the statutes allowing cross-subsidisation from loans with higher degrees of cost coverage.

A constraint of an external as well as internal nature is that the credit risk taking of the Bank in mandate loan operations. According to recital (3) of the 2006 decision, the EIB operations must not affect the credit standing of the Bank. On the internal side, the credit risk policies of the EIB are rigorous, not least as to what constitutes 'sovereign equivalent risk' to the Bank.

In November 2008 the European Court Justice annulled the 2006 Council decision and set the relevant Treaty basis for the development cooperation dimension of the 2006 decision for developing countries to be that of article 179 rather than that of article 181a. This widening means that EIB mandate loan operations are also to pursue the socio-economic objectives of development cooperation policy referred to in article 177 of the Treaty.

With the present external as well as internal constraints for the mandate loan operations of the Bank, these objectives cannot be feasibly achieved.

9.14.2 Measures against off-shore financial centres

Tax havens

The EU is an active proponent of policies seeking to avoid the use of tax havens. In the conclusions of the G-20 summit in April 2009 the issue was addressed once again.

According to the Bank, strict internal rules regarding the use of offshore financial (OFC) centres as tax havens has been in place for some years, notably through the adoption in 2005 of a formal policy on OFC.[110] The EIB was the first multilateral development bank to do so.

In spite of this, various NGOs, including Counterbalance, have since then been criticising the Bank for lending to companies registered in tax havens and financial offshore centres.

One of the project case studies of this evaluation, the one in South Africa, involves an operation with a loan to a subsidiary of a Mauritius based holding company which operates in most countries in Eastern and Southern Africa.

The EIB reports on this operation made available for review do not include a discussion on tax minimisation through this tax heaven. Tax policies are not addressed including e.g. whether the South African government grants tax holidays on this form of FDI. According to the Board report, the approved loan operation is an FDI. The report points out that the investment climate on Mauritius is "superior" due to offering "a sound legal framework", "professional financial services" and "freedom from exchange controls".[111]

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[110] www.eib.org/about/news/eib-publishes-interim-revised-policy-on-offshore-financial-centres.htm. Previously the policy was an integral part of its anti fraud guidelines.

[111] "Safal Steel Plants Project", document 07/367 dated 27 September 2007 (CA/409/07)

In the OECD progress report on tax standards from April 2009[112] Mauritius was ranked among the countries that have by now "substantially implemented the internationally agreed tax standard". The country is now not on the 'grey list' of countries that still lack substantial implementation nor of course on the black list of countries without any implementation.

As regards global loans extended by the Bank, the EIB global loan finance contracts reviewed as part of the evaluation (Serbia, Lebanon) have not been found to include any conditions as to the domicile of the borrowers of the sub-loans of the credit line and the use of tax havens.

Equity funds are extensively used with a positive result under the FEMIP risk capital facility as shown in the country case study from Lebanon under which the Commission approves all individual operations. The South Africa RCF I and II have the EIB in a role only as a monitor. The EU-RSA country agreements do not mention tax heavens specifically.

Responding to the G-20 conclusions, the EIB in July 2009 formally adopted an interim revised policy on offshore centres. With this policy the Bank commits to comply with the EU OFC framework and endeavour to conform to the reference lists such that the OECD grey and black lists that lead organisations may publish.

Money laundering and finance of terrorism
The EU priority attached the fight against money laundering EU is expressed among others in Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

The EIB has had guidelines in place on fighting fraud and corruption at least from 2003. The adoption of a formal Anti Fraud Policy in April 2008 replaced these guidelines.

The finance contracts for the case study global loans of the EIB includes for the one in Lebanon (signed December 2007) a clause prohibiting the use of funds for money laundering and for financing of terrorism with the application of the recommendations of the OECD task force on money laundering. The loan to the bank in Serbia, signed in April 2006, does not contain such clause.

The omission of the 'money laundering' clause in this global loan is due to the fact that the Bank's anti fraud guidelines were not yet in place at the time of signing this loan.

9.14.3 Environmental safeguards

In order to mirror EU environmental policy objectives, the EIB issued a document outlining the procedures for environmental examination of projects in 2002.[113] While the environmental requirements in this document are without clear performance levels or auditable compliance criteria it refers to EU poli-

[112] http://www.oecd.org/dataoecd/38/14/42497950.pdf
[113] Environmental procedures, EIB, 2002.

cies, standards, and law. The most important EU regulation in this context is the EIA directive.[114]

The evaluation of specific projects carried out by the EIB shows that 2 out of 37 projects are rated as unsatisfactory. The rest are either ranked as good or as satisfactory.

The field mission to Romania showed that for the case project, "Road Rehabilitation V" an EIA was required only with reference to Romanian law. In Serbia and Turkey the EIA was carried out based on EU criteria. No further approximation to EU standards was required in relation to any of the case studies.

The project undertakings for the Bank Audi global loan in Lebanon does not refer to EU environmental standards but are only saying that the beneficiary bank has to ensure that the sub-loans are in conformity with the environmental laws of Lebanon.

The environmental requirements for projects benefiting from a loan from the EIB have been strengthened with issue of "The EIB Statement of Environmental and Social Principles and Standards" in 2009.

According to the document, the Bank now aims to add value by enhancing the environmental and social sustainability of all the projects that it is financing. All such projects must comply with the environmental and social requirements of the Bank. In particular, climate change, biodiversity and ecosystems considerations are integrated into the lending policies and practices of the Bank. The ability of the Bank to contribute positively in these respects will for future operations be an important element of the non-financial value added that the EIB may bring to co-funded projects.

9.14.4 Social safeguards

According to the same statement as mentioned above, the EIB restricts its financing to projects that respect human rights and comply with EIB social standards, based on the principles of the Charter of Fundamental rights of the EU.

The EIB does not finance projects:

- Located in countries declared "off-limits by the European Council for EU financing, particular due to violations of human rights"
- That give rise to conflicts or intensifying existing conflicts

Within Enlargement countries, subject to any agreed phasing, the EIB assumes that EU social requirements, including international HR conventions ratified by the EU are correctly implemented within the framework of national law. If there is evidence that suggests otherwise, an appropriate social assessment is carried out.

In all other regions of EIB operations, the approach of the EIB to social matters is based on the right-based approach mainstreaming the principles of HR law into practise through application of its Social Assessment Guidelines. These requirements take also the social safeguard measures developed and applied by other IFIs with whom the bank collaborate.

[114] Directive 2003/35/EC.

9.14.5 Procurement requirements

The EIB "Guide to procurement" from 2004 defines the standards for the procurement of the goods and services that the Bank finances.

For financing from own resources as in the case of the mandate loans tenders are to be open to nationals from all countries.

For larger sized contracts international procurement procedures will apply. They may be fully *open* with publication in the Official Journal (OJ) of the EU; they may be *restricted* based on a short list of qualified bidders established through procedures involving publication in the OJ, and they may be *negotiated* with candidates selected through publication in the OJ or from a promoter established list.

National tender procedures may be used only for small contracts or contracts outside the scope of the EU directives.

In one of the project case studies larger sized lots were deemed necessary and for the sake of cost-efficiency and international procurement procedures publication in the OJ was required. In the same project the appraisal report had pointed to a risk of procurement mismanagement. However, in the first phase the project used the restricted tender procedure without publication in the OJ. The Bank did not require re-tender but only required that the phase 2 of the project be subjected to public tender.

The other project case studies have not indicated similar procurement problems. This case study is selected as an example of insufficient monitoring. As indicated earlier, EIB staff finds that the work quality is affected by lack of time for monitoring activities.

9.14.6 Copenhagen criteria

The Accession and the European Partnership Agreements build on the Copenhagen criteria. The EIB is to support the principles and priorities and objectives of this agreement.

Observations made during the field mission in Serbia and actions noted in Turkey point that these broader objectives are not an integrated part of EIB appraisal procedures.

The second Copenhagen criterion addresses the development of a functioning market economy. Separate economic criteria for Serbia in the European Partnership are improved governance in public tenders, reduction of State aid and to strengthen competition policy.

In an operation signed in 2009, the EIB provides finance for the set up of a global loan type facility through the Central Bank of Serbia, which will on-lend funds to commercial banks in the country.

On their side, the banks are to use funds for on-lending to SMEs. This is required done at an interest rate at least 1 pct. point below the market. This structure interferes in a functioning market economy and banking market in two areas: first, by using the central bank as intermediary in spite of the proven placement capacity of the commercial banks of the country. Second, it interferes in the market by setting the condition that the banks are to on-lend funds at an interest rate below that otherwise prevailing in the banking market and defined on considerations of funding costs and credit risks involved.

In another recently signed operation, the EIB lends to the government, which passes on the funds to be used as a grant at another ministry for the financing of small scale municipal infrastructure investments.

In the appraisal of this operation, it was not considered how these funds were to be made available to the municipalities, i.e. whether the ministry would independently select the municipalities and if so, which criteria were to be applied, or whether the selection would take place through other means.

In any such appraisal it should as a matter of course be ensured before approval of the operation that fair treatment of all potential beneficiary municipalities is ensured. This means again that it should have been ensured that a public tender be held such that all municipalities can supply investment proposals on equal terms. This was done; however the evaluation team addressed the issue to EIB staff, which were informed by the ministry that the laws of Serbia require a public tender.

In Turkey the Accession Partnership sets the sustainability of public finance as an economic criterion. A recent project to co-finance equipment purchase and salaries of academic staff set the EIB contribution against the tight budgetary constraints of the country and its limited funding alternatives. The EIB loan was then additional to the funding available in the market to finance the budget deficit of the Turkish government.

10 Cooperation and coherence

This chapter address the cooperation of the EIB within the framework of the Programme with the Commission, with other IFI, with DFIs and with bilateral donor agencies. This co-operation includes the co-financing of joint actions.

The coherence of Programme activities with Community interventions is linked to Programme relevance at the operational level and the actions of the Commission under the programmes defined at this level cf. the discussion in chapters 4-8. Coherence is also reflected in the cooperation at the operational level in the beneficiary countries

Finally covered, as per the requirements of the assignment TOR, is the extent to which the lending of the EIB from own resources and at own risk in the Programme relevant countries is coherent with the external EU policy objectives identified and thus with mandate lending.

10.1 Cooperation between the EIB and the Commission

Cooperation between the EIB and the Commission may take place at the strategic level as well as at the operational level and may be a means of ensuring Programme effectiveness and the coherence of the actions of the two parties. This section covers these issues with respect to mandate loans.

Articles 3(1) and 3(2) of the Council decision address the cooperation at the planning level for strategies and individual actions.

Cooperation at the operational level is in part in the form of meetings between EIB operational staff, in part in the form of contacts with the EU delegations in the mandate beneficiary countries. Actual co-finance between the EIB and the Commission is an indicator of the coherence of actions of the two parties but presumes of course that the Commission disposes of funds for such co-finance.

In assessing the cooperation and co-finance activities related to the Programme we have noted from the review of the main Community financing instruments (ISPA, IPA, MEDA, and ENPI) in chapters 4-6, that the Commission (and the MS) is to ensure coherence of actions rather than the EIB. The role of the EIB then is to commit itself to active participation in the coordination activities of the Commission.

10.1.1 Co-operation at policy level for mandate loans

The Council decision establishing the general mandate for the period 2007-2013 is much more specific in the requirements relating to coordination between the Commission and the EIB than the previous one.

Points 1 and 2 in article 3 of the Council decision for the present mandate contains stipulations on regular and systematic dialogue and early consultation between the Commission on strategic and other policy documents with the aim of consistency between EIB external actions under the mandate and EU policy objectives.

The provisions of the article led to the signing in May 2008 of an MoU between the Commission and the EIB in respect of "Cooperation and coordination in the regions covered by Council decision 2006/1016/EC".

The regular and systematic dialogue and early consultations are to cover:

- strategic documents prepared by the Commission, such as country or regional strategy papers, action plans and pre-accession documents;
- the EIB's strategic planning documents and project pipelines; and
- other policy and operational aspects

The MoU specifies the procedures for the policy dialogue. According to this agreement the Commission and the EIB must enter into an early mutual dialogue with respect to policy matters, preparation of papers of mutual significance and project pipelines.

On the strategic level, the Commission and the EIB must hold regular and systematic dialogue on policy and sectoral aspects of common concern relating to the regions. This dialogue must facilitate an early identification of possible areas of cooperation and provide early warning in cases of politically sensitive issues. The cooperation is also to involve regular meetings and contacts between the services of the Commission and the EIB staff responsible for the same regions.

At the focus group discussion with the relevant DGs these issue were discussed. DG RELEX finds that the collaboration on strategic issues as well as other issues has improved significantly since the adoption of the 2007-2013 mandate. Furthermore, DG RELEX finds the EIB to have become much more policy oriented. In contrast to this view, DG ELARG finds that the collaboration with the EIB is very limited when it comes to EU policy development and development of EIB strategies.

A Steering Committee (SC) is established to supervise and coordinate the implementation of the MoU. The SC is composed of five senior representatives at senior management level from the Commission and the EIB respectively. The SC meets on an annual basis or when necessary at the request of one of the parties.

So far, the SC has had two meetings, the first on 10 November 2008 and the second on 21 April 2009. The first meeting decided on the modus operandi for the SC. At the second meeting matters of common concern requiring consultations were identified. For the EIB these matters include:

- Relevant sections of the rolling Corporate Operational Plan

- Guideline paper on solid waste
- FEMIP Operational Plan 2009-2011

For the Commission the following issues were mentioned:

- Documents outlining the planning of consultations and meetings for the Asia region
- Revised ENP Country Strategy Papers
- Available documents of the Enlargement Package
- IPA 3-year document
- Overview of national IPA programmes
- The evaluation programme 2009 from the joint evaluation unit covering AIDCO, RELEX and DEV
- Papers on the mid-term review of the EIB external mandate

Furthermore, it has been decided that EIB from early 2009 must provide the Commission with its project pipeline on a quarterly basis. This may give the Commission the opportunity to check the relevance of the future EIB portfolio against EU policies.

The evaluation team acknowledge the MoU and the activities as important steps to improve policy coordination. If this is sufficient is still too early to judge. Based on the papers presented by the Bank more strategic orientation is required.

10.1.2 Co-operation at operational level for mandate loans

Cooperation in relation to specific operations normally takes place at partner country level. This cooperation has so far mostly been carried out on an ad-hoc basis where the Commission and the EIB have co-financed specific projects. The Commission contribution has in most cases been either investment grants or TA. The evaluation team has not been provided with any overall data on the number or types of projects where the two parties have co-operated.

In the Mediterranean region the IFIs and the Commission meet twice a year in order to coordinate activities. The Commission and the EIB always meet prior to these meetings to agree on relevant issues. The EIB always invites the Commission to participate in country team meetings for the Mediterranean region.

While according to DG ELARG cooperation with the EIB at loan officer level is limited, another DG involved, DG AIDCO, reports that they find the cooperation between the EIB and the EU country delegations effective. At headquarter level, quarterly pipelines of projects are exchanged with the Bank. Often AIDCO finances feasibility studies for projects receiving EIB loans.

Cooperation between EIB and the Commission in the countries under the European Neighbourhood Policy has been strengthened through the establishment of the Neighbourhood Investment Facility (NIF) in 2008. The NIF provides relatively small grants to investment projects requiring that at least to European IFIs/DFIs participate in the co-financing. A framework agreement is foreseen signed by end 2009 between the EC and all NIF eligible finance institutions in order to define the role of a lead IFI/DFI in NIF co-funded projects.

Similar investment facilities are under establishment for Asian and Latin American countries.

In Serbia, the Delegation representative in the relevant area has limited contact with EIB loan officers when in the country and project pipelines are not discussed. In Lebanon the expertise of the Delegation in liaising with the government is not used to the best advantage. The case study in Brazil points to a commendable cooperation on the project of the case study.

10.1.3 Co-financing with the Commission

Recital (15) of the Council decision for the present mandate states that with the view of enhancing the coherence of overall EU support, opportunities should be sought to combine EIB co-financing with EU budgetary resources as appropriate, in the form of grant support, risk capital and interest subsidies alongside TA for project preparation.

Co-financing of projects with EU investment grants will provide for a lower average cost of funds in the projects financed. In turn, this could lead to EIB co-funding in 'new' sectors where such cost is a concern. This was found an issue of relevance in some of the case study countries visited.

EIB co-financing with the Commission presently comprises TA funds for project preparation and project implementation and investment grants for contributing to the financing of priority infrastructure projects. The actual availability of funds for co-funding of actions with the Commission depends on the region in question.

Pre-accession countries
In the pre-accession countries the main Community financing for TA and investments during the period under review have been from the ISPA programme, the European Agency for Reconstruction (EAR), the PHARE programme and the IPA programme. The ISPA programme was earmarked for environmental and transport infrastructure projects, while the other programmes covered broader objectives.

Table 10-1 shows the EIB co-funding with the Commission for the period under review The co-funding rate pct. is the volume of EIB loans signed with Commission co-finance in proportion to the total amount of signed loans for the year in question. The Commission may also co-fund investments under global loan schemes.

Co-financing may either be in the form of TA or in the form of co-finance of investments. Data have been obtained by the EIB.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	1H 2009
Under mandate	28%	32%	26%	2%	16%	26%	22%	26%	4%	29%
Under Pre-Accession Facility	14%	30%	11%	23%	57%	0%	4%	0%	6%	0%
Total Mandate + Facility	23%	31%	15%	17%	38%	23%	11%	16%	5%	19%

Table 10-1: EIB co-financing rates on mandate operations with the Commission in pre-accession countries 2000-1H2009 (pct.)[115]

Sources: Commission reports to the Council and Parliament on EIB lending and EIB staff. Co-financing is that foreseen at loan signature.

Information on individual loans in the reports and the fact that the ISPA programme could co-fund up to 75 pct. of investment costs, points to the ISPA programme was the most important individual source of funds.

At the same time, as the average co-financing rate - shown in the last row of the table - is well below the 75 pct. threshold this points to other programmes being used relatively more widely.

In 2000-2006 when the ISPA programme was in force Bulgaria, Croatia, FYROM, Romania, and Turkey were eligible for support in at least some of the period.

According to information from the Bank ISPA co-financing was not used in either Croatia, in FYROM or Turkey; countries where also ISPA funds were in limited supply.

The present MS were the important beneficiaries. A review of the lending reports point to that the EIB co-financed 11 projects under the ISPA programme in 2000-2006, 8 in Romania, and 1 each in Bulgaria, Lithuania, and Slovakia. 5 projects were in the transport sector and 6 in environmental infrastructure. The reports also show that the high Commission co-finance share in 2005 is attributable to a Commission grant of EUR 500m for a Corridor X rail projects to which the EIB lent EUR 30m.

In the period 2000-2004 the Commission approved 53 environmental infrastructure projects for an amount of EUR 1,182m and 17 in the transport sector for an amount of EUR 1,308m.[116] Grant rates in per cent of total costs were respectively 72 and 63 pct. The EIB helped finance 2 respectively 3 projects in the two sectors.

In Romania during this period the EIB also received co-funding from the Commission for the so-called SAMTID framework programme for infrastructure development in small and medium sized towns.

[115] These figures do not include the EIB's entire lending portfolio (including non-mandate loans). For example, each individual lending operation by the EIB grouped several sub-projects which all received separate ISPA grants. In Bulgaria, EIB and EC co-financed 3 projects under parallel rather than joint co-financing arrangements. All projects were jointly appraised with the Commission (DG REGIO) and had common loan conditions. Several projects (non-mandate) are also co-financed with EBRD.

[116] DG Regio: The Mini ISPA report 2000-2004.

The EIB also co-funded small municipal investments under a similar Cross Border Facility in the region running in 2002-2003 allocating EUR 40m of Commission grants on 24 projects with loans of EUR 200m.

The EIB lending reports of the Commission do not appear to include information on the EU grant co-finance under these two global loan structure arrangements.

The IPA programme also provides for Commission funding of TA and co-funding of investments in the potential candidate states under the IPA-TA programme and the IPA-Municipal Window (MW) respectively.

The table below shows approved grants under the IPA-MW as of end September 2009.

	No.	EU grant	IFI loan	Inv. costs
		EUR m	EUR m	EUR m
EIB	3	28	175	400
EBRD	1	2	4	13
CEDB/KfW	7	31	82	183
KfW	2	25	9	34
Total	**13**	**86**	**270**	**631**

Table 10-2 Approved grants under the IPA-MW as of end September 2009
Source: EIB

Among the 13 projects, 11 are in environmental infrastructure, 1 in energy, and 1 in transport. The environmental sector is the priority one for the Commission.

Of the 3 EIB co-financed loans 2 are in environmental infrastructure and 1 in transport. The two former are framework loans with lending to the government for on-lending to smaller scale municipal investments leveraging EIB loans of EUR 85m. The transport sector project was signed in 2003 and is still ongoing. This project was selected for one of the mandate loan case studies in Serbia (loan of EUR 90m).

DG ELARG pointed out that the minimum EIB loan size to participate in the facility was much higher than for other IFIs. According to DG ELARG, the Bank looks more on the financials of a project, less on its economic viability and value-added and is more risk-averse as compared to the other IFIs and the DFI in the programme. The lesser risk taking was seen related to constraints on staff resources.

Mediterranean region
The FEMIP Support Fund provides grants for co-funding the project implementation part of the project.

Up to and including 2007 funding from the Commission for investments was only available as interest rate subsidies earmarked for EIB projects with a "positive" environmental content.

The Neighbourhood Investment Facility now is the vehicle for channelling Commission investment grants to co-fund projects in the region. NIF also makes funds for technical assistance available. NIF projects are priority projects for the partner countries.

As discussed in the section addressing IFI cooperation, the AFD, the KfW, and the EIB are in the finalizing stages of setting up a framework for 'mutual reliance' with a view to creating a mechanism suited for joint finance with the Commission. One of the institutions are selected to be 'lead IFI' on the projects.

Under the NIF in 2008 6 projects were approved, 5 of which with participation of the EIB with one or both of the two institutions. One of the 5 projects was for the development of a feasibility study (solar plant) and the other for co-funding investments.

Sector-wise the 5 'EIB' projects are distributed between 2 in transport, 2 in renewable energy and 1 in environmental infrastructure.[117] The active participation of the Bank in NIF enhances Programme effectiveness as partner priority projects are being implemented.

Eastern Neighbours
As established under the ENPI, the NIF also covers the Eastern Neighbours.

9 projects received approval in 2008 of which 7 involving TA, for a total amount of EUR 37m. The EIB is involved in all with the exception of one in the social sector. In all these projects the EBRD is involved as well.

The EIB reports for its operations in these countries very limited direct access to TA as compared to EBRD not only under the NIF but also otherwise.

Asia and Latin America
Commission funding is not available for the co-financing of projects under the mandate either as TA or as investment grants. As mentioned elsewhere the Commission has just proposed to the DCI Committee two new facilities which serve these purposes in Central Asia respectively Latin America.

South Africa
The Commission provides considerable grant assistance under its country strategy and the Multi-Annual Indicative Programme. At the present time all financial assistance is channelled as budget support and not earmarked specific projects. Set up of a new risk capital facility redirecting funds from the country programme may enable co-financing activities in the future.

10.1.4 Coherence with Community actions

The discussion of Programme relevance in chapters 4-8 showed the Programme relevant objectives in the pre-accession countries, in the Mediterranean region and in South Africa to be broadly scoped.

The nature of the Community actions defined under the policy objectives reflect any priorities the EU may have assigned to different areas of action through concentration on specific sectors.

The coherence of EIB Programme activities and their complementarity to Community actions will be higher, the better the activities reflect these priorities in actions.

[117] NIF Operational Annual Report 2008.

Pre-accession countries
The discussion of EU policy objectives and related actions in chapter 4 showed that in this region, an important EU policy objective is the development of environmental infrastructure with a view to approximation to and compliance with the requirements of the EU environmental acquis, the part of the acquis communautaire where the investment requirements to meet the obligations are generally recognized, also by the Commission, to be the largest by far.

This is also illustrated e.g. by the various project preparation facilities that the EU has established, most recently the IPF-TA as well as by the IPF-MW investment co-finance facility, which has the environment as a priority sector with particular emphasis on water and wastewater.

Programme lending to this sector has accounted for a small part of the EIB operations in the previous mandate period as well as in the present one.

Complementarity to Community actions could be considerably enhanced with increased EIB lending to environmental infrastructure investments.

A means of increasing complementarity is the adoption of the EIB of operational objectives in its lending to the pre-accession countries that reflected the particular EU policy objectives in the region rather than, as now, applying the objectives for lending in EU MS.

Coherence could be increased at the operational level if EIB would make better of the institutional structures in the beneficiary countries that the EU supports. Such lack of complementarity was demonstrated by the country case study of operations in Serbia. Local offices of the EIB would be in support of this form of coherence.

Mediterranean region
The programming nature of FEMIP in itself ensures coherence and complementarity of EIB lending in Programme relevant areas.

Eastern Partners
The EIB Programme lending in the region has been so limited that coherence of actions cannot be comprehensively assessed. The narrow scope of the mandate and the use of EU funded TA for most projects are indicative of 'in-built' coherence in at least part of the Programme lending.

Asia and Latin America
The targeted nature of the ALA mandates limits the scope for coherence and complementarity to Community actions in particular with regards to the FDI component of the mandates.

Synergies have been achieved in Community action areas, namely in support to sustainable energy technologies and the increased use of information and communication technologies.

The EIB has focused on lending to individual countries rather than regional projects with promotion of regional integration, which is a priority area of Community action as outlined also in the DCI Regulation.

Whereas the Community has much focus on actions in the less prosperous countries of the region, the EIB is constrained supporting such actions due to necessary regards to financial viability and the particular operational objectives applying to the EIB mandate in the region.

South Africa
In South Africa EIB mandate lending cannot be supportive of Community actions since the EIB needs to works with projects in the 'First Economy' whereas the Community actions relate primarily to the 'Second Economy' and in all cases are in the form of budget funding not targeted any specific actions or projects.

10.2 Cooperation on risk capital and TA operations

For the FEMIP risk capital activities, the Commission is closely involved in all individual operations and approves each individual operation. This working procedure should serve to ensure the effectiveness of the operations. On an ex post basis the Bank draws up a comprehensive annual report for the risk capital operations with individual project fiches attached.

A similar set up is used for the TA part of the FEMIP Support Fund. The relevant unit at the Bank works closely with in particular AIDCO but also the EU delegations in the beneficiary countries. AIDCO approves all TA operations and receives annual reports on operations. The Commission is at times involved at the operational level as well e.g. as steering committee members.

The shorter assignment preparation time for executing TA operations under the Programme as compared to mandate loans and risk capital investments provides for a quicker adjustment to changed EU policy priorities. As follow-up to the Horizon 2020 imitative announced in November 2006, FEMIP TA has supported the preparation of a Mediterranean Hot Spot Investment Programme (MeHSIP) with identification of a project pipeline. An ongoing activity is the set-up of a project preparation and implementation facility for selected priority projects under the MeHSIP pipeline.

As to the IDC managed risk capital facilities in RSA, the Commission has delegated the approval responsibility to the EIB and receives annual monitoring reports that the Bank has prepared. Review of individual approval sheets and portfolio performance has shown an effective contribution to the reaching of Programme objectives at the operational level.

At the operational level in South Africa, the Delegation now finds the cooperation close and much appreciated; apparently the experience had been more mixed in the past. The Delegation is on the Steering Committee for the RCF II and meets often with the operation responsible at the EIB in Luxembourg. The Bank currently provides valued inputs on a proposal for the set up of a new risk capital facility in RSA with a broader scope and which the EIB is envisaged to manage.

10.3 Cooperation and co-finance with IFIs and DFIs

Article 16 of the EIB's statutes provides that "the Bank shall co-operate with all international organisations active in fields similar to its own. The Bank shall seek to establish all appropriate contacts in the interests of cooperation with banking and financial institutions in the countries to which its operations extend."

Against this background, cooperation, and co-finance with other IFIs and with DFIs is an integral part of EIB operating policies. Adding to this, the Bank cannot fund more than 50 pct. of project costs which makes collaboration essential.

In order to streamline and structure the cooperation with IFIs and DFIs, MoUs have been entered with other IFIs already before the Council decision of December 2006.

Traditionally IFI and DFI co-funding has mostly been done through the means of *parallel* co-finance where the project is split into a number of clearly identifiable sub-projects which are each financed by the different partners providing co-financing in such a way that the end-use of the financing can always be identified. Appraisal procedures, procurement, and environmental requirements may be harmonised but not necessarily.

In the case of *joint* co-financing, the total cost of the project is shared between the partners providing the co-financing, and resources are pooled in such a way that it is not possible to identify the source of funding for any given activity undertaken as part of the project. Again, appraisal procedures, procurement and environmental requirements may be harmonised. Joint co-finance is more demanding to implement as responsibility has to be delegated to one institution requiring the co-financiers to give up full control of the implementation. At the same time of course, the overall workload of these institutions is reduced through the delegation.

The following section presents EIB's cooperation and collaboration with IFIs and DFIs through mandate requirements, co-finance statistics, and EIB's institutional agreements with other IFIs.

10.3.1 Mandate requirements

The general mandate 2000-2007 has no specific requirements that the Bank should cooperate with IFIs/DFIs. However, as referred above, the Bank is obliged to collaborate irrespective of the lack of specification in the mandate.

The first mention of cooperation with other IFIs in the mandates under review is the 2001 special mandate for Russia (NDEP). Recital (4) and article 2 on 'Ceilings and conditions' requests the Bank "to cooperate and co-finance with other international financial initiatives in order to ensure reasonable risk sharing and appropriate project conditionality".

The mandate also emphasises that the Northern Dimension Environmental Partnership is the framework for setting priorities.[118] The 2004 specific mandate for Russia, Ukraine, Moldova and Belarus sets similar conditionality plus an explicit requirement to work with EBRD.

Under the general mandate 2007-2013 the Bank is required to cooperate and co-finance operations with other IFIs and DFIs. Recital (16) and article 4 'Co-operation with other International Financial Institutions' states that "EIB financ-

[118] The NDEP promotes co-ordination between Russia, the European Commission, partner governments (France, Canada, Germany, Sweden, Finland, UK, Denmark, Norway, Netherlands, Belgium) and international financial institutions (EBRD, NIB, EIB, NEFCO and World Bank) with the objective to secure grant funding and expertise for the implementation of priority projects.

ing operations shall increasingly be carried out, *where appropriate*, in cooperation between and/or by means of co-financing by the EIB and other IFIs, or European bilateral institutions in order to maximise synergies, cooperation and efficiency and to ensure reasonable sharing of risk and coherent project and sector conditionality".

The aims of this provision are to maximise synergies, cooperation, and efficiency and to ensure reasonable sharing of risks and coherent project and sector conditionality whenever needed.

Article 4 further stresses that this cooperation should be carried out in the context of Memoranda of Understanding between the Commission, the EIB and the main IFIs and DFIs. Article 6 further requests that cooperation with other IFIs must be included in the yearly report to the Commission on financing operations carried out under the mandate.

10.3.2 Cooperation and synergies with IFIs and DFIs

The formal framework for cooperation between the EIB and IFIs takes place in specific regional level Memoranda of Understandings and Letters of Intent (LoI). A main driver behind the more formal, but also committing, collaboration has been the adoption of the 2007-2013 general mandate with explicit demands for more cooperation.

IFI/DFI:	EBRD	World Bank/IFC	AfDB	IADB	ADB	CEDB	Other and DFIs
Pre-accession countries	MoU (Apr-06). Accord for Turkey (Jan-09).	MoU (Apr-06)				MoU (Apr-06) Joint Statement (Jun-08)	MoU (Apr-06) (NIB/ NEFCO/ BSTDB)
Mediterranean region		MoU (May-04/ (Sep-07)	MoU (Aug-05)				EDFI LoI AFD/KfW Mutual reliance (May-09)
Eastern Neighbours	MoU (Dec-06)	MoU (May-07)			MoU (Nov-07 (Central Asia)	MoU (May-07) (Jul-07)	
ALA				MoU (Dec-04)	MoU (Nov-07)		
South Africa			MoU (Aug-05)				

Table 10-3 Overview of institutional agreements between EIB and IFIs/ DFIs
Source: EIB-IFI collaboration. From DG ECFIN, 2009

As illustrated in table 10-3, the Bank has entered several cooperation agreements with IFIs and DFIs in the period covered by the external mandates but also a number before it entered into force.

Each of the agreements are context and organisation specific with varying degree of specification of the type of collaboration envisages. The following type of collaboration is often referred to in the agreements:

- Co-financing
- Joint policy dialogue on sector-specific and technical issues
- Informal consultations
- Joint project monitoring and evaluation
- Joint analytical work
- Staff exchange and temporary secondments

According to information from the EIB, the amount of co-financing in specific regions is not only dependent on legal frameworks established to encourage collaboration between the financial institutions. The freedom of the borrower to choose the most appropriate financing arrangement is also an important element. This view has been confirmed in the discussions held with promoters in the case country studies.

As part of the survey conducted among EIB staff, loan officers and project technical (PJ) staff were asked to assess the collaboration with IFIs and DFIs in project identification, appraisal and co-financing:

	EIB loan officer	PJ staff	Total
Excellent	15%	16%	16%
Good	39%	34%	36%
Average	37%	36%	36%
Mediocre	7%	12%	9%
Poor	2%	2%	2%
Do not know / no cooperation	0	2	2
Total	46	52	98
Average	2.4	2.5	2.5

Table 10-4 Views of EIB loan officers and PJ staff on collaboration with IFIs and DFIs

Most staff (72 pct.) found the collaboration to be "average" to "good". The median response is "good" with more than half of staff finding the cooperation to be at least good.

The sections that follow gives more information on the various institutional agreements on a regional basis and address the extent to which they have impacted the cooperation on the operations of the involved IFIs and DFIs based on information collected during the field studies and from interviews with relevant officials.

In reviewing we have noted that only three agreements (with IADB, ADB, and the joint KfW/AFD one) address among its objectives the interests and needs of the partner countries in the cooperation and co-finance contemplated.

Cooperation in pre-accession countries
In April 2006 i.e. before the new mandate was extended, the Commission signed jointly with the EIB, the EBRD, the IBRD, the IFC, the Nordic Investment Bank NIB) and its subsidiary NEFCO, the CEDB and the Black Sea Trade & Development Bank (BSTDB) an MoU on cooperation in the new MS and in the pre-accession countries.

The MoU is not only broad in geographic scope; it is also broad in scope as regards the areas covered stating intentions rather than commitments. A large part of the MoU addresses issues are already an inherent part of the work of an IFI or a DFI.

During the field missions to the pre-accession countries selected the MoU was not mentioned as a factor in the ongoing cooperation. The activities are on an 'as per need basis' instead.

The 'Accord for Turkey' signed with the EBRD and the Commission in January 2009 is non-committing in nature, recognizes the importance of coordination and expresses intents in cases of co-financing.

Cooperation in Mediterranean region
In the Mediterranean region two MoUs have been signed with the World Bank, the IFC, and the African Development Bank, both before the extension of the new mandate. This was the case also for the letter of intent (LoI) signed with the KfW and AFD being signed in December 2005.

The IFC joined the already signed MoU with the World Bank in September 2007. The Commission is a co-signatory to the agreement.

The agreement notes the differences in approach with the country level programming of the World Bank and the Commission and the project-based approach of the EIB. It provides for institutional coordination and dialogue. On the operational side it only encourages co-finance between partners additional to the already existing ones. The field studies did not leave an impression that the MoU has made at the difference at the level of individual operations.

As to the MoU with the African Development Bank (AfDB) from August 2005 with the Commission as signatory as well, the agreement is one of a strategic partnership for co-operation in Africa. It states some general principles of co-operation and coordination but nothing on operations. The AfDB office in Cairo met with was not aware of the existence of the MoU. The office did observe that it on the financing side felt 'crowded out' from co-financing opportunities with the establishment of the NIF and its inclusion only of European IFIs.

The cooperation between the KfW, the AFD and the EIB initiated in December 2005 has so far reached a stage whereby a concept note for 'mutual reliance and joint EU co-financing (Development cooperation)' has been signed covering also the ACP countries.[119] This took place in May 2009. The time needed, 4 years, demonstrates the challenges in such cooperation.

Work seems to have been advanced by the requirement under the NIF, in place from 2008, that an EU grant requires co-finance from at least two European

[119] AFD, EIB and KfW initiative for mutual reliance and joint EU co-financing (Development Cooperation". Concept note signed 8 May 2009.

IFIs or DFIs. In the Mediterranean region this effectively confines the co-financing partners to be the mentioned three institutions. The concept note signed makes specific reference to the developing of a common EU financing mechanism for the European Commission in the blending of grants and loans.

Besides the interests of the partner countries and the 3 institutions, the concept note is also seen to serve the interest of the EU development policy in terms of increasing the visibility and efficiency of European development aid.

As opposed to the other MoU the concept note has a strong operational relevance with focus on joint appraisal and monitoring and on convergence of finance contracts.

The approach is presently being piloted among others in Egypt and in Tunisia on NIF co-funded projects. In this regard the field missions received observations at the operational level from stakeholders.

The initial investment of partner institutions in setting up mutual reliance arrangements is very resource demanding, given that considerable effort has to be invested in establishing joint procedures.

As to the EIB involvement it was seen constrained by the limited role and scarcity of staff at the local EIB offices in the two countries. The involvement needs mainly to be from Luxembourg where staff cannot always travel to attend joint meetings when required. The introduction of 'joint finance' in projects was seen as a barrier for EIB involvement. On the other hand, the Bank had provided value added and important synergies in the joint actions in terms of its stricter environmental requirements.

Cooperation in Eastern Neighbours

In the region of Eastern Neighbours the key agreement is the MoU between the Commission, the EIB and the EBRD for cooperation in Eastern Europe, the Southern Caucasus, in Russia and in Central Asia that was signed in December 2006. The MoU may be seen as a complement to the more than quintupling of the regional mandate contained in the Council decision on the external mandate from the same month.

The agreement is rather ambitious in its aims when stating that "as a general rule, projects undertaken by the EIB in the region….will be co-financed with EBRD". Thus, the agreement is based on each party offering each other "a right of first refusal", i.e. each partner must offer each other opportunities for co-finance before asking other partners.

Under the heading of "consultation and exchange of information", the MoU stipulates that the three parties will exchange information on e.g. operations pipeline, appraisal data, country and sector strategies, etc. The agreement stresses the role of EBRD is the lead partner for project preparation and project appraisal. The banks are expected to co-fund the projects with equal shares.

The MoU is reviewed by a steering committee chaired by the Commission. A review of the minutes of the steering committee meetings has provided an overview of the issues discussed between the parties. In particular, the committee has been handling the following cooperation issues:

- Procedural issues: information required when sharing pipelines, EIB staff secondment to EBRD Moscow

- Framework policy guidance papers e.g. for environmental projects and framework agreement on smaller environment and energy projects
- Establishing a solid pipeline of operations with detailed information about the maturity of project proposals
- Concerns about insufficient volume of pipeline projects
- General information sharing on issues which have emerged since the previous meeting.

In addition, the following observations have been made. First, one of the reoccurring issues has been the quality of the pipeline shared between the parties prior the meetings. In particular, the EBRD pipeline presentation has received several comments for not being detailed enough with explanations on the maturity of the operations.

Second, the minutes highlight the Commission's need for - and EIB's dependency on - securing political support when discussing eligibility of projects in the pipeline that may have a political implication for the EU or projects being on the borderline of the interpretation of the mandate decision. In contrast, EBRD appears to be less tied by such concerns and interested in getting Commission and EIB support. As a related third point, this indicates that the parties have different mandates. Significant Commission interest in fulfilling EU policy objectives is not necessarily equal to EBRD's focus on transition impact.

In addition, EIB's concern about raising the volume of overall investments versus EBRD's focus on the transition impact of investments was emphasised as an issue that resulted in different perspectives. Apart from reviewing the above minutes of meetings, discussions have also been held with key EBRD staff involved in the cooperation with EIB, which confirmed the difference in the perspectives.

Other than that, lack of staff is a major problem with the projects in Russia being complex and work intensive. The EBRD focus on the private sector and its better ability to lend in roubles was also seen as impediments to improved cooperation and co-finance.

Cooperation in Asia and Latin America
The actual need for cooperation and co-finance in ALA are limited by the higher private sector focus orientation of the EIB mandate but in particular by the small size of the EIB mandates compared to the lending capacities of the Asian Development Bank (ADB) and the Inter-American Development Bank as well as the World Bank.

In Laos the case study project was co financed by the World Bank, the EBRD, the ADB and the EIB. The large scale Panama Canal project earlier referred to also involved IFI co-finance. The EIB project pipeline for ALA includes one with ADB and DFI co-finance.

Cooperation in South Africa
Given as well the small size of the EIB mandate in South Africa and the more development a oriented approach of some of the other IFIs including the AfDB, KfW, and the AFD the scope for general cooperation and co-finance is limited and is done on an ad hoc basis instead.

The EIB mandate provides for loans averaging EUR 125-150m per year. The World Bank by comparison is currently preparing an Energy Efficiency Facility of USD 2 billion, i.e. just for energy sector lending. Although the EIB states it in principle would like to join the resources, already scarce, that have been invested would appear better used elsewhere for covering the considerable infrastructure investment requirements overall of the country.

The project case study for South Africa is an example of the Bank endeavouring to initiate cooperation with another IFI, namely the IFC. The outcome was not too successful because of the conditions of the IFC and promoter constraints as to information sharing.

10.3.3 Co-finance with IFIs and DFIs

As part of its annual reporting to the Commission, the EIB provides information on the number and amounts of signed loans that are co-financed with other IFIs or with DFIs for each regional mandate.

Table 10-5 shows the co-financing rates since 2000. The co-financing rates are defined as the amount of signed loans with IFI/DFI co-finance as well divided by the total amount of loans signed under the mandate in the given year.

The co-financing rates are calculated in proportion to the signed project loans only. Global loans do not involve co-finance from other IFIs.[120]

	2000	2001	2002	2003	2004	2005	2006	2007	2008	1H 09
Region:	pct.	pct.	pct.	pct.	pct.	pct.	pct.	pct.	pct.	pct.
Pre-accession	9	14	5	11	19	100	96	59	81	100
(IFIs/DFIs only)	(4)	(6)	(5)	(11)	(7)	(90)	(75)	n.a.	n.a.	n.a.
(IFIs/DFIs/Comm)	(6)	(8)	(0)	(0)	(12)	(10)	(21)	n.a.	n.a.	n.a.
Mediterranean	100	100	85	47	51	34	73	79	65	95
Eastern Partners	n.a.	n.a.	n.a.	100	n.a.	100	n.a.	100	100	100
ALA	0	66	0	93	0	73	3	0	0	57
South Africa	n.a.	0	n.a.	0	0	0	0	0	6	n.a.
Total	**23**	**60**	**39**	**29**	**42**	**61**	**71**	**55**	**63**	**81**
Memo: Project loans signed (EUR m)	2,506	2,032	2,351	2,621	2,128	2,022	2,176	2,678	3,628	1,708

Table 10-5 EIB co-financing rates with IFIs and DFIs by region 2000-1H 2009
Sources: Commission reports to the Council and Parliament on EIB lending, EIB database, EIB:, Note to the Management Committee, "Co-financing with IFIs outside the EU - report on 2008 and first half of 2009", SG-JU/IAD/2009-0316/AC. Co-financing is that foreseen at loan signature.

The co-financing in the pre-accession countries is divided into co-financing with IFIs and DFIs only and that where the Commission is involved with grant funds from ISPA, EAR, and PHARE. In 2006 in particular, the Commission

[120] This approach has shown problems of data consistency when using different sources. In two years the IFI co-finance for pre-accession countries exceeded the total amount of signed project loans such that co-financing rates have been more than 100 pct. The co-finance data have been amended such that the rate is the maximum 100 pct.

involvement was high with a contribution of EUR 208m to mainly environmental infrastructure projects. Commission investment grants have not been available in other regions.

Overall, there is no discernible trend towards higher co-financing rates since the new external mandate was granted as compared to the years immediately before (2005 and 2006). In 2007 and 2008 the co-financing rate was lower than in 2006. Rates are affected by events in individual years such as in 2008 in the pre-accession countries a very large loan of EUR 700m to an urban transport project in Istanbul.

The table shows that between 2004 and 2005 the co-financing rate overall moved to a higher level attributable to considerably more co-finance activity in the pre-accession countries e.g. for large urban transport projects, for school upgrading and for the construction of the Bosporus tunnel.

In the Mediterranean region, the co-financing rates have shown high degrees of variation reflecting among others the own funds availability of the promoters.

Limited own funds is the background for the need to co-finance the projects in the Eastern Partners countries combined with the lead role of the EBRD in this region cf. the MoU signed in December 2006.

As to be expected, the private sector focus and the small mandates lead to limited co-financing in ALA. This is even more marked in South Africa.

At the project level the World Bank and other stakeholders see a market segmentation in the project selected for finance. The segmentation reduces the scope for co-finance. For example in the road sector the World Bank would target the more complex secondary and tertiary road systems whereas the EIB would go for the simpler highway projects. In its project preparation and appraisal the EIB was found to rely much on World Bank technical and sector studies.

A DFI pointed out the different approach of the EIB with lack of developmental impact and of attention to capacity building as a barrier to EIB co-finance.

In EIB's 2009 synthesis evaluation report for *candidate and potential candidate countries*, the findings on co-financing indicate that co-financing agreements for funding specific component of larger projects or programmes have been too informal. Thus, other IFIs have not always been aware of EIB's interest in the full project, i.e. also in components funded by others, resulting in the Bank being ill-informed about progress in these components of the overall project or programme. The report recommends that the Bank becomes more formalised in setting out reporting requirements in co-financed projects.

10.3.4 Other observations

Interviews with DFIs and bilateral donor organisations indicate that the perception is that EIB includes very limited sector conditionalities in its financing operations. This was viewed as a barrier to cooperation on environmental infrastructure projects.

The considerable experience of the evaluation team in working with bilateral donors on project finance similarly shows conditionality to be a key consideration across the board for the donor agencies. If sector conditionality is used very limited, this per se limits the scope for co-finance.

DFIs in general have preferences for conditionality. This is reflected in the title of the concept note for cooperation between the KfW, the AFD and the EIB discussed earlier in this main section being 'Mutual reliance and joint EU co-financing (Development cooperation)'. Since the agreement is not yet final it is too early too judge whether it will have the EIB effectively include the development cooperation aspect in its own lending.

In other regions, notably the Eastern Partners, the co-financing with the EBRD in-built in the tri-partite MoU, is a means of increasing the sector conditionality of Programme lending foreseen in the Council decision for the present mandate.

10.4 Coherence and consistency of other EIB actions

10.4.1 EIB lending at own resources and own risk

The Council decision for the present mandate called for increased EIB lending without Community guarantee "particularly" in the pre-accession countries and in the Mediterranean region but also in the investment grade countries of other regions.

Pre-accession countries and the Mediterranean region
The existing article 18 facility for own lending to pre-accession countries (PAF) running until 2010 has not increased its geographic scope during the period of the present mandate. During the period none of the countries initially benefiting from mandate loans have obtained an investment grade credit rating such that lending to the country still takes place under the mandate as far as its sovereign risk type operations are concerned.

PAF loans in Bulgaria, Croatia, and Romania are within the scope of EU policy objectives (global loans, roads, energy).

In Kosovo one PAF operation in the private sector of EUR 87m has been signed for establishing a cell phone network. The European Partnership for Kosovo on the other hand has SME development, approximation to European standards in the field of environment, development of the railways sector, energy generation and distribution as priority objectives in the Programme relevant areas. The relevant MIPD, for 2007-2009[121], has improvement of energy, transport, environmental infrastructure, and education sectors as objectives along with employment creation. Telecommunications sector development is not an objective.

Turkey has been the dominant beneficiary of the PAF loans to the pre-accession countries covered by this assignment accounting for 2/3 of the total of EUR 6.3b. Global loans, direct loans to the private sector, and a loan to Turkish Airlines (with aircraft as collateral account for 96 pct. of the EUR 4.3b worth of loans extended to Turkey. The EU operational objectives and the

[121] Commission Decision C(2007)2271 of 01/06/2007 on a Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Kosovo under UNSCR 1244.

MIPD for Turkey have much emphasis on infrastructure investments. Lending virtually only to the private sector do not support this emphasis.

However, since Turkey is not an investment grade country and cannot benefit as a sovereign from PAF loans, the private sector share must necessarily be large. The three public sector loans extended (urban transport, hydropower, wind farm) must have adequate security to qualify for a loan under the PAF.

In the Mediterranean region a Mediterranean Partnership Facility (MPF) was set up in 2007 to cover the mandate period until 2013 with a ceiling of EUR 2b. This represents a doubling of the ceiling from the previous such facility in the region, which was set up in 2001. The new facility still has SMEs, infrastructure, energy and environment as priority objectives[122], i.e. broadly identical to the identified EU operational objectives for the Mediterranean region.

Whereas the 5 loans signed under MPF I were all covered by the priority objectives (energy, environment) the 3 loans signed so far have one covered by the priority objectives (energy) whereas the two others are in the R&D sector and outside the priority objectives and the EU operational objectives.

Energy sustainability facility

In June 2007 the "Energy Sustainability Facility" (ESF) was set up for lending to projects in the areas of renewable energy, energy efficiency, and carbon security, and to projects aiming *specifically* at reducing greenhouse gas emissions. Eligible projects are also those that contribute to increased energy security of the EU.

All types of projects support EU policy objectives, including the environmental protection and energy security projects specifically expressed in the Council decision for the present mandate (recital (8)).

When the ESF was established, the countries of the Mediterranean region, Eastern Neighbours region, ALA, South Africa, and ACP would be eligible. According to an interview with operational staff, the countries of Latin America are now only eligible for climate change projects.

The facility has a ceiling of EUR 3b of which 1 loan of EUR 500m has been signed so far. This operation is in China, which is an investment grade country. As of end June 2009 about 44 pct. had been committed and Bank staff further reported that projects were under processing corresponding to the uncommitted part of the facility.

The investment grade requirement limits the range of countries eligible to China, South Africa, India, Thailand, and Tunisia. China is the main beneficiary country. In India, EIB loans to the government are, according to Bank staff, often found too expensive by government itself.

Although Russia has an investment grade rating, the country is not eligible under the ESF presently.

South Africa is investment grade as well. Although the larger part of the lending is to the Government - with an investment grade rating - lending takes place under the mandate.

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[122] EIB Corporate Operational Plan 2008-2010 p. 46.

Mandate lending in investment grade countries
Whereas the PAF and the MPF covers a wide range of projects, the ESF is targeted very specific types of projects. This means that lending in investment grade countries for all other projects takes place under the mandate

Investment grade countries in other than the pre-accession countries and the Mediterranean region are Russia, certain countries in ALA, and South Africa.

In ALA two of the three loan operations signed in Asia in the present period under the mandate are in investment grade countries (China, India) and account for just below three quarters of the signed loan volume of EUR 369 m.

The project in India appears eligible under the ESF. However, Bank staff explained that the investment grade requirement always applies to the borrower on the loan (Exim Bank of India), which did not have an investment grade rating. As a guarantee from the Indian government could not be obtained, the loan was extended under the mandate.

The only other investment grade countries in ALA are presently Mexico and Thailand. Under the present mandate, one operation has been signed with a (non-investment grade) Mexican borrower.

10.4.2 FEMIP Trust Fund

A review of the portfolio of the actions of the member states and Commission funded FEMIP Trust Fund shows this fund to complement in part the activities of the FEMIP Support Fund by working more on the project idea stage e.g. identifying climate change projects.

The fund also supports studies on thematic and sector studies without specific project relevance such as a study on workers remittances in FEMIP countries and technical assistance to the Tunisian Bankers' Association. Finally, it complements the FEMIP Support Fund activities through funding micro risk capital investments such as seed funds.

The means of the FEMIP Trust Fund are more limited than those of the FEMIP Support Fund. At end 2008 funds of EUR 34m were available for studies and eligible investments. The use of the funds available has been limited so far. Since its start in 2005 22 actions have been supported for an amount of less than EUR 9m.

10.4.3 EIB operations in ACP countries

The EIB operations in the ACP countries under the Cotonou agreement comprise budget funded actions and EIB lending from own resources with full guarantee from the Member States.

These operations are restricted to be carried out in one or more ACP states signatories to the agreement and benefiting from its financial provisions.

With South Africa not benefiting from the financial provisions, separate financial support programmes are set up, including the external mandate for the country covered by this evaluation.

The EU has external policy objectives common for the whole of Africa, namely support to the pan-African cooperation and the promotion of regional economic integration on the continent.

The 2007-2013 MIP agreed between RSA and the EU assigns a key role for South Africa in the promotion of growth in the countries of the Southern Africa Development Community (SADC) of which the country is a member.

However, because of the compartmentalized nature of the ACP/Cotonou mandate and the RSA it is very difficult to achieve any synergies between the two programmes. ACP operations cannot include South Africa and the external mandate for is for lending in South Africa. It is up to the EIB to match possible requests of enterprises undertaking investments simultaneously in RSA and any other African countries with funding available in the different mandates.

The RCF facility that the EIB oversees in RSA may invest in the region such that synergies with ACP actions are possibly in principle. In practice, this facility has more important objectives and no regional investments have been carried out.

11 Efficiency of Programme operations

This chapter considers selected aspects of the efficiency of Programme operations. First, the efficiency of EIB as an investment bank is considered, including cost awareness and implications for reaching Programme objectives. Second, some aspects of loan disbursement requirements are analysed. Third, under the heading of "other efficiency aspects", the cost of IFI collaboration is considered as well as the efficiency of the Community guarantee.

11.1 Mandate loans

In the assessment of efficiency of the mandate loan operations a distinction may be made between the cost efficiency in reaching objectives at a given level with EIB inputs only, i.e. in the EIB itself, and the efficiency involving inputs from more sources including the EIB.

11.1.1 EIB efficiency

Among IFIs the EIB is often considered a very efficient institution with large volumes of lending processed per staff, the cost to asset ratio, and the cost to loans outstanding as efficiency indicators.[123]

A proper efficiency assessment in terms of such benchmarking requires, however, that comparison be made between broadly similar institutions.

In this context, it appears that, for example, comparisons between the EIB and other MDBs such as the EBRD in terms of efficiency are very complex since these institutions present a different business model and are different in terms of tasks assigned and external resources available.

The differences in objectives have been noted already in the case of the cooperation in the Eastern Partners countries Russia with the EBRD focusing on transition impact and private sector development. The EBRD has more external resources for project preparation made available by its shareholders. The EBRD can more easily access external TA funds, e.g. from bilateral agencies, since the bank has the development oriented focus that these agencies require.

The European Parliament in commenting on the annual reports of the EIB and the EBRD described the EIB as an institution specialising in larger scale public and private projects incl. FDI and the EBRD as one specialising in small scale

[123] For a comparison using the latter two indicators see, e.g., the EIB COP for 2001-2003 (table 13).

investments, institution building, trade facilitation, financial markets, and equity investments.[124]

Given that proper benchmarking is not possible, a financial efficiency assessment of EIB mandate loan operations as a whole cannot be performed in a meaningful manner.

Appraisal and monitoring procedures
The evaluation has observed that the EIB is an institution with a high degree of awareness of costs in facing of increasing volumes of operations.

At the same time, and as discussed in the previous chapter, limited availability of staff resources have impacted on operational procedures including appraisal and particularly monitoring procedures.

The concept of "restricted participation during appraisal" is applied for operations with known borrowers with known implementation capacity. EIB technical staff does not participate in project development to the same extent as other MDBs and less non-financial value added is brought to borrowers.

According to the COP 2007-2009 of the Bank, operations with the use of SFF (and SFE) involve higher structuring costs for the Bank than 'standard' operations with 'normal' external guarantee cover. In our assessment of the projects benefiting from the SFF and the SFE, we have found these projects to provide a comparatively high value added in terms of reaching EU policy objectives. Because of the requirement to reduce unit cost and increased cost coverage, there may be fewer such operations carried out than desirable from an effectiveness perspective.

Given that appraisal and monitoring costs are mostly independent of loan size, larger loans will reduce unit costs. The selection of larger loans in evidence from Appendix 3 of this report will not necessarily be efficient since these loans may be less effective in reaching EU policy objectives. The selection of less complex loans is evident from a review of the EIB loan portfolio over the two mandate periods and a comparison of the sector distribution of the mandate loans in the two periods. A particular case in question is of course loans to environmental infrastructure investments. Such projects are invariably more complex as they involve issues of tariff affordability for households and loan affordability for the municipal promoter.

Operations that finance equipment and/or staff costs are less costly to structure. No design issues in works need to be considered, equipment supply specifications are sufficient, and the procurement and environmental requirements are less complex (if any). The level of staff costs financed is given, and the EIB has not been found to assess its adequacy in cost-effectiveness terms in the R&D projects reviewed (the only project type so far with financing of staff costs).

Review of the listings of individual loans in the pre-accession countries shows global loans and framework loans to be more widely used under the present mandate than under the previous one.

[124] Motion for a European Parliament resolution on 2007 Annual Reports of the European Investment Bank and the European Bank for Reconstruction and Development (2008/2155(INI), 13 Nov 2008.

Even when taking into account the impact of the Joint IFI action plan, the global loan share is higher cf. discussion in chapter 4. Global loans are less time consuming and hence less costly to appraise. Based on the information made available through the EIB loan database, the average appraisal time (up to loan signature) for global loans may be estimated at some 8-10 months for the two mandate periods as a whole. The similar figure for direct project loans is estimated at more than double that time.

The appraisal work is less since global loan operations require assessment of the borrowing bank and its placement capacity. Increasing the global loan share will impact effectiveness adversely: most global loans are for SME finance and support to SMEs does not have the same priority in EU policy objectives as reflected in the higher global loan shares.

The concentration of global loans is particularly high in Lebanon and in Serbia; in both countries at the expense of the EIB not contributing to other EIB policy objectives.

In global loans and in framework loans, most of the appraisal of the sub-loans is done by the borrower on the loan, in some cases via EU funded TA support. This reduces the sub-loan appraisal costs of the EIB. However, it is not given à priori that the global appraisal costs are lower as the borrower may have less expertise in appraisal.

This is particularly relevant for the framework loans channelled through a government entity and without sufficient TA support. Staff cannot be expected to have full project finance expertise whereas this would be available at the EIB. In this sense extension of framework loans would be globally inefficient when compared to extension of direct project loans.

However, as observed previously, other considerations come into play in the use of framework loans, namely that in the smaller countries the 'bundling' of projects that the framework concept entails, means that the loan will be above the minimum that the Bank requires.

Furthermore, use of framework loans may impact adversely on effectiveness in terms of increasing the period between loan signature and the start (and end) of disbursement. For the purpose of the framework loans, at least some projects should have been identified. As they will be at the identification stage and as more projects may need to be identified, the disbursement period may very well be extended as compared to a direct loan. One of the project case studies identified a framework loan, which well more than 1 year after loan signature, still were in the identification process for sub-loans.

To note also is that an effectiveness increasing aspect of framework loans is that it involved direct cooperation with national level stakeholders.

The introduction of an intermediary for global loans and framework loans to do most of the appraisal work and to do the monitoring increases the risk of eventually not reaching EU policy objectives as intended, while it is for the EIB the only possibility to reach certain target beneficiaries such as SMEs. The operations are at 'arms length' from the EIB, which does not have the same involvement in implementation as in a direct project loan. Therefore, it seems important to strengthen conditionalities and monitoring of the implementation by the intermediaries.

Disbursement requirements
Inputs from stakeholders during the country case studies have pointed to two areas where efficiency may be improved, reaching the same level of effectiveness, and without adversely impacting the credit risk of the operations.

The first area is the disbursement procedures of the Bank. At least for some projects in the private sector, the Bank will only disburse against actual or pro-forma invoices of the beneficiary.

Given that the Bank has carried out a comprehensive assessment of the credit-worthiness and implementation capacity of the borrower, it should be considered if this assessment is sufficient to trust that the borrower will spend the loan funds of the Bank in accordance with the stipulations of the finance contract.

On the disbursement side also but applying to global loans: Some banks are asked to secure approval of individual allocations after that approval of reasonably sized disbursements. Others may request a block disbursement for pre-finance with later Bank approval of the projects, and the risk of non-approval placed with the borrowing bank.

Since an in-depth appraisal of this bank will have been performed it would increase operational efficiency if a block disbursement procedure were used for all. It may also improve effectiveness since it will not deter banks from establishing (further) credit lines with the EIB due to these time consuming procedures; an observation made by more global loan beneficiaries interviewed. However, this further increases the risk of eventually not reaching the intended EU policy objectives as mentioned in the section above. Therefore, an appropriate balance should be struck between increase in efficiency and monitoring of implementation.

11.1.2 Other efficiency aspects

Increased IFI and DFI cooperation and coordination
The Council decision for the present mandate asks the EIB to endeavour to increase cooperation and coordination with other IFIs and with European DFIs including, where appropriate, cooperation on sector conditionality and increased co-finance of projects.

Resources have been spent on defining formal MoUs and on increasing cooperation. We have not been able to identify any sector conditionality introduced in EIB loans under the present mandate resulting from such cooperation. We do not see increased co-finance as an objective in itself but the IFI/DFI co-finance share was already high before the Council decision in 2006 and it has not increased since then.

The mutual intent framework with the KfW and the AFD under establishment did not result from the Council decision since preparation work had started before then.

In the short term, and as illustrated by the ongoing pilot projects discussed with relevant stakeholders, the set-up costs are high. In the longer term the framework should turn out efficient since appraisal and monitoring delegation responsibility will be delegated to one institution.

To note at the same time is first that the framework is intended to targeted development policy aspects as well (sector conditionality) such that the effectiveness of the EIB mandate loans in co-financed projects under the framework agreement will be increased. Next, the joint co-finance requires projects to be relatively large (by the Commission termed 'mega projects'). The focus on large projects may impact effectiveness in two ways, by enabling the financing of large sized projects with a mix of 'soft' and market funds and by making fewer financial resources available for smaller projects. The direction of impact cannot be determined à priori.

Tri-partite MoU in Eastern Neighbours
The MoU between the Commission, the EBRD and the EIB was a complement to the quintupling of the regional mandate with the 2006 Council decision.

As indicated previously, the agreement indicates the *lead role* in project preparation and appraisal of the EBRD (cf. 10.3.2). However, while EBRD is responsible for the establishment of a project pipeline in practice each institution conducts its own specific appraisal while sharing the basic information and - to the extent possible - carrying out joint appraisal missions. This reflects two important facts: the superior experience and structures of the EBRD in the region and the limited staff resources at the EIB for mandate implementation.

The MoU includes the set up of a formal structure at management level to oversee the co-operation and co-financing activities (cf. 10.3.2).

Commission and EIB early consultations
The Council decision envisages the Commission and the EIB to enter into dialogue and early consultation to strengthen the consistency of mandate lending with EU policy objectives cf. the discussion in section 10.1.1.

So far, we have not found any evidence that the procedures set up in this regard have led to any such strengthening and to have improved Programme effectiveness.

Community guarantee cover
As discussed at length in chapter 9, the introduction of the ACR risk limit has reduced Programme effectiveness by restricting access to loans by smaller municipalities.

The evaluation were asked specifically to consider the relevance of the Community guarantee.

It should be emphasised that a guarantee is an insurance policy and the budgetary resources set aside in the fund are provisions. These resources will be spent only to the extent that the guarantees are called.

The alternative to the Community not providing a guarantee on EIB lending outside the EU is that the EIB board authorizes lending under article 18 of the Bank's statutes.

Given the concern required in the statutes of the Bank to credit quality, as well as to the preserving the high credit rating of the Bank, such authorization covers only investment grade borrowers and borrowings providing security acceptable to the Bank. The alternative to not extending a Community guarantee is no lending to a number of countries and borrowers.

11.2 Risk capital operations

The EIB receives a fee from the Commission for managing the FEMIP Support Fund. The costs of overseeing the RCF operation in South Africa are paid for by the Commission on a cost recovery basis. Both forms of payments are in accordance with pre-set procedures. With most if not all of fund management cost held by another party cost concerns must necessarily play a lesser role in provision of assistance.

11.2.1 FEMIP Support Fund

The present way of running the Support Fund overall can be considered efficient. Instead of executing investments in individual enterprises, equity funds with a local basis are used. In cost efficiency terms this has three advantages. Investments are identified and selected by experts in the local market, local costs levels are lower, and the equity funds may ensure active board representation if required.

11.2.2 Risk Capital Facility in RSA

The RCF in South Africa largely invest directly in enterprises. In the RCF II the IDC has been encouraged to increase the use of equity funds. This is rendered difficult by the natural fact that the IDC prefers to use the scarce risk capital funds for own investments.

Since equity funds are being used, they must be capable of identifying and executing investments complying with the targeted criteria of the EU.

In a prospective new facility, such as the planned for GEFSA, direct agreements with equity funds could increase Programme efficiency.

As to the GEFSA proposal the set up of this facility has been delayed among others as the Commission and the RSA government has found the proposal the EIB had drafted as inefficient with "too high" fees to the EIB for its administration.

In particular, as regards equity funds, a fair number of such funds exist in the South African market. Direct channelling of risk capital to one or more of these funds, following public tender, could be a more efficient means of channelling risk capital. The DCI Regulation governing the Community financial assistance to South Africa does allow for this. Article 25 (c) states that risk capital may be channelled not only through the EIB but also through "other financial intermediaries".

The set up with monitoring of criteria compliance is efficient as it is the best possible way if ensuring the interests of the EU to be served. Efficiency is enhanced through delegation of approval authority to the EIB.

11.3 Technical assistance

The earmarking of FEMIP Support Fund TA to EIB investments and its operation was found to enhance Programme effectiveness.

Since the TA consultancy services are performed by external consultants following public tender, they are performed at efficient cost levels.

12 Conclusions and recommendations

12.1 Conclusions

The conclusions that follow below are structured logically according to the preceding chapters presenting the evaluation findings under relevance, effectiveness, cooperation and coherence and efficiency.

12.1.1 Relevance

With the exception of the Eastern Partners mandates, the Programme relevant EU policy objectives identified for both mandate periods are broad.

The Commission was not requested to provide guidance to the Bank on the interpretation of "EU policy objectives" for mandate loan operations.

The broadness of the mandate introduces the risk that some operations only have a marginal value added and that some key EU policy objectives are not sufficiently targeted.

The Eastern Partners mandate has explicitly mentioned the important policy objectives and the risk of targeting other objectives is averted.

Pre-accession countries
The identified EU policy objectives do not contain any requirement as prioritization in mandate lending. As foreseen in the Council decision, the EIB operations reflected the priorities enshrined in the Accession and European Partnership agreements. These agreements are very broad and cover general objectives in all sectors. Further, the EIB has applied its own operational objectives, those for Member states, to operations in pre-accession countries.

The agreed upon sector indicators for EIB mandate lending in the *candidate countries* shows operations to be consistent with EU policy objectives.

Judged from the same indicators, mandate loan operations in the *potential candidate countries* in 2000-2007 is fully consistent with EU policy objectives for the period. In the present mandate, lending is dominated by global loans – whose final beneficiaries are mainly SMEs and municipalities which account for just below 60 pct. of the total. This is an exceptionally high concentration of the loan portfolio on this loan type judged from the experience from the previous mandate period and in other regions.

Mediterranean region
All Programme components in this region have been found relevant.

Eastern Neighbours
EIB Programme operations under all *Eastern Neighbours* mandates comply in full with the EU policy objectives as reflected in the Council decisions for the three mandates.

Asia and Latin America
With the exception of a transport sector project in the mandate period 2007-2013, all Programme operations have been found relevant.

This large project, a loan for the widening of the Panama Canal, accounts for 1/7 of the mandate ceiling for Latin America. Based on a thorough review of the Board report, the evaluation team has concluded that it is questionable that this project support EU presence through FDI or technology/know how transfer or to "environmental sustainability including climate change".[125]

South Africa
EIB mandate loan operations conform in full to EU policy objectives taking into account the financial instruments that the EIB has available in its mandate lending, namely loans with interest rates set on a cost recovery basis for the Bank. The work of the EIB in overseeing the implementation of the Risk Capital Facilities has contributed to ensure policy objective consistency.

12.1.2 Effectiveness

Feasibility of EU policy objectives
Assessing the effectiveness of the Programme requires that the identified EU policy objectives may feasibly be reached with the Programme instruments that the Bank has at its disposal.

In particular, the joint Council and European Parliament decision on the present mandate from July 2009 includes explicit references to the need to foster social and economic development impact. The findings of the evaluation show that the feasibility of this aspect is particularly questionable due to limited access to concessional funds and staff capacity.

Furthermore, in some areas of the external mandate, we find that too many objectives are set for the Bank to reach.

The process of identifying these objectives, the appreciation of the available instruments, and interviews with Bank and other stakeholders point to that this feasibility requirement is not always fulfilled.

First, with respect to the pre-accession countries the Bank is envisaged to encourage institution building in cooperation with other IFIs and with DFIs. Given that the EIB is a MS owned bank, which in accordance with its statutes is to finance projects, the institution building aspect is not specifically targeted.

Similarly, in the Eastern Partners countries, the Bank is to "enhance its activities in the countries concerned in line with appropriate conditionality consistent with EU high level agreements….on political and macro-economic aspects".

In Asia and in Latin America a multitude of objectives are set including expansion to more countries including the less prosperous ones, focus on environmental sustainability, and support of EU FDI, and the transfer of technology and know how. Given the small sizes of the regional mandates, we find it too ambitious to set this many objectives and that the associated costs in doing so should be taken into account.

In South Africa, the Bank is expected to assume a role as a development partner for the promotion of the poorer part of the economy, the so-called 'Second Economy'. Given that the EIB is a bank that finances viable projects, this can only be done indirectly, through support of the 'First Economy'.

In South Africa, we have also found that the Bank can play a role in the regional economic integration in Southern Africa; an important EU policy objective in the area. The instruments for doing so are not available as mandate loans are targeted for operations in South Africa and as the risk capital investments cannot achieve the separate regional objective set as it conflicts with other operational objectives to be reached simultaneously.

Monitoring and reporting by the Commission
The Article 21 consultation for Commission providing 'no objection' to individual mandate loan operations is a formal statutory requirement. The consultation documents, although brief, do contain some elements based on which policy consistency can be assessed. These elements should be reinforced. It should be noted that ex ante monitoring also takes place earlier in the appraisal process.

The Commission reporting to the Council and Parliament on EIB mandate loan operations does not adequately include the assessments required on contribution to EU policy objectives fulfilment. During the 2000-2007 mandate period the reporting was even on <u>EIB</u> objectives and priorities only.

In both mandate periods the value of this reporting as an ex-post monitoring instrument is diminished by the fact that the Council decisions defining reporting requirements stipulate that the reporting is to take into account the operational objectives of the <u>EIB</u>. Thus, the Commission reporting until now on EIB mandate loan operations has limited value as a monitoring tool of consistency with EU policy objectives. Provided that clearer operational guidance is given to EIB, reporting against agreed objectives will become feasible.

Mandate operations by country
Diversification of operations in the countries of a region is required only in the external mandate for ALA for the present mandate period.

Judged from the signed and pipeline operations in Latin America the geographic scope is the same as in 2000-2006. Given that 1/3 of the ceiling is as yet not earmarked for specific operations, the targeted broadening for the mandate period as a whole is still achievable. The concentration on countries is high with high shares for Brazil and Panama; the latter is particularly high taken into account the small size of the economy.

This broadening is more of a challenge in Asia. Signed and pipeline operations cover 4 countries so far against 10 in 2000-2006. About EUR 300m of the mandate is not yet earmarked with the average operation size so far in the present mandate, including signed and pipeline operations, close to EUR 100m.

Given the focused nature of the ALA mandate, operations need to be carried out in the countries where bankable operations can be identified. However, this argument is not sufficient to explain the high concentration risk of the portfolio on individual countries, in Latin America Brazil and Panama, in Asia China, India, and Vietnam.

Loan disbursement rates

The effectiveness of the general mandate for 2000-2007 using disbursements as an indicator is rather less than using loan signatures as an indicator as the disbursement rate for the mandate as a whole is only 75 pct. The disbursement performance is relatively low for project loans in the pre-accession countries and in the Eastern Neighbours region with disbursement rates of 64 pct. respectively 28 pct. This figures would improve by including the time dimension (i.e. year of signatures), for example, most operations in Eastern Neighbours have been recently signed, especially when comparing to the other regions.

In the pre-accession countries, the low rate in part reflects the emphasis on the financing of large public sector projects. Large sized projects are often complex in nature increasing the risk of implementation delays and the inclusion in the portfolio of very large loans increases the risk of low disbursement rates. The low disbursement rate also reflects the political environment in the beneficiary countries and sometimes insufficient implementation capacity of the promoters.

The low Eastern Neighbours disbursement rate includes an 85 pct. disbursement rate on the NDEP mandate for environmental priority projects, which have benefited from strong support for implementation. The broader mandate for Russia and Western NIS has a disbursement rate as low as 1 pct. demonstrating the need for technical assistance and support for project preparation as well as project implementation and for beneficiary support to the project.

Disbursement rates are normally relatively high for private sector operations as demonstrated previously.

Absorption capacity

Mandate loan absorption capacity of the promoters helps determine disbursement rates but also the availability of bankable projects. Absorption capacity may be developed through the provision of EIB non-financial value added to operations and Commission funded TA, both targeting the enhancement of promoter capacity.

The evaluation found a mixed picture of the absorption capacity in the regions under review from very high in ALA and in South Africa to rather lower levels in other regions where constraining factors are the human resources (EIB staff and TA) available for project development. The broadness of the pre-accession and Mediterranean mandates increase financing possibilities by widening the range of eligible projects whereas constraints on EIB credit risk taking decrease capacity in these and all other regions.

Constraints on absorption capacity, such as limited EIB staff and TA, are particularly relevant for complex projects such as smaller municipal projects. This reduces Programme effectiveness by affecting those projects which contribute significantly to key EU policy objectives.

Global loans

Global loans are a means of channelling mandate loans to SMEs and small scale municipal infrastructure projects. As to SMEs, the external policy objectives do not address any sector targeting or specific SME size. Based on a sample of global loans, the allocations have been channelled to a variety of economic activities.

The EIB in its global loan operations has adopted the EU definition of an SME, i.e. with less than 250 employees, except for Turkey where the limit is set at 500 employees. In a number of countries this threshold is considered 'too high' for an SME. However, about 1/3 of the allocations have been made to enterprises with less than 50 employees and another 1/3 to enterprises with 50-249 staff. With an SME definition instead of less than 250 staff, 2/3 of the allocations are below this threshold.

The above practice has not been fully enforced since 2 pct. of the sub-loans have been extended to companies with more than 500 staff.

Contractual requirements
The project case studies show that the number of contractual undertakings of finance contracts with sector conditionality are few, and with limited monitoring of and enforcement.

Monitoring of contractual requirements in general is not found satisfactory. The e-survey of EIB staff showed that time constraints for the majority often or very often affected monitoring and project follow-up.

Both factors reduce Programme effectiveness.

Operating procedures
The EIB does not develop *regional lending strategies* for use among others in the strategy dialogue with the Commission with a view to increasing the effectiveness of Mandate loan operations.

The statutory constraint on *EIB risk taking* is an important factor in the selection of projects to finance. Since 2004, the Bank has allowed for increased risk taking in the Mediterranean region through provisioning in its accounts for losses on the projects where acceptable external risk cover could not be obtained at a reasonable cost or not all. In the present mandate, 1/4 of the mandate loans signed benefit from such risk cover. The concept was extended to other mandate beneficiary countries in 2007 but has been much less used in these regions. The provisioning is allowed for projects with a relatively high degree of effectiveness.

The credit risk policy guidelines of the Bank show an attitude to risk taking on individual operations, which is very cautious and in the view of the evaluation excessively cautious. However, a positive sign has been identified in the increase in the use of EIB Structured Finance Facility (SFF) outside the EU over the last few years.

The VA and the ESIAF frameworks assess among others the contribution of mandate loan operations to the reaching of EU policy objectives. For the group of pre-accession countries the objectives set are those applying to MS. Since the VA framework does not cater for indicators and benchmarks relevant for external mandate operations, effectiveness is adversely affected. In the assessment, financial sustainability ('bankability') and a requirement of cost coverage are more important considerations.

The evaluation has found that cost coverage considerations of the Bank reduce Programme effectiveness through its impact on staff resources and on project selection i.e. targeting less complex projects with larger financing tickets.

The limited *staff resources* made available by the Bank for mandate loan operations have been found to impact not only monitoring but also to reduce effectiveness through the project selection process.

Framework for Programme activities
In some regions availability of TA for project preparation and implementation is limited, which will impact project selection in line with that deriving from staff resource constraints internally in the Bank.

Lending in local currency is only possible if the Bank can obtain exchange risk cover. This would typically be through borrowing in the same currency. The EIB has been found to pursue such opportunities actively in some regions. For example, in South Africa this has been done successfully where a very high share of lending in Rand has provided important value added to the country.

The increased use of equity funds in the channelling of risk capital funds in the Mediterranean has been found to improve Programme effectiveness.

Cover of Community guarantee
In the first mandate period, the wording of the guarantee meant that all operations for which third-party guarantees and risk sharing could not be achieved, by default would be provided a full risk cover (comprehensive guarantee). This would apply to all sovereign and sovereign-equivalent risks as well as to all other public sector risks. However, since the EIB, in accordance with its statutes, would accept sovereign and sovereign-equivalent risks only for public sector operations, the risk exposure was limited to these two types of risks.

The new mandate introduced a risk limit on sub-sovereign public sector exposures. This limit has been set at a rather low level and has been found to effectively constrain operations in one country only, but it does have a wider impact on project selection away from sub-sovereign risks.

Risk capital and TA
The risk capital and TA Programme operations have been found effective in reaching EU policy objectives as these objectives are clearly stated and explicitly targeted at the operational level of these activities.

Value added to beneficiaries
The project case studies point to the Bank providing financial value added to public sector projects mainly through the longer tenor on its loans. In the private sector, the longer tenors are available as well but not always in demand. For the shorter maturity loans of the Bank in the private sector, the financial value added is more limited, and in a single case study there was none.

As to the non-financial value added identified in the project case studies, some positive contribution of the EIB was demonstrated with potential for more provided although staff resources are a constraint in the provision of this form of value added to the beneficiary.

Additionality
The funds provided in the 'not-for profit' public sector operations of the Programme for the funding of projects have on the whole been found additional to those available in market through the longer maturities and grace periods.

In the private sector, the additionality of the EIB loans is less clear. In countries where borrowers demand maturities identical to those available in the market, EIB loans are not additional. In other countries with less well developed banking markets, the longer tenors of EIB loans makes the EIB funds additional.

The non-additionality of EIB funds have been found to apply to the loans under the support to foreign direct investment objective of the ALA. In 'normal' financial market conditions, the EIB competes with commercial banks for lending to EU enterprises to co-finance their investments in the region. The Bank may be the stronger competitor in terms of financial value added (e.g. loan tenor) but this does not make the funding any more additional.

Given the very limited size of the ALA mandates as compared to absorption capacity, the EIB lending to European enterprises necessarily must be provided to a limited number of EU enterprises which benefit from the possibly longer tenor of the EIB loan and the free-of-charge of a political guarantee. In practical terms, the EIB often lends for FDI financing to those companies known to the Bank already through financing of their investments within the EU. The value added of these operations are only supported as long as "EU presence" is an objective in the external mandate.

EU horizontal policies
The EIB is a bank that finances projects and its statutes do not provide for any *development policy* orientation of the Bank. The Bank's shareholders may direct such orientation but this has not been their focus so far.

Further internal but also external constraints limit the development role of the Bank. The wording of the external mandate adopted in July 2009 introduces socio-economic and thus development oriented objectives in the mandate. These objectives cannot be feasibly reached with the given set up of the EIB and the external framework conditions under which the Bank operates.

The policy of the EIB on *off shore financial centres* and tax havens is now in accordance with the conclusions of the G-20 summit in April 2009. The evaluation has identified mandate loans where offshore centres have been used but have not found evidence of tax evasion. The risk capital funds in South Africa are channelled mainly directly to enterprises with a few to equity funds that are locally based.

The *money laundering* issue is addressed now through the introduction of a clause in the global loan finance contracts prohibiting the use of funds to the purpose. A global loan case study contract was signed before the adoption of this policy but as the operation is with a recognized bank of good understanding, the introduction of the clause is very unlikely to have made any difference. In general, the EIB has global loan operations with reputable banks only and we not find money laundering to be any risk in these mandate operations.

As to *environmental standards,* the requirements applied for the period under review are without precise performance criteria. The environmental standards adopted from this year provides for a more effective contribution to EU environmental policies.

The *procurement requirements* of the Bank call for open tenders and are consistent with EU policies. The lack of staff resources for sufficient monitoring poses a risk for mismanagement of procurement procedures, a risk that materialized in one of the case studies.

The Copenhagen criteria that are the framework for operations in the pre-accession countries are not always accorded full attention in the appraisal of mandate loan operations. This covers issues as promotion of a market economy, equal treatment, and avoidance of distortion of competition.

12.1.3 Cooperation and coherence

Cooperation with the Commission
The early consultations between the Commission and the EIB for strengthened consistency with the external policy objectives of the EU has led to presentation of strategy papers of the Commission whereas the documents presented by the Bank has had limited strategic orientation. The EIB does not generally prepare lending strategies. So far, the impact of these consultations has been limited.

The consultations are particularly important in the regions where the mandates are non-targeted and where no programming takes place, i.e. in the pre-accession countries, in ALA, and in South Africa.

The FEMIP framework in the Mediterranean with the continuous involvement of the Commission reduces the need for consultations. In principle, the targeted nature of the external mandate for the Eastern Neighbours region means that consultations are not strictly necessary. However, in practice these consultations have allowed the Commission verify compliance with broader framework conditions in the different countries.

Cooperation is close on the risk capital and TA components of the Programme.

Coherence with Commission actions
In the present mandate period co-financing with the Commission has been more limited than under the previous mandate. This reflects in part that fewer co-financing means have been available in the regions where the Commission have provided such funds in both periods

The ISPA and IPA programmes are in support of transport and environment infrastructure projects. EIB lending to the former sector has been important and to the latter relatively low as compared to the totality of projects funded.

In other areas than co-finance, coherence with Community actions for maximising synergies is particularly important in the regions with a broad mandate, i.e. the pre-accession countries, the Mediterranean region, and South Africa.

The synergetic effects of coherence in actions are constrained in the pre-accession countries where the EIB applies its own lending objectives that are complementary to the operational objectives of Community programmes. The coherence in actions is limited also by the relatively low level of EIB lending to environmental infrastructure projects, which is a focal action area of the programmes managed by the Commission. This is also due to the high needs for concessional funding in this area.

In the Mediterranean region, coherence is ensured through the programming set up of FEMIP. In South Africa, no noteworthy level of coherence is achievable since the Community actions are in the form of budget support and mainly to the poorer Second Economy.

In South Africa as well as in ALA, regional cooperation is a Community priority area of action in the present mandate. In RSA this means that the regional integration objective becomes of secondary importance as the mandate loans and risk capital operations are dedicated operations in the country.

The close cooperation on risk capital and TA activities and in particular the setting of very targeted objectives for EIB Programme activities ensures coherence in actions to the extent feasible.

Cooperation and co-financing with other IFIs and with DFIs
The Council decision on the present mandate stipulates increased cooperation and co-financing in EIB mandate lending. However, before this decision the level of cooperation and co-financing was already high reflecting a statutory provision in this regard.

A number of MoUs had been entered into before this decision and the co-financing rate on mandate loans was at the level of 50-60 pct. in 2005 and 2006.

The nature of some of the cooperation agreements entered into for the execution of the present external mandate is different in that they are less strategic oriented and with more commitments of an operational nature. This applies to the mutual reliance agreement with the KfW and the AFD for the Mediterranean region and the tri-partite MoU (EC-EBRD-EIB) in the Eastern Neighbours region.

Both agreements have the potential for introducing development policy orientation in mandate lending since KfW, AFD and, partially, the EBRD all have a development orientation. The mutual reliance agreement dates from May 2009 and it is too early to draw any conclusions.

The small size and the nature of the ALA and South Africa mandates limit the scope of cooperation and co-financing with other IFIs, although this may develop in particular when the EIB is to reinforce its support climate change projects and pursue development-oriented activities. The more development oriented nature of the partner institutions in particular in South Africa also play a role.

Consistency and coherence of other EIB actions
The Council decision encourages the EIB to increase its operations outside the Community without recourse to the Community guarantee in particular in the pre-accession countries and the Mediterranean region but also in investment grade countries of other regions.

In the pre-accession countries, the own risk own resources lending continued under the PAF, which ceiling was increased. Under the previous mandate this form of lending in the Programme relevant countries were all consistent with

EU external objectives. In the present period the PAF lending form of lending in the Programme relevant countries has been largely confined to Croatia and private sector operations, almost exclusively in Turkey, since an investment grade rating is required for sovereign lending. The global loans thus extended for SME on-lending is policy objective consistent whereas this is not the case for the other private sector operations.

All own risk resources lending in the Mediterranean region contributes to the reaching of identified policy objectives in the region.

The Energy Sustainability Facility for investment grade transactions is highly relevant. It is the only one set up for these borrowers outside the pre-accession countries and the Mediterranean region.

The actions of the FEMIP Trust Fund have been found complementary to those of the FEMIP Support Fund and in turn to mandate loan operations.

Coherence with EIB actions under the ACP external mandate are not relevant for considerations because of the compartmentalized nature of the mandates for ACP respectively the Mediterranean region and South Africa.

12.1.4 Efficiency

Mandate loans

Cost benchmarking of EIB mandate lending with loan operations of other IFIs is not possible because of the differing objectives and tasks assigned the different institutions. The Bank has been found an institution with a high degree of cost awareness with a view to reduce unit costs as well as to improve cost efficiency. However, not all unit cost reductions realized have improved cost efficiency i.e. preserved effectiveness at lower costs.

Staff productivity in terms of signed loan volumes per staff has increased but this has been at the cost of prioritising less complex and larger operations. More staff is required for mandate loan operations to ensure improved portfolio 'quality' in this regard.

The mutual reliance agreement with the KfW and AFD has been likely to improve not only Programme effectiveness but also its efficiency through delegation of appraisal and monitoring to one of the three institutions. On the other hand, the agreement indicates the *lead role* in project preparation and appraisal of the EBRD (cf. 10.3.2). However, while EBRD is responsible for the establishment of a project pipeline in practice each institution conducts its own specific appraisal while sharing the basic information and - to the extent possible - carrying out joint appraisal missions. This reflects two important facts: the superior experience and structures of the EBRD in the region and the limited staff resources at the EIB for mandate implementation.

With the limited results so far, the dialogue and early consultation process between the Commission and the EIB still needs to develop to become efficient.

Risk capital operations

The risk capital component of the FEMIP Support Fund has been found running efficiently since investments are made through equity funds with local market knowledge and lower staff costs.

The Programme activities of the RCF in South Africa are confined to overseeing and approving the operations of the fund manager. This has been found done efficiently given the multitude of EU policy objectives at the level of individual operations that have to be monitored.

Technical assistance
The technical assistance component of the FEMIP Support Fund has been found cost efficient by way of definition since services are performed by external consultants following public tender.

12.2 Recommendations

The recommendations that follow do not relate to EIB operating procedures since the Council decision on the present mandate recognizes that the Bank autonomously sets its rules and procedures for the carrying out of mandate lending.

The recommendations are then to be seen against an assumption of an unchanged operational set up at the EIB.

12.2.1 General recommendations

The following presents the general recommendations under four headings.

External mandate

21 *Review of external mandate*: If practically possible for the present mandate, the feasibility and number of objectives set in the Council decision for some of the regional mandates should be reviewed and amended to take better into account the instruments available to the Bank and the sizes of the regional mandates.

22 *Stronger operational content in mandate*: The Commission together with EIB should ensure the undefined horizontal objective such as "environmental sustainability" in the Parliament and Council decision to be given operational content through appropriate operational guidelines.

23 *Mandates ceilings should not be targets*: Greater importance of all parties involved should be attached to the Council decision stipulation that the regional mandate ceilings are maxima only and not targets to be reached. Such recognition will help eliminate that operations that provide marginal value added to the reaching of the, now clearly defined, external policy objectives of the EU.

24 *Decreased concentration risk*: The concentration risk of the mandate loan portfolio should be controlled. It should be considered if maximum shares should be set on a country basis for operations under each regional mandate such as to avoid as in the present mandate to commit 1/7 of a mandate in a single operation with one country. It should also be considered whether maxima should be set on a regional mandate basis for the size of individual operations. To consider also is whether maxima should be set for the extension of global loans to SMEs in individual countries such as e.g. to avoid a loan portfolio structure as presently in the potential candi-

date countries where close to 60 pct. of the signed operations are global loans.

The increased portfolio diversification deriving from the setting of country, loan size, and/or global loan maxima will reduce portfolio risk e.g. as to portfolio disbursement rates and as to credit risk exposures. It will also increase the portfolio diversification as to contribution to external policy objectives and reduce the risk in this regard as well.

Commission - EIB collaboration

25 *Strengthened commitment in dialogue*: The procedure of dialogue and early consultation between the Commission and the EIB introduced for better consistency of EIB mandate loan operations with EU external policy should be strengthened and made committing for both parties. A crucial part of these consultations will be the proposed operational guidelines (cf. recommendation no. 2).

26 *Multiannual EIB lending strategies*: In order to further improve the early consultation procedure, EIB should be required to develop multiannual financing strategies for each regional mandate based on the above operational guidelines. This process will help clarify the definition of EIB own operational financing objectives in mandate operations.

27 *Improved Article 21 consultation:* The Article 21 consultations should include among the consultation documents explicit and clear information on the contribution of the operation to EU policy objectives at an operational level and should also address the extent to which any horizontal policy objectives, not only the environmental ones as today, are affected as well as the impact of the operation on the reaching of these objectives.

Extend of guarantee cover

28 *Community guarantee cover under the mandates should not be available to investment grade borrowers*: The own risk own resources 'facilities' lending of the Bank is, as far as public sector operations is concerned, confined to borrowers with this rating. Such facilities are not available for operations in all sectors or countries. Such that the mandate guarantee cover is presently used also to cover the risk on investment grade borrowers.

29 *The types of EIB loan operations eligible for Community guarantee cover need to be clearly defined: The Council decision for* the present mandate provides for ‘EIB eligible investment projects’/'EIB Financing Operations'. The eligibility of operations should be better defined in rel*evant dimensions in the operational guidelines (cf. recommendation 2).*

30 *The setting of the ACR limit should be amended:* This will ensure that sufficient number of value-added operations in the sub-sovereign sector could be financed by EIB whilst a limited impact on the guarantee liability exposure of the Guarantee Fund.

31 *Introduction of guarantee premium for obtaining Community guarantee cover*: This should be considered to ensure more risk-return efficient use of the guarantee cover. In particular, the charging of a guarantee premium for political risks (on private sector operations) should be considered given

that the other issuer of such guarantees, MIGA of the World Bank, offers such guarantees at a risk-adjusted premium.

Other general recommendations

32 *More staff required to increase Programme effectiveness:* The decision on the release of the optional EUR 2 billion guarantee cover under the present mandate should take into account the impact that the staff resource constraints of the Bank have on the effectiveness of mandate lending and the comparatively limited development orientation of Bank lending operations so far. With a more ambitious mandate in terms of development orientation and to ensure a higher value added to final beneficiaries, the current level of EIB staff – in terms of number and expertise - and TA resources should be carefully assessed. The reinforcement of resources dedicated to the project appraisal, monitoring and local presence would increase the effectiveness of the mandate.

33 *Stronger local presence and local capacity*: EIB local presence in mandate countries should be strengthened to ensure effective coordination and follow-up on projects. Likewise, sufficient technical staff resources could be available among the staff in the local offices.

34 *Maximum size of SME to be context specific*: The maximum size of an SME in a Programme operation should be defined on a regional mandate basis.

35 *Most value for money when using financial intermediaries for risk capital funds*: In the future channelling of any risk capital funds from the Community budget under the ENPI and DCI regulations, it could be investigated whether EIB as a Union institution or the direct channelling to other financial intermediaries is more effective and/or efficient.

12.2.2 Specific recommendations for regional mandates

36 In the group of *pre-accession countries* the need is particularly high for the Commission to define clearly and with an operational content EU operational objectives and priorities. The scope for improved coherence with Community actions is equally high and the information provided by the EIB for the Article 21 consultations should demonstrate such coherence including support to institutional type Community actions. No recommendation will be provided for any change of mandate size. In the present framework the mandate will be utilized given the high absorption capacity of Turkey.

37 In the *Mediterranean region* the region-wide EU policy objectives should become explicit in mandate loan operations including the initiative for depollution of the Mediterranean where important synergies with FEMIP Support Fund TA may be achieved in the next few years. An envelope for regional projects could be considered as could a general mandate increase subject to a review of absorption capacity for Programme relevant projects.

38 The *Eastern Neighbours* regional mandate should be adapted to boost the number of operations through i.a. increase in available TA resources, increase in staffing levels of EIB, and making the MOU between EIB, EBRD and the Commission more flexible.

39 The *Asia and Latin America* mandate should be refocused and increased. The FDI objective (incl. transfer of technology and know how) should be eliminated: the additionality, if any, of lending to EU enterprises in this regard has been found very limited. It is questionable whether large EU enterprises expanding outside EU should benefit EIB loans with a free of charge political risk guarantee. Regional cooperation should be introduced as an operational level objective. This would greatly increase the potential for complementarity with Community actions in this priority area of the EU. The undefined "focus on environmental sustainability (including climate change mitigation)" should be given an operational content in the operational guidelines by the EIB and the Commission.

40 In *South Africa* the Programme objectives should be narrowed and the mandate size increased. Support to the private sector should be in the form of global loans and risk capital operations. As to direct project loans to the private sector, the Bank at times competes with local financial institutions. Furthermore, the staff resources available are too limited to justify involvement in this type of operation which are more demanding as to appraisal and as to monitoring. At the same the absorption capacity in the public sector is high given the investment needs of the country. In order to enable the reaching of the EU regional economic integration objective, a regional mandate lending envelope for the co-finance South African investment in other SADC countries should be introduced.

Appendix 1: Terms of Reference

Appendix 2: List of persons interviewed

Organisation/Country	Name	Position
European Commission		
DG RELEX	Andrea Mogni	Policy Coordinator, European Investment Bank matters
DG RELEX	Pierre Deusy	Economic and Trade Affairs Manager, Mediterranean region
DG RELEX	Rainer Schierhorst	International Coordination Officer, Desk Officer in charge of macro economic and trade issues in Asia
DG RELEX	Sergio Marinelli	Policy Officer, Eastern Europe-Russia
DG RELEX	Tomasz Gorisek	Economic and Trade Affairs Manager - Economic and Trade Desk Officer - Relations with Latin America
DG Development	Brewka Pino Miriam	Desk officer, South Africa desk
DG Development	Mariusz Tamborski	Policy Officer - development, monitoring and programming
DG Development	Navarro Lluis	Desk officer, South Africa and SADC
DG Development	Paulus Geraedts	Policy Group Coordinator, Infrastructure, Transport Policy
DG AIDCO	Antonelle Colavita	International Relations Officer - Officer in charge of relations with the World Bank (WB) and International Financing Institutions (IFIs)
DG AIDCO	Céline Hyon	Quality Management Officer
DG AIDCO	Grazyna Bogusz	Programme Coordinator
DG AIDCO	Peter Mariën	Programme Manager NIF / FEMIP
DG AIDCO	Sarah Rinaldi	Head of Sector, Programme Manager
DG ELARG	Christos Gofas	Head of Unit, Regional Programmes - Economic Development and IFI Cooperation
DG ELARG	Valentina Di Sebastiano	Programme Manager IFIs
DG ELARG	Rachele Gianfranchi	Programme Manager
DG ELARG	Bo Caperman	Policy Officer
DG ELARG	Thomas de Béthune	Programme Manager Infrastructure & International Financing Institutions
DG ECFIN	Giorgio Chiarion-Casoni	Head of Unit, Liaison with the EIB group and IFIs, new financial instruments

Organisation/Country	Name	Position
DG ECFIN	Laszlo Csoto	Project Manager
DG ECFIN	Merete Clausen	Deputy Head of Unit, Liaison with the EIB group and IFIs, new financial instruments
European Investment Bank		
	Alain Nadeau	Head of Division, FEMIP Maghreb Division, ENPC Department
	Alain Sève	Associate Director, Head of Operations Evaluation
	Alberto Barragan	Head of Division ALA-1 Latin America
	Alessandro Carano	IFI coordination officer, Brussels office
	Alfredo Panarella	Legal adviser, General Secretariat and Legal Affairs
	Angela Jenni	Deputy Head of Division, Southern Africa and Indian Ocean
	Angus Macrae	Head of Division - Special Operations, Europe's Neighbour & Partner Countries
	Annabelle Assemat	Loan officer, Lending Operations in Slovenia, Croatia & Western Balkans, Adriatic Sea Department
	Ari Tapio	Loan Officer, Operations in Asia
	Bernard Ziller	Head of Unit, Policy, Reporting and Systems Information Unit
	Bruno Denis	Head of Lending operations in Turkey
	Catherine Collin	Head of Division, Portfolio Management and Policy, ACP - Investment Facility
	Cristian Barbu	
	Claudio Pasqui	Head of Division, Strategy and Processes, Strategy and Corporate Centre, General Secretariat and Legal Affairs
	Dietmar Dumlich	Head of Coordination Division, Operations Support Department
	Dominique Courbin	Head of Division, Lending Operations in Slovenia, Croatia & Western Balkans, Adriatic Sea Department
	Dominique de Crayencour	Director, Institutional Affairs Department

Organisation/Country	Name	Position
	Eberhard Böemcke	Deputy Head of Division, Southern Africa and Indian Ocean
	Eefje Schmid	Coordination Officer, Institutional & Policy Unit, European Neighbour & Partner Countries
	Francisco de Paula Coelho	Head of Department, Asia and Latin America
	Gavin Dunnett	Evaluation Expert, Operations Evaluation
	Guido Prud'Homme	Head of Unit, Brussels Office
	Guy Clausse	Director, Convergence and Environment Department, Projects Directorate
	Inga Bleiere	Technical Assistance Monitoring Officer, Lending operations outside the EU
	Janette Foster	Head of Division, Budget, Analytics and Partnership, Strategy and Corporate Centre, General Secretariat and Legal Affairs
	José Tomás Frade	Deputy Director. Head of Water and Environmental Protection Division, Projects Directorate
	Kadir Bahçecik	Loan Officer, Turkey Division
	Maj Theander	Head of Division, Quality Mangement Division, Projects Directorate
	Marc Leistner	Deputy Head of Division, Russia, Eastern Europe, Southern Caucasus & Central Asia Division, European Neighbour & Partner Countries
	Marcus Schlüchter	Credit Officer, Credit Risk Department, Risk Management Directorate
	Martin Curwen	Director General, Ops B Directorate
	Matthias Zöllner	Managerial Adviser Environment, Lending operations outside the EU
	Max Ulf Jensen	Evaluation Expert, Operations Evaluation
	Monique Koning	Loan officer, Resources and Business Development
	Neri di Volo	Engineer - Urban Transport Specialist, Projects Directorate

Organisation/Country	Name	Position
	Paolo Lombardo	Head of Division, Credit Risk Department, Risk Management Directorate
	Philippe Szymczak	Head of Division, Operations in Asia
	Rainer Säerbeck	Loan officer, Resources and Business Development, ACP-Investment Facility
	Serge-Arno Kluemper	Deputy Head of Division, Southern Africa and Indian Ocean
	Stefan Kerpen	Head of Technical Assistance Unit, Lending operations outside the EU
	Stéphanie Guihard-Brand	Senior Coordination Officer, Lending operations outside the EU
	Thomas Timme	Senior Lean Officer - Bulgaria, Romania and Cyprus Division, South East Europe Department
	Werner Schmidt	Evaluation Expert
	Yves Ferreira	Head of the Regional Representation in the Caribbean (Loan officer responsible for the Brazil portfolio until March 2009)
Head offices of IFIs/DFIs		
European Bank for Reconstruction and Development	Alain Pilloux	Business Group Director, Russia, Agribusiness, Property & Tourism
KfW Entwicklungsbank	Claudia Arce	First Vice President, North Africa & Middel East Department
World Bank	Peter D. Thomson	Director, Sustainable Development Department, Europe and Central Asia Region
European Bank for Reconstruction and Development	Thomas Maier	Business Group Director, Infrastructure and BG and Front Office
NGOs		
Bankwatch	Anna Roggenbuck	EIB coordinator
Romania		
European Bank for Reconstruction and Development	Mihail Scvortov	Principal Banker
European Investment Bank, Bucharest	Milena Missori	Head of Office

Organisation/Country	Name	Position
JASPARS (former Ministry of Transport)	Alexandra Stan	Transport sector specialist
Ministry of Finance	Boni Cucu	Deputy General Director
Ministry of Finance	Rodica Buzdugan	
Ministry of Transport, Romanian Company of Motorways and National Roads	Elena Dan	Director of Project Department
Technical Assistance to Ministry of Transport	Andrew Nesbitt	Road Engineer
Serbia		
Banca Intesa ad Beograd	Dušan Petrović	Project and Structured Finance
Banca Intesa ad Beograd	Radovanka Perović	Business Banking Regional Director
Banca Intesa ad Beograd	Slađana Jelić	Deputy Head of the Corporate Division
City of Pancevo	Zoran Jovanovic	Member of the City Council
European Bank for Reconstruction and Development	Mirjana Milovanovic	Senior Analyst
European Bank for Reconstruction and Development	Meran Lukic	Analyst
European Union, Delegation of the European Commission to the Republic of Serbia	Danka Bogotić	Project Manager - Operations
KfW Entwicklungsbank	Elke Hellstern	Director, KfW Office Belgrade
Municipal Infrastructure Support Programme of the EU	Cok van Schooten	Team Leader
Municipal Infrastructure Investment Support Programme (Belgrade) of the EAR/City of Belgrade	Erling Hvid	Project Director
Republic of Serbia, City of Belgrade, Investment Agency	Maša Ćeranić	Assistant Director
Republic of Serbia, City of Belgrade, Investment Agency	Radovan Drca	Head of PIU

Organisation/Country	Name	Position
Republic of Serbia, City of Belgrade, Investment Agency	Marko Blagojevic	Assistant Director
Republic of Serbia, Ministry for National Investment Plan	Zoran Cekic	State Secretary
Republic of Serbia, Ministry for National Investment Plan	Branislav Pejic	Head of Department for International Affairs
Republic of Serbia, Ministry of Finance, International Financial Relations Department	Aleksandar Kovacevic	Junior Adviser, Unit for Cooperation with Multilateral Financial Organizations
Republic of Serbia, Ministry of Finance, International Financial Relations Department	Zoran Ćirović	Assistant Minister
Sida/Embassy of Sweden	Björn Mossberg	Counsellor, Development Cooperation Section
Sida/Embassy of Sweden	Nela Jovic	Programme Officer, Development Cooperation Section
WYG International, Infrastructure Projects Facility in the Western Balkans	Jeremy Lazenby	Team Leader
WYG International, Infrastructure Projects Facility in the Western Balkans	Nicolas Sinclair	Deputy Team Leader
Turkey		
Antalya Municipality	Haluk Bayrakdar	Consultant of Mayor
DG ENLARG	Holger Schröder	Former head of EU delegation
EBRD Istanbul Office	Mike Davey	
European Investment Bank	Alain Terraillon	Head of office
European Investment Bank	Kadir Bahcecik	Loan officer
State Planning Organisation	Yilmaz Tuna	Director General
State Planning Organisation	M. Cüneyd Düzyol	Director General

Organisation/Country	Name	Position
Undersecretariat of Treasury	ôzgür Pehlivan	Deputy General Director
Undersecretariat of Treasury	Nurhan Karaca	Division Head
Undersecretariat of Treasury	ôzkan Isil	Junior Treasury Expert
World Bank, Ankara office	Keiko Sato	
Egypt		
African Development Bank/Fund	Almaz Amine	Country Operations Officer
African Development Bank/Fund	Khaled El-Askari	Infrastructure Specialist
Agence Française de Développement (Afd)	Camille Naudet	Projects Officer
Agence Française de Développement (Afd)	Ola El Wakil	Projects Officer
Egyptian Electricity Holding Company	Mohamed M. Awad	Chairman
Egyptian Electricity Holding Company	Yaser Mohammad	Engineer, Projects Department
Export Development Bank of Egypt (E.D.B.E)	Mohamed Moussa	General Manager, Investment Department
European Investment Bank	Jane Macpherson	Head of Regional Office
KfW Bankengruppe	Detlef Geilow	Programme Manager, Water and Waste Water Sector
KfW Bankengruppe	Andreas Holtekotte	Programme Manager, Energy Sector
KfW Bankengruppe	Walid M. Abdel-Rehim	Senior Programme Officer, Water and Environment
Ministry of International Cooperation	Zahir M. Abu Zied	Assistant to the Minister for European Affairs
Ministry of International Cooperation	Mervat Naguib	General Director - European Investment Bank Department
Upper Egypt Electricity Production Company	Reda Kisno	Financial Manager
Upper Egypt Electricity Production Company	Bassem Shawky	Technical Manager
Upper Egypt Electricity Production Company	Essaw Rajah	Project Accountant, El Kureimat Power Plant
Upper Egypt Electricity Production Company	Satly Elsayed	Project director
Upper Egypt Electricity Production Company	Mohamed Naguib	Technical Affairs Director

Organisation/Country	Name	Position
Power Generation Engineering and Services Company	Ali Mussawi	Operations Manager, El Kureimat Power Plant
Power Generation Engineering and Services Company	Khalil Hakim	Electrical Construction Manager, El Kureimat Power Plant
Tunisia		
Ministry of International Cooperation and Development (MDCI)	Nawele Ben Romdhane	General Director for regional international cooperation
Ministry of International Cooperation and Development (MDCI)	Zahia Abu Zaid	Assistant to the Minister for European Affairs
Ministry of International Cooperation and Development (MDCI)	Raja Jabri Halouani	Deputy Director for Euro Mediterranean cooperation
TAV Tunisie SA	Haluk Bilgi	General director
TAV Tunisie SA	Kahena Mamlouk Ferchichi	Director - Legal Department
TAV Tunisie SA	Bahadir Atalay	Project Monitoring
TAV Tunisie SA	Fourat Binous	Director Infrastructure and Buildings
TAV Tunisie SA	Akram Ayara	Technical Director
Africinvest	Hichem Ghanmi	Investment officer
Africinvest	Samia Ghorbel	Investment officer
Tuninvest	Anis Fathallah	Investment officer
Tuninvest	Aziz Mevarak	Founding Partner
Tunisacier SA	Alberto Galli	Director
Tunisacier SA	Boussabat Mondher	Administration and Finance
Lebanon		
Bank Audi	Karim Dagher	-
Bank Audi	Khalill Geagea	Group Head - Financial institutions & correspondent Banking
Bank Audi	Noel Hakim	Manager - Corporate Banking
Bank Audi	Ibrahim Salibi	Assistant General Manager
Bank Audi	Nabil Haddad	Senior Relationship Manager
Bank Audi	Geroges Ziade	Senior Coordinator - Portfolio Management
Bellevue Medical Center	Ali Elhaj	Chief executive officer
Bellevue Medical Center	Nayef Maalouf	Director of Business Development
Capital Trust Group Euromena FMC	Romen Mathieu	Managing Director

Organisation/Country	Name	Position
Capital Trust Group Euromena FMC	Gilles de Clerk	Director
Council for Development and Reconstruction	Wafaa Charafeddine	Funding Division Director
Council for Development and Reconstruction	Roger Maalouf	Funding Division
Lebanese roasting company	Elias Daniel	Chief Executive Officer
Sodamco	Hady Nassif	Executive Director
Brazil		
Delegation of the European Commission to Brazil	Paulo Lopes	Counsellor for Information Society and Media
Secretariat of International Affairs (SEAIN), Ministry of Planning	Carlos Eduardo Lampert Costa	Joint Secretary
Secretariat of International Affairs (SEAIN), Ministry of Planning	Claudia Veiga de Silva	Coordinator for Public Sector Projects
Secretariat of International Affairs (SEAIN), Ministry of Planning	Cadmo Soares Gomes	General coordinator
VIVO Participações S/A	Luis André Blanco,	Director of Finance
VIVO Participações S/A	Alexandre Cruz Alves	Division Manager for Financial Planning
South Africa		
Amalgamated Healthcare	Suhail Gani	Chief Executive Officer
Amalgamated Pharmacy Group	William Butler	Chief Financial Officer
Booysens Hotel and Conference Centre	Ishmael Ndlovo	Managing Director
Booysens Hotel and Conference Centre	Jonathan Segel	Director of Charter Financing & Auditing
Primolitos Ltd.	Paul Vasconcelos	Managing Director
European Investment Bank	David White	Head of Regional Office

Organisation/Country	Name	Position
European Investment Bank	Svetla Stoeva	Resident Finance Office of Southern Africa & Indian Ocean
European Union, Delegation of the European Commission to South Africa	Gerry McGovern	First Counsellor
European Union, Delegation of the European Commission to South Africa	Konstantinos Berdos	First Secretary
European Union, Delegation of the European Commission to South Africa	Milly Chesire	Project Officer Private Sector Development
Industrial Development Corporation (IDC)	Jeremy Pos	Account Manager: Risk Capital Facility
Industrial Development Corporation (IDC)	Meryl Mamathuba	SBU Head: Risk Capital Facility
Industrial Development Corporation (IDC)	Shekeel Meer	Divisional Executive: Industrial Sectors
Industrial Development Corporation (IDC)	Vusi Mashicila	Senior Account Manager: Corporate Funding
Republic of South Africa, National Treasury	Robin Tholi	Head, International Development Co-Operation
Republic of South Africa, National Treasury	Thulani Mabaso	Senior Policy Analyst: International Development Co-Operation
Safal Steel (PTY) LTD	Arup Ghoshal	Group Chief Technical Officer
Safal Steel (PTY) LTD	Ashutosh Datta	Technical Manager
Safal Steel (PTY) LTD	Guy du Plessis	Finance Manager
Safal Steel (PTY) LTD	Chris O'Neill	Chief Operating Officer
Safal Steel (PTY) LTD	Philip Truebody	Sales & Marketing Manager
Safal Steel (PTY) LTD	S Saryanarayana	General Manager: Operations
Saicom	MP Maguya Kasango	Chairman
TEIM/Saicom	Giles Douglas	Director
Russia		
European Bank for Reconstruction and Development	Natasha Khanjekova	Director, Infrastructure and Energy, Russia Business Group

Organisation/Country	Name	Position
St. Petersburg Foundation for Investment Projects (FISP)	Alexei Vasilev	General Director
St. Petersburg Foundation for Investment Projects (FISP)	Viktor A. Shilov	Senior Expert
St. Petersburg Foundation for Investment Projects (FISP)	A.D. Grigorov	Senior Expert
Halcrow	David Edwards	Head of Representation
Ministry of Finance	Maria Smirnova	Senior Expert, International Department
Ministry of Finance	V. Mizin	Senior Expert, International Department
Ministry of Regional Development	Dmitry V. Savin	Deputy Director, Department on Capital Investments

Appendix 3: Mandate loans by region and country

Budget period	Region	Country	Signed loans		Disbursements Amount	Disbursements Share	Avg. loan
			no.	EUR m	EUR m	pct.	EUR m
2000-2007	SEN	Albania	8	214	126	59	27
	(EUR 9,185m)	BiH	18	654	324	50	36
		Bulgaria	14	492	291	59	35
		Croatia	12	491	469	95	41
		FYROM	2	23	23	98	12
		Hungary	1	40	40	100	40
		Lithuania	2	60	18	30	30
		Montenegro	2	35	35	100	18
		Romania	32	1,952	1,256	64	61
		Serbia	25	1,160	745	64	46
		Slovakia	9	498	428	86	55
		Slovenia	1	35	35	100	35
		Turkey	29	3,811	2,628	69	131
		Total	**155**	**9,464**	**6,416**	**68**	**61**
	Mediterranean	Algeria	8	787	380	48	98
	(EUR 6,520m)	Egypt	19	1,960	1,716	88	103
		Gaza-West Bank	2	55	0	0	28
		Israel	1	75	0	0	75
		Jordan	5	226	186	82	45
		Lebanon	6	320	155	48	53
		Morocco	23	1,358	975	72	59
		Syria	7	735	326	44	105
		Tunisia	30	1,658	1,111	67	55
		Total	**101**	**7,174**	**4,849**	**68**	**71**
	ALA	*Asia:*					
	(EUR 2,480m)	China	1	56	56	100	56
		India	1	50	0	0	50
		Indonesia	4	189	124	66	47
		Laos	1	42	38	90	42
		Maldives	1	50	50	100	50
		Pakistan	2	79	79	100	39
		Philippines	4	219	175	80	55
		Sri Lanka	3	160	125	78	53
		Thailand	1	26	0	0	26
		Viet Nam	2	68	68	100	34
		Latin America:					
		Argentina	5	219	187	85	44
		Brazil	17	840	684	81	49
		Colombia	1	100	100	100	100
		Ecuador	1	40	40	100	40
		Honduras	1	20	0	0	20
		Mexico	2	86	86	100	43
		Panama	2	95	90	95	48
		Peru	2	100	100	100	50
		Regional - C&LA	3	106	26	24	35
		Total	**54**	**2,545**	**2,028**	**80**	**47**
	South Africa	South Africa	**18**	**948**	**673**	**71**	**53**
	(EUR 825m)						
	Total		**328**	**20,131**	**13,966**	**69**	**61**

Budget period	Region	Country	Signed loans		Disbursements Amount	Share	Avg. loan
			no.	EUR m	EUR m	pct.	EUR m
2007-2013	Pre-accession (EUR 8,700m)	Albania	1	23	8	35	23
		BiH	5	260	32	12	52
		FYROM	2	110	0	0	55
		Montenegro	6	50	5	10	8
		Serbia	9	620	0	0	69
		Sub-total	23	1,063	45	4	46
		Turkey	10	2,559	696	27	256
		Total	**33**	**3,622**	**741**	**20**	**110**
	ENP-Med (EUR 8,7000m)	Egypt	2	380	184	48	190
		Israel	2	145	96	66	73
		Jordan	4	253	77	31	63
		Lebanon	7	417	90	22	60
		Morocco	5	600	100	17	120
		Syria	2	355	0	0	178
		Tunisia	8	711	96	13	89
		Total	**30**	**2,861**	**643**	**22**	**95**
	Eastern Neighbours (EUR 3,700m)	Moldova	1	20	0	0	20
		Russia	2	133	0	0	67
		Ukraine	1	150	0	0	150
		Total	**4**	**303**	**0**	**0**	**76**
	Asia (EUR 1,000 m)	China	1	119	0	0	119
		India	1	150	0	0	150
		Vietnam	1	100	0	0	100
		Total	**3**	**369**	**0**	**0**	**123**
	Latin America (EUR 2,800m)	Brazil	2	450	250	56	225
		Colombia	1	100	0	0	100
		Mexico	1	50	0	0	50
		Nicaragua	1	15	0	0	15
		Panama	2	424	0	0	212
		Paraguay	1	69	32	47	69
		Uruguay	1	28	23	81	28
		Total	**9**	**1,135**	**304**	**27**	**126**
	South Africa (EUR 900m)	South Africa	**6**	**323**	**29**	**9**	**54**
	Total		**85**	**8,613**	**1,718**	**20**	**101**

Appendix 4: Case study reports (in separate appendix)

4.1	Romania
4.2	Serbia
4.3	Turkey
4.4	Tunisia
4.5	Lebanon
4.6	Egypt
4.7	Russia
4.8	Brazil
4.9	Laos
4.10	South Africa