June 2013

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Operations Evaluation

Ex post evaluation of EIB's Investment Fund Operations in FEMIP and ACP countries

Synthesis Report

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EVALUATION REPORT

Evaluation of EIB's Investment Fund Operations in FEMIP and ACP countries 2012 Validation and Finalisation

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June 2013
Edited March 2019

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GLOSSARY OF TERMS AND ABBREVIATIONS

ACP	African, Caribbean and Pacific countries
CA	Board of Directors (Conseil d'Administration) of the EIB
CD	Management Committee (Comité de Direction) of the EIB
DAC	Development Assistance Committee (of the OECD)
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
ECON	EIB Economics Department
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
ENPC	Europe's Neighbourhood and Partner Countries
EV	Operations Evaluation (EIB unit entrusted with independent evaluation work)
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
HQ	Headquarters
IFI	International Financial Institution
IRR	Internal Rate of Return
IT	Information Technology
MENA	Middle East and North Africa
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
Ops-A	EIB Directorate for Operations in the European Union and Candidate Countries
Ops-B	EIB Directorate for Operations outside the European Union and Candidate Countries
PEF	Private Equity Fund
PJ	EIB Projects Directorate
RBD	Resources and Business Development
REM	REsult Measurement framework
RM	EIB Risk Management Department
Services	EIB units (ACP and FEMIP) dealing with PEF operations
SME	Small and Medium Enterprise
TA	Technical Assistance
TMR	EIB Transaction Management and Restructuring Department
TOR	Terms of Reference

EXECUTIVE SUMMARY

This report concerns the validation and finalisation of the 2010 "Evaluation of Investment Fund Operations in FEMIP and ACP Countries". The draft synthesis report of this evaluation was discussed with the relevant EIB services mid-2010, but due to a temporary lack of human resources at Operations Evaluation (EV) it was delayed and ultimately not presented to the Management Committee or the Board of Directors. The present report aims at completing the 2010 evaluation work and, by doing so, is focusing particularly on post-2010 developments by providing an assessment of the current status in view of the recommendations that EV proposed in 2010.

The aim of this report is to assess the Bank's financing of investment funds – hereinafter referred to as private equity funds or PEFs – in FEMIP and ACP countries since the mid-1990s. In line with EV's Terms of Reference, the purpose of the evaluation was two-fold: to provide accountability on those investment Fund Operations; and, to draw lessons for future activities in this area. The geographical scope covered two different but closely linked regions and therefore allowed to evaluate a sample of operations in countries with different levels of development. The sample used for the evaluation contained first generation funds, with vintage years between 1995 and 2002.

The following sections summarise the different conclusions and recommendations made in 2010, assess the extent to which they are still valid and provide an update wherever relevant.

2010 Conclusions and Recommendations, their validation and update

The validity of the evaluation approach adopted in the 2010 Evaluation, the methodology used and its content is fully confirmed through the present exercise.

Two-thirds of the funds in the sample evaluated were deemed to have performed well. Of the 12 funds evaluated, 4 were considered excellent, 4 satisfactory, 1 partly unsatisfactory and 3 unsatisfactory. In summary, the 2010 Evaluation concluded the following:

(a) the evaluation results, based on a sample of first generation funds, were positive overall; starting virtually from scratch, the Bank, its international partners and its counterparts in the two regions had allowed the emergence and a certain stabilisation of a new industry, of which the overall prospects in 2010 were deemed positive;
(b) in terms of the funds' performance, the results were mixed, although the financial results of the sample of funds were better than expected overall, as in many cases operations were approved without high expectations in terms of financial return, but rather in an attempt to launch a new financial industry in emerging markets;
(c) in view of the evaluation findings, a positive financial result is however a necessary condition to achieve development effects, and, from this perspective, half of the funds in the sample had not yielded significant effects;
(d) most management teams were inexperienced when they started operations but many had a very positive evolution;
(e) the Bank's financial contribution to the funds was significant most of the time, but the Bank's non-financial contribution was less marked; and
(f) the management of the project cycle by the Bank has been the most problematic aspect of the operations evaluated; until 2004, the Bank's participation in investment funds in ACP and FEMIP countries was carried out without a clear strategy and operational guidelines.

On the basis of these findings, the 2010 Evaluation arrived at 14 recommendations, of which the current relevance and possible follow-up were reassessed within the framework of the present report.

On the *strategic level,* it was proposed that investment Fund Operations should continue; that complementary activities should be encouraged by the EIB (e.g. work with local governments to improve regulatory frameworks; with local private capitalists to strengthen local professional associations); and that new fund management teams should be supported. These recommendations were implemented and, in spite of changes in the context (Global Crisis, Arab Spring), the PEF portfolio continued growing. Complementary activities, however, were found to be still lacking. To this end, the adoption of a more holistic approach is suggested and synergy potentials with other parties (e.g. IFIs) should be explored.

The recommendations at *organisational level* included a call for better recognition of the specificity of investment Fund Operations and the particularity of emerging markets; for adapting Bank-internal structures and resources; for improved cross-fertilisation within services in Ops-B; and for improving coordination with other services. These recommendations were implemented as follows. “National” funds are no longer appraised and managed by loan officers in geographical divisions but by the equity divisions. Staff with PEF experience were hired in the ACP division in charge of equity, partially resolving the human resource issues flagged by the 2010 report. Non-EU Equity Risk guidelines were introduced in 2011 to streamline and consolidate the many – sometimes inconsistent – risk guidelines and documents applied to non-EU equity at the time. Ops-B introduced a “Results Measurement framework” (REM) in 2012, which also applies to equity. This is expected to provide a better view on the impacts of investment funds as the framework is applied throughout the life of such operations. Monitoring responsibility after the investment period has been transferred to the Transaction, Monitoring and Restructuring (TMR) Directorate within EIB, inducing a clearer split between origination and investment on the one hand, and monitoring on the other hand. Last but not least, the two divisions responsible for equity for FEMIP and ACP were merged in early 2013. This is expected to further benefit harmonisation between approaches that are already underway.

Finally, the 2010 Evaluation observed that, *at operational level,* the procedures and operational guidelines required updating; that financial returns are a condition *sine qua non* to achieving development effects; that releasing funds too promptly, which had happened in some cases, should be avoided; that management fees should be adjusted when investment levels of a fund remain low; that more active monitoring was required, particularly monitoring development effects on private sector; and that appropriate filing of relevant documents needed to be ensured. In view of these recommendations, the present update and validation exercise found, respectively, that one single set of guidelines for non-EU Equity Risk was established in 2011; that gross IRRs on average remain too low; the 2010 call for addressing fund underperformance through adjusting fund management fees was found no longer applicable as other control and incentive mechanisms are in place; monitoring arrangements have been changed; and finally filing, and more generally the Bank’s IT systems to manage PEFs, remains a concern as those systems are well suited for loans, but less for equity.

Sample and portfolio evolution

Based on the 12 in-depth investment fund evaluations, the 2010 Evaluation found that “*Overall, half of the funds (6 out of 12) worked as expected: they combined, to different degrees, a proper structure, invested as per announced strategies, reached reasonable financial performances and had a management team that evolved positively (according to the Bank’s strategy)*”. The status of the funds in the sample used for this evaluation has not changed much since 2010 however. Six funds remain un-exited, whereas they should have been wound down by now. The services explained this as being mainly due to exogenous factors, including the Global Crisis, Arab Spring events, and civil strives in some of the ACP countries. However, several funds in the sample did not perform well even before those events. The extension of the term of several funds beyond their initial duration and their weak performance leads to question whether the initial evaluation ratings of those funds can be maintained.

Over the 1990-2012 period, the Bank invested in 88 investment funds for a total commitment of EUR 781m. Of this, EUR 685m for 78 funds were signed before 2010. Since 2010, 10 more PEF investments were signed. Of those, 4 were in the ACP region (EUR 57m) and 6 in the FEMIP region (EUR 39m). The ACP funds were all regional (one being Pan-African). Of the 6 FEMIP funds 2 were regional; the remaining 4 having a national focus (on Palestine, Lebanon, Jordan and Morocco, respectively). By these additions the total ACP FEMIP PEF portfolio grew by about EUR 96m (or 14%) over the three-year period. The fact that the Bank continued investments in those funds is deemed positive, given the evolution of the macroeconomic and geopolitical context since 2007.

2012 Conclusions and Recommendations

The revisit of the 2010 Evaluation concludes that the Bank has made considerable progress since 2010 in the area of equity for the FEMIP and ACP area. Inter alia, it has harmonised procedures, streamlined monitoring, pays increasing attention to the impacts of its finance and, in early 2013, merged the divisions responsible for equity in the two areas. De facto, many of the recommendations EV proposed at the time were partially or fully followed up and several concerns resolved. The Bank will hence be better prepared for the challenges lying ahead, given the economic crisis and, in particular, the recent events in many FEMIP countries.

Against the background of these positive evolutions, performance of funds can in the future be even further improved by:

- making appropriate resource allocations in order to develop complementary activities, support new fund management teams (e.g. through TA) and enhance monitoring, particularly with regard to funds' development, environmental and social, and health and labour effects;
- avoid ad hoc spread sheet solutions possibly by using a Bank-wide integrated IT system for PEF;
- create a comprehensive overview of the equity portfolio and its performance, which has been lacking thus far;
- launching a study to analyse the reasons for low average gross internal rates of return (IRRs), and suggest and implement ways to improve on this;
- developing a clear and commonly shared understanding among EIB staff on the Bank's role with regard to developing countries, in particular by taking into account the tension that may sometimes exist between financial and developmental objectives.

MANAGEMENT RESPONSE

The Management Committee welcomes the main conclusion of this report, which is that **the Bank should continue to invest in funds**. Investment funds can significantly contribute to the development and reinforcement of the private sector and have wider developmental effects. Although limited in scale and relatively resource intensive, they form an important and complimentary part of the Bank's activities.

The Management Committee would like to thank Operations Evaluation for the high quality evaluation, based upon thorough consultation with the relevant services. The evaluation provides an assessment of the first generation of funds in which the Bank invested, between 1995 and 2002. The report includes 12 in-depth investment fund evaluations, split between ACP and FEMIP. The life-cycle of a fund is typically between 12 and 15 years, meaning that the report looked at investments made when the industry outside the EU was in its nascent form. Whilst stressing the role that the Bank played in developing the sector at that time, the report also highlights the way in which the Bank's operational procedures have developed in recent years.

The Management Committee believes that the Bank has made important operational improvements in its treatment of investment funds, notably the introduction of the non-EU equity guidelines, the responsibility given to TMR for funds after the end of the investment period and the recent creation of a single division responsible for all equity investments outside the EU. Current procedures are in line with those of other DFI's and internationally recognised guidelines for the treatment of funds. Further developments include (i) quality portfolio review meetings, (ii) creation of a bank-wide performance reporting and (iii) bank-wide equity procedures.

It should be stressed that the Bank's equity operations are made under different mandates, which have different objectives and reporting requirements. Going forward, the Bank will need to balance positive financial returns with measurable economic benefits and the need to support and develop new markets outside the EU. Stakeholders require that the Bank should be in a position to report on key performance indicators across mandates and the introduction of the Results Measurement Framework (REM) is an important tool in this respect.

The Management Committee agrees that a single unified IT platform across OpsA, OpsB and TMR should be introduced in order to facilitate the monitoring of investment funds and will look to implement this within the following six months. This should facilitate the creation of a comprehensive overview of the equity portfolio as improving reporting and reducing operational risk.

In conclusion, there have been important positive developments in the way in which the Bank treats its equity investments and the Management Committee is confident that the Bank is well placed to continue its activities in this important area.

TABLE OF RECOMMENDATIONS AND REPLIES

Strategy Level

R1 Continue Investment Fund operations

When successful, investment funds can significantly contribute to develop and reinforce private sector and have wider development effects than global loans. Therefore, in spite of the risks and their cost for the Bank, they should be continued.

2012 Update and validation:
The recommendation made in 2010 was shared by the services as it relates to the continuation of PEF operations; as such it continues to remain valid. Although signatures fell since the start of the crisis in 2008, the Bank has continued to sign new PEFs in both regions in spite of the adverse macroeconomic and geopolitical framework conditions. This is viewed as a positive achievement.

Management response
Agreed.

R2 Encourage complementary activities…

… to contribute to reinforce longer term effects of investment fund operations and the development of a sound private equity industry. For instance, work with local governments to improve regulatory framework and with local private capitalists to strengthen local professional associations. When carried out, these actions should be recorded and filed so they can be reported to the EC or IF Committee.

2012 Update and validation:
The recommendation made in 2010 is still valid and the present evaluation revisit sees continued scope for improvement. Complementary activities are expected to contribute to reinforce longer term effects of investment Fund Operations and the development of a sound private equity industry. For instance, work with local governments to improve the regulatory framework and with local private capitalists to strengthen local professional associations. This could be achieved by making such objectives more explicit both in terms of planning and for monitoring purposes. The Bank's REsults Measurement (REM) initiative indeed starts from that premise.
However, financial and human resources to work toward such an approach presently are insufficient. The consequences of being charged with a development mandate for financial and human resources, required staff expertise, and internal as well as external (with DFIs/IFIs) cooperation, need to be addressed. From that perspective, the Bank is encouraged to more systematically explore opportunities for internal and external synergies and, in turn, encourage other institutions to also devote more attention to those aspects. Also, Technical Assistance funds, available under both FEMIP and ACP, may be mobilised for this.

Management response
Upstream work which is not connected to projects, such as improving the regulatory framework, can be carried out through e.g. the FEMIP Trust Fund, although no such instrument exists within ACP. It should be noted, however, that in order to implement the recommendation the Bank would require significant extra resources and a dedicated source of funds. In carrying out projects, the Bank currently plays an active role in shaping best market practice and creating an enabling environment. This is frequently done in close cooperation with other DFIs.

R3 … and in particular the support to new management teams

While not an explicit objective of any of the two mandates, the support to new teams has often been considered as an implicit objective. It can indeed reinforce the performance of existing investment funds and contribute to the development of a private equity industry in emerging markets. The Bank should define its position on this aspect and be ready to propose and/or finance training, coaching, exchange of experiences, consulting services to improve funds procedures or investment guidelines, etc.

2012 Update and validation:
The Non-EU Equity Risk guidelines specifically allow for "first time managers". More than half of the current fund portfolio for both ACP and FEMIP are with new management teams. Such new management teams are given special attention by the Bank.
Technical assistance and fund-to-fund twinning arrangements could be promoted in order to support new management teams.

Management response
Ops considers that to a large extent it already fulfils the "coaching" and exchange of experiences recommendation as part of its day-to-day work in structuring transactions with inexperienced management teams and (local) co-investors new to the asset class in emerging (regulatory) environments. It's unclear what precisely is meant by proposed fund-to-fund twinning arrangement but it should be pointed out that funds and managers are legally separate entities with separate shareholding structures and economic interests where e.g. confidentiality and potential conflicts of interests would have to be carefully considered.

Organisational Level

R4 The Bank should recognise the specificity of investment fund operations and the particularity of emerging markets
Investment fund operations are more risky and expensive to manage than loans. Due to the mandates, they are subject to specific accountability. They need adequate structures, guidelines and procedures as well as sufficient resources with private equity expertise.

R5 Need to adapt structures and resources
The organisational structure in the ACP department needs to be modified and more human resources with private equity expertise are needed to carry out investment fund operations. Today, regional funds are appraised and managed by one investment officer in a horizontal division while 'national' funds are appraised and managed by loan officers in geographical divisions. These loan officers do not always have specific skills on private equity. As a comparison, since 2005, all equity and quasi-equity operations in the FEMIP are under the responsibility of one division.

R6 Cross-fertilisation is needed within services in Ops-B
Although there are certainly differences in terms of the markets and in terms of the rules implied by the two mandates (FEMIP and ACP), there is no reason to have a different approach in the two regions. Already, Operational Guidelines for both regions are almost identical. A working group or task force composed by services working in investment funds outside the Union should be in place to encourage cross-fertilisation, ensure a coherent approach and share best practices.

R7 Coordination with other services
This working group should also coordinate with other services working in investment funds within the EIB Group to keep abreast of latest developments in the Bank and the EIF and ensure a coherent approach when appropriate.

2012 Update and validation (R4-R7):
Since the 2010 evaluation several important changes have been made in the Bank's organisation and procedures to manage, inter alia, FEMIP and ACP PEFs. This suggests that the 2010 recommendations were valid but also that the Bank, through its own learning processes, has reflected on its internal processes and substantially improved on them in order to better manage non-EU equity. In view of the proposed recommendations of the 2010 Evaluation, the main changes were as follows:

- "National" funds are no longer appraised and managed by loan officers in geographical divisions but by the equity divisions.
- The ACP division in charge of equity hired two staff, of which one with PEF experience coming from the EIF, which responds to the human resource issues flagged by the 2010 report.
- Non-EU Equity Risk guidelines were introduced in 2011 to streamline and consolidate the many – sometimes inconsistent – risk guidelines and documents applied to non-EU equity at the time.
- The two divisions responsible for equity for FEMIP and ACP were merged early 2013 which is expected to benefit harmonisation between approaches already underway.
- The Results Measurement framework was introduced and applied to equity as from 2012. This is expected to provide a better view on the impacts of investment funds as the REM is applied throughout the life of the funds.
- Monitoring responsibility after the investment period has been transferred to TMR, inducing a clearer split between origination and investment on the one hand, and monitoring on the other hand.

Management response

The merger of ACP and FEMIP divisions has created a single division with substantial private equity experience (approximately half of the investment officers have come from EIF), concentrating expertise and allowing for the harmonisation of procedures and working practices.
The equity team within TMR was created in 2010. Its remit was to look at the equity post-investment bank-wide (Ops-A, Ops-B). In view of developing a consolidated approach, the team shared lessons learned from its 2 years of operation on the equity portfolio by issuing MC notes on key lessons learnt.

Operational Level

R8 Update procedures and operational guidelines

(i) Operational guidelines exist for both regions since 2005; they are very similar. While the guidelines are fairly complete, some aspects are still to be updated (as mentioned by the guidelines), e.g. *Part III – Post-signing: Guidelines for Active Monitoring*. Other sections should be reinforced, e.g. Annex on appraisal of investment funds provides a questionnaire but no orientation to assess the replies. (see also Recomm I.3)
(ii) In the past, the use of Global Authorisations (GA) has allowed to make flexible use of Bank's procedures, in particular for some old FEMIP funds. While today the *Procedures* section of the FEMIP Guidelines include specific paragraphs on the Approval levels (CA, CD, services) according to the decision to be taken, it is important to remind that the use of a GAs should not reduce the due diligence required. ACP Guidelines should include similar paragraphs.

2012 Update and validation:
The 2010 recommendation is to a great extent addressed by developing one unified set of guidelines for non-EU Equity Risk applicable to all equity operations outside the EU and hence including both FEMIP and ACP. Furthermore, due diligence under global authorisations is now satisfactorily addressed in OPS procedures; this, *inter alia*, explicitly refers to risk capital in the two regions concerned. Appraisal and monitoring are clearly covered in the procedures, although their concrete implementation could not be checked within the framework of the present update and validation exercise.

Management response

The services (Ops-A, Ops-B and TMR) are working towards equity Bank wide procedures and policy. These should create a more efficient and streamlined framework than the existing procedures, which are more suitable for debt operations.

R9 Financial returns should be considered as necessary to achieve development effects

The evaluation has found a strong correlation between the fund's performance and the achievement of development effects. The most straight forward sign of performance are financial returns.

(i) The Bank should insist on the need for positive returns when negotiating its participation to a fund and through the life of the fund. In the past, too little importance was given to financial returns. Today, the situation has improved but its importance should be reminded to the staff identifying and monitoring investment funds, in particular, in the case of the less developed markets of the ACP countries.

(ii) Gross as well as net returns should be monitored and reported. Gross returns are currently reported for funds in the FEMIP region.

(iii) Foreign exchange losses should be explicitly monitored and reported. They are currently not reported by either department.

2012 Update and validation:
Reconfirming the 2010 recommendation, gross internal rates of return (IRR) are deemed too low to fully cater for PEF inherent costs whilst at the same time generating a commensurate return for fund investors. While this, to some extent at least, may explain why there is a relative high proportion of public sector involvement in the fund structures (i.e. often fund co-sponsors are other IFIs, MDBs or DFIs), this generates poor demonstration effects and market signals. An in-depth study should be commissioned to analyse the underlying reasons for IRRs generally being low and means to increase them.

Management response

It is unclear whether the return analysis and general conclusion and recommendation is based solely on the (first generation) sample of funds selected by EV. The proposal for a study across the Ops-B portfolio is welcomed and could be extended to include Ops-A and, where possible, to incorporate a comparison with the fund portfolios of other IFIs in the same regions/markets. This will enable to Bank to have a more informed view of its portfolio performance relative to other IFIs with similar developmental objectives.

R10 Avoid releasing funds too promptly

It must be ensured that committed capital is draw-down as needed to carry out investments. Releasing large amounts at once, as it has occurred in a minority of cases, produces a too important treasury that distracts the fund manager from its focal activity.

2012 Update and validation:
The cases cited were exceptions of previous periods and nowadays drawdowns need to be justified against expenses and proposed investments. Hence, this issue is deemed to be resolved.

Management response

Agreed

R11 Management fees should be adapted if low investment levels

Even for the first generation of funds, management and other fees were set in line with the industry standards. However, in the case of funds in which investment pace is significantly below expectations or when only a fraction of the capital committed has been invested, the Bank should have the possibility to adjust management fees.

2012 Update and validation:
Whereas the initial recommendation suggested adjusting management fees when funds were underinvesting, there are additional possible measures to address weak fund performance other than through management fees that the Bank could explore, such as enhancing cooperation with other DFIs/IFIs, recruiting experienced staff within the fund management and using TA to support fund managers. These different possibilities are more or less implicitly foreseen by the non-EU Equity Risk guidelines referred to above and the recommendation is deemed to be no longer applicable today.

Management response

Reducing management fees might form part of a larger fund restructuring but would not address underperformance *per see* and could aggravate an already bad situation, as the Manager might have difficulties funding operational expenses and/or retaining or recruiting key staff. There are several additional measures and standard legal clauses available for investors to address underperformance (such as early termination of investment period, removal of manager, etc.).

R12 Develop active monitoring

Operational Guidelines include a full section on active monitoring. Yet, they need to be updated (see Recomm [R8]).
(i) Furthermore, they need to be applied - which is not always the case due to a lack of human resources and, in some cases, lack of awareness of the importance of monitoring an investment fund more actively than a loan.
(ii) Reporting on investment funds has improved through the years but there is still significant room for improvement in the case of ACP funds. For instance, in 2009 a Progress Report has been produced for some funds.
(iii) For more than 5 years, there have been discussions to either outsource some back office tasks or to use within Ops-B specialised software to follow up investment fund operations. A decision (ideally the same for both regions) should be taken and implementation should be done immediately as the risks of the current ad-hoc follow up systems (different for FEMIP and for ACP) are significant.
(iv) For the first generation of investment funds in which the Bank participated, the respect of environmental and social standards was not always present as a legal requirement. Currently, it is systematically requested and included in the fund's legal documentation. Yet, as part of the active monitoring, the Bank needs to ensure the compliance with such standards.

2012 Update and validation:
Whilst the 2010 recommendation was relevant at the time, subsequent changes and developments discussed under the organisational level above (R4-R7), however, may supersede this point as it relates to functional aspects of the monitoring process.

Management response

Agreed.

R13 Monitor development effects on private sector

Both mandates (for FEMIP and ACP regions) are given to the Bank for development purposes. Therefore, not only financial but also wider development effects should be monitored and reported to the EC / IF Committee for accountability purposes. They are currently not monitored in any of the two regions.
A library of development indicators was proposed by a group of IFIs, including the Bank in 2006. A set of these indicators are requested by the Bank in ACP funds but they are not monitored, analysed or reported.

2012 Update and validation:
The 2010 recommendation remains valid. The application of the Results Management approach (REM) to PEFs in ACP and FEMIP throughout the life of a fund is expected to provide better insights on expected and realised development effects. This should however be reassessed in the future as this only started in 2012, with data on impacts of the funds coming off in a couple of years only. ECON could play a greater role in the assessment of development effects of PEFs.

Management response

In FEMIP developmental indicators are monitored, although contractual reporting obligations do not exist for older funds. It is important that developmental indicators should be consistently monitored throughout the life of a fund as much of the data relates to the post-investment period. It is hoped that in the future ECON will be able to play a leading role in standardising key performance indicator reporting (including through the REM), allowing the Bank to report on a consistent basis across its mandates. An IT package allowing fund managers to report directly should be considered in this context.

R14 Ensure appropriate filing of relevant documents

Filing was weak for the first generation of investment funds and in particular for FEMIP funds, where important gaps were found for the more ancient funds. The situation has improved in both regions but further progress is needed.
(i) FEMIP funds' documentation (appraisal, legal documentation, fund's progress reports, communications, etc.) is well organised today but all information is kept within the Division. While this is handy for operational purposes, it lacks transparency with respect to the Bank's other services. GED should be used systematically.
(ii) ACP funds' documentation of appraisal stage is usually complete in GED for old and new funds while legal documentation and fund's monitoring reports are not systematically uploaded. Filing should be up to date.

2012 Update and validation:
The 2010 recommendation remains partially valid:

- Relevant files are currently systematically stored on GED, the Bank's electronic data management system
- However, much of data processing, for reporting purposes and otherwise, is done based on spread sheets which makes it difficult to obtain consolidated data and to carry out cross-departmental analytical work. It also entails a higher risk of errors.

Management response
Agreed. The lack of a single IT platform across the Bank for monitoring and reporting on funds represents a significant operational risk which remains to be addressed. This would be one step towards more convergence between the different equity functions within the Bank.

1 INTRODUCTION

1.1 Background

This report concerns the validation and finalisation of the 2010 "Evaluation of Investment Fund operations in FEMIP and ACP Countries", hereinafter referred to also as the "2010 Evaluation". This evaluation relied on 12 evaluations of individual funds, including interviews with managers of the investment funds evaluated and of the investee companies, and on desk study, additional research and numerous interviews with Bank staff. The draft synthesis report was consulted with the relevant EIB services during mid-2010, but the evaluation process became delayed due to a temporary lack of human resources at Operations Evaluation (EV) and was eventually not finalised. Ultimately the evaluation was not presented to the Management Committee (CD) or the Board of Directors (CA, "the Board"). EV deemed that, given the time elapsed, an update and validation, especially of the recommendations, was needed before final consultation and dissemination.

The present report, realised by EV under its Board-approved work programme for 2012, aims at completing the evaluation work by focusing particularly on post-2010 developments, i.e. covering the time window 2010-2012. From this point of view, the present report can be viewed as a thorough assessment of the current status of the recommendations that EV proposed, and that at the time were already discussed with operational services, following the 2010 Evaluation.

The aim of the 2010 Evaluation was to assess the Bank's financing of investment funds – hereinafter referred to as private equity funds or PEFs – in FEMIP and ACP countries since the mid-90s. In line with EV's Terms of Reference, the purpose of the evaluation was two-fold: to provide accountability on investment fund operations carried out under two different external mandates; and to draw lessons for the implementation of future activities in investment funds. The geographical scope covered two different but closely linked regions, and therefore allowed to evaluate a sample of operations in countries with different levels of development and where the Bank operates under different external mandates.

1.2 Structure of this report

Following this introduction and a description of the evaluation subject in the next section, the main focus of this report is on the draft recommendations of the 2010 Evaluation, the provisional responses that were received at the time and developments that took place since issuing the draft report. This includes a review and update of the Bank's overall investment portfolio in this area, of the sample fund evaluations, and of Bank internal systems and procedures supporting the Bank's activities in this area. The report closes with summary conclusions and a few recommendations complementary to those of the 2010 Evaluation.

For ease of reference the 2010 Evaluation report's Executive Summary is included as Appendix 1.

2 EIB INVESTMENT FUND OPERATIONS IN FEMIP AND ACP COUNTRIES

Before presenting the evaluation and its validation and finalisation, this section briefly provides a description of the involvement of EIB with Investment Funds in ACP and FEMIP countries over the past two decades.

The private equity (PE) industry originated in the 1950's in the United States. Over time, the industry has expanded in developed markets with impressive results, both in terms of financial returns and the capacity to support many businesses - including the most innovative ones. For this reason, governments in many countries have sought to encourage the industry's development.. The situation was very different in emerging markets, where the industry started to develop only in the 1990s. At the time, in Asia and Latin America, it showed promising signs of development while in FEMIP and ACP countries the industry was less active.

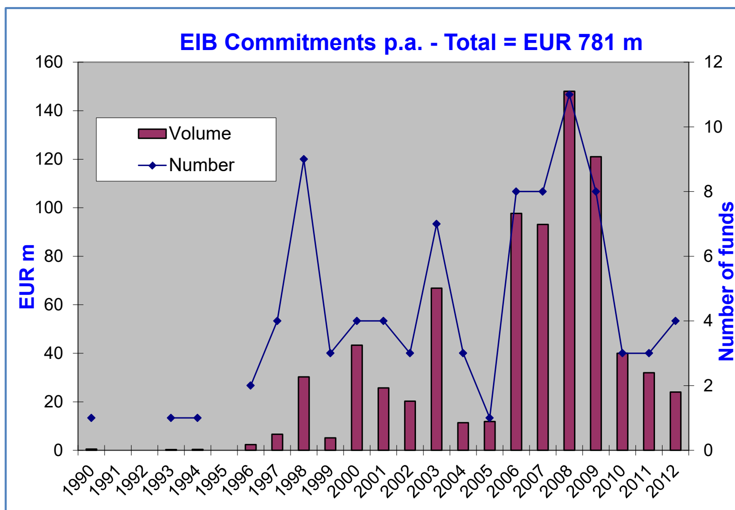
In the late 1990s – early 2000s it became clear that investment funds in developing countries were underperforming as compared with developed markets, and relatively more so in FEMIP and ACP

countries than in other developing regions (Asia, Latin America). The main lesson learnt was that the business model had to be adapted to the specific constraints faced in emerging markets: poor business environment; non-conducive regulatory and legal frameworks (including political stability); lower rates of growth; smaller class of entrepreneurs. These differences were reflected in lower absorption capacities, greater resources needed to accompany investee firms and difficult exits. It is in this context that the Bank started participating in investment funds during the period evaluated.

A **private equity fund (PEF)** is an investment vehicle used for making pooled equity and quasi-equity investments in non-traded companies (known as portfolio or investee companies) according to its defined investment strategy. PEFs are typically limited partnerships with a fixed term of 10 years (possibly with annual extensions if the fund has not reached full disinvestment). Funds are raised and managed by investment professionals (the management team) of a specific private equity firm (the General Partner). At inception, investors (the Limited Partners) make an unfunded commitment to the limited partnership, which is then drawn over the investment period. The aim of the fund is to sell (exit) its investments in portfolio companies for a return (internal rate of return or IRR) in excess of the price paid before its term is achieved. The preferred exit route is an IPO or a sale to a strategic acquirer (trade sale) but other options include selling to the portfolio company itself and selling to another private equity firm (secondary sale).

The Bank started its investment fund operations in the late 1980s – early 1990s. In the case of FEMIP, these were framed initially under the different Protocols (4 funds) but most were under the MEDA I (1996) and MEDA II (2000) Regulations. Current operations take place under the European Neighbourhood and Partnership Instrument (ENPI). The MEDA Regulations foresee that part of the budget (EC budget) shall be used for risk capital operations; the funds shall be provided to and managed by the Bank. For operations in ACP countries, the policy framework is provided by the different partnership agreements between the EEC and ACP States. The possibility to provide 'risk capital' was introduced in the 2nd Yaoundé Convention as early as 1969 but the first investment fund was signed late 1994. For the period under evaluation, the relevant Conventions are Lomé IV (1991-95) and Lomé IV bis (1996-2000), Art 234-1-b in both cases. Current operations take place under its successor, the Cotonou Agreement.

For both regions, the Bank is invited to carry out risk capital operations[1] (which includes direct equity, quasi-equity and participation in investment funds) in beneficiary / partner countries with the aim to contribute to ease the lack of financing sources for the private sector, and in particular for SMEs. It is expected that by providing equity finance to viable enterprises, they will be able to grow and contribute to the general economic development of their respective countries and regions. Indeed, several studies show the importance of a solid network of SMEs to achieve economic growth.



In the case of investment funds, in particular, it is expected that the way finance is delivered (i.e. through the fund) means that companies will also receive strategic support and that fund managers will have a role in enhancing the skills and quality of the entrepreneurial class in beneficiary / partner countries. For this reason, the development of a private equity industry and the rise of a class of private equity managers are considered as important objectives of these operations. These objectives are not shared with other operations such as investment loans or global loans.

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[1] Risk capital operations are a complement to other financial products funded with the Bank's own resources and do not represent in any case the whole of the portfolio of operations of the Bank in the FEMIP or ACP countries.

Over the 1990-2012 period the Bank invested in 88 investment funds in the ACP and FEMIP regions for a total commitment of EUR 781 m. The number of signatures, the level of commitments as well as the average commitment per fund show an increasing trend peaking in 2008, after which the number and volume of annual signatures quickly fell, to reach in 2012 only 20% of the 2008 level (see insert). Half of the funds (in number) were signed before 2006; half of the volume was reached in 2007. The four peak years 2006-2009 together account for 60% of total committed volume.

On the basis of an **initial portfolio review** that took place at the start of the evaluation, a sample of 12 funds was selected aiming at being representative of the population of operations. Criteria taken into account were vintage, fund size, geographical focus (regional or national), stage, sector and interim IRR. The sample contained 7 FEMIP funds and 5 ACP "first generation" funds with vintage years between 1995 and 2002, and therefore was expected to have a (close to) full investment cycle by the time of the evaluation. Their in-depth evaluation formed the basis for the 2010 evaluation. More detail on those funds will be given in subsequent sections of this report.

3 UPDATE AND VALIDATION OF THE 2010 EVALUATION

The 2010 Evaluation yielded 14 recommendations which were discussed, but not necessarily all endorsed, by EIB services and management. These recommendations were organised under three headings referring to, respectively, the strategic, organisational and operational level. The status of recommendations that EV proposed in 2010 will be assessed in the light of developments that took place within the Bank and its operating context during the 2010-2012 period. They will be completed with, where needed, additional recommendations emerging as a result of the validation and update exercise.

3.1 Recommendations at Strategic Level

The first main conclusion of the 2010 Evaluation was that the results, based on the sample of first generation of funds, were positive overall. Since EIB's first contribution in the early 1990s, the Investment Fund industry has come a long way in FEMIP and ACP countries. Starting virtually from scratch, the Bank, its international partners and its counterparts in the two regions have contributed to the emergence and a certain stabilisation of a new industry. The evaluation showed that the Bank's participation is not only desired by fund managers and other parties encountered, but also needed to guarantee the sustainability of investment funds in an area which, for the time being, and accentuated by the financial crisis, is still fragile.

The role of management teams appeared crucial to select companies with high potential value and to effectively unlock this potential during the few years in which they are invested in by the fund. The Bank could however have been more pro-active to support such teams.

This led to three recommendations at Strategic Level, as follows:

- Continue Investment Fund operations
- Encourage complementary activities…
- … and in particular the support to new management teams

These will be discussed in turn, below.

3.1.1 Continue Investment Fund operations

In 2010, EV recommended:
*"**Continue Investment Fund operations**. When successful, investment funds can significantly contribute to develop and reinforce private sector and have wider development effects than global loans. Therefore, in spite of the risks and their cost for the Bank, they should be continued."*

However, since 2010 the context within which the FEMIP, and to a lesser extent ACP, investment funds operate has considerably changed. The most influential events that can be expected to affect PEF operations are the global crisis; the "Arab Spring" mostly concerning FEMIP countries; and civil

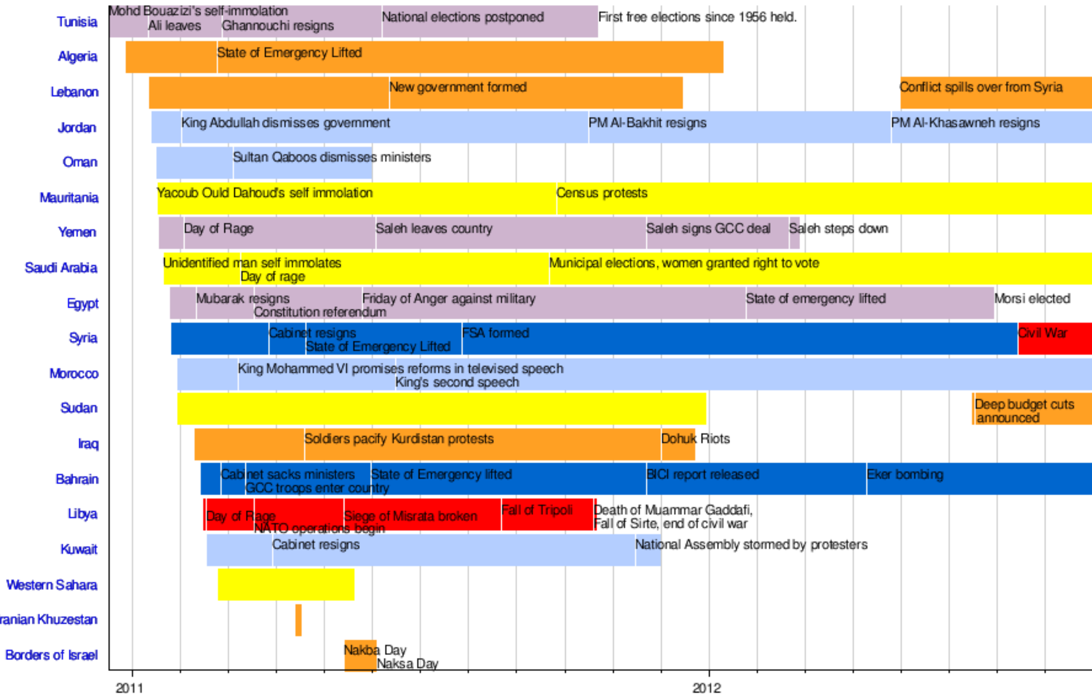
strives in some ACP countries. The ACP countries were however less affected overall by those events than FEMIP countries, and the focus below therefore is on the latter.

Global crisis. The deterioration of the macroeconomic climate affecting developed and less developed countries alike, albeit at different degrees, started to unfold in 2007 with the collapse of Lehman Brother Holdings Inc. This event is widely believed to have constituted the prelude to the 2008 Global Financial Crisis, the repercussions of which are currently still on-going.

As a main result of the crisis, foreign direct investment (FDI) in the FEMIP Mediterranean partner countries dropped by 31% in 2009. An EIB commissioned report (2010) on the consequences of the crisis on FEMIP countries[2] called for more active policy in favour of FDI by (i) progressing on the South-South integration; (ii) improving of the business climate; and (iii) systematically targeting FDI that leads to transfer of technology. A key role was attributed to local SMEs, particularly as sub-contractors of larger FDI-financed undertakings. The importance of job creation, particularly for the young, is highlighted by this study. Estimates exist of 75 to 80 million new jobs needed during the coming decade, in order to attain economic recovery, and social and political stability.[3]

Arab Spring. A second prominent event in the FEMIP region is the "Arab Spring" movement that started in December 2010 and which is still on-going as of this reporting (March 2013). Starting in Tunisia, it has spread, to different extents, to the majority of Arab countries in North Africa and the Middle East (see graph[4]).

Graph 1. 'Arab Spring' Timelines



Investment climate. The 2011 annual report for FEMIP risk capital operations confirmed that the operational environment for risk capital was affected by these events and expected that the situation for 2012 would remain critical.

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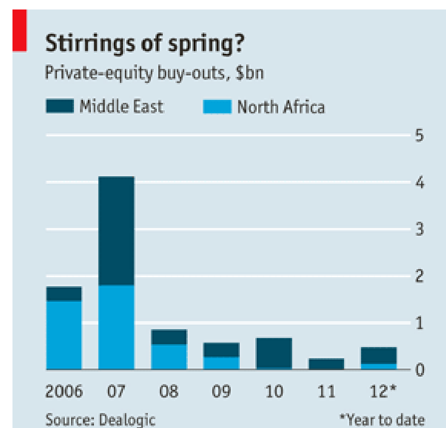
2 "FEMIP: The crisis and exit strategies in the Mediterranean partner countries"

3 Elias Ghantous, The impact of arab spring on regional private banking and development, *First Arab-German Finance and Investment Conference*, Frankfurt, 17 November 2011

4 http://en.wikipedia.org/wiki/Timeline_of_the_Arab_Spring

Indeed there is a downward trend in equity appetite by investors since 2007 (see insert), which seems to be linked to both the Arab Spring and the global crisis. In spite of this context, the Bank has signed new operations in the region.



EIB activity since 2010

The 2010 Evaluation portfolio assessment was based on 78 investment funds in the ACP and FEMIP regions originated during the period 1990-2009 and representing a total EIB commitment of EUR 685m (63% ACP and 37% FEMIP) and constituting together roughly 13% of EIB's total equity portfolio (within and outside the EU). This exposure generated a financial leverage effect of 7.5 times, i.e. the total investment together with co-sponsors was about EUR 5.2bn.

During the 2010-2012 period, 10 more PEF investments were signed; 4 in the ACP region (EUR 57m) and 6 in the FEMIP region (EUR 39m). The ACP funds were all regional (one even being Pan-African). Of the 6 FEMIP funds 2 were regional; the remaining 4 having a national focus (on Palestine, Lebanon, Jordan and Morocco, respectively).

By these additions the total ACP FEMIP PEF portfolio grew by about EUR 97m (or 14%) over this three-year time span. Although there is a strong downward trend since the start of the crisis in 2008, given the context this is still viewed as a significant activity rate when considering the macroeconomic and geopolitical conditions unfolding since 2007 and that, expectedly, could have resulted in pronounced detrimental effects for PEFs.

> 2012 Update and validation:
> The recommendation made in 2010 was shared by the services as it relates to the continuation of PEF operations and continues to remain valid. Although signatures have fallen since the start of the crisis in 2008, the Bank has continued to sign new PEFs in both regions in spite of the adverse macroeconomic and geopolitical framework conditions. This is viewed as a positive achievement.

3.1.2 Encourage complementary activities

> EV recommended in 2010:
> *"**Encourage complementary activities** to contribute to reinforce longer term effects of investment fund operations and the development of a sound private equity industry. For instance, work with local governments to improve regulatory framework and with local private capitalists to strengthen local professional associations. When carried out, these actions should be recorded and filed so they can be reported to the EC or IF Committee"*

Funds which did have a positive effect were able to support the creation of a nascent private equity industry in the region; had fund managers able to raise new investment funds; could leverage operations by attracting other investors; in some cases they contributed to the diversification of the economy by creating value in different parts of the country or by supporting innovative ventures. Often their management teams had an active participation in professional bodies (AVCA, EMPEA) and contributed to improve the regulatory framework in their respective countries. In some cases, the Bank participated actively to this effort. Unfortunately however, in spite of good examples in Tunisia for instance, the Bank's contribution in this area was not systematic.

In 2010, the services responded in principle positively to the above recommendation and suggested it could be considered in the context of the new mandate and in coordination with the EC. They also warned that it should be taken into consideration that: (i) it is resource intensive, (ii) it is more difficult to apply in the case of regional funds (which represent the majority of operations), (iii) funds will always be incorporated in those few jurisdictions which have appropriate legislation and regulation and an efficient service sector.

The services' concerns are valid. More financial and human resources would be required to implement

such complementary activities and make the Bank's PEF support more relevant and effective. This could come, for instance, by mobilising TA funds available under both FEMIP and ACP frameworks.

More generally however, *there appears no clear and commonly shared understanding among EIB staff (including beyond Ops-B) between the Bank's role as an investment and as a development agent*. The recommendation at stake is clearly focusing *on the developmental role*, as PEF operations in both regions observe developmental objectives:

(a) In view of the FEMIP external mandate (see Box 1), the Bank's developmental role is explicitly articulated. Whether the Bank's internal resources (staff and budgetary) are adequate to fulfil this role cannot be ascertained with confidence under this reporting.

(b) Concerning the Cotonou Agreement[5], which governs the ACP-EU policy and therefore the utilisation, by the Bank, of the Investment Facility (IF), it aims "*to promote and expedite the economic, cultural and social development of the ACP States*"; it makes explicit reference to the Millennium Development Goals (MDGs) and to the private sector as an instrument for sustainable economic development. This notion also applies to those funds that were conceived under the Lomé Convention calling for "*promotion of industrial development to self-reliant development on the basis of self-sufficiency and food security"* (Lomé III) and, notably, "*the promotion of the private sector"* (Lomé IV).[6]

Box 1. External Mandate (FEMIP)

In October 2011 EIB's mandate regarding its operations outside the EU was extended and its complementarity with the "general guiding principles and policy objectives of the Union" re-emphasised. More specifically, the EIB is called upon (para. 18), amongst other priority areas, to "finance projects in the areas of [……] local private sector development, in particular in support of small and medium-sized enterprises (SMEs)" and recalls "that access to financing of SMEs can play an essential role in stimulating economic development and in combating unemployment".
The developmental role of the Bank is further addressed in the mandate extension by stating (para. 21): "While the EIB's strength remains its distinctiveness as an investment bank, the EIB should, under this Decision, frame the development impact of its external operations in close coordination with the Commission ……".

Source: Decision 1080/2011/EU

The 2010 Evaluation's call for focusing on "the development of a sound private equity industry" – and by that, re-emphasising the mandate requirements to which the PEF operations need to contribute – may require a more collective approach and complementary activities by the international aid community active in the countries and regions at stake together with key stakeholders within those countries and regions. A participatory approach would be encouraged. The EIB could lead such an initiative.

2012 Update and validation:
The recommendation made in 2010 is still valid and the present evaluation revisit sees continued scope for improvement. *Complementary activities are expected to contribute to reinforce longer term effects of investment fund operations and the development of a sound private equity industry. For instance, work with local governments to improve regulatory framework and with local private capitalists to strengthen local professional associations.* This could be achieved by making such objectives more explicit both in terms of planning and for monitoring purposes. The Bank's REM initiative, which will be discussed below, indeed starts from that premise.

However, financial and human resources to work toward such an approach presently are insufficient. The consequences of being charged with a development mandate in terms of financial and human resources, required staff expertise, and internal as well as external (with DFIs/IFIs) cooperation need to be addressed. From that perspective, the Bank is encouraged to more systematically explore opportunities for internal and external synergies, and, in turn, encourage other institutions to also devote more attention to those aspects. Also, Technical Assistance funds, available under both FEMIP and ACP, may be mobilised for this.

[5] http://ec.europa.eu/europeaid/where/acp/overview/documents/devco-cotonou-consol-europe-aid-2012_en.pdf

[6] http://ec.europa.eu/europeaid/where/acp/overview/lome-convention/lomeitoiv_en.htm

3.1.3 Support new PEF management teams

EV recommended in 2010:
*"**Support new PEF management teams**. While not an explicit objective of any of the two mandates, the support to new teams has often been considered as an implicit objective. It can indeed reinforce the performance of existing investment funds and contribute to the development of a private equity industry in emerging markets. The Bank should define its position on this aspect and be ready to propose and/or finance training, coaching, exchange of experiences, consulting services to improve funds procedures or investment guidelines, etc.*

This recommendation was fully embraced by the EIB operational services in 2010, although they pointed at staff constraints, which are expected to be higher when working with less experienced teams.

Many fund management teams' lack of experience may be explained by two reasons. It either points to appraisal deficiencies by presumably insufficient institutional analyses of fund management teams. Or it means that compromises were made by Bank staff at appraisal facing immature market environments where there is a lack of appropriately skilled and experienced fund management staff. A third likely explanation is provided by the 2010 Report (Section 4.2) that "*it is sometimes an implicit objective to support the emergence of new teams as a way to contribute to the development of private sector industry in these emerging markets*", which would correspond to the point made above on the Bank's developmental role.

Any investment fund with a team lacking the adequate professional skills is likely to have a negative developmental impact (see Section 3.3.2). In challenging environments the Bank needs to invest in funds which have the best chance of success to ensure positive financial returns and, therefore, a positive developmental impact. The performance of a fund depends to a great extent on the competence of its managers.

Whereas the Credit Risk Policy Guidelines (CRPGs) require that only those PEF management teams which "*have all the requisite skills from the outset*" should be considered for EIB's investments, the Non-EU Equity Risk Guidelines, introduced in 2011 (see below), specifically allow for "first time managers" who "should be supported if due diligence confirms that the individual members of the management team have, combined, the adequate professional skills". Those guidelines thus seem sufficiently flexible to allow for new teams – but those teams would need support, and such support needs extra efforts from the Bank. At present more than half of the funds for both FEMIP and ACP are with new management teams, which are given special attention by the Bank.

Similar to what can be observed in the case of EIB's peers[7], the 2010 Evaluation pointed to several cases where the weakness of the fund management team was a key factor for weak fund performance. The 2010 Evaluation concludes: "*Overall, most management teams lacked experience at the start of operations but some entered a strategic partnership with more experienced companies, which provided technical support and training*". Both evaluations point to the need for technical support. The EIB evaluation highlights an interesting variant of this: private sector-to-private sector assistance. In one case referred to in the 2010 Evaluation such a private sector solution was found, where managers of a fund in one country supported the managers of a fund in another country. Although it happened to be a singular case, not tried in any other funds, the Bank could use this example and include formal fund-to-fund twinning arrangements in its PEF toolkit.

2012 Update and validation:
The Non-EU Equity Risk guidelines specifically allow for "first time managers". More than half of the current fund portfolio for both ACP and FEMIP are with new management teams. Such new management teams are given special attention by the Bank.
Technical assistance and fund-to-fund twinning arrangements could be promoted in order to support new management teams.

[7] E.g. EBRD Regional Venture Funds Program 2006 mid-term review, http://www.ebrd.com/downloads/evaluation/RVFs.pdf

3.2 Recommendations at Organisational Level

The 2010 Evaluation found that appropriate structure and corporate governance of the funds were key success factors, but that the majority of sample funds (7 out of 12 cases) were less than satisfactory in this respect. Weak fund management, a point raised earlier, was another factor that contributed to poorer than expected results in several cases.

The 2010 Evaluation observed that "*specific, written, procedures for risk capital operations and in particular, investment funds, did not exist [within the Bank] for any of the two regions (FEMIP or ACP) until 2004-05*". Table 1 provides highlights of the synthesis report (Section 8).

Table 1: EIB Management of Investment Funds pre-2005

	ACP department	FEMIP department
Due diligence	Basically same for investment funds as for loan operations and following the Bank's standard project cycle	Authorisation**.** In late 90s- early 2000s investment funds were mostly allocated under Global Authorisation (GA) that did not require approvals by the Board of Directors. Appraisal quality. It cannot be determined since documentation of risk identification or process timeliness was not systematically recorded in central archive and SERAPIS/GED.
Acquisition	Bank was approached by promoters or managers of funds.	Passive, in most cases funds were identified based on an existing and active relation with promoter.
Sector specificity	Whilst sector expertise was regularly invited during appraisal (PJ involvement) it was less so for negotiation of partnership agreements; the risk management was deficient.	In spite of more specific sector knowledge, no PJ opinion on the quality of operations is obtained.
Monitoring	With few exceptions, passive attitude (e.g. receiving reports from fund managers and fund annual meetings); there were rarely analyses of performance going beyond IRR calculations.	Initially similar as at ACP department, but with organisational changes in 2005 (see "Remedy", below) situation improved drastically (guidelines developed and followed; Risk Capital Annual Report; Valuation Report).
Paper trail	With few exceptions, (physical and electronic) filing patchy	Hand-overs between units (geographical divisions, DEAS and a division specialised in private sector operations (equity and loan) frequent, but insufficiently documented.
Remedy	2003 and 2004 strategy and operational guidelines were developed and a working group set up; organisational changes did not follow (e.g. funds with national scope remained dealt with by geographical services).	In 2005 new division was created managing risk capital operations (loans remained in geographical divisions); appropriate staffing and procedures were achieved.

Against the above background, the 2010 Evaluation recommended that:

- The Bank should recognise the specificity of investment fund operations and the particularity of emerging markets
- The Bank needed to adapt structures and resources
- Cross-fertilisation is needed within services in Ops-B
- Coordination within the Bank with other services working with PEF is required

These recommendations will be discussed in the following sub-sections. As they are closely interrelated, the update for the four recommendations together will be discussed *at the end of this section* and not per subsection.

3.2.1 The Bank should recognise the specificity of investment fund operations and the particularity of emerging markets

EV recommended in 2010:
*"**The Bank should recognise the specificity of investment fund operations and the particularity of emerging markets**. Investment fund operations are more risky and expensive to manage than loans. Due to the mandates, they are subject to specific accountability. They need adequate structures, guidelines and procedures as well as sufficient resources with private equity expertise".*

Since the 2010 evaluation there have been substantial organisational changes within the Bank and the situation is still subject to change. The most relevant changes in view of the above recommendations are:

(a) In February 2013, the merger of the divisions in charge of PEF for ACP and for FEMIP
(b) Introduction of non-EU Credit Risk Policy Guidelines early 2011
(c) The introduction of the REsults Measurement (REM) Framework as of January 2012, which constitutes a new monitoring instrument for Ops-B operations and also applies to equity
(d) The transfer, mid-2010, of the PEF monitoring responsibility after investment phase from Ops-B to TMR.

These items will be discussed in turn, below.

a) Merger of the divisions in charge of PEF for ACP and for FEMIP

In February 2013 the two divisions in charge of PEF in the ACP and the FEMIP regions within OPS-B have merged into one (also including microfinance). This is expected to lead to further synergies and streamlining regarding the handling of funds between the two regions, thereby probably ironing out the differences in management of funds that were observed by the 2010 Evaluation.

b) Introduction of non-EU Equity Risk Guidelines

At the time of the 2010 evaluation, equity investments outside the EU were governed by different documents and guidelines. The coherent application of rules spread across such a large number of documents posed practical operational challenges (e.g., interpretation) for Management and staff alike and possibly even operational risks for the Bank as a whole. Moreover, the treatment of equity investments was not always consistent across the documents. In early 2011, therefore, RM and Ops B jointly proposed to streamline the treatment of non-EU equity risk by the introduction of non-EU Equity Risk Guidelines. These were approved by the Management Committee in March 2011. This consolidated all existing risk guidelines into a single, consistent document. The new guidelines introduced a scoring system for equity operations; a risk limit framework; and criteria allowing the Bank to selectively support leveraged funds outside the Union.

c) Adoption of the REM Framework

A new monitoring tool – called the REsults Measurement (REM) Framework – was introduced for all new Ops-B operations since 1 January 2012. This replaces the previous Environmental and Social Assessment Framework (ESIAF) for Ops-B partner countries. The REM builds on the Logical Framework methodology and was developed in response to the needs emanating from the discussions about the external mandate extension. The expectations associated with REM are summarised in Box 2.

Box 2. REM Outcome Expectations

> *"With the introduction of the new REM Framework, the Bank aims to improve the ex-ante assessment of expected project results at appraisal, develop monitoring and ex-post evaluation of results, and enhance the Bank's ability to report on project results, expected and achieved, most notably in an annual report to the Commission, European Parliament and to the Council on the development results of the operations financed through the year".*
>
> Source: EIB – REM Explanatory Note – June 2012

REM reflects the Bank's three-pillar structure, even though it is different from a similar approach ("3 Pillar assessment") adopted in Ops-A.

- Pillar 1: Contribution to EIB Mandate Objectives and EU Priorities
- Pillar 2: Development Outcomes
- Pillar 3: EIB Additionality

It assigns ex-ante ratings to these dimensions based on expected outputs, outcomes and impacts. It also identifies risks, which may impede on the effects. These elements will be revisited at monitoring intervals and the progress on financial as well as on non-financial data be recorded. By that, the Results Measurement Framework document is a 'living document', starting at due diligence stage and regularly updated until three years after the project completion report, when it can be used as input for self-evaluation or independent evaluation by EV.

Applying the REM framework throughout the life of equity funds is expected to lead to a better insight of the expected and actual impacts of such operations. However, as application of the REM to PEFs for the first time started in 2012, such data will be available in a couple of years only.

d) Transfer of Monitoring Responsibility post-investment period

Until 2010, Ops-B monitored PEFs during their entire life cycle. Two specialised PEF divisions, one for ACP and one for FEMIP respectively, were responsible for due diligence and monitoring activities, until they merged early 2013, into one specialised Equity and Microfinance Division for all Ops-B as discussed under point (a) above.

Whereas monitoring *during the investment phase* continues to be performed by the aforementioned division within Ops-B, in July 2010 the PEF monitoring responsibility *after investment period*[8] was decoupled from origination and operational activities, and transferred from Ops-B to TMR.[9] This decision was controversial between the different services within the Bank.

Arguments *in favour* of this transfer are:

- an early transfer of monitoring responsibility away from project originator units helps detect possible design flaws earlier and allows for addressing these without vested interest early on;
- alignment on the practice valid for loans where the monitoring responsibility is transferred to an unrelated third party close after loan closure

Arguments *against* this transfer are:

- monitoring responsibility should be kept with the deal originating unit throughout the fund management cycle in order to avoid breaking the Bank-Client relationship,
- efforts involved with learning-curve to be gone through by a new unit, and
- the originator should be able to reap potential new business opportunities with the same fund client.

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[8] This is understood as the period during which a fund builds up its investment portfolio, i.e. invests in investee companies. Normally the fund's life duration is 10+2, the first 5 of which are normally investment period, the rest being used to divest.

[9] The internal documents describing the transfer from OPS to TMR note: "Definition of Funds to be monitored by TMR include: (i) equity type funds with a defined investment period, a finite life and exit, (ii) direct equity investments, (iii) final beneficiaries having received directly or indirectly loans whose debt service is at least partially conditional."

The evaluation revisit allows us to make two related observations, as follows.

First, a more generic concern relates to the scope and intensity of monitoring. Table 1 above highlighted the passive monitoring style of the past but also points to the risky nature of fund operations. There is a particular concern with PEFs' compliance with environmental and social standards, health and safety standards and developmental objectives (intended or implied). The current PEF monitoring system, including with monitoring after the investment phase being positioned under TMR, initially relied on *financial* monitoring criteria, which are normally included in PEF legal documents, and on the reporting of these by mainly the funds' managements, without going into much depth as far as other important indicators are concerned. Increasingly, however, EIB staff do visit PEFs and provide hands-on monitoring, event resolution and, in the case of TMR, exit management support. Such active monitoring should now be further encouraged.

Second, due to the split of the monitoring of equity operations, also the monitoring of the portfolio is split between Directorates. Ops-B follows the part of the portfolio before investment and TMR the portfolio after investment period. By the time the present report was finalised (March 2013) the two Directorates actively worked together on establishing one consolidated overview.

3.2.2 Need to adapt structures and resources

> EV recommended in 2010:
> *"**Need to adapt structures and resources**. The organisational structure in the ACP department needs to be modified and more human resources with private equity expertise are needed to carry out investment fund operations. Today, regional funds are appraised and managed by one investment officer in a horizontal division while 'national' funds are appraised and managed by loan officers in geographical divisions. These loan officers do not always have specific skills on private equity. As a comparison, since 2005, all equity and quasi-equity operations in the FEMIP are under the responsibility of one division".*

At operational level, since the 2010 evaluation 2 staff were hired by the ACP equity division, one of which from EIF, therewith implicitly responding to 2010 Evaluation's observation of lacking "*competencies in private equity*". Services confirmed that the organisational structure within EIB (see above) is in place. This notwithstanding, private equity fund expertise in the Bank should be further enhanced more generally, as its expertise is traditionally focused on lending.

The merger between the ACP and FEMIP equity divisions, the involvement of TMR and the existence of the non-EU equity risk guidelines will further improve synergies between approaches.

3.2.3 Cross-fertilisation is needed within services in Ops-B

> EV recommended in 2010:
> *"**Cross-fertilisation is needed within services in Ops-B**. Although there are certainly differences in terms of the markets and in terms of the rules implied by the two mandates (FEMIP and ACP), there is no reason to have a different approach in the two regions. Already, Operational Guidelines for both regions are almost identical. A working group or task force composed by services working in investment funds outside the Union should be in place to encourage cross-fertilisation, ensure a coherent approach and share best practices".*

This recommendation aimed at internally harmonising PEF procedures between ACP and FEMIP funds, so as to ensure a coherent approach and share best practices.

As indicated above, non-EU Equity Risk Guidelines were introduced in 2011 and more recently, in February 2013 the ACP and FEMIP divisions responsible for equity were merged, together with microcredit, into one single division. This is expected to harmonise PEF approaches which, according to the services, were already to a great extent brought closer together.

3.2.4 Coordination with other services

> EV recommended in 2010:
> *"**Coordination with other services**. This working group should also coordinate with other services working in investment funds within the EIB Group to keep abreast of latest developments in the Bank and the EIF and ensure a coherent approach when appropriate".*

In a similar vein as the previous recommendation, the 2010 Evaluation called for a working group representing PEF activities outside the Union to be set up and that this group should also coordinate with other services working in the field of investment funds. Services responded that the requested cross-fertilisation was achieved by the creation of the new (FEMIP) team Europe's Neighbourhood and Partner Countries (ENPC)[10], by the ACP team recruiting two staff, one of which formerly at EIF, as well as by the different other developments cited above (merger of FEMIP and ACP equity divisions, post investment monitoring by TMR, etc.).

> 2012 Update and validation:
> Since the 2010 evaluation several important changes have been made in the Bank's organisation and procedures to manage, inter alia, FEMIP and ACP PEFs. This suggests that the 2010 recommendations were valid but also that the Bank, through its own learning processes, has reflected on its internal processes and substantially improved on them in order to better manage non-EU equity.
>
> In view of the proposed recommendations of the 2010 Evaluation, the main changes made are as follows:
> - "National" funds are no longer appraised and managed by loan officers in geographical divisions but by the equity divisions.
> - The ACP division in charge of equity hired two staff, of which one with PEF experience coming from the EIF, which responds to the human resource issues flagged by the 2010 report.
> - Non-EU Equity Risk guidelines were introduced in 2011 to streamline and consolidate the many – sometimes inconsistent – risk guidelines and documents applied to non-EU equity at the time.
> - The two divisions responsible for equity for FEMIP and ACP were merged early 2013 which is expected to benefit harmonisation between approaches already underway.
> - The Results Measurement framework was introduced and applied to equity as from 2012. This is expected to provide a better view on the impacts of investment funds as the REM is applied throughout the life of the funds.
> - Monitoring responsibility after the investment period has been transferred to TMR, inducing a clearer split between origination and investment on the one hand, and monitoring on the other hand.

3.3 Recommendations at Operational Level

Before going into the detail of the 2010 recommendations in this area a brief revisit of the 12 FEMIP and ACP Investment Funds in-depth evaluated earlier is deemed appropriate. In this respect the 2010 Evaluation's overall conclusions were:

- The results, based on the sample of the first generation of funds, were positive overall.
- In terms of the funds' performance, the results are varied, although the financial results of the sample of funds were better than expected at appraisal.
- A positive financial result is a necessary condition to achieve development results.
- Most management teams were inexperienced when they started operations but many had a very positive evolution.
- The Bank's financial contribution to the funds was significant most of the time, but the Bank's non-financial contribution was less marked.
- The management of the project cycle by the Bank was insufficient for the operations evaluated.

[10] Directorate for Lending Operations outside the European Union (Ops B), Europe's Neighbour & Partner Countries (ENPC), Institutional and Policy Unit (I&P)

Based on the 12 in-depth fund evaluations, the 2010 Evaluation found (Section 4.5) that "Overall, half of the funds (6 out of 12) worked as expected: they combined, to different degrees, a proper structure, invested as per announced strategies, reached reasonable financial performances and had a management team that evolved positively (according to the Bank's strategy)".

2012 Update

Two-thirds of the funds in the sample evaluated were deemed to have performed well. Of the 12 funds evaluated, 4 were considered Excellent, 4 Satisfactory, 1 Partly Unsatisfactory and 3 Unsatisfactory. In spite of a lack of substantive progress observed with overdue equity exits (see table below), none of the sample PEFs was revisited under the scope of this finalisation assignment and the ratings proposed in 2010 remain therefore unchanged.

The table overleaf provides an overview of those funds. For reasons of confidentiality, fund names are replaced by letters.

12 Investment Funds evaluated in 2010: Ratings and 2012 Update (status January 2013)

Fund	Geographic Focus	Sector Focus	2010 Evaluation Overall Rating	Closing date	Initial Term	Termination Date	Status of investments	# of unexited / total # investments	new termination date
A	Caribbean	Generalist	Unsat.	2000	10 years (+2)	2010	Exited & Liquidated (2008)		
B	Tanzania	Generalist	Unsat.	1998	10 years (+2)	2008	Exited & Liquidated (2011)		
C	Middle East	Technology	Unsat.	2000	5 years (+2)	2005	Exited (2009)*		
D	West Africa	Generalist	Satisfactory	1995	20 years	2015	Exited & Liquidated		
E	Southern Africa	Generalist	Satisfactory	2001	10 years (+2)	2011	Exited* (2011)**		
F	Morocco	Generalist	Satisfactory	2000	10 years (+2)	2010	Unexited	3/13	Dec-11
G	Morocco	Generalist	Excellent	2000	10 years (+2)	2010	Unexited	5/13	Jun-13
H	Egypt	Generalist	Satisfactory	2000	8 years (+2)	2008	Unexited	4/6	Dec-12
I	Tunisia	Generalist	Excellent	1998	10 years (+2)	2008	Unexited	2/16	Jun-13
J	Morocco	Innovation	Partly Unsat.	2002	10 years (+2)	2012	Unexited**	7/9	Dec-13
K	Tunisia	Innovation	Excellent	2002	12 years	2014	Unexited	9/9	Jun-14
L	SS Africa	Infrastructure	Excellent	2001	10 years (+2)	2011	Unexited**	1/14	unlimited

(*) Under liquidation (**) Legal litigation of an underlying investment
Note: the 4-point rating scale used in the 2010 Evaluation was *Good-Satisfactory-Unsatisfactory-Poor* instead of the *Excellent-Satisfactory-Partly Unsatisfactory-Unsatisfactory* scale used since. The above table uses the *present* nomenclature.

The less than satisfactory exit performance shown in the table was explained by services as exogenous factors: the Global Crisis and the Arab Spring. This reasoning is plausible, but it does not sufficiently explain exit weaknesses already observed before the 2008-2010 crisis events. The 2010 Evaluation points in this respect to systemic problems, including poor business environment; non-conducive regulatory and legal frameworks (including lack of political stability); lower rates of growth; smaller class of entrepreneurs and unrealistic exit strategies. These were reflected by lower absorption capacities, greater resources needed to accompany investee firms and difficult investment exits.

Some of the exit difficulties faced by sample PEFs are presented in the following Box 3.

Box 3: Late and Non-Exits: Highlights

Fund I
Initially, no major problems were foreseen to close the fund in 2010 (10-year term + 2 years). However, the term has been extended by three additional years as the events in Tunisia are delaying the exit process for certain investments. On investee company, for instance, has been very negatively impacted by the Arab Spring, in particular in Lybia and Egypt.

Fund H
The Investment Manager was in the process of selling one investee company in the food production sector but due to recent events in Egypt this process has been put on hold and will most likely not be reinstated until after the parliamentary elections in Egypt. For the other three remaining investments (2 hotel properties and a bay development project), the Investment Manager does not expect to dispose them soon as there continue to be significant issues between the three original partners in that development project which must be resolved before these investments can be disposed of. It is thought that the resolution of these disputes could take some time.

Fund L
Over the past 2 years, the Fund Manager has focused on the execution of an exit from its 15% stake in one investee company in the water sector. Originally, the investment exit was planned through an IPO on the national Stock Exchange, but given the weak performance of the investee company - following the renegotiation of a series of contracts with the local municipality - that plan was withdrawn. After that, the Fund Manager succeeded to negotiate a put option with the sponsor, however the investee company is resisting payment of the specified put price, contesting the conclusions of the valuation report (including the implied price per share). The Fund initiated legal action with a view to forcing the sponsor to repurchase the shares and pay the corresponding price. Those developments, linked to one single investee company, hold up the liquidation of the fund.

At operational level, the 2010 Evaluation arrived at the following seven recommendations:

- Update procedures and operational guidelines
- Financial returns should be considered as necessary to achieve development effects
- Avoid releasing funds too promptly
- Management fees should be adapted if low investment levels
- Develop active monitoring
- Monitor development effects on private sector
- Ensure appropriate filing of relevant documents.

3.3.1 Update procedures and operational guidelines

EV recommended in 2010:
"Update procedures and operational guidelines. (i) Operational guidelines exist for both regions since 2005; they are very similar. While the guidelines are fairly complete, some aspects are still to be updated (as mentioned by the guidelines), e.g. Part III – Post-signing: Guidelines for Active Monitoring. Others sections should be reinforced, e.g. Annex on appraisal of investment funds provides a questionnaire but no orientation to assess the replies. (Appendix 2, III/1)
(ii) In the past, the use of Global Authorisations (GA) has allowed to make flexible use of Bank's procedures, in particular for some old FEMIP funds. While today the Procedures section of the FEMIP Guidelines include specific paragraphs on the Approval levels (CA, CD, services) according to the decision to be taken, it is important to remind that the use of a GAs should not reduce the due diligence required. ACP Guidelines should include similar paragraphs".

As explained above, early 2011 saw the adoption by the Management Committee of unified non-EU Equity Risk guidelines, consolidating the many existing risk guidelines into a single, consistent document. This contains, inter alia, specific sections on appraisal and monitoring of equity funds outside the EU suggesting for the latter effectively an *active* monitoring approach – without nevertheless going into too much detail on how this should be done.

2012 Update and validation:
The 2010 recommendation is to a great extent addressed by developing one unified set of guidelines for non-EU Equity Risk, applicable to all equity operations outside the EU and hence including both FEMIP and ACP. Furthermore, due diligence under global authorisations is now satisfactorily addressed in OPS procedures; this, *inter alia*, explicitly refers to risk capital in the two regions concerned. Appraisal and monitoring are clearly covered in the procedures, although their concrete implementation could not be checked within the framework of the present update and validation exercise.

3.3.2 Financial returns should be considered as necessary to achieve development effects

EV recommended in 2010:
*"**Financial returns should be considered as necessary to achieve development effects**. The evaluation has found a strong correlation between the fund's performance and the achievement of development effects. The most straight-forward sign of performance are financial returns.*
(i) The Bank should insist on the need for positive returns when negotiating its participation to a fund and through the life of the fund. In the past, too little importance was given to financial returns. Today, the situation has improved but its importance should be reminded to the staff identifying and monitoring investment funds, in particular, in the case of the less developed markets of the ACP countries.
(ii) Gross as well as net returns should be monitored and reported. Gross returns are currently reported for funds in the FEMIP region
(iii) Foreign exchange losses should be explicitly monitored and reported. They are currently not reported by either department".

Services responded affirmatively to these requests and also reconfirmed compliance during discussions for this evaluation revisit. Hence, this evaluation revisit understands that the 2010 recommendation has been implemented.

Although no ex-ante information was available, the 2010 Evaluation attempted to analyse development effects on the private sector through several methods including visits to investee companies. When present, main effects included, in particular, improvements in the governance and management skills of the investee companies, e.g.: accounting and management information systems, training for employees, certification, networks, etc.

However, in spite of such development effects, based on the analysed sample and in view of the high cost elements involved, low sub-investment levels and high rate of drop-outs (write-offs), there were only two funds that generated sufficient gross Internal Rates of Return (IRR) capacity to allow for net returns to fund investors. Judged from this, the demonstration effect is poor, if not negative.

According to preliminary data collected, yet to be consolidated and confirmed by services (and therefore not further detailed herein), the Bank's overall PEF portfolio carries on average a relatively low gross IRR. While the regions and vintage years concerned are different, as a reference it can be mentioned that data published by the EBRD would indicate that its gross IRR average is in the magnitude of 17% and its net IRR of 10% over its entire private equity portfolio. The ones for the Bank appear considerably lower and more in line with data recorded by the European Private Equity and Venture Capital Association (EVCA).

> 2012 Update and validation:
> Reconfirming the 2010 recommendation, gross internal rates of return (IRR) are deemed too low to fully cater for PEF inherent costs, whilst at the same time generating a commensurate return for fund investors. While this, to some extent at least, may explain why there is a relatively high proportion of public sector involvement in the fund structures (i.e. often, fund co-sponsors are other IFIs, MDBs or DFIs), this generates poor demonstration effects and market signals. An in-depth study should be commissioned to analyse the underlying reasons for IRR generally being low and means to increase them.

3.3.3 Avoid releasing funds too promptly

> EV recommended in 2010:
> *"**Avoid realising funds too promptly**. It must be ensured that committed capital is draw-down as needed to carry out investments. Releasing large amounts at once, as it has occurred in a minority of cases, produces a too important treasury that distracts the fund manager from its focal activity".*

Services implicitly confirmed the 2010 Evaluation's claim whereby investment proceeds by the Bank were occasionally released too early, i.e. not in line with sub-investments made by the PEF to which the Bank committed equity.

> 2012 Update and validation:
> The cases cited were exceptions of previous periods and nowadays drawdowns need to be justified against expenses and proposed investments. Hence, this issue is deemed to be resolved.

3.3.4 Management fees should be adapted if low investment levels

> EV recommended in 2010:
> *"**Management fees should be adapted if low investment levels**. Even for the first generation of funds, management and other fees were set in line with the industry standards. However, in the case of funds in which investment pace is significantly below expectations or when only a fraction of the capital committed has been invested, the Bank should have the possibility to adjust management fees".*

In response to the 2010 Evaluation's call for using adjustments of fund management fees in cases of fund investment underperformance, services pointed to a variety of options including, beyond fee adjustments, reduction of the fund's size and termination of the management contract. They rightly pointed to the danger of using fee adjustments as incentives or disincentives since these easily could result in a spiralling effect where lesser fees produce even poorer performance.

There is no universal answer to how best to steer a fund from an investor's perspective apart from carrying out the due diligence process as thoroughly and comprehensively as possible and of being represented in the fund, which is the case for the Bank through Boards, or Investment, Advisory or Supervisory Committees. The effectiveness of post-signature remedial options is limited unless they are included in the initial agreement.

Some kind of strengthening of pre- as well as of post-signature processes seems worth exploring for

the Bank in order to possibly enhance investment levels:

- Establishing of a PEF-related exchange platform to enhance cooperation among DFIs/IFIs; this may be constrained by confidentiality issues and competitive situations at times.
- Entering into strategic alliances with other DFIs/IFIs which already do have the required external infrastructure to which certain functions could eventually be outsourced;
- Recruiting staff with long-time PEF experience in the relevant geographical areas and good track record;
- TA input, more generally.

These different options are more or less explicitly foreseen by the non-EU Equity Risk guidelines referred to above.

Services confirmed during the interviews held for this update that they carefully consider their options in cases of underperformance, but also pointed as constraining factor to the fact that all adjustment proposals have to attract the majority consent of fund co-shareholders, which can trigger time-consuming re-negotiations and legal impediments. The services' expectation is that being represented in a fund's governing bodies is still the best way to exert an influence on the funds course, to express the Bank's views to fund managers, investee companies and co-investors and to ensure best practice corporate governance and fund performance.

2012 Update and validation:
Whereas the initial recommendation suggested adjusting management fees when funds were underinvesting, there are additional possible measures to address weak fund performance other than through management fees that the Bank could explore, such as enhancing cooperation with other DFIs/IFIs, recruiting experienced staff within the fund management and using TA to support fund managers. These different possibilities are more or less implicitly foreseen by the non-EU Equity Risk guidelines referred to above and the recommendation is deemed to be no longer applicable today.

3.3.5 Develop active monitoring

EV recommended in 2010:
"Develop active monitoring. Operational Guidelines include a full section on active monitoring. Yet, they need to be updated (Appendix 2, III.5).
(i) Furthermore, they need to be applied which is not always the case due to a lack of human resources and, in some cases, lack of awareness of the importance of monitoring an investment fund more actively than a loan.
(ii) Reporting on investment funds has improved through the years but there is still significant room for improvement in the case of ACP funds. For instance, in 2009 a Progress Report has been produced for some funds.
(iii) For more than 5 years, there have been discussions to either outsource some back office tasks or to use within Ops-B specialised software to follow up investment fund operations. A decision (ideally the same for both regions) should be taken and implementation should be done immediately as the risks of the current ad-hoc follow up systems (different for FEMIP and for ACP) are significant.
(iv) For the first generation of investment funds in which the Bank participated, the respect of environmental and social standards was not always present as a legal requirement. Currently, it is systematically requested and included in the fund's legal documentation. Yet, as part of the active monitoring, the Bank needs to ensure the compliance with such standards".

The 2010 Evaluation put into question whether staff could always comply with relevant operational guidelines due to lack of human resources or lack of awareness. Reporting on investment funds and the adequacy of a supportive IT system was raised as another area of concern by the 2010 Evaluation. A particular area highlighted was the performance against environmental and social standards. The more systemic aspects of monitoring were dealt with in Section 3.2.1, the introduction of new guidelines in Section 3.3.1 and human resources issues in Sections 3.1.3, 3.2.2 and 3.2.4.

The services pointed to the convergence (between ACP and FEMIP) of procedures, standards and best practices and to improvements on reporting performance and to positive developments in data and report processing. This is expected to be further reinforced now that the two relevant divisions within Ops-B have merged.

Also, the EIB is represented on most of the Board or Investment Committees of the funds it has invested in, both during the investment phase (Ops-B) and thereafter (TMR). Such a position would allow the Bank to scrutinise a fund's economic, social and environmental performance at the level of the investee companies. Whereas the non-EU Equity Risk guidelines introduced in 2011 address active monitoring, they do not explicitly address social and environmental aspects.

> 2012 Update and validation:
> Whilst the 2010 recommendation was relevant at the time, subsequent changes and developments discussed under the organisational level above (see Section 3.2.1), however, may supersede this point as it relates to functional aspects of the monitoring process.

3.3.6 Monitor development effects on private sector

> EV recommended in 2010:
> *"Monitor development effects on private sector. Both mandates (for FEMIP and ACP regions) are given to the Bank for development purposes. Therefore, not only financial but also wider development effects should be monitored and reported to the EC / IF Committee for accountability purposes. They are currently not monitored in any of the two regions.*
> *A library of development indicators was proposed by a group of IFIs, including the Bank in 2006. A set of these indicators are requested by the Bank in ACP funds but they are not monitored, analysed or reported".*

On the basis of the field visits of investee companies, the 2010 Evaluation observed that PEFs generate wider development effects than, for instance, global loans. The 2010 synthesis report also concluded, however, that more generally development effects "*are currently not monitored in any of the two regions*".

It appears therefore difficult to establish, with precision, the development effects induced by the fund. This is even more so because (i) related comparative or impact analyses are missing; (ii) no Economic Internal Rates of Return (EIRR) are computed, only Financial Internal Rates of Return (FIRR) as commonly referred to in this and the 2010 report as IRR; but also (iii) in the past, PEF-related developmental effects were not addressed systematically and with due rigor, neither at appraisal nor at monitoring stages, which, arguably, can be traced to the earlier discussion about the Bank's dual role as investment and development bank. As such, the 2010 Evaluation rightly points to systemic weaknesses. These have been only recently addressed more systematically by the establishment of the REM framework, which applies to equity operations as from 2012, with data on effects of the funds coming off in a couple of years.

A specific role could be envisaged for ECON to become more involved in the assessment of development effects on the private sector of PEFs in FEMIP and ACP countries.

> 2012 Update and validation:
> The 2010 recommendation remains valid. The application of the Results Management approach (REM) to PEFs in ACP and FEMIP throughout the life of a fund is expected to provide better insights on expected and realised development effects. This should, however, be reassessed in the future as this only started in 2012, with data on impacts of the funds coming off in a couple of years only. ECON could play a greater role in the assessment of development effects of PEFs.

3.3.7 Ensure appropriate filing of relevant documents

EV recommended in 2010:
"Ensure appropriate filing of relevant documents. Filing was weak for the first generation of investment funds and in particular for FEMIP funds, where important gaps were found for the more ancient funds. The situation has improved in both regions but further progress is needed.
(i) FEMIP funds' documentation (appraisal, legal documentation, fund's progress reports, communications, etc) is well organised today but all information is kept within the Division. While this is handy for operational purposes, it lacks transparency with respect to the Bank's other services. GED should be used systematically.
(ii) ACP funds' documentation of appraisal stage is usually complete in GED for old and new funds while legal documentation and fund's monitoring reports are not systematically uploaded. Filing should be up to date".

The 2010 Evaluation noted a weak filing compliance for the first generation of investment funds, but also acknowledged improvements over time. A systemic deficiency noted was the division-proprietary filing and data processing tools (e.g. monitoring by individually designed spread sheets, different from division to division, by that hampering communication and consolidated reporting).

Services noted that filing is carried out and that files are sent to archives and are uploaded on GED, the Bank's electronic data management system. Improvements in filing are confirmed by TMR, to which monitoring responsibility was recently transferred. The commonly most mentioned area of concern by staff consulted under this evaluation revisit, and covering a representative cross-section of units involved in PEF operations, was the lack of an acceptable fully-integrated IT system adapted to equity operations (and not mainly to loan operations) that would serve all parties' needs of data storage, processing, transmission and retrieval.

2012 Update and validation:
The 2010 recommendation remains partially valid:
- Relevant files are currently systematically stored on GED, the Bank's electronic data management system.
- However, much of data processing, for reporting purposes and otherwise, is done based on spread sheets which makes it difficult to obtain consolidated data and to carry out cross-departmental analytical work. It also entails a higher risk of errors.

4 CONCLUSION

The present revisit reiterates that the results of the Bank's first generation PEF operations can be considered as positive overall. Yet quite a number of these funds have to be liquidated and are currently struggling with materialising exits from their last investments.

The present revisit concludes that most of the 2010 Recommendations found a follow-up in one form or another. Several concerns expressed by EV in 2010 were in the meantime resolved, either as a direct result of the evaluation work or owing to other circumstances (e.g. continuation of investment fund operations; avoid releasing funds too promptly). Others are currently under scrutiny, notably on the organisational level (e.g. in the area of monitoring). Harmonisation of procedures was achieved through the introduction of Non-EU Equity Risk guidelines and, more recently (Feb 2013), the merger of the divisions responsible for equity in FEMIP and ACP countries.

There are, however, still areas of concern:
- The lack of a *clear and commonly shared understanding among EIB staff between the Bank's role as an investment or as a development agent*. This should be developed.
- In order to more fully play the development role, commensurate resource allocations should be made available - especially in order to:
  - develop complementary activities which would make funds more effective,
  - support new fund management teams, and
  - enhance monitoring, in particular with regard to funds' development, and environmental and social, and health and labour effects.

- Although filing as such has improved (better use of central electronic data management system), ad hoc spread sheet solutions should be avoided, possibly by using a Bank-wide integrated IT system to handle equity operations.
- It is important that a comprehensive portfolio review, currently absent, be established rapidly, including a clear assessment of the fund portfolio performance in terms of IRR.
- Finally, gross internal rates of return (IRR) are often too low to fully cater for PEF inherent costs, to generate a commensurate return for fund investors and to create development effects – for which, the evaluation found, financial returns are an important condition. Whilst this, to some extent at least, may explain why there is a relative high proportion of public sector involvement in the fund structures (i.e. often, fund co-investors are other IFIs or DFIs), it generates poor demonstration effects and market signals. An in-depth study should be commissioned to assess the underlying reasons of the generally low IRR.

APPENDICES

APPENDIX 1 – 2010 Synthesis Report: Executive Summary

The aim of this evaluation is to assess the Bank's financing of investment funds in FEMIP and ACP countries, where the Bank operates under two different mandates, with a two-fold objective: First, to account for investment fund operations carried out under two different external mandates and, second, to draw lessons for future activity in investment funds. The period covered is from 1995 to the present. More precisely, the sample of 12 funds evaluated individually includes funds signed between 1995 and 2002 and as such, it covers mainly the first generation of investment funds, many of which are being wound down at the time of writing this report. The overall analysis of the Bank's *modus operandi* and policies as well as the portfolio analysis are carried out up to the present in order to take into account recent evolutions and thus draw conclusions and lessons relevant to the future.

The Bank started its investment fund operations in the late 1980's – early 1990's. In the case of FEMIP, these were framed under the different mandates (different Protocols, MEDA I, MEDA II and currently ENPI) that foresee that part of the EC budget shall be used for risk capital operations. In the case of ACP countries, operations are carried out under the different partnership agreements between the EU and ACP States. For both regions, the Bank is invited to carry out risk capital operations (which includes direct equity, quasi-equity and investment funds) in beneficiary / partner countries with the aim to contribute to ease the lack of financing sources for the private sector and in particular for SMEs. It is expected that by providing equity finance to viable enterprises, they will be able to grow and contribute to the general economic development of their respective countries and regions. It is also expected that fund managers will have a role in enhancing the skills and quality of the entrepreneurial class in beneficiary / partner countries. For this reason, the development of a private equity industry and the rise of a class of private equity managers have been considered as important objectives of these operations. These expected effects are not shared with other operations such as investment loans or global loans.

The first main conclusion of the evaluation is that the results, based on the sample of first generation of funds, was overall positive. Since EIB's first contribution in the early 1990s, the Investment Fund industry has come a long way in FEMIP and ACP countries. Starting virtually from scratch, the Bank, its international partners and its counterparts in the two regions have allowed the emergence and a certain stabilization of a new industry of which the overall prospects today are deemed positive. Yet, the evaluation shows that the Bank's participation is not only desired by fund managers and other parties encountered, but also needed to guarantee the sustainability of investment funds in an area which, for the time being, and accentuated by the financial crisis, is still fragile.

In terms of the funds' performance, the results are mixed. In almost half the cases the funds were well structured and organized (which shows that even in the early days the standards were known) but for the others, a number of problems were identified such as weak governance structures, inadequate procedures to treat potential conflicts of interest, unrealistic investment and exit strategies, etc. For 7 out of the 12 funds, more than 70% of the committed capital was invested, which is satisfactory – but at the same time some other funds had very low levels of investment. **Financial results of the sample of funds were better than expected**, as in many cases operations were approved without much hope of a financial return but in an attempt to launch a new financial 'industry' in emerging markets. While 4 funds in the sample made losses, 7 out of 12 funds had encouraging to significant gross IRR. Yet, only the 2 best performing funds provided net positive returns to investors. An additional difficulty is that some funds are nominated in local currency and the Bank is not currently tracking its foreign exchange losses.

While part of the financial (under-) performance of the funds can be attributed to the market, much is due to the work of the management team. Their role is crucial to select companies with high potential value and to effectively unlock this potential during the few years in which they are invested by the fund. **Most management teams were inexperienced when they started operations but many had a very positive evolution**, meaning, for instance, that they have been able to raise new funds and reinforced their capacity as management companies. This is an encouraging result. Yet, the Bank could have been more pro-active to support such teams. For some of the under-performing investment funds of the sample, a more active support from the Bank could have made the difference.

Development effects on the private sector were specifically analysed through this evaluation. Indeed, the reason the Bank is trusted resources from the European Community budget (FEMIP) or from the European Development Fund (ACP) is to contribute to achieve the objectives of the external policies of the EU. Yet, the Bank does not follow up systematically such effects. The evaluation measured them (based on the work done by the WG of IFIs involved in investment funds, which included the Bank) through the influence of the fund managers on investee companies (governance and institutional indicators; economic indicators; environmental and social indicators) and for the indirect effects on the capital market and the economy as a whole. Half the funds in the sample had excellent or satisfactory development effects while the other half had no significant effects. It is shown that effects are positively correlated with financial effects or rather that **a positive financial result is a necessary condition to achieve development results.** Indeed, there will not be significant development effects if the fund is not able to invest committed capital or if investee companies struggle to survive. It is also shown that improvements in the governance and management skills of the investee companies are the effects that are easier to achieve while wider effects on the capital market are more difficult to reach.

The role of the Bank was assessed on two aspects: The **Bank's financial contribution to the funds** was most of the time significant, not only because of the resources provided but also because in some cases it was a corner stone investor, often allowing funds to close and having an important signalling effect to other investors. **The Bank's non-financial contribution** was less marked; it contributed less to training or support to the management teams, as mentioned above, or to the structuring of the funds.

Finally, the **management of the project cycle by the Bank** has been the most problematic aspect of the operations evaluated. It is fair to recognize that investment funds are complex to manage, need to be monitored during much longer periods than loans and, at the time the funds in the sample were approved, private equity in emerging markets was a new activity - for the Bank but for the industry in general as well. However, for too many years the Bank's participation in investment funds was carried out without a clear strategy and operational guidelines. Staff had to learn by doing and rely on common sense. Monitoring was a problem in both departments as staff was not well aware of how to monitor an investment fund. In the sample, funds that had the worst performance were those that were poorly monitored (and they are so even at present). Only towards 2004, for both regions in parallel, the necessary operational guidelines were elaborated and organizational changes were proposed. The evolution from that point forward is however, different for each department. For FEMIP countries, a specialized division was created and staffed while for ACP countries, organizational changes were not implemented. 'National' funds are still managed by loan officers in geographical divisions and regional funds are the responsibility of only one investment officer in a horizontal division. This organizational set up is less effective to manage investment funds.

APPENDIX 2 – 2010 Final Draft Synthesis Report: Recommendations

RECOMMENDATIONS	DRAFT REPLY FROM SERVICES
I. Strategy Level	
I.1 Continue Investment Fund operations	
When successful, investment funds can significantly contribute to develop and reinforce private sector and have wider development effects than global loans. Therefore, in spite of the risks and their cost for the Bank, they should be continued.	
I.2 Encourage complementary activities…	
… to contribute to reinforce longer term effects of investment fund operations and the development of a sound private equity industry. For instance, work with local governments to improve regulatory framework and with local private capitalists to strengthen local professional associations. When carried out, these actions should be recorded and filed so they can be reported to the EC or IF Committee	This could be considered in the context of the new mandate and in coordination with the EC and taking into consideration that: (i) it is resource intensive, (ii) it is more difficult to apply in the case of regional funds (which represent the majority of our operations), (iii) funds will always be incorporated in those few jurisdictions which have appropriate legislation and regulation and an efficient service sector.
I.3 … and in particular the support to new management teams	
While not an explicit objective of any of the two mandates, the support to new teams has often been considered as an implicit objective. It can indeed reinforce the performance of existing investment funds and contribute to the development of a private equity industry in emerging markets. The Bank should define its position on this aspect and be ready to propose and/or finance training, coaching, exchange of experiences, consulting services to improve funds procedures or investment guidelines, etc.	Agreed. However, the considerable extra workload (structuring, training and monitoring) associated with working to support new teams should not be underestimated. In addition, there is significantly increased risk that a fund managed by a first time team will not be a success. The Bank's stated policy in the ACP is, to the extent possible, to support local indigenous teams. Supporting teams who are not abreast of industry best practice or whose individual members need professional training would be in contradiction to CRPGs which require that individual team members should have all the requisite skills from the outset.

II. Organisational Level	
II.1 The Bank should recognise the specificity of investment fund operations and the particularity of emerging markets	
Investment fund operations are more risky and expensive to manage than loans. Due to the mandates, they are subject to specific accountability. They need adequate structures, guidelines and procedures as well as sufficient resources with private equity expertise.	Structures, guidelines and procedures are in place. Staffing level with PE expertise in RBD division is insufficient.
II.2 Need to adapt structures and resources	
The organisational structure in the ACP department needs to be modified and more human resources with private equity expertise are needed to carry out investment fund operations. Today, regional funds are appraised and managed by one investment officer in a horizontal division while 'national' funds are appraised and managed by *loan* officers in geographical divisions. These loan officers do not always have specific skills on private equity. As a comparison, since 2005, all equity and quasi-equity operations in the FEMIP are under the responsibility of one division.	Agreed. However, in the context of ACP-IF's recent reorganisation, the intention is to concentrate all equity operations, direct or indirect either through investment funds or via microfinance investment vehicles, in the RBD division to the extent its staffing can be increased.
II.3 Cross-fertilisation is needed within services in Ops-B	
Although there are certainly differences in terms of the markets and in terms of the rules implied by the two mandates (FEMIP and ACP), there is no reason to have a different approach in the two regions. Already, Operational Guidelines for both regions are almost identical. A working group or task force composed by services working in investment funds outside the Union should be in place to encourage cross-fertilisation, ensure a coherent approach and share best practices.	Differences in approach are only driven by local cultural peculiarities and specific Mandate requirements. The same techniques are applied. Best practice standards are taken on board and regularly updated through services' regular contacts with other leading limited partners and through interaction with CRD (see also III.1) Matters of common interest or concern are discussed on an informal level between the Directorates and within the Ops-B Directorate, where creation of a WG could be beneficial especially for harmonizing monitoring procedures.
II.4 Coordination with other services	
This working group should also coordinate with other services working in investment funds within the EIB Group to keep abreast of latest developments in the Bank and the EIF and ensure a coherent approach when appropriate.	See above. ENPC have recently recruited two staff from EIF.
III. Operational Level	
III.1 Update procedures and operational guidelines	
(i) Operational guidelines exist for both regions since 2005; they are very similar. While the guidelines are fairly complete, some aspects are still to be updated (as mentioned by the guidelines), e.g. *Part III – Post-signing: Guidelines for Active Monitoring*. Others sections should be reinforced, e.g. Annex on appraisal of investment funds provides a questionnaire but no orientation to assess the replies. (see also Recomm I.3) (ii) In the past, the use of Global Authorisations (GA) has allowed to make flexible use of Bank's procedures, in particular for some	The CRPG for equity investments presently in the process of being agreed with CRD will provide extensive orientation in this respect.

old FEMIP funds. While today the *Procedures* section of the FEMIP Guidelines include specific paragraphs on the Approval levels (CA, CD, services) according to the decision to be taken, it is important to remind that the use of a GAs should not reduce the due diligence required. ACP Guidelines should include similar paragraphs.	
III.2 Financial returns should be considered as necessary to achieve development effects	
The evaluation has found a strong correlation between the fund's performance and the achievement of development effects. The most straight forward sign of performance are financial returns. (i) The Bank should insist on the need for positive returns when negotiating its participation to a fund and through the life of the fund. In the past, too little importance was given to financial returns. Today, the situation has improved but its importance should be reminded to the staff identifying and monitoring investment funds, in particular, in the case of the less developed markets of the ACP countries. (ii) Gross as well as net returns should be monitored and reported. Gross returns are currently reported for funds in the FEMIP region (iii) Foreign exchange losses should be explicitly monitored and reported. They are currently not reported by either department.	(i) All operations are required to demonstrate a financial return commensurate with the level of risk taken. (ii) An increasing number of funds report net returns in both regions, providing a basis for enhanced monitoring. (iii) The effects of foreign exchange movements are systematically monitored for all ENPC operations. Losses or gains are reported at the closure of each operation. The overall effect of foreign exchange movements across the portfolio (all currencies against the euro) is reported annually. Since the IF has a USD treasury, ACP reporting is in the currency of the fund (USD or EUR).
III.3 Avoid releasing funds too promptly	
It must be ensured that committed capital is draw-down as needed to carry out investments. Releasing large amounts at once, as it has occurred in a minority of cases, produces a too important treasury that distracts the fund manager from its focal activity.	The reported cases are an exception and occurred a long time ago. In accordance with current practice, drawdowns need to be justified against expenses and proposed investments.
III.4 Management fees should be adapted if low investment levels	
Even for the first generation of funds, management and other fees were set in line with the industry standards. However, in the case of funds in which investment pace is significantly below expectations or when only a fraction of the capital committed has been invested, the Bank should have the possibility to adjust management fees.	Several options exist in case of underperformance including reduction of the size of the fund, adjustment of management fees, termination of the manager. Such measures require qualified majorities by the fund's investors. Reduction of the management fee must be carefully considered as it could have a perverse incentive effect on managers' performance.

III.5 Develop active monitoring	
Operational Guidelines include a full section on active monitoring. Yet, they need to be updated (see Recomm III.1). (i) Furthermore, they need to be applied which is not always the case due to a lack of human resources and, in some cases, lack of awareness of the importance of monitoring an investment funds more actively than a loan. (ii) Reporting on investment funds has improved through the years but there is still significant room for improvement in the case of ACP funds. For instance, in 2009 a Progress Report has been produced for some funds. (iii) For more than 5 years, there have been discussions to either outsource some back office tasks or to use within Ops-B specialised software to follow up investment fund operations. A decision (ideally the same for both regions) should be taken and implementation should be done immediately as the risks of the current ad-hoc follow up systems (different for FEMIP and for ACP) are significant. (iv) For the first generation of investment funds in which the Bank participated, the respect of environmental and social standards was not always present as a legal requirement. Currently, it is systematically requested and included in the fund's legal documentation. Yet, as part of the active monitoring, the Bank needs to ensure the compliance with such standards.	(i) Since 2005 the ENPC funds portfolio is being monitored actively. Future concentration of all due diligence and monitoring activities in the specialised ACP division, similar to what is done in ENPC, will greatly contribute to comprehensive and regular monitoring also of the old, first generation funds still under the geographical divisions' responsibility. (ii) A comprehensive reporting on fund performance is performed in ACP. A progress/monitoring report has been produced for **all** IF fund investments since 2008. (iii) The development of Finance Kit Loans should, for the first time, allow equity investments to be properly monitored at treasury level and e-Front will be used by both regions for back office tasks. It should be noted that the primary reason for the lack of quality reporting is not lack of appropriate software, the main issue being underlying resources. (iv) Again, these are actively monitored for funds under the ENPI and Cotonou mandates. Compliance with such standards is ensured through verification at appraisal stage that the fund manager has adequate procedures in place and through annual E&S reporting by the manager.
III.6 Monitor development effects on private sector	
Both mandates (for FEMIP and ACP regions) are given to the Bank for development purposes. Therefore, not only financial but also wider development effects should be monitored and reported to the EC / IF Committee for accountability purposes. They are currently not monitored in any of the two regions. A library of development indicators was proposed by a group of IFIs, including the Bank in 2006. A set of these indicators are requested by the Bank in ACP funds but they are not monitored, analysed or reported.	Investments made under the existing ENPI mandate are actively monitored for a range of developmental indicators (KPI's). KPI's have been agreed with the Commission, are included in the fund documentation and form part of the reporting requirements. Monitoring of funds under the older mandates for these indicators is difficult and the necessary contractual provisions are not in the legal documentation. Relevant reporting requirements are also included in the legal documentation of funds in which

	the IF has invested. ACP intends to produce a comprehensive annual development impact report on all fund investments from IF resources as soon as staffing levels permit.
III.7 Ensure appropriate filing of relevant documents	
Filing was weak for the first generation of investment funds and in particular for FEMIP funds, where important gaps were found for the more ancient funds. The situation has improved in both regions but further progress is needed. (i) FEMIP funds' documentation (appraisal, legal documentation, fund's progress reports, communications, etc) is well organised today but all information is kept within the Division. While this is handy for operational purposes, it lacks transparency with respect to the Bank's other services. GED should be used systematically. (ii) ACP funds' documentation of appraisal stage is usually complete in GED for old and new funds while legal documentation and fund's monitoring reports are not systematically uploaded. Filing should be up to date.	(i) Copies of all documents which are filed within the division are made (or scanned) and sent to central archives. (ii) Legal documentation is to be filed by JU. Monitoring reports by RBD division are systematically uploaded.

APPENDIX 3 – Evaluation Process and Criteria

In accordance with EV's Terms of Reference, the objectives of evaluation are:

- To assess the quality of the operations financed, which is assessed using generally accepted evaluation criteria, in particular those developed by the Evaluation Cooperation Group, which brings together the evaluation offices of the multilateral development banks. The criteria are:

  a) Relevance corresponding to the first pillar of value added*:* is the extent to which the objectives of a project are consistent with EU policies, as defined by the Treaty, Directives, Council Decisions, Mandates, etc., the decisions of the EIB Governors, as well as the beneficiaries' requirements, country needs, global priorities and partners' policies. In the EU, reference is made to the relevant EU and EIB policies and specifically to the EU Treaty that defines the mission of the Bank. Outside the Union, the main references are the policy objectives considered in the relevant mandates.

  b) Project performance, measured through **Effectiveness (efficacy)**, **Efficiency** and **Sustainability** and second pillar of value added.

  Effectiveness relates to the extent to which the objectives of the project have been achieved, or are expected to be achieved, taking into account their relative importance, while recognising any change introduced in the project since loan approval.

  Efficiency concerns the extent to which project benefits/outputs are commensurate with resources/inputs. At ex-ante appraisal, project efficiency is normally measured through the economic and financial rates of return. In public sector projects a financial rate of return is often not calculated ex-ante, in which case the efficiency of the project is estimated by a cost effectiveness analysis.

  Sustainability is the likelihood of continued long-term benefits and the resilience to risk over the intended life of the project. The assessment of project sustainability varies substantially from case to case depending on circumstances, and takes into account the issues identified in the ex-ante due-diligence carried out by the Bank.

  Environmental and Social Impact of the projects evaluated and specifically considers two categories: (a) compliance with guidelines, including EU and/or national as well as Bank guidelines, and (b) environmental performance, including the relationship between ex ante expectations and ex post findings, and the extent to which residual impacts are broadly similar, worse or even better than anticipated.

  Evaluations take due account of the analytical criteria used in the ex-ante project appraisal and the strategy, policies and procedures that relate to the operations evaluated. Changes in EIB policies or procedures following project appraisal, which are relevant to the assessment of the project, will also be taken into account.

- To assess the EIB contribution *(Third Pillar)* and management of the project cycle:

  EIB Financial contribution identifies the financial contribution provided in relation to the alternatives available, including improvements on financial aspects as facilitating co-financing from other sources (catalytic effect).

  Other EIB contribution (optional) relates to any significant non-financial contribution to the operation provided by the EIB; it may take the form of improvements of the technical, economic or other aspects of the project.

  EIB Management of the project cycle rates the Bank's handling of the operation, from project identification and selection to post completion monitoring.

EUROPEAN INVESTMENT BANK
OPERATIONS EVALUATION (EV)

In 1995, Operations Evaluation (EV) was established with the aim of undertaking ex-post evaluations both inside and outside the Union.

Within EV, evaluation is carried out according to established international practice, and takes account of the generally accepted criteria of relevance, efficacy, efficiency and sustainability. EV makes recommendations based on its findings from ex-post evaluation. The lessons learned should improve operational performance, accountability and transparency.

Each evaluation involves an in-depth evaluation of selected investments, the findings of which are then summarized in a synthesis report.

The following thematic ex-post evaluations are published on the EIB Website:

1. Performance of a Sample of Nine Sewage Treatment Plants in European Union Member Countries (1996 - available in English, French and German)
2. Evaluation of 10 Operations in the Telecommunications Sector in EU Member States (1998 - available in English, French and German)
3. Contribution of Large Rail and Road Infrastructure to Regional Development (1998 - available in English, French and German)
4. Evaluation of Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development (1998 - available in English, French and German)
5. An Evaluation Study of 17 Water Projects located around the Mediterranean (1999 - available in English, French, German, Italian and Spanish).
6. The impact of EIB Borrowing Operations on the Integration of New Capital Markets. (1999 – available in English, French and German).
7. EIB Contribution to Regional Development A synthesis report on the regional development impact of EIB funding on 17 projects in Portugal and Italy (2001 – available in English (original version), French, German, Italian and Portuguese (translations from the original version)).
8. Evaluation of the risk capital operations carried out by the EIB in four ACP countries 1989-1999 (2001 - available in English (original version), French and German (translations from the original version)).
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16. Evaluation of EIB Financing of Airlines (2004 – available in English (original version) French and German)
17. Evaluation of EIB Financing of Air Infrastructure (2005 - available in English (original version) German and French)
18. EIB financing with own resources through global loans under Mediterranean mandates (2005 - available in English (original version) German and French.)
19. Evaluation of EIB Financing of Railway Projects in the European Union (2005 - available in English (original version) German and French.)
20. Evaluation of PPP projects financed by the EIB (2005 - available in English (original version) German and French).
21. Evaluation of SME Global Loans in the Enlarged Union (2005 - available in English (original version) and German and French.)
22. EIB financing with own resources through individual loans under Mediterranean mandates (2005 - available in English (original version) and German and French.)
23. Evaluation of EIB financing through individual loans under the Lomé IV Convention (2006 - available in English (original version) German and French.)
24. Evaluation of EIB financing through global loans under the Lomé IV Convention (2006 - available in English (original version) German and French.)

25. Evaluation of EIB Investments in Education and Training (2006 - available in English (original version) German and French.)
26. Evaluation of Cross-border TEN projects (2006 - available in English (original version) German and French).
27. FEMIP Trust Fund (2006 - available in English.)
28. Evaluation of Borrowing and Lending in Rand (2007 - available in English (original version) German and French).
29. Evaluation of EIB Financing of Health Projects (2007 - available in English (original version) German and French).
30. Economic and Social Cohesion - EIB financing of operations in Objective 1 and Objective 2 areas in Germany, Ireland and Spain (2007 - available in English. (original version) German and French)
31. Evaluation of EIB i2i Research, Development and Innovation (RDI) projects (2007 - available in English) (original version) German and French).
32. FEMIP Trust Fund - Evaluation of Activities at 30.09.2007 (2007 - available in English.)
33. Evaluation of Renewable Energy Projects in Europe (2008 - available in English (original version) German and French).
34. Evaluation of EIF funding of Venture Capital Funds – EIB/ETF Mandate (2008 - available in English.)
35. Evaluation of activities under the European Financing Partners (EFP) Agreement (2009 – available in English) (original version) and French).
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