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Synthesis Report

Evaluation of activities under the European Financing Partners (EFP) Agreement

EIB Group

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Table of Contents

Glossary ..... **ii**

Summary ..... **iii**

1. Introduction **1**

1.1. Mandate and scope 1
1.2. Approach 1

2. Presentation of EFP **3**

2.1. Organization 3
2.2. Overview of EFP portfolio 5

3. Relevance **7**

3.1. Rationale and Objectives of EFP 7
3.2. Rationale and Objectives of EFP partners 7
3.3. Results from project evaluation 9
3.4. Conclusion 9

4. Effectiveness **11**

4.1. Co-operation among partners 11
4.2. Operations financed 15
4.3. Results of project evaluation 17
4.4. Conclusions 18

5. Efficiency **19**

5.1. Administration and organisation of EFP 19
5.2. Financial margins for EFP partners 19
5.3. Risk management 20
5.4. Results from project evaluation 20
5.5. Conclusions 21

6. Environmental and social performance: **22**

7. Role of the partners: **24**

7.1. EFP Contribution 24
7.2. Management of the project cycle 25
7.3. Conclusions 26

Annex 1 Stated Objectives of EFP **27**

Annex 2 Recommendations made in 2005 ..... **28**

Annex 3 Evaluation Process and Criteria **29**

Glossary

ACP	Africa, Caribbean and Pacific countries
BIO	Belgian Investment Company for Developing Countries
CIP	Clearance in Principle
COFIDES	Compañía Española de Financiación del Desarrollo
CP	Committing Partner
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
ECG	Evaluation Cooperation Group Members: World Bank Group, International Monetary Fund, Inter-American Development Bank, European Investment Bank, European Bank for Reconstruction and Development, African Development Bank and Asian Development Bank Observers: Council of Europe Development Bank, International Fund for Agricultural Development, Islamic Development bank, OECD-DAC and UNEG
EDFI	European Development Finance Institutions
EFP	European Financing Partners
EIB	European Investment Bank
FA	Financing Agreement
FINNFUND	Finnish Fund for Industrial Cooperation
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
GPR	Corporate-Policy Project Rating
IC	Investment Committee
IC-WG	Investment Committee Working Group
IFI	International Finance Institution
IFU	Danish Industrialisation Fund for Developing Countries
MIA	Master Investment Agreement
NORFUND	Norwegian Investment Fund for Developing Countries
PP	Promoting Partner
PROPARCO	Société de Promotion et de Participation pour la Coopération Economique
SBI	Belgian Corporation for International Investment
SIFEM	Swiss Investment Fund for Emerging Markets

Summary

The EFP initiative was created in May 2004 with the double aim of promoting sustainable development of the private sector in ACP States and strengthening co-operation between eligible EDFIs and EIB.

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

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

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

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

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

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

In terms of the operations actually financed, 5 individual evaluations show that, in most cases, they are consistent with EFP objectives and in line with partner countries' priorities. Only one case called for attention due to the architecture of the operation. While the effectiveness showed mixed results, the efficiency of the projects and the clients was rated positively. Environmental and social impacts were significant, with some first-class cases. The EFP financial contribution to the operations is rated mostly *significant* as it provided loans that contributed to consolidate the position of the clients and on terms that were not otherwise available (tenor or strong currency). Some operations benefited from a more specific support on environment and social matters. Finally, in terms of the management of the project cycle, it has been satisfactory in all cases, with each PP following its own internal procedures as expected by EFP procedures. Yet it is noted that: (a) EFP minimum requirements for reporting and monitoring focus on financial aspects, (b) clarifying expected monitoring standards, in particular for operations in the financial sector, could contribute to align expectations and clarify eligibility criteria of such operations under EFP, and (c) that while EFP procedures are explicit on the information required to present a proposal, there is no requirement of information at the closing of the project, in particular with reference to the last section of the Financing Proposal document, i.e. development value and role of the Promoting Partner.

Recommendations

The following paragraphs highlight recommendations resulting from the evaluation:

R1 - On the Investment Committee

Observation: (a) Partners consider Investment Committee (IC) meetings as very valuable to achieve both EFP and their own strategic objectives, in particular to increase their knowledge of other IFIs and reinforce professional networks; for this reason they are reluctant to waive their participation to the IC. (b) Meetings are already efficient in terms of time spent and organization. (c) There is a risk of easing approval standards if the number of proposals continues to increase; the risk is enhanced by the fact that each partner participates with a small fraction to each project's financing plan, and most partners have limited resources available.

Recommendation: The IC should remain vigilant when taking decisions on operations to finance. If partners feel the efficiency of IC meetings should be further reinforced, changes should not focus in reducing the number of its members or the time spent per operation. They should concentrate on the degree of preparation of the CIP proposals and possibly on approval rules such as, for instance, a 2/3 rule.

R2 - On the concentration of portfolio on few promoting partners

Observation: The portfolio is highly concentrated in three of the promoting partners, a fact which has caused concern to some of the other partners and to the Board of Directors. In 2005 it was recommended to avoid such situations and to devise procedures that allow participation of all eligible EDFIs. Yet the evaluation has found that this is not an issue for most non-promoting partners as they feel the current setting allows them to achieve their own strategic objectives in terms of exchange of experience and best practices.

Conclusion: It is therefore recommended that no change is attempted to "encourage" a more dispersed distribution of the portfolio among promoting partners. As a consequence, the concentration on sectors, countries and instruments, which are a priority for larger partners, will also persist meaning that, *ex-post,* EFP priorities and strategy will follow those of larger partners. This is not a problem as long as (a) financial risk is sufficiently spread (i.e. country and client limits continue to be respected) and (b) partners acknowledge and are willing to accept this fact.

R3 - On the ambiguity on projects in the financial sector

Observation: The report highlights the ambiguity as to whether it is possible for an EFP partner to propose projects in the financial sector and, if so, under what conditions. This ambiguity has two main consequences: it negatively affects the relation between partners, in particular between the EDFIs and the EIB, and it limits the deal flow. Indeed, for some of the partners, the financial sector represents a significant share of their portfolio and they would be ready to propose operations in the sector.

Recommendation: At a time when the support to Financial Institutions in emerging countries could become critical, given the global economic and financial crisis, partners are encouraged to discuss this subject again in-depth. In particular, the EIB should clarify its position as to the conditions under which it would be ready to approve such operations. The discussion should include, for example: whether the operation is mainly understood as corporate finance or as an instrument to attain certain types of beneficiaries; what is expected in terms of monitoring of the operation; and whether information is expected in terms of final allocations.

R4 - On the visibility of EFP

Observation: EFP has contributed to increase the visibility of European development cooperation: when known, it is seen as a concrete example of cooperation. In addition, as it appears to be a successful experience, other institutions are looking to set up similar platforms. However, much could be done to further reinforce this aspect as the existence of EFP has largely remained within the boundaries of the community of financing institutions. It is important that the EFP becomes better known in a larger development community as it meets, in a quite effective way, the request for a more effective delivery of development aid.

Recommendation: Partners should discuss and implement a more active communication policy. Individual partners vis-à-vis their own staff and vis-à-vis the general public, as well as the Secretariat on behalf of the EFP, could take concrete action as suggested in § 4.1.c

R5 – On the vulnerability of EFP management

Observation: The main risk identified in terms of the EFP's administration is that management is handled by one person. Previous internal discussions have already tackled the issue and proposed corrective measures, but they have not been fully implemented.

Recommendation: It is crucial to follow, without delay, the recommendation proposed in December 2008 by the IC Working Group, which consists in the Secretary preparing a handbook describing the tasks of the Secretariat and reinstituting briefing of a staff member from the IC Chairman's institution.

R6 - On a management information system

Observation: Most of the smaller partners feel that their participation to EFP is time consuming and that the time needed to manage their participation is already at the limit of their capacity but, as mentioned above, they are reluctant to waive their participation to the IC. Furthermore, as operations funded through EFP differ from their own, management of information for many partners is difficult and thus they do not always have all information at hand.

Recommendation: The Secretariat may introduce new procedures to reduce managing time for partners without reducing membership/time of IC meetings. The web platform, with restricted access for partners, could be exploited to improve the filing system for management and operational issues (with all information related to the project life cycle up to its closing, including monitoring reports). The use of the web site as a communication platform, taking due care of security issues, ensures transparency and improves information flow. It also contributes to reduce the vulnerability of EFP management as information is currently centralized with one person; this recommendation should be considered together with R5.

R7 - On the management of operations

Observation: As per EFP procedures, each promoting partner manages the operation according to its own internal procedures and has only minimal requirements in terms of monitoring the financial aspects of the operation. However, as different partners have different standards, information received is highly variable and for some partners not sufficient. Furthermore, while EFP procedures are explicit on the information required to present a proposal, there is no requirement of information at the closing of the project leaving partners without any written information on the outcomes of the project.

Recommendation: Agreement on monitoring standards, in particular for operations in the financial sector, could contribute to align expectations and clarify the eligibility of such operations under EFP. Furthermore, a "project completion report" should be requested from each promoting partner when closing an operation. The report should contain information on how the project was implemented compared to initial plans, explain any deviations and lessons learnt and make particular reference to the results of the last section of the Financing Proposal document, i.e. development value and role of the Promoting Partner.

1. Introduction

1.1. Mandate and scope

The Master Investment Agreement (MIA, 12 June 2006) of the EFP states that: *"The parties will regularly evaluate the activities and business of EFP Agreement to assess whether or not it operates according to expectations. Following such evaluation, new financial commitments from the Parties could be obtained in time to ensure the smooth continuity of EFP, if it has proven to achieve its objectives."*

Accordingly, the EFP and the Operations Evaluation of the EIB (EV) agreed that EV would carry out an evaluation of the operation of the EFP. The aim of the evaluation is to assess the level of success of the EFP and to draw lessons for the future. It therefore aims at providing information on which to base future decisions relating to, inter alia, the continuation of the EFP, the replenishment of the funds, or possible improvements of the EFP. For the EIB, the evaluation will also contribute to inform the Investment Facility Committee on the use of funds, following EIB's accountability and lesson-learning procedures.

The evaluation covers the operation of the EFP since creation in May 2004 to December 2008. It takes into account, as appropriate, operations proposed, committed and approved. Out of eight operations disbursed by early 2008, five operations could also be evaluated in-depth and are part of this synthesis report.

1.2. Approach

To reach an overall assessment of the operation and activities of EFP, the evaluation was carried out at two levels:

- **Evaluation of the functioning of the EFP** to assess whether it operates according to initial expectations, as required by founding agreements. This level includes, notably, a review of the EFP strategy, procedures and operation; a qualitative analysis of the role and the performance of the EFP and its contribution to committing partners' strategies, as well as the role and views of committing partners on EFP.

- **In-depth evaluation of individual operations**. Individual evaluations allow reaching an assessment on how each project has performed against each evaluation criterion. The approach takes into account the structure of the operation with, notably, a different approach for intermediated operations. A portfolio review was carried out before starting in-depth evaluations to have a general picture of the relevance and quality of the portfolio.

In accordance with the Terms of Reference for this evaluation and following EV's standard procedures, internationally adopted evaluation criteria were used. The Evaluation Cooperation Group (ECG) has developed specific Good Practice Standards, in particular for the evaluation of private sector operations, based on DAC criteria; as a member of the ECG these standards are applied by EV:

- ***Relevance*** refers to the extent to which the operation or the EFP, as appropriate, is suited to the priorities and policies of investors and of beneficiary countries.

- ***Effectiveness*** refers to the extent to which the operation or the EFP, as appropriate, attains (or is likely to attain) its objectives, taking into account major factors influencing the achievement or non-achievement of the objectives.

- ***Efficiency*** measures the benefits/outputs in relation to the resources/inputs. For projects, the criteria used depend on the type of operation (direct or intermediated)

Two additional criteria are included to complete the evaluation:

- ***Environmental and social impact*** of the operations is specifically reported. This includes the outcome of ex-ante appraisal projections, impact during implementation and impact ex-post.

- ***EFP's role***, at operation level is assessed based on two elements: (i) ***additionality*** of Financing Partners and EFP***,*** which is analysed both in financial terms (such as helping to fill funding gaps or providing long-term funding) and non-financial terms (such as institutional development, technical assistance, etc.) and (ii) ***management of project cycle***, which refers to the handling of operations from identification to implementation.

Finally, the evaluation has used the following sources of information: the evaluation of 5 individual operations, interviews with 9 partners and the secretariat, and documents provided by the Secretariat.

The five individual evaluations represented 66% of disbursements at the time the evaluation started in 1Q2008. They were carried out based on: document analysis, interviews with the promoting partner and the client and, in three cases, included a field visit. Four of the individual evaluations were carried out by two experienced evaluation consultants and one by an EV Evaluation Expert.

Four evaluation reports have been produced as the two telecom projects are presented in one single report, given the complementary between the two operations and the merge of the borrower which occurred after signature. The results of the individual evaluations are summarized in this report.

2. Presentation of EFP

2.1. Organization

The European Financing Partners (EFP), launched in May 2004, is a joint venture between members of the European Development Finance Institutions (EDFIs) and the European Investment Bank (EIB). It was created with the double aim of promoting sustainable development of the private sector in ACP States and strengthening cooperation between Eligible DFIs and the EIB. The EFP was thus set up as a SPV whose main activity is to provide matching financing for operations with the private sector in ACP countries.

The company has 14 shareholders and a subscribed capital of EUR 72,600. Most of the shareholders are also *committing partners* and as such have allocated EUR 340 million to fund operations through authorized instruments.

Institution	Share-holding (EUR)	Capital committed (EUR million)
BIO	6,000	10
CDC	6,000	20
COFIDES	6,000	20
DEG	6,000	20
FMO	6,000	20
FINNFUND	6,000	10
IFU	6,000	5
Norfund	6,000	5
OeEB	6,000	10
PROPARCO	6,000	20
SBI	600	
Sifem	6,000	5
Swedfund	6,000	5
EIB	6,000	190
Total EDFI	**66,600**	**150**
Total EFP	**72,600**	**340**

The EFP has a Board of Directors (BoD) and an Investment Committee (IC). The Board looks at strategic decisions. Each committing partner has a seat on the Investment Committee. Any shareholder can submit a proposal of financing to the Investment Committee; in such capacity, the partner is called a "*promoting partner*". All projects are financed and risk shared on "pari-passu" terms. Authorised instruments are: senior loans, mezzanine debt, equity, quasi-equity and guarantees. All operations submitted for financing must meet the criteria set out in the Operational Guidelines of the EFP Master Investment Agreement, which should follow the Operational Guidelines of the Investment Facility. Once the Investment Committee has approved a project by simple majority, all committing partners are bound by the decision, although the EIB has the possibility to opt-out.

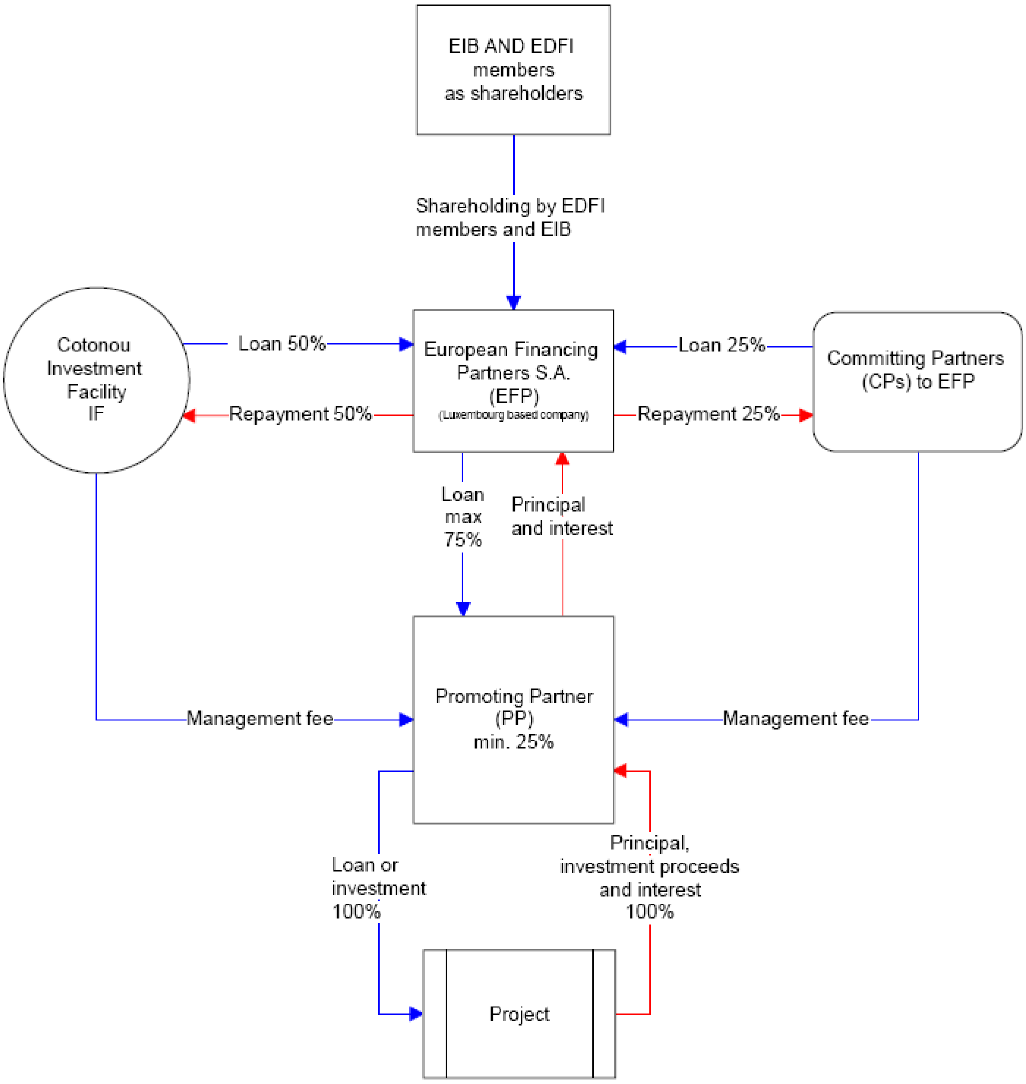
The agency agreement governing the EFP follows the Framework Agreement for Financial Co-operation and Exchange of Services signed between EDFI members and the EIB; i.e. one financial institution acts as an agent for other institutions in the lending of their funds, on the basis of the following principles:

- Delegation to the promoting partner of project management, from identification to completion and including contractual arrangements
- Channelling of funds to the final beneficiary through a single loan contract between the agent and the final beneficiary
- Pari passu lending terms and assumption of risk between the agent and the other participants to the Agreement

Accordingly, the EFP underwrites a single contract with the promoting partner. Likewise, the promoting partner will negotiate a single contract with the final beneficiary. On each disbursement, the committing partners and the EIB will transfer their share of the financing to the EFP, which will in turn transfer the funds to the promoting partner. Debt service flows will be transferred from the promoting partner to the EFP for re-distribution to the committing partners and the EIB.

For any given project, the EFP can cover up to 75% of the financing requirements, of which 50% by the EIB (with a maximum of € 12.5 million) and 25% by all other committing partners. The promoting partner finances the rest.

The following flow diagram depicts the flow of funds accordingly.



2.2. Overview of EFP portfolio

Key Figures

	#	€ mill
Capital available		340
Disbursements*	9	106
Project presented	43	531
▪ FA granted	16	186
▪ CIP granted	4	58

** Dos not include 2 partially disbursed*

From its creation in May 2004 to December 2008, 43 applications have been presented to the IC of the EFP. Of those, only 6 did not receive Clearance in Principe (CIP): 3 were vetoed by the EIB and 3 were withdrawn by the PP. For the other 37, CIP was granted and for most, CIP expired or the project was cancelled by the PP. Ultimately, 13 projects were granted a Financing Agreement (FA) for EUR 185.77m and 4 have currently a valid CIP (for EUR 57.98m).

Although the Master Investment Agreement calls for an equitable spread among instruments, most of the operations approved are loans (94%). Only 2% of the portfolio is made up of equity and 4% of operations combining loan and equity. No guarantee operations have been proposed. Equity and quasi-equity were allowed as instruments in 2005 and guarantees in 2006.

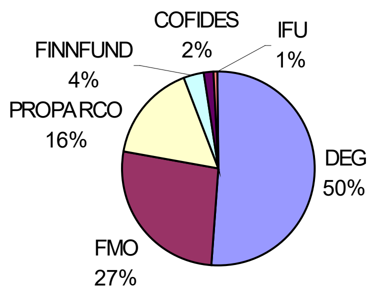
The size of the operations is quite variable, with a minimum of EUR 1.44m, a maximum of EUR 21.54m and an average of EUR 11.82m. There is no apparent correlation between the size and other characteristics of the operations - such as sector, type of operation or promoting partner. Currently, the maximum amount the EFP may finance in one operation is EUR 18.75m (75% of an operation of EUR 25m). Discussions to increase the maximum amount of the financing have reached a compromise as the EIB did not favour such increase: the EIB would continue to finance up to EUR 12.5m (two thirds of the EFP financing or 50% of the operation) while the committing partners could finance more than the previous limit of EUR 6.25m (one third of the EFP financing or 25% of the operation).

Distribution of Promoting Partners

By large, most operations proposed to and approved by the IC have been promoted by three partners: DEG, FMO and PROPARCO:

- 84% of the 43 applications (44%, 28% and 12% respectively),
- 81% of the 16 operations approved (31%, 31% and 19%) and
- 94% of the EUR 244m of committed funds (50%, 27% and 16%)

Committed funds



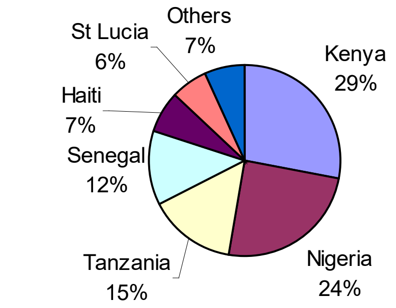
Only 7 out of 43 projects have been proposed by other partners: COFIDES (1), Finfund (1), IFU (4) and SBI (1), of which only 3 were approved (FA granted). This feature of the portfolio has been discussed by the IC and the BoD and is covered in this report in § 4.1.

Geographical distribution

The 13 approved projects are geographically concentrated; three countries (Kenya, Nigeria and Tanzania) make up 68% of all approvals. While the limit of 30% of the portfolio in one country has not yet been reached, Kenya is at 29% and Nigeria at 24% of the portfolio.

This situation reflects the concentration of the operations on few promoting partners, as each of them has preferred or priority countries of operation. As the EFP works as per the proposals of the partners, it is unlikely that a wider distribution could be imposed. However, an attempt to spread the activities of EFP among more countries should be encouraged to spread risk.

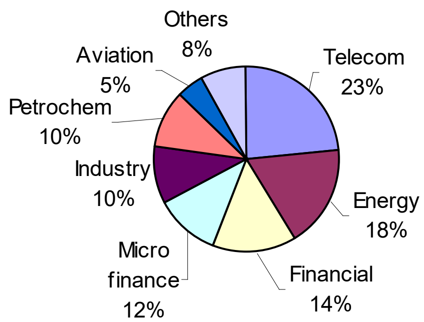
Portfolio of projects approved by country



If the most recent projects for which CIP has been granted materialize, the situation will improve. Indeed, if commitments (CIP or FA granted) rather than approvals (FA granted only) are looked at, a better distribution among countries is attained, where Kenya's share decreases to 22%; Nigeria's to 19% and Tanzania's to 11%.

Note that the Working Group of the IC discussed changing the rule to compute limits based on total capital available and not on actual commitments as requested by the MIA. As commitment rates have only recently increased and projects have still to materialize, it seems too risky to change the calculation basis.

Portfolio of projects approved by sector



Sector distribution

The portfolio is well distributed among sectors, although three sectors (telecom, energy and financial) make up 55% of the portfolio. Two operations in the financial sector and one in micro finance make up 26% of the portfolio.

3. Relevance

3.1. Rationale and Objectives of EFP

The EFP was created in order to respond to the request of the EU Member States (MS) and the European Commission (EC) for a greater cohesion between the activities of bilateral and EU institutions. This request arises in a context in which, after it became apparent that 40 years of development aid have had little effect, development actors reviewed the approach followed to provide development aid and concluded, among others, that greater co-operation among development actors and harmonisation of procedures and mechanisms for aid delivery were needed to increase aid effectiveness. It was thus expected that greater cohesion between the activities of bilateral and EU institutions would "improve the impact and the efficiency of European development cooperation".

In that context, EDFI members, AFD, KfW and the EIB signed a "Framework Agreement on Financial Co-operation and Exchange of Services" in January 23, 2003. This Framework Agreement established the basis for a number of initiatives among the so called "European Partners".

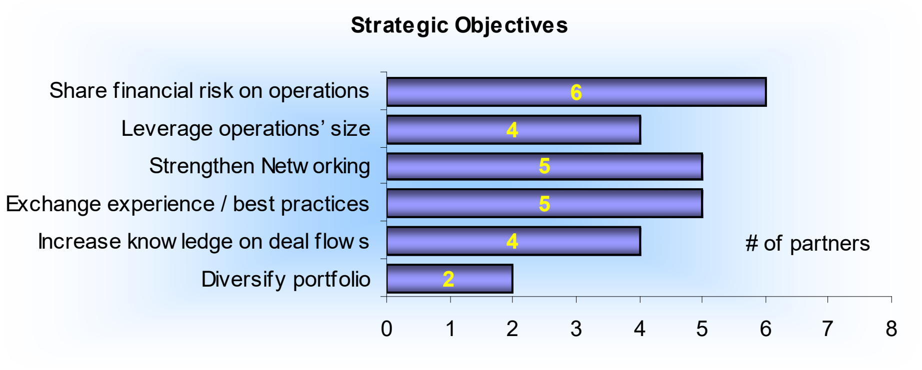
A concrete step to implement the Framework Agreement was the creation of EFP, with the double aim "to promote sustainable development of the private sector in ACP States and strengthen cooperation between Eligible DFIs and EIB" (Shareholders Agreement). The EFP was thus set up as a SPV whose main activity is to pool financing resources for operations with the private sector in ACP countries. No other specific objective in terms of strategy was included.

Both objectives are clearly in line with the European development cooperation policies and their adequate implementation should contribute to increase its impact and efficiency. Furthermore, they are in line with a number of joint statements on aid harmonisation and alignment put forward by the international community (including the EDFIs and the EIB), such as the Paris Declaration and, more recently, the Accra High Level Forum.

3.2. Rationale and Objectives of EFP partners

It has been observed, through interviews, that EFP partners, while sharing the "common" objectives of the EFP, also have their own incentives and objectives to participate in the joint venture. These strategic objectives are related to either reinforcing co-operation between IFIs or the operations; i.e. they relate to and are coherent with the two main objectives of the EFP:

- Most partners expected to be able to **share the financial risk** of the operations funded
- Three larger partners and one smaller partner expected to be able to **leverage the size** of their operations through the EFP
- All smaller partners expected to increase their **knowledge of other IFIs** and reinforce their professional **networks**
- All smaller partners expected to exchange and **share experiences** and best practices with other IFIs
- Some smaller partners wished also to increase their knowledge on other IFIs' **deal flows**
- Several smaller partners wished to **diversify their portfolios** by participating in operations that differ from their own by their size, type of operation or geographical location



In fact, all partners share to some degree this list of objectives, although smaller partners focus more on co-operation aspects and larger partners focus more on the operations themselves.

As a consequence, the number of projects presented by smaller partners is likely to remain low: their priority is the learning process, co-operation and working with the others; they consider their role in the Investment Committee as already quite demanding in terms of working time and will present an operation only exceptionally. For larger partners, their stated interest is in the leverage of their financing and in an increased cooperation with the others.

In conclusion, it can be stated that the rationale and strategic objectives of partners participating in the EFP are coherent with the objectives of the EFP and the Framework Agreement and can contribute to achieving them.

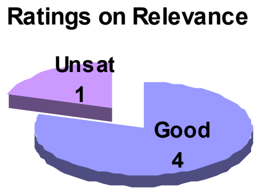
Partners' strategies and EFP activities

EFP is an instrument and has no established strategy as such. Nevertheless, some of its features incorporate de facto elements of the respective partners' strategies, in particular of those more active as promoting partners. Partners' strategies may change and the size and composition of their portfolio may develop in various directions. Thus, it may be relevant to discuss certain strategic aspects at regular intervals.

Housing was almost absent from most partners' agendas at the time of EFP's creation. Today, however, it is one of FMO's three main priorities, and the EIB is considering operations in this area. Real estate has been introduced as an eligible sector but the diffusion of this information is too limited.

Financial sector The report highlights the high level of misunderstanding between partners with regards to operations in the financial sector. Some consider the sector as excluded, whilst others consider specialised operations; there is no coherent approach. For some partners, the financial sector represents a significant share of their portfolio. The EIB has recently reviewed its policies in this sector. At a time when support to Financial Institutions in emerging countries could become critical given the global economic and financial crisis, partners may be encouraged to discuss this subject again in-depth.

3.3. Results from project evaluation



The five operations evaluated were in general consistent with EFP objectives and in line with partner countries' priorities. Four of them were rated *good* (top rate). For instance, the two operations in the Caribbean, which contributed to fund the provision of new telecom infrastructure, had strong expected (and achieved) development impacts, as mobile communications represent the fastest way to facilitate communications in less populated and isolated areas. Furthermore, the sector has strong links with a full network of SMEs distributing contracts, phone cards, handsets, etc. and therefore contributes to creating employment. Likewise, two operations providing finance to local banks in Africa to increase their capacity to lend in US$ to mid-cap firms were also rated *good,* as this type of lending is still scarce in the local market and is needed for the expansion of the private sector. Both operations were well in line with the priorities of the local government to diversify the economy away from the primary sector.

One project was rated *unsatisfactory* because one of the operation's components was inadequately designed. The first component (industrial investment) was indeed consistent with EFP objectives and clearly matched the development priorities of the beneficiary country. The second component, however, called for the client, a local agro-industrial company, to on-lend part of the funds to other agro-industrial companies. This setting is considered as inadequate for two main reasons: First, it implied the client playing the role of a financial institution when it had no experience or certification from regulators to do so. Second, the underlying assumptions were unrealistic: the client, as lender, had to bear all financial risks and the borrowers had to provide the lender with confidential information concerning their business, with a clear potential conflict of interest already identified during the discussions of the EFP Investment Committee.

3.4. Conclusion

The EFP initiative is clearly in line with European development cooperation policies and with a number of joint statements on aid harmonisation and alignment put forward by the international community. It has also been a concrete step forward to implement the Framework Agreement on financial co-operation and exchange of services signed by the European Partners (EDFI members, AFD and KfW) and the EIB.

Its members participate with their own institutional agendas, which vary mostly according to the size of partner: larger partners focus on financial leverage and risk sharing; smaller partners focus on the exchange of experience and best practices. The rationale and strategic objectives of partners participating in the EFP are also coherent with the objectives of the EFP and the Framework Agreement and can contribute to achieving them.

The operations financed were in their majority consistent with both the European development polices and the objectives of the EFP. Only one case called for attention due to the architecture of the operation.

Further discussions on activities within areas such as social housing or the financial sector could better support new partnerships.

Relevance is therefore *good* but the EFP partners should remain vigilant to adequately implement the joint venture in order to effectively achieve the objectives and produce long term effects.

EFP Objectives
A slight inconsistency in the texts?

The Shareholders Agreement, in line with the Framework Agreement, states that *"The Company will aim to promote sustainable development of the private sector in ACP States and strengthen cooperation between Eligible DFIs and EIB"* (page 3).

The Master Investment Agreement (MIA), on the other hand, states that *"This operation [EFP] meets a dual objective: to provide visibility to financial co-operation between EIB and the EDFIs in the ACP States, which is being actively encouraged by the Member States of the European Union; and to enhance efficiency in project appraisal and management by pooling and optimising staff resources."* (page 5)

The formulation of the MIA differs from that of the Shareholders Agreement in two respects.

- First, it emphasises <u>visibility</u> of financial co-operation rather than <u>strengthening</u> it. Visibility is indeed important but will come only after co-operation is effectively in place.
- Second, the MIA states as its second objective the pooling and optimising of staff resources in order to enhance efficiency in project appraisal and management. Pooling staff resources could be better considered as an *operative objective* or a *mean* to strengthen co-operation or promoting sustainable development of the private sector in ACP States

➔ MIA should be adapted to better reflect the strategic objectives set in the Shareholders Agreement (and in the spirit of the Framework Agreement) and distinguish them from the operative objectives or the means to achieve them.

4. Effectiveness

The EFP has two main objectives: (i) to promote sustainable development of the private sector in ACP States and (ii) to strengthen cooperation between Eligible DFIs and the EIB. Effectiveness, the extent to which objectives were achieved, will be assessed based (a) on the extent to which co-operation between partners has increased and (b) on the use of the funds available, which is analyzed on the basis of the deal flow and on the results of the individual operations.

4.1. Co-operation among partners

As mentioned in § 3.2, strengthening co-operation among partners played an important role for most of the partners when deciding to join the EFP venture. Two stages can be distinguished that have contributed to increase co-operation: the *process of creation* and setting up the EFP and the *implementation* of EFP.

Setting up EFP was a lengthy and costly process in terms of human and financial resources, which required the involvement of different services of each institution, hiring expensive external international legal expertise, etc. But precisely because it was such a difficult process, it implied a continuous exchange between partners and resulted not only in a set of agreed common procedures but also in an increased knowledge of each other. In other words, the actual setting up of the instrument already contributed to one of its objectives. Furthermore, the cost of this process provides the founding partners with an additional incentive to continue the venture.

Three different bodies are involved in the *implementation of the EFP*: the Board of Directors (BoD), which i.a. defines the overall strategy of the EFP, the Investment Committee (IC), which approves or refuses any proposal, and the Secretariat, which is responsible for administration and coordination. The IC has been identified as the main exchange mechanism between partners.

a) Investment Committee

IC Twining

CDC	Sifem
COFIDES	PROPARCO
EIB	IFU
BIO	FINNFUND
FMO	SWEDFUND
DEG	Norfund

The Investment Committee is composed of one representative per committing partner. All 12 members may participate in the meetings and each member has one vote; proposals are approved by simple majority and the vote commits all partners - except the EIB which can opt-out. Following the entry of new committing partners in 2006, it was decided to twin institutions (rather than reduce the number of IC members) and pairs were required to coordinate their questions, to have only one voice during the meetings and were able to delegate their vote to each other. When a project is proposed, documents are sent in advance to IC members and a meeting date is proposed by the Secretariat, IC members send written questions (no later than 7 days after receiving documents), the Secretary and the Chairman consolidate and forward the questions to the PP and the PP replies in writing (at least 3 days prior to the meeting). These measures aim at keeping the time spent discussing a project within a maximum of 30 minutes. Meetings are held by telephone but the IC meets physically twice a year as a working group to discuss improvements of the EFP.

Participation to the IC is a priority for partners…

Most partners consider IC meetings as very valuable, both for the operations proposed and to reinforce networking. Indeed, even the most experienced promoting partners find the discussions constructive and useful for improving the quality of the operations proposed.

Furthermore, all partners expecting to increase their knowledge of other IFIs and reinforce their professional networks through their participation to the EFP identify the IC meetings as a powerful instrument to achieve these objectives.

The importance attached to these gatherings is shown in the participation rates: according to the voting statistics presented by the Secretariat, of the 12 partners, 8 have participated in at least 80% of the IC meetings and 10 in at least 75%. The importance is also demonstrated by the fact that, in 2006, when the BoD requested the IC to submit a proposal to reduce its size in order to maintain it as a "fast reacting decision making body", the discussions held by the IC could not reach an agreement on reducing the number of members, which finally led to the decision of "pairing" institutions, reducing the number of "active" voices in each meeting.

… but some risks are identified

Nevertheless, several partners are concerned about the quality of IC decisions in the future, and in particular if the number of proposals continues to increase at the current rate, or if new members join the venture.

Indeed, the time spent preparing and participating in the IC meetings is already considered as significant, particularly for many of the smaller partners. While pairing is considered effective for coordinating questions to PP, and therefore reduce the time spent on IC meetings, it implies more time spent prior to meetings. Therefore, an increased number of proposals would imply that some members will not be able to adequately prepare each proposal, with the ultimate risk of lowering approval standards. For some partners, this is already the case. According to the statistics on voting presented by the secretariat (Dec 2008), the vote rate "against" a proposal is only 9.7% on average. It can also be seen that the increase in the number of FAs granted per year is not explained by an increase in the number of proposals per year. This risk is enhanced by the fact that each committing partner participates with only a small fraction of each financing agreement.

Year	Propo-sals	FA granted
2004	9	2
2005	12	2
2006	8	5
2007	7	2
2008	7	5

Several options were expressed as possible improvements for the IC's organization, which were along the lines of the discussions held in 2006; i.e. bundling, rotation, groupings, etc., but again, most were concerned that if not all members are represented in the IC, the main instrument for exchange of experience and knowledge transfer would be weakened. They therefore prefer to avoid such solutions. The time allowed to discuss each proposal (30 minutes) should not be reduced either as it is already at a minimum to ensure a thorough discussion. A modification of the approval rule, from simple majority to a 2/3 rule, would be most appropriate in order to ensure the quality of the decisions.

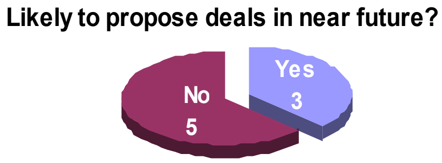
b) Participation of promoting partners

Is highly concentrated and some would like a more equitable spread …

The MIA states in its preamble that *"No maximum limits of financing from EFP to the Promoting Partners and on the various available financial instruments will be established. However, the Parties will endeavour to ensure an equitable spread among the EDFIs and the financial instruments."* Yet, as shown in § 2.2, the EFP's activity is highly concentrated in three partners: FMO, DEG and, to a lesser extent, PROPARCO. For this reason, the Board of Directors and the IC Working Group have discussed the issue several times. The first EFP evaluation concluded that: *"While is it not expected that a balanced distribution of the funds between the PPs will materialise, a repeat of the situation where 75% are presented by 2 EDFIs should be avoided."* and recommended that *"Procedures need to be devised that allow participation of all eligible EDFIs. A suggestion would be that one of the more experienced EDFIs may offer to* *second expert staff to potential PPs in the run-up to presentation of a proposal for CIP or final approval."*

… but it is unrealistic in the near future

However, interviews with individual partners have shown that partners who do not actively act as promoting partners **do not seek a change** to the current situation. Most of these partners are satisfied because the current setting allows them to achieve their own strategic objectives (exchange of experience, increased network, etc. as shown in § 3.2). They state that they will propose a project if and when they find it appropriate, but consider that it is unlikely that they will do so in the near future. The reasons are mainly related to the limited resources they have to appraise and follow up an operation and to the type or size of the operations that can be proposed to EFP. It is a different situation for the EIB, for which it was agreed from the start that it will not act as a promoting partner.



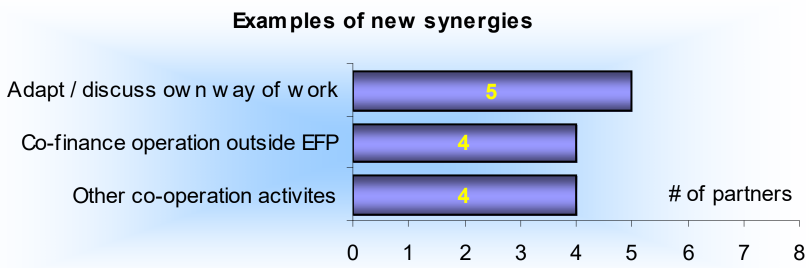
It is therefore recommended not to specifically "encourage" a more dispersed distribution of the portfolio among more promoting partners. As a consequence, the concentration on sectors, countries and instruments, which are a priority for larger partners, will also persist and means that, *ex-post,* EFP priorities and strategy will follow those of larger partners. *Per se*, this is not a problem as long as (a) financial risk is sufficiently spread (i.e. country and client limits are respected) and (b) partners acknowledge and are willing to accept this fact.

c) Some concrete results

Several examples of new synergies …

According to the interviews, partners feel mostly satisfied with their participation to EFP in terms of increased co-operation. Several indicators may help measure the extent to which this objective has been achieved, such as whether internal procedures or work methods have been adapted following the EFP experience, or whether operations have been co-financed with other IFIs (outside EFP) as a consequence of an increased knowledge among institutions. The graph below shows some of the results from the interviews with partners. It should be noted, however, that an attribution problem clearly exists and, in particular, it is difficult to distinguish between the effects of the general trend for increased co-operation, participation in the EDFI group or participation in EFP.

Another element mentioned by partners, specially the smaller and newer institutions, is a clear networking effect: knowing who is who and being in frequent contact with their pairs. A reinforced network gives the opportunity to informally discuss deal flow or best practices, which is part of a learning process and exchange of experience that is highly appreciated by the participants.



… and of increased coherence …

A further tangible effect of the EFP venture is the increased harmonisation of procedures and approaches. Setting up the EFP entailed agreeing on a number of guidelines and standards to be followed by the partners - at least for the operations financed through the EFP; these standards are regularly discussed among partners. The discussions (during set-up and later on) have induced a number of partners to reconsider their own institutional arrangements, and in some cases they have been adapted. In this context, it is worth noting the agreement reached between DEG, FMO and PROPARCO which allows appraisal documents from one institution to be accepted by the others, therefore optimizing staff resources and facilitating operation co-financing.

Again, in all these cases, the attribution problem applies, as it is not possible to state that these effects are mostly a direct consequence of the discussions held in the frame of the EFP, but they have certainly contributed. If EDFI working groups have played an important role in streamlining and harmonizing working procedures and approaches; the EFP has been the testing ground.

… but visibility could be improved…

The EFP has contributed to increasing the visibility of European development cooperation: when known, it is seen as a concrete example of co-operation. Furthermore, as it appears to be a successful experience, other institutions are looking to set up similar platforms. However, much could be done to further reinforce this aspect, as knowledge of the EFP has largely remained within the boundaries of the community of financing institutions. It is important that the EFP becomes better known in a larger development community, as it meets, in a quite effective way, the demand for a more effective delivery of development aid (see § 3.1)

- Partners, in general, mention their participation to the EFP on their web sites and in official brochures, although the venture is presented in many different ways: as a key partnership, as a source of funding, as one investment among others, etc. and in most cases, the mention is rather discrete. If the EFP initiative seeks "to provide visibility to financial co-operation between EIB and the EDFIs in the ACP States" (MIA, page 5), EFP partners could be more explicit and informative with regards to the EFP experience and give it a more prominent place in their communication strategy.

- Likewise, the Secretariat publishes and distributes a brochure describing the EFP, its partners and investments. Yet, it could also devise a more pro-active communication policy, for instance by enlarging the brochure's target public, proposing the link to its web site to institutions other than EFP partners and by organizing regular press releases.

- Contracts with clients benefiting from EFP matching finance are signed with the promoting partner only, but explicitly indicate the participation of the EFP. The promoting partner could also have a more proactive communication policy to enhance the EFP's role. In addition, within their own institutions, EFP partners could also insist more on the importance of EFP and provide incentives to investment officers to have the reflex of sharing deals with the EFP.

Increased financial leverage & risk sharing …

On the side of the promoting partners, the EFP has allowed them to significantly leverage the size of their operations. The 25%-75% financing rule between promoting partners and committing partners allows a theoretical leverage of 1:4. This has, for instance, meant that many promoting partners are accessing a new class of clients and that they can envisage more complex operations. Furthermore, the need they had to work with large multilaterals in order to reach a given size has now diminished, and in deals where they would have followed a larger partner, they are now leaders.

For all partners, promoting and committing, the EFP has allowed to share financial risk. Committing partners, aside the EIB, engage relatively small amounts, as the group (of 10 institutions) finance 25% of the operation. The EIB finances 50% of each operation.

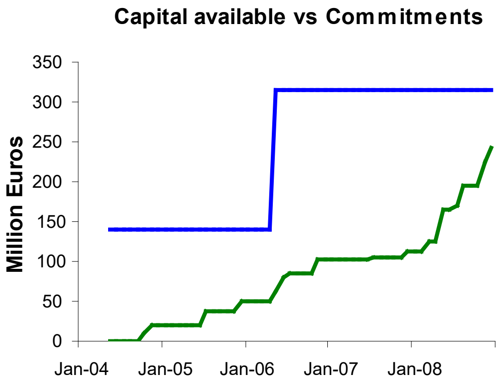
… with a reduced burden for clients

On the side of the clients, the EFP has allowed them to benefit from an increased financial capacity without the burden of having to negotiate with several financing partners. It should be noted, however, that relationships are built up between the client and the promoting partner only, and not with other partners.

4.2. Operations financed

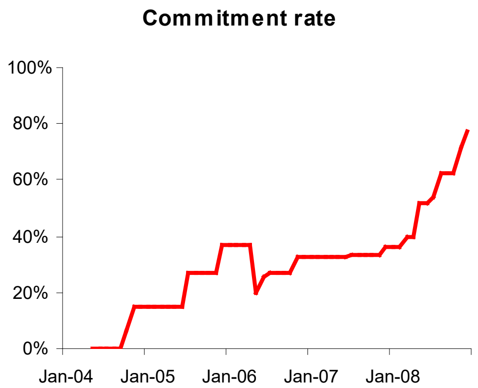
a) Commitment rates

As the EFP seeks to achieve its two main objectives by "providing matching finance for investments in the ACP States originated and provided by individual Eligible DFIs", the single most adequate indicator to measure the extent to which objectives have been achieved is the **rate of utilisation** of the funds made available by the partners.



The EFP had a slow start, as measured by the ratio between commitments and capital available. Three different periods can be observed:

i) from creation (May 2004) to replenishment (May 2006), the rate of commitments slowly increased,
ii) from May 2006 until end 2007, new commitments were very few and the commitment rate remained at 36%,
iii) in 2008, the rate of commitments accelerated significantly and the rate reached 77% in December 2008.



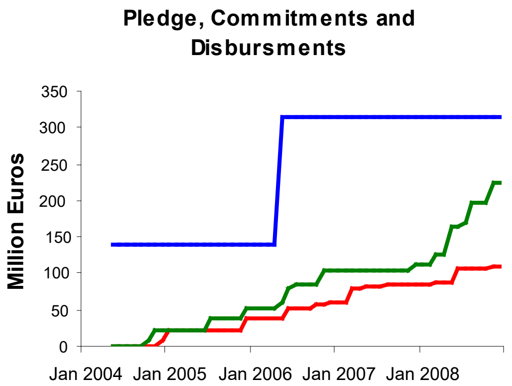
An initial period of adjustment and learning is always expected in the context of a new venture, but in this case the learning period was quite long. The slow start can be also explained by the fact that a potential promoting partner had to propose (and subsequently appraise and manage) much larger projects than it would normally do, requiring not only the expertise but also the required deal flow. Another reason for a slow start was the discussions on the additionality of the projects, which, for instance, lead the EIB to veto projects on 3 occasions.

The acceleration of the rate of commitment can be explained by two factors in addition to the greater familiarity of partners with the use of the EFP. On the one hand, some of the larger partners have increased their activity in general, and in Africa in particular, leading to a larger potential pipeline to share with the EFP. On the other hand, partners decided to become more active and make an extra effort to propose projects to the EFP, in particular in view of the approaching date of the replenishment discussions. Undeniably, it would not have been relevant to discuss replenishment when the rate of commitment was 36%, as it was a year ago.

It is therefore a positive sign that commitment rates have increased in the last 12 months, although the sustainability of this trend still has to be confirmed.

b) Disbursement rates

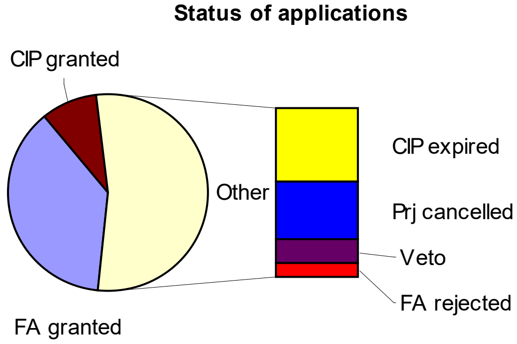
At current levels of commitment, one could be tempted to conclude that the EFP has been effective in "matching finance for investments in the ACP States originated and provided by individual Eligible DFIs". However, as shown on the graph, disbursements have not followed the same positive trend. The lag between commitments and disbursements is increasing over time, which may imply that operations are approved too early and before the client needs the funds. Partners need to make further efforts to ensure that approved operations materialize.



c) Mortality rate of proposals

Rejection rates by the IC are relatively low (9.7% on average). At the same time, the rate of FAs granted is also relatively low. This apparent contradiction is explained by the high rate of proposals for which CIP was granted but subsequently cancelled, or for which the CIP expired (18 of the 43 proposals or 42%).

A possible explanation is that partners present projects for clearance in principle too early, for example to secure their role as promoting partner. A more selective presentation of proposals for CIP would reduce the work of the IC as well as the cancellation rate. In addition, a more selective approach could also contribute to reduce the risk of relaxing approval standards.



d) Operations in the financial sector

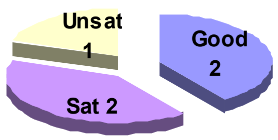
As shown in § 2.2, there are only two financial sector operations, approved in 2004 and 2005. After these, a third operation was proposed, in 2007, which was vetoed by the EIB and gave rise to a serious discussion among the partners. The current situation is one of ambiguity as to whether it is possible for an EFP partner to propose such projects and if so, under which conditions. This ambiguity has two main consequences: it negatively affects the relationship between partners, in particular between the EDFIs and the EIB, and it limits the deal flow. Indeed, for some of the partners, the financial sector represents a significant share of their portfolio and they would be ready to propose operations in this sector.

It is therefore recommended that the partners open the discussion on financial sector operations again, and in particular that the EIB clarifies its position as to the conditions under which it would be ready to approve such operations. The discussion should include: whether the operation is mainly understood as a corporate finance loan or as an instrument to attain certain types of beneficiaries; what is expected in terms of operation monitoring; and whether information is expected in respect of final allocations.

4.3. Results of project evaluation

Project effectiveness rates the extent to which project objectives have been achieved or are expected to be achieved, taking into account their relative importance, while recognising any change introduced in the operation since approval. In the case of direct operations, the main parameters are: implementation (coherence with the technical description, timing, procurement, costs and funding) and operations which lead to the achievement of wider overarching project objectives and outcomes. In the case of operations with financial institutions, the main parameters refer to the implementation of the facility: terms and conditions; on lending conditions; allocations and portfolio characteristics; reporting and final beneficiary.

Ratings on Effectiveness



The effectiveness assessment of the five operations funded show mixed results. Two operations were rated *good*, two were rated *satisfactory* and one *unsatisfactory.*

The two telecom operations were rated *good*, as objectives were largely fulfilled: the mobile phone network roll-out was executed and gave results well above expectations. Indeed, not only the original investment programmes of both projects were executed as planned but, due to the unpredicted fast growth of the subscriber base, all investments were implemented ahead of schedule and further expansions were anticipated. These investments allowed increasing mobile penetration rates in one country from 23% in 2001 to almost 100% today and from less than 5% to well above 20% (end 2007) in the other country.

> One telecom operation aimed at financing capex to build the first part of a new mobile telecom GSM infrastructure, covering 3 fiscal years of development.
>
> The infrastructure was initially designed to host up to 250,000 subscribers by March 2008 and it was assumed to have some 120,000 subscribers by December 2006.
>
> These assumptions proved highly prudent as the 2008 target was reached in just a few months. By the end of 2006, there were 1,100,000 subscribers and in March 2008, more than 2,000,000.

The one agro-industrial project was rated satisfactory. The first component of the project was implemented with a slight delay. The second was never implemented and thus the client accelerated its longer term investment programme, which was scheduled to be completed by the end of 2008. These changes were approved by DEG and EFP and were being implemented as planned.

Of the two loans to financial institutions, one was rated satisfactory and the other unsatisfactory in terms of the implementation of the facility. In the first case, the loan was fully disbursed and partly recycled (which provided certain sector diversification compared with the projects initially financed), and on-lending terms and conditions were satisfactory in relation to those provided under the credit line; the main issue identified in terms of the implementation of the credit line was related to the eligibility of three sub-projects initially financed.

In the second case, and based on information provided by the client, the facility was not fully utilized from the beginning despite the fact that, at the time the loan was disbursed, the client should have provided the promoting partner with a pipeline of projects to justify the full amount of the bullet disbursement. Furthermore, all but one transaction were signed before the EFP contract. This can be considered as refinancing - which was specifically excluded in the EFP framework and finally, there was a mismatch of tenors. Margins, on the other hand, reflected the risk of lending to this market segment.

In all five cases, the companies and projects were operated in the most adequate manner. The clients are considered as top class professionals in their sector and the evaluations confirmed this view.

Estimated employment effects

For the two telecom operations, 210 and 136 new post were created during the period of investment and the client estimates that about 12,000 jobs were indirectly created by both operations, chiefly by SMEs providing services to end-users.

For the agro-industrial operation, the client indicates that 120 posts were created as a consequence of the new investments.

For the loans to financial institutions, direct job creation could be considered marginal; the most important effect being the jobs created by the final beneficiaries, but no information was available on these.

4.4. Conclusions

The extent to which the EFP's two main objectives were achieved is assessed based (a) on the extent to which co-operation between partners has increased and (b) on the use of the funds available.

The EFP has proved to be an effective instrument to strengthen co-operation among partners. Both the EFP's creation process and the way it operates have proven to be conducive to increased exchange of experience, knowledge transfer and reinforced networks. Furthermore, partners feel satisfied overall with the experience and provide concrete examples of reinforced co-operation.

The EFP has, however, yet to confirm the same effectiveness in terms of the use of the funds made available to promote sustainable development of the private sector in ACP States. The EFP has increased its pipeline and is more dynamic than in its first three years of activity, but it needs to make efforts to ensure that the operations approved materialize. The recent trend in commitments (which accelerated only in 2008) should not be considered as a permanent achievement. Furthermore, the effort in terms of commitments is likely to continue to be concentrated in few of the partners, as several among them do not expect to increase their participation as promoting partner in the near future.

5. Efficiency

5.1. Administration and organisation of EFP

The EFP's administration and organisation is considered as very good by all partners. It is a light and small structure and all parties wish to keep it that way. The Secretary constantly seeks ways for improvement by submitting proposals and contributing to discussions at WG level.

As indicated above in § 4.1, it has been discussed whether the number of members of the IC should be reduced in order to increase the efficiency of the meetings. This option, however, should be considered carefully. On the one hand, compared to other multilateral initiatives, IC meetings of the EFP can be considered already as very efficient. On the other hand, the IC meetings are the main platform of exchange for most partners and therefore a key element in their EFP participation. It may work against EFP interests to reduce the number of IC members or to streamline the meetings even more. Thirty minutes to discuss an operation is probably the minimum, even if written questions and answers have been exchanged in advance.

As most of the smaller partners feel that their participation in the EFP is time consuming, the Secretariat may introduce new procedures to reduce managing time without reducing IC meetings time. In particular, the web platform, with restricted access for partners, could be exploited to improve the filing system, in order to avoid each institution keeping the same files and reduce the burden of managing EFP operations. In addition to the existing information, the new system could include separate sections for operations (with all information related to the project life cycle up to its closing, including monitoring reports), for Board meetings and for IC working group meetings. The use of the web site as a communication platform ensures transparency and improves information flow.

The main risk identified in terms of the EFP's administration is that management is concentrated in one person. Previous internal discussions have already tackled the issue and proposed corrective measures. In particular, the first evaluation recommended that "*the Secretary shall brief a representative from one of the Financing Partners on the administrative tasks and operational procedures of the Secretariat ensuring the operation without interruption in case of temporary absence of the Secretary"*. The briefing was done once in 2006 but that is not sufficient to ensure uninterrupted operations in case of the Secretary's absence. The IC WG has recently (December 2008) proposed that the Secretary prepares a handbook describing the tasks of the Secretariat and reinstitute the briefing of a staff member from the IC Chairman's institution. This recommendation should be followed through without further delay.

5.2. Financial margins for EFP partners

Most **committing partners** consider that the financial return on EFP operations is low, although no estimations have been provided to the evaluation by the partners. Therefore, the evaluation undertook a tentative estimation based on the actual financial flows of 12 operations and on a reasonable estimate for future years (although this could be optimistic for equity investments).

For each individual operation, it was estimated:

- the return for committing partners (and the EIB) taking into consideration all cash flows and including fees (1.75%) paid to the PP (on the EFP participation, i.e. 75 %)[1]
- the return for the promoting partner assuming a share of financing of 25%. In other words, extra finance provided by the PP is not considered in this calculation

[1] This exercise has only been carried out for committing partners present since May 2004.

The results, which highlight the impact of the fees on the return for each type of partner, were then combined to determine the overall return for committing partners (including the EIB) and the overall return for the 3 larger promoting partners.

For committing partners, the estimated average return was considered low taking into account the write-off of one operation.

The overall return for promoting partners depends on the relative success and repayment profiles of their promoted operations and their share in EFP activities (the more one Partner is active, the higher the fees received, increasing the return). The estimated results vary and are considered higher than those of committing partners.

Estimates consider only the financial flows. One could compare those to the cost of the financial resources which are specific to each partner and to the administrative cost related to EFP management within each EDFI. It also does not take into account the resources needed by the PP to manage the operation on behalf of committing partners.

In summary, for any committing partner, the fees paid to the PP, the time spent managing the participation to the EFP and the write-off of one of the operations are the main factors that pull the return down. The volume financed by a PP, which triggers management fees received from CPs, is the main factor that pulls the return up.

5.3. Risk management

All EFP operations and their administration are based on *trust*.

It should be recalled that, once an operation is approved, the final beneficiary will sign one (more if several financial products are offered) contract, and only one, with the promoting partner. This contract will include the contributions of all EFP partners, although each individual contribution remains invisible to the client. This is the simplest way of achieving co-financing between institutions.

Therefore, risk analysis is fully delegated to the corresponding promoting partner. Each of the three large EDFIs, being the most active partners, have well established internal methodologies, based on similar principles as within the EIB. Each of the smaller EDFIs is engaged in a learning process on all methodologies, including risk management. Each case presented by them should be considered as specific; if necessary, the principle of twining one small and one large Institution, as already mentioned, could ensure a satisfactory solution.

5.4. Results from project evaluation

Project efficiency measures the extent to which project benefits/outputs are commensurate with resources and inputs. In the case of investment operations, the evaluation considered the following parameters: market and demand aspects, including capacity utilisation of the underlying infrastructure; operation, tariffs and operating costs including operational efficiency; and the financial and economic impact of the projects. In the case of operations with financial institutions, the main parameter refers to the financial institution and its position in the market.

Ratings on Efficiency

The assessment of efficiency for the five operations funded shows positive results. Four operations were rated *good* and one was rated *satisfactory.* In all cases, the companies are profitable and their positions in their respective markets are good.

The two banks have been assessed (3Q2008) in terms of their organization and management, profitability, financial situation, portfolio quality, funding structure, corporate governance, compliance and sustainability. The individual evaluations show that both banks have successfully consolidated their positions as the "New Generation" banks, are well capitalized, the quality of their portfolios is satisfactory and their respective management have successfully handled rapid growth.

The three other projects, one agro-industrial and two telecom, were assessed in terms of their respective markets and demand aspects, their operation, tariffs and operating costs and on the financial and economic impact of the project. The evaluation found that the agro-industrial company was profitable and that the project was financially viable. In terms of the project's economic viability, indicators such as job creation, generation of foreign exchange, payment of taxes, etc. showed that the project was economically viable and has positive effects. Likewise, for the two telecom projects, the evaluation showed that the company was profitable and on a path of strong potential growth. Indicators used included number of subscribers, penetration rates, average revenue per user (ARPU), etc. It also showed a dramatic drop in the price of communications due to the introduction of more efficient technology and to increased competition, as well as to the fact that traditional providers had to upgrade their networks in response to the larger client coverage; foreign exchange earnings grew substantially due to tourist roaming.

5.5. Conclusions

The EFP operates in a swift and efficient manner, which is appreciated by all its members. Further improvements can be achieved - in particular to reduce the management load of partners, for instance by better exploiting the closed web site platform. However, potential modifications in the IC in order to increase efficiency even further should be carefully considered, as any further reduction in the time allowed to discuss a proposal may negatively affect the quality of the decision. The recommendations made in the past to reduce the vulnerability of the EFP in case of absence of the Secretary should be implemented without delay.

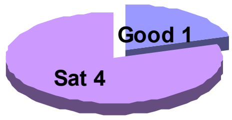
While the EFP operates efficiently, the projects financed so far provide a relatively low financial return for committing partners in spite of the good performance of most of the clients. Financial returns for promoting partners are, on the other hand, significantly higher due to the management fee of 1.75%

Based on the results of 5 individual evaluations, the efficiency of the projects and the clients has been rated very positively.

6. Environmental and social performance: Results from project evaluation

Beyond the classic evaluation criteria for project performance, EV systematically highlights and rates the Environmental and Social Impact of the projects under evaluation. The ex-post rating system follows that of the other evaluation criteria (*good, satisfactory, unsatisfactory* and *poor*) and considers all expected or unexpected effects on the environment and the society at large. The criteria considered vary according to the type of project. This section is based on the results of the 5 operations individually evaluated.

Ratings on environmental and social performance



Overall, the findings regarding environmental and social impacts are positive. One project was rated *good* and four were rated *satisfactory*.

The **agro-industrial project**, rated good, is a special case because of its important environmental and social effects. Our conclusion is comforted by the fact that the client is certified according to several acknowledged labels that require compliance with environmental and social standards and that are checked on a regular basis.

First, the re-location of production from Europe to countries such as the beneficiary one has a positive global environmental impact as shown for instance by the detailed study by Cranfield University (2007). The study concludes that the Global Warming Potential is about one sixth of that for the European production, even if the difference in air freight to end-user markets is considered; the main reasons being higher productivity and lower energy costs in Kenya.

Second, the client offers better financial and non-financial conditions to its largely unskilled labourers (mainly women) than most competitors. For example, basic wages are well above the minimum wage levels and are increased annually; workers get free transport to/from work, subsidized food and free drinking water on the farm, are given uniforms and protective clothing and receive Christmas presents. Also, in an attempt to increase the awareness of unskilled labourers of the context in which they work, seven workers are flown annually to a Flower Show in Holland. Finally, the client also supports a number of social activities in the region including a children's shelter, a women health care centre, a maternity ward and a communal maize mill build in the business park.

For the **two financial sector operations**, impacts were measured at the level of the financial institution and at sub-borrower level. At financial institution level, the clients had, already at the time of appraisal, adopted an E&S policy in line with IFC standards, although it was not applied to all operations. In one case, the E&S policy underwent full review following the signature of the EFP credit line, a second IFC credit line and an EIB Global Loan, with the aim of integrating environmental and social issues into all financing and investment activities. The PP also provided training to both clients on E&S management. At the sub-borrower level, the PP requires the client to report regularly on the economic and environmental impacts of the projects financed under the credit line. This has been done in one case only, but the rather generic nature of the responses in these reports provides no indication as to the extent to which the policies are fully applied to projects financed under the credit line.

In terms of social impacts, both clients are considered as among the best employers in the sector. They offer an attractive salary structure and additional benefits, such as medical and disability insurance schemes and particularly favourable benefits to female employees. They have a good reputation in terms of their training policies and practice. Both banks have a low turnover of management and non-management personnel.

For the **two telecom operations**, the client (due to a merger, today both operations have the same borrower) has implemented, since the beginning of its activities, an environmental management system. The main environmental issue of a mobile network is the selection of sites where transceiver equipment is installed. In this case, the client buys the sites from private landowners, and it has a Community Liaison Policy with the obligation to discuss the cell-site locations extensively with the local community. Furthermore, the client has all the necessary licenses and permits from the National Environmental Planning Agency and, every year, prepares an environmental compliance certification covering the main issues of the impact on the environment and of health & safety and social management.

In terms of social impacts, the client has created a Foundation with the objective of rebuilding 20 primary schools and making available, for free, thousands of vaccines against the most common parasites and diseases. These initiatives are offering access to education, with fully trained teachers, to more than 7,000 children. Yet the most important impact is probably on “isolation”, which the aggressive strategy used by the client seems capable of reducing in a very short time.

7. Role of the partners: Results from project evaluation

This section is based on the results of the 5 operations individually evaluated. It reports on the assessment of the partners' contribution to the operations financed and on their management of the project cycle.

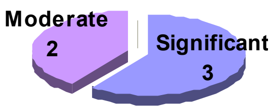
7.1. EFP Contribution

The contribution of the financial institution to the successful achievement of an operation (also called additionality or role of the institution) covers financial and non-financial aspects. It is assumed that if a deal has been concluded with a particular promoter, the contribution must, by definition, be positive. This criterion is therefore rated on a different scale and all ratings are positive (*high, significant, moderate* and *low*). Financial aspects refer to the financial contribution in relation to the alternatives available and include improvements in financial aspects such as facilitating co-financing from other sources (catalytic effect); non-financial aspects refer to improvements to the technical, economic or other aspects of the project.

For three operations, the contribution was rated *significant* and for two, *moderate.*

For the two telecom operations (rated significant), the high financial contribution was related to the tenor of the loan, 7 years, which was difficult to obtain at the time in high risk markets. Its limited penalty in case of early repayment was also positively appreciated (and indeed used by the client). No particular non-financial contributions were identified for these operations.

Ratings on Contribution



The agro-industrial operation had the stated advantage of a relatively long tenor of 8 years, which was not available locally for such projects, however, financial contribution was rated *low* because in the absence of the loan, the promoters would have financed their investments (as they had initially planned) with local banks or out of own funds. The non-financial contribution, on the other hand, was rated *significant* as in association with this operation the PP has supported the client's raise of environmental and social standards. In parallel, the PP has mobilised funds for a local Woman Health Care Centre (HIV/AIDS prevention). Overall, the contribution to this operation was rated *moderate*.

The contribution to one operation in the banking sector was rated *moderate* because the loan had only a modest contribution to the bank's expansion, and did not achieve the expected catalytic effects of encouraging other EDFIs to enter into similar transactions with the bank. No technical assistance was attached to the credit line. The PP provided training in Environmental and Social impact monitoring, but the results so far have been assessed as disappointing in terms of monitoring impacts. The PP is still aiming at further improvements.

The contribution to the second operation in the financial sector was rated *significant*. The loan had contributed to the bank's strategy of consolidating its position in both the national and regional banking sectors although, again, it did not have the expected catalytic effect of attracting other EFIs. In this case, training in Environmental and Social impact monitoring provided by the PP to bank staff has been highly appreciated by the client, who has requested continued support in this area.

7.2. Management of the project cycle

Management of the project cycle rates the EFP's handling of the operation, from project identification and selection to post completion monitoring. In practice, it focuses on the handling of the operation by the Promoting Partner on behalf of Committing Partners.

The management of the project cycle was rated *satisfactory* for the five operations, although some issues were identified and should be tackled.

Ratings on Management

Satisfactory
5

All five **appraisals** were assessed to be of good quality. For one telecom operation, for instance, the PP carried out an in-depth analysis of the country given its riskier nature.

For the financial sector operations, although the overall quality of the appraisals was of high standard, one area not adequately addressed was the analysis of the pipeline, which included sub-projects in the oil and gas sector (in both cases) and in the real estate sector (in one case). These sectors are both included in the EFP's Exclusion List, although it is allowed to approve projects on a "case-by-case" basis. However, it is unclear whether such exceptions should be decided at IC level at the time of approval, or by the financial intermediary in the case of a credit line. The evaluation did not find any indication that an internal decision was taken by the IC, or internally by the PP, to allow the financing of projects in these sectors.

Furthermore, whilst an Exclusion List is attached to each of the contracts with the financial intermediary, in one case the list attached was indeed the agreed EFP List, but in the other the list was different. The issue had already been noted during the IC discussion of the FA request and although the PP recognized it as a mistake, the list attached to the final contract remained incorrect. There is no evidence at all of fundamental disagreement on the content of the exclusion list and this issue has been identified basically as a management problem.

In terms of **monitoring**, each PP has followed and monitored the operations according to its own internal rules, as agreed by the EFP partners.

The agro-industrial project has been extensively monitored and has been subject to several evaluations and high level visits using, notably, the GPR methodology. Financial as well as environmental and social aspects have been specially focused on. The project was also part of a specific study on Corporate Social responsibility. Overall positive outcomes are recorded.

The two telecom projects have been subject to regular corporate follow up and monitoring, based on quarterly reporting made by the client to the senior lenders. No physical monitoring was envisaged nor took place; the focus being mainly on the financial aspects.

For the two financial sector operations, the PP has monitored the operations both through regular visits to the banks and through its more formal review process, which is carried out annually and reported to the PP's Investment Review Committee. Its annual Review Status Check Report provides an up-date on the banks' activities and operations, which are rated under an internal score card system, and confirms that the loan is being repaid normally and that the bank is in compliance with the financial and other covenants set in the loan agreement. This monitoring follows the PP's procedures, which do not require a list of transactions to be financed at the time a disbursement is requested.

Whether or not some kind of monitoring at the level of the final beneficiaries is considered necessary reflects the diversity of approaches when working with the financial sector. For some, the operation may aim mainly at providing financial resources to a commercial bank for its expansion, while for others it may aim mainly at providing resources to support a certain category of companies. The two operations under review included both objectives but did not define any follow up or monitoring indicators to measure success. If the EFP wishes to work in the financial sector (see § 3.4 and 4.2), it should also clarify the type of monitoring that is expected for these operations.

In terms of estimating development impacts, for the agro-industrial operation and the two telecom operations, strong impacts have been noted based on estimates made by the promoter and by the evaluation itself (see § 4.3). For the financial sector operations, on the contrary, since there is no information available on the projects which have been financed, there is no possibility to assess the larger economic or social impacts of the operation at the final beneficiary level.

7.3. Conclusions

The EFP's financial contribution has been mostly *significant* as it provided loans that contributed to consolidate the position of the clients and on terms that were not otherwise available (tenor or strong currency). The training provided by the PP on environmental and social impact monitoring (financial sector) has so far had mixed results. The role of the PP in association to the financing of the agro-industrial operation is *significant* (support to a local Woman Health Centre).

The management of the project cycle has been satisfactory in all cases; each PP has followed its own internal procedures as expected by EFP procedures. Yet it is noted that: (a) EFP minimum requirements for report and monitoring focus almost exclusively on financial aspects; and (b) that clarifying expected monitoring standards, in particular for operations in the financial sector, could facilitate the inclusion of such operations in the EFP pipeline.

Finally, while EFP procedures are explicit on the information required to present a proposal (CIP or FA), they do not require any information on how to handle the closing of the project. It would, nevertheless, be relevant for each committing partner to know if the project it has financed has been completed and is operating successfully. This could be achieved through the preparation of a project completion report, also emphasizing the development value of the project and the role of the Promoting Partner, as mentioned in the last section of the Financing Proposal document.

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Annex 1
Stated Objectives of EFP

EFP Rationale and Objectives

Framework Agreement on financial co-operation and exchange of services

"In accordance with the desire of Member States and the Commission for greater cohesion between the activities of bilateral and EU institutions, and the common objective of these institutions to support the development of the private sector in the development and transitional countries, the signatories of this framework agreement wish to strengthen and deepen their co-operation in these countries. In this context, EIB and the European Partners are prepared to work closely together in the field of financial and non-financial co-operation through the mutual provision of financial support and the mutual exchange of their competence, expertise, experience and networks so as to improve the impact and the efficiency of European development cooperation, i.a. in relation to the Investment Facility under the Cotonou Agreement and the Facility for Euro-Mediterranean Investment and Partnership." (page 2)

EFP Shareholders Agreement

"(4) The Company is a special purpose vehicle set up by Eligible DFIs and the EIB in order to provide matching finance for investments in the ACP States originated and provided by individual Eligible DFIs. The Company is a concrete initiative on the part of Eligible DFIs and the EIB to implement the provisions of the Framework Agreement. The Company will aim to promote sustainable development of the private sector in ACP States and strengthen cooperation between Eligible DFIs and EIB. Individual Eligible DFIs will submit finance proposals to the Company. The finance provided by the Company will always be provided in conjunction with finance provided directly by an Eligible DFI. The terms and conditions of the Company's finance will mirror those of the finance provided by such Eligible DFI to the final beneficiary. The Company will be funded by the IF and the Committing Partners. The risks with respect to the funding of the Company shall be borne pro rata by the IF and the Committing Partners." (page 3)

EFP Master Investment Agreement

"1 EFP represents the first operation to be implemented pursuant to the Framework Agreement for Financial Co-operation and Exchange of Services in the ACP countries signed by EIB, members of EDFI, AfD and KfW in January 2003.

2 This operation meets a dual objective: to provide visibility to financial co-operation between EIB and the EDFIs in the ACP States, which is being actively encouraged by the Member States of the European Union; and to enhance efficiency in project appraisal and management by pooling and optimising staff resources. In this context, this Agreement will allow all parties to benefit from increased co-operation between EIB and the EDFIs. While the EDFI institutions will benefit from EIB's long experience of development finance in ACP countries and from its funding capacity under the Cotonou Agreement, EIB will benefit from EDFIs' private sector expertise and the comparative advantage enjoyed by certain EDFIs in identifying projects as a result of their networks in ACP countries." (page 5)

Annex 2
Recommendations made in 2005

In January 2005, the BoD agreed to carry out an evaluation of the activities and business of EFP as requested by the MIA to assess whether it operates according to expectations. The review proposed a number of recommendations. This section presents some them and indicates their current status.

Recommendation made in 2005	Status in 2008
"1. (1.a.(v)) Procedures need to be devised that allow participation of all eligible EDFIs as PPs. A suggestion would be that one of the more experienced EDFIs may offer to second expert staff to potential PPs in the run-up to presentation of a proposal for CIP or final approval."	The exchange of expertise, as suggested, has not materialized. Furthermore, the distribution of funds between partners is even more concentrated today than in 2005. However, as stated in § 4.1.b, partners do not wish to change the current situation, where participation as PP is allowed but not required.
"2. (1.a.(vi)) It is recommended that PPs endeavour to present projects where the EIB is not already involved to ensure that EFP projects are in general additional to operations financed directly by the EIB. Prior to presenting a project for CIP the PP should check with the EIB, if the Bank has already existing commitments in the project, whether the EIB limits would be exceeded through the EFP project and the amount available from the EIB for financing through EFP."	Only DEG has systematically consulted the EIB as recommended.
"3. (3.) The Secretariat is operated by one person only and consequently, there is a danger of vulnerability in case of his absence. It is therefore recommended that the Secretary shall brief a representative from one of the Financing Partners on the administrative tasks and operational procedures of the Secretariat ensuring the operation without interruption in case of temporary absence of the Secretary."	The Secretary briefed a representative from FMO once in 2006. The vulnerability of the system is therefore still present. The IC WG has proposed that the Secretary prepare a handbook describing the tasks of the Secretariat and reinstitute the briefing of a staff member from the IC Chairman's institution.
"8. (6.a.) Where EIB decides to use its veto, CPs should have the right to decide to finance a project without the involvement of EIB. In such cases, the share of EFP funding would be reduced from 3 times PP's participation to equal participation between EFP and PP (from max. 75% to max. 50%) to avoid that resources from CPs running out too soon."	The opt-out option has been instituted and the EIB has used it 2 times since 2006. On one occasion the FA was rejected by the other committing partners and on the other, the project was withdrawn by the PP. It has therefore not had the desired effect of inducing other CPs to finance an operation without the EIB.
"9. (7.a.) It is recommended to maintain the limits to sectors and regions established in the Operational Guidelines, not only for risk mitigation, but also to ensure a fair spread of funding by EFP and, indirectly, by Financing Partners."	Limits have been maintained, but according to internal documentation, the IC WG had decided to change the calculation principles for country limit to do so not over total commitments (as stipulated by the MIA) but over total allocated capital. (See § 2.2)

Annex 3
Evaluation Process and Criteria

In accordance with EV's Terms of Reference, the objectives of this 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 Article 267 of the 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 Impact (and social when relevant) 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 and management of the project cycle:

  EIB Financial value added (Third Pillar of value added) identifies the financial value added 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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12. Evaluation of the impact of EIB financing on Regional Development in Greece (2003 – available in English (original version) and French (translation from the original version)).
13. Evaluation of Transport Projects in Central and Eastern Europe (2003 – available in English (original version).

14. EIB Financing of Urban Development Projects in the EU (2003 – available in English (original version), French and German (translations from the original version)).
15. Evaluation of the Projects Financed by the EIB under the Asia and Latin America Mandates (2004 – available in English (original version), French, German and Spanish).
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.)
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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)
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)

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