European Investment Bank
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OPERATIONS EVALUATION

Briefing

Evaluation of EIB intermediated lending through the Investment Facility in ACP

Access to finance is one of the major barriers to private sector development and growth in Africa, the Caribbean and the Pacific (ACP).

The EIB fosters access to finance and financial sector development in ACP, notably through intermediated lending operations implemented under the Cotonou Investment Facility (IF). These operations can be used to support SMEs, midcaps, and/or large enterprises by financing projects with a cost of up to EUR 25m.

Set up in 2003 under the Cotonou Agreement, the Cotonou Investment Facility (IF) is a revolving fund that finances projects promoting the development of the private sector and commercially-run public enterprises. Investments in the infrastructure sector and the financial sector are a priority.

The IF is funded by the EU Member States through the European Development Fund (EDF) and is managed by the EIB. Under the IF, the EIB can accept a higher level of risk than when using its own resources, as IF investments are covered by a full guarantee from the EU Member States.

This evaluation assesses the extent to which EIB intermediated lending through the IF has contributed to the facility's two objectives, namely i) improving access to finance for small and medium-sized enterprises and small initiatives and ii) strengthening local financial sectors in ACP countries.

The methodology builds notably on: i) a portfolio analysis of the EUR 1.24bn of intermediated loans signed by the EIB under the IF between 2010 and 2015, covering 953 allocations to final beneficiaries; ii) the individual evaluation of selected EIB operations in Nigeria, Kenya, Uganda and Haiti (covering 43% of total disbursements within the evaluation's scope); iii) interviews with EIB staff, Development Financial Institutions (IFIs/DFIs) and members of the IF Committee; and iv) an analysis of other IFIs' intermediated lending approaches in ACP, including a database of their activities in this area since 2010.

Findings

Increasing access to finance

- Over the period 2010-2015, the EIB was the second largest provider of intermediated lending for private enterprises in ACP (excluding microfinance). The vast majority of allocations were for enterprises with fewer than 250 employees, but a major share of total lending volumes related to a few large allocations to larger companies.
- Intermediated lending operations provided through the IF have addressed an important barrier constraining access to finance, namely the unavailability of long-term liquidity, particularly in local currency.
- However, there are other equally important barriers constraining access to finance, some of which are within the remit of the EIB: the actual and perceived risk of lending to SMEs; the limited knowledge of financial

intermediaries enabling them to assess the credit risk of SMEs; and the weak capacity of SMEs to prepare bankable projects. The EIB has used, albeit to a limited extent, other types of instruments to address some of these barriers.

Strengthening financial sectors

- The EIB tailored its objectives to the needs of local financial markets and selected intermediaries accordingly. Intermediated lending operations contributed to strengthening financial sectors by supporting competition, primarily through the financing of local second tier banks. In other contexts, operations supported the consolidation process in the financial sector.
- Longer term local currency loans allowed financial intermediaries to mitigate their maturity and currency mismatches. The EIB provided long-term finance in ACP markets where there are no or limited long-term funding alternatives.
- However, as some of the more advanced financial markets in ACP further develop, the low EIB lending rates could risk stifling capital markets. The evaluation suggests that this risk should be more closely monitored.

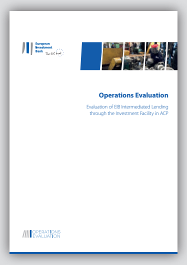
Project cycle management

- The EIB's processes and procedures are effective at managing risks and at swiftly delivering signatures and disbursements.
- At the same time, monitoring and reporting are found to be insufficient to track and demonstrate policy results, largely because the implementation of multi-beneficiary intermediated loans (MBILs) was mainly driven by eligibility and not by IF strategic objectives.
- Current EIB reporting on a list of allocations provides little information as to whether an operation incentivised the intermediary to progress towards increasing access to finance for SMEs. Such reporting would be enhanced by (also) reporting on the intermediary's overall portfolio.

Key recommendations

This evaluation identified several areas needing attention and improvement to maximise the EIB's impact in terms of access to finance and financial sector development. More specifically, it recommends that the EIB should:

- Continue to explore the use of – and when feasible deploy – instruments that address not only liquidity constraints but also barriers relating to the risk of lending to SMEs and to weaknesses in the capacity of financial intermediaries and SMEs. When relevant, the EIB should also continue to explore possibilities for coordination with partner institutions that address legal and regulatory barriers.
- Request the IF Committee to confirm the types of final beneficiaries and objectives it wishes to prioritise through intermediated lending. The EIB should also integrate IF objectives, particularly those relating to increasing access to finance, throughout the project cycle (from the selection of financial intermediaries, to project design, the drafting of contracts, and design of monitoring tools).
- Adapt tools and processes to improve monitoring and reporting of IF policy objectives.



The full report can be accessed at:
www.eib.org/infocentre/publications/all/evaluation-of-the-eib-intermediated-loans-in-acp.htm

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