Evaluation Report

Operations Evaluation (EV)

FEMIP Trust Fund

Evaluation of activities at 30.09.2006

December 2006

European Investment Bank

FEMIP Trust Fund

Evaluation of activities at 30.09.2006

Prepared by

Operations Evaluation

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December 2006

Evaluation

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Glossary

AoD	Assembly of Donors
EC	European Commission
EIB	European Investment Bank
EU	European Union
FEMIP	Facility for Euro-Mediterranean Investment and Partnership[1]
FSF	FEMIP Support Fund (technical assistance fund managed by the EIB and funded by EU's MEDA budget line)
FTF	FEMIP Trust Fund
IFIs	International Financial Institutions
MDBs	Multilateral Development Banks
MEDA	The MEDA programme is the main financial instrument of the European Commission for the implementation of the Euro-Mediterranean Partnership. It is funded through the MEDA line of the EU budget
MPC	Mediterranean Partner Countries (Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey)
RC	Risk capital
RCF	Risk Capital Facility (managed by the EIB at the request of the European Council and funded by the EU budget line MEDA)
TA	Technical Assistance
TOR	Terms of Reference

[1] See Annex A.1 for a brief description of FEMIP and FEMIP related instruments.

Executive summary

The rules of the FEMIP Trust Fund (FTF) require an evaluation analysing the impact of the operations financed to be provided by the EIB to the Assembly of Donors for the first time in December 2006. As only one operation was completed by mid 2006, the AoD requested instead an interim evaluation based on available material, including operations completed at the end of September as well as an assessment of the management of the operation cycle and of the Trust Fund itself. This evaluation therefore aims at giving a first assessment of the functioning of the FTF taking into consideration existing rules and procedures.

Overall, the FEMIP Trust Fund is a relevant instrument and can have a key role to reinforce FEMIP[2] activities. Some adjustments are proposed which could consolidate its future impact.				
FTF	Total announced contributions	Paid up to 07/2006	Available as of 07/2006 (96%)	Committed to 09/2006
M EUR	33.5	31.0	29.76	6.48

Summary of findings

The objectives of the FTF are **relevant** and can contribute to reinforced FEMIP objectives. The objectives of the 12 individual operations approved to date (1 risk capital operation, 1 training programme, 2 technical assistance activities and 8 upstream studies) are relevant to FTF objectives. However, FTF objectives have remained too broad and there are no operational goals in terms of calendar, commitment rates and allocation of resources between the different types of activities.

Additionality of the operations to other existing Bank instruments in the region is largely ensured; only in one case it is not clear whether the operation could have been financed by another FEMIP instrument. **Ownership,** understood in a broader manner and not only as "demand-driven", is largely ensured as well; out of 12 operations rated, 8 had a significant or high ownership. Finally, **flexibility** is shown in the large number of sectors covered as well as on the broad type of operations.

Effectiveness is hampered by the fact that, overall, the FTF has started at a slow pace even if a learning period is considered: only 22% of the funds have so far been committed on 12 operations and there are no signs of acceleration. Cost-wise the FTF is relatively **efficient** when compared with the industry standard: the real cost of managing the Fund is estimated at 13.4% of total funds when the range for MDBs is between 8% and 26%. This may reflect the fact that not enough resources are being made available to manage the FTF, which would also explain the slow pace of commitments. The cost coverage of the FTF over its lifespan has been estimated at 31% i.e. the Bank is being refunded for about one third of the costs it incurs in managing the FTF, hence making a substantial financial contribution from its own resources to the management of the FTF.

[2] FEMIP, Facility for Euro-Mediterranean Investment and Partnership. See Annex A.1 for a short description of FEMIP procedures and instruments.

It is too early to assess the **impact** of the operations but two enabling factors were nevertheless identified: (i) active participation of MPC in all stages of the operation, and (ii) active dissemination of the results. As regards to their expected impact on the **Banks' core business**, operations showed a varied potential. The definition of the operation, the sector of intervention, and the 'level' of study (policy or planning level) were identified as influencing this potential.

Coordination, administration and management of the individual FTF operations are satisfactory but areas of improvement are identified if the FTF is to engage into a more active phase: lack of overall active management, insufficient focus on policy dialogue, risk of low impact and not taking into consideration the importance of dissemination.

Recommendations

EV Recommendations	***Comments by services***
Objectives	
R1 The FTF could further enhance its action by *defining priorities*. The Rules of the FTF invites the Bank to consult MPCs to define these priorities to increase ownership. While flexibility should be ensured, determining priorities can reduce the risk of spreading resources and increase effectiveness.	Accepted.
R2 The FTF should attempt to increase commitment rates in order to improve effectiveness and efficiency of the FTF as a whole. Indicative *quantitative objectives* should be set-up in terms of *calendar, commitment rates and the allocation* between upstream studies, technical assistance activities and risk capital operations.	Accepted. However, quantitative objectives should not rigidly allocate amounts between the various activities possible under the Trust Fund. Flexibility in amount allocation should be preferred, because it will guarantee that the Trust Fund can adapt to needs and opportunities arising in the MPCs.
Scope of activities	
R3 EV supports the current FTF approach to carry out *upstream studies* which are needed to foster private sector development and where FTF is quite effective. Such studies should be designed to make a contribution to the understanding of private sector development bottlenecks, both at the overall regulatory level ("enabling environment") and at more concrete planning level. The dissemination of their results has to be ensured (and financed possibly through a specific budget allocation).	Whilst acknowledging EV's recommendation, services point out that: ▪ the importance of upstream studies focused on private sector development bottlenecks is already taken into consideration. ▪ the current approach is delivering good results in terms of relevance.
R4 *Technical assistance* operations of which today only 2 have been approved should be encouraged, ensuring additionality with respect to the FEMIP Support Fund and on close coordination with the EC and other donors.	Accepted.

R5 *Risk capital operations* of which 1 has been approved and 1 is on the pipeline should be further developed in particular if they are additional to operations of the Risk Capital Facility funded by EC resources (for instance, pioneering operations). Conditions for additionality can be better defined in parallel to the definition of the objectives of the new RCF mandate.	Accepted.
Management	
R6 A *dedicated management team*, with a more hands-on attitude can speed up FTF activity, stimulate discussion and ideas and motivate both potential beneficiaries and the staff involved. The team can take more responsibility on managing operations, relying on specialized Bank staff as 'sector advisors' and the competent units for the administration. The team can also be more pro-active with regards to beneficiaries to prepare a relevant pipeline including taking responsibility for policy dialogue, ensure their involvement during the operation and, more important, ensure dissemination of results. Finally, a dedicated management can also ensure a more effective coordination with other institutions.	Whilst acknowledging EV's recommendation, the services point out that: ▪ cost coverage ratio is already low (31%); ▪ the addition of this proposed coordination will not necessarily ease the key bottleneck for a good implementation of the FTF, namely availability of Ops and PJ staff willing to perform work on upstream activities.

1. Introduction

1.1 Mandate of the evaluators

The "Rules Relating to the Establishment and Administration of the FEMIP Trust Fund" (hereafter referred to as FTF Rules) require an "evaluation report analysing the impact of operations financed by the FEMIP Trust Fund" to be provided by the EIB to the Assembly of Donors (AoD) for the first time in December 2006 (Article 6.04). As only one operation was completed by mid 2006, at its meeting in July 2006, the AoD requested instead an interim evaluation based on available material, including operations completed at the end of September as well as an assessment of the management of the operation cycle and of the Trust Fund itself.

1.2 The FEMIP trust Fund

The FEMIP Trust Fund (FTF) was created as part of the reinforced FEMIP to allow donors to complement on a voluntary basis the Bank's own resources as well as the financial resources provided to the Bank by the EU budget. The purpose of the Fund is to foster private sector development in the Mediterranean region. To attain this objective, two windows were defined: Technical Assistance and Private Sector Support. The FTF held its first AoD on 25th January 2005. By July 2006, 15 Member States and the European Commission (EC) had contributed with EUR 31m (Annex A.2). As of September 2006, 12 operations for a total amount of EUR 6.48m had been approved (22% of available funds). The pipeline currently includes 8 operations for a total amount of EUR 6m. The achievement of this pipeline would bring commitments to 42% of available funds.

1.3 Methodology

This evaluation aims at giving a first assessment of the functioning of the FTF taking into account existing rules and procedures. The analysis is carried out for both individual operations and the Fund itself, while conclusions are drawn at general level only. The analysis covers standard evaluation criteria and the management by the EIB. Internationally accepted evaluation criteria include relevance, effectiveness, efficiency, impact and sustainability. This evaluation covers only the first three evaluation criteria. The evaluation will not cover impact and sustainability as they can only be assessed some time after the intervention has been completed; however, it will attempt to assess *expected impacts* of completed operations. Further, the report includes an analysis of the coherence with other FEMIP instruments and of the coordination with other institutions in order to encourage synergies and avoid waste of resources while ensuring that the FTF achieves its objectives.

To systematically cover these issues, two or three evaluation questions were formulated for each issue. Subsequently, judgement criteria and indicators (when possible) were formulated, first, to organise the collection of information and, then, to assess each evaluation question. The complete list of questions, their judgement criteria and indicators can be provided at request.

2. Relevance

FTF ***objectives*** *are properly relevant to and contribute to reinforced FEMIP objectives. The objectives of the 12 individual operations (1 risk capital operation, 1 training programme, 2 technical assistance activities and 8 studies) are equally relevant to FTF objectives.*

Additionality *is largely ensured by the nature of the operations (8 studies). Only in one case additionality is not clear.*

Ownership *should be understood in a broad manner and not only as "demand-driven". Out of 12 operations rated, 8 had a significant or high ownership.*

Flexibility *is demonstrated by the large variety of activities and sectors covered.*

Nb of operations by criteria and rating					
Objectives	**Good**	**Satisf**	**Unsat**	**Poor**	**NR/NA**
		12			
Additionality	**Yes**			**No**	**Unclear**
	11				1
Ownership	**High**	**Signif**	**Medium**	**Low**	**NR/NA**
	3	5		4	

The creation of the FTF can only be understood in the frame of the reinforced FEMIP, that is to say, together with the other FEMIP instruments. The creation of the Fund responded to two underlying factors: On the one hand, the need to reinforce the FEMIP as a signal for a renewed European commitment in the region and, on the other, the need to carry out certain operations that did not fit easily under pre-existing mandates. Therefore, the aim was defined as *"to foster private sector development in the MPC. Specific key objectives to achieve this goal will include: (i) the development of an "enabling environment" for private sector activity by fostering the creation of adequate capital and human "infrastructure" in the region; and (ii) foster and diversify the availability of financial instruments for the private sector."*[3] Further, it was stated that arrangements under the FTF shall ensure three guiding principles: additionality, ownership and flexibility.

2.1 Objectives

FTF objectives are relevant and contribute to FEMIP objectives as defined in Annex 2 of the MEDA II Regulation. It should be noted however, that FTF objectives have remained defined in a broad way. There are *no established priorities* that could guide the coverage of the operations to be carried out. Mentions of "directing resources in certain priority sectors (water, transport, electricity, human capital)" present in the ECOFIN Council resolutions, do no longer appear on FTF documents. Although the FTF Rules state when defining the principle of ownership that "The Bank (…) shall consult with Mediterranean Partner Countries as to priority areas of activity for the FEMIP Trust Fund", no actions in this sense have been taken. This lack of strategic orientation, although it ensures a maximum of flexibility, leaves the field so open that it makes it more difficult for potential promoters (in MPCs or the Bank) to put forward proposals for operations. Furthermore, *no operational objectives* have been set in terms of *calendar, commitment rates and allocation* between the various types

[3] Rules Relating to the Establishment and Administration of the FEMIP Trust Fund, Article 1.01.

of operations. Therefore, there is a risk of dispersing efforts over time and sectors and thus reducing the potential impact of the FTF.

In terms of **individual operations**, the 12 operations approved to date can be considered to have objectives that are relevant and can contribute to the objectives of the FTF: 8 contribute to the first key objective (enabling environment) and 4 to the second (financial instruments) of these only one actually provides a new financial instrument. To a large extent, all operations can contribute one way or another to fostering private sector development but this contribution is not always explicitly stated in the proposals or TOR.

2.2 Coherence

This section analyzes the extent to which the arrangements of the FTF have contributed to ensure coherence with respect to other FEMIP instruments (*additionality*); to the demands and priorities of beneficiary countries (*ownership*); and to the changing needs of the region (*flexibility*) as requested by Article 1 of the FTF Rules.

Additionality

> The FTF *"aims at filling gaps in the Bank mandates and providing complement-tary funds to the MEDA programme in the FEMIP region. Accordingly, the FEMIP Trust Fund aims at financing activities that cannot currently benefit from similar resources under existing Bank mandates in the FEMIP area". (FTF Rules, Art 1)*

The principle of additionality, as stated in the FTF Rules, means that the FTF should complement and not duplicate existing FEMIP instruments. Indeed, the *raison d'être* of the FTF is found on the observation that certain operations were needed but not possible to finance under existing FEMIP instruments. An overview of the 12 operations approved shows that all but one are clearly additional: 8 which could be described as upstream studies, 1 training programme and 2 TA not directly linked to EIB operations. For one operation, it is unclear whether it could have been funded under the Risk Capital Facility. Yet, additionality in this case should be assessed in the context of future rules set up for the period 2007-2013. As the Risk Capital Facility could be required to become a "revolving fund", rules regarding eligibility and risk management could exclude this type of pioneering project.

Additionality has therefore been ensured by the fact that most operations are of a different *nature* than those financed by existing FEMIP instruments, namely, upstream studies[4]. For TA operations financed under the FEMIP Support Fund, the main eligibility criterion is the link with an EIB investment activity. Indeed, the Framework Agreement between the EC and the EIB concerning the management of the FEMIP Support Fund covers "technical assistance activities during project identification, preparation and implementation" and excludes "self-standing activities without any link to a potential project"[5]. For risk capital operations, on the other hand, the frontier is less clear-cut. The FTF can gain in transparency and in effectiveness if this issue is clarified.

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4 Note, however, that upstream studies are also financed under the Commission's MEDA programme but this issue is not covered by the principle of additionality. The request for closer coordination with the EC aims at reducing the risk of incoherence in European programmes and the duplication of efforts.

5 Framework Agreement concerning the management of the FEMIP Support Fund, introductory point F and Section 2.01.

Ownership

Although all actors recognize the importance of ownership, it is a fact that in most cases operations have originated within the Bank services (10 out of 12 operations). In some cases the proposal has been elaborated on the basis of discussions with MPCs while in others, it has been developed exclusively by Bank services based on their knowledge of the region and of the relevant sector. Member States contributing to the FTF have not yet proposed operations. For all studies concerning one or few countries, local authorities have been consulted before the study was proposed to the AoD. It is only in the case of regional studies that, due to the complexity of the action, consultations have not been carried out before hand.

> The FTF *"shall be a demand-driven instrument, i.e., finance activities for which a concrete, tangible demand already exists on the ground. The Bank, acting as the administrator of the FEMIP Trust Fund, shall consult with Mediterranean Partner Countries as to priority areas of activity for the FEMIP Trust Fund" (FTF Rules, Art 1)*

The lack of demand for FTF operations from MPCs may by explained by different reasons; however, what is important is to determine whether the origin of the operations is the key to ensure beneficiaries' ownership. Indeed, ownership does not need to imply that operations are to be *proposed by beneficiaries* but rather that the need (and therefore demand) for the operation exists and that the Bank makes sure that beneficiaries get involved in the operation. Based on this larger definition, ownership is satisfactory: 3 operations have been rated as having a high ownership (the operation was requested by the MPC), 5 significant (MPC was actively involved before and/or during the operation) and 4 low (no apparent involvement of MPC). It is worth to note that a difficult equilibrium is to be found between the needs of beneficiaries and the explicit desire that FTF operations contribute to the core business of the Bank (§4.2). The FTF could seek to encourage a more pro-active attitude from the MPCs by systematically presenting the results of the studies as it is already the case for some of the studies.

Flexibility

The FTF is a flexible instrument, capable of adapting to changing demands. In terms of *operations*, the current portfolio shows a large variety of activities, with upstream studies covering a wide range of sectors.

In terms of the *objectives*, as compared to the situation in 2004 when the decision to create the FTF was taken, they remain relevant as both the Euro-Mediterranean partnership and the commitment of the EU and the EIB on the region still hold true. Two elements should however be taken into account: the objective of a free trade zone for 2010 is now considered over-optimistic and the renewal of the lending mandate of the EIB is under discussion. Both elements point to the fact that, while the overall objective of fostering private sector development remains relevant, the instruments to achieve it will perhaps be modified.

> *"to conform to the two principles mentioned above, the FEMIP Trust Fund shall be a relatively flexible instrument, capable of responding efficiently to the changing needs of the Mediterranean Partner Countries and, accordingly, progressively undertake new activities under its umbrella in areas referred to in Section 3.01." (FTF Rules, Art 1)*

3. Performance

***Effectiveness**: Start-up has been slow with only 22% of available funds committed so far on 12 operations. 4 out of 12 operations have or will require 10 months or more between approval by the AoD and implementation. Both elements significantly hamper the effectiveness of the Fund. Out of the 7 operations that have actually started, 6 are considered to be likely to achieve their objectives.*

***Efficiency**: Only an estimate of the cost of managing the FTF was attempted. An accurate estimate is difficult to reach. A rough estimate points to a cost of 13.4% of total funds which is well within industry standards (8% to 26% of funds) and to an estimated cost coverage ratio (revenue/cost) of 31% over the life of the fund which underlines the contribution of the Bank.*

***Coordination with other IFIs** is managed case-by-case which ensures flexibility but induces a risk of duplicating efforts or lacking coherence.*

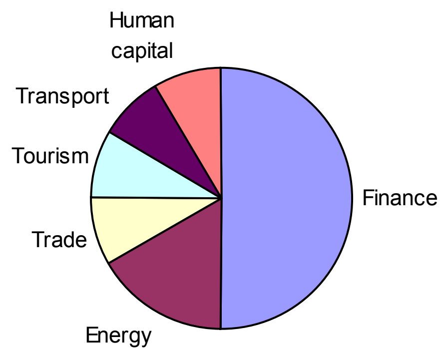
Nb of operations by criteria and rating					
	Good	**Satisf**	**Unsat**	**Poor**	**NR/NA**
Effectiveness		6	1		5
Coordination	1	5			6

3.1 Effectiveness

The portfolio of FTF operations includes: 12 operations approved (1 completed, 6 on-going and 5 in preparation [Annex A.4]) and 8 operations in the pipeline. The timeline of operations (date of approval, preparation period as well as expected and actual start of works) is presented in Annex A.3.

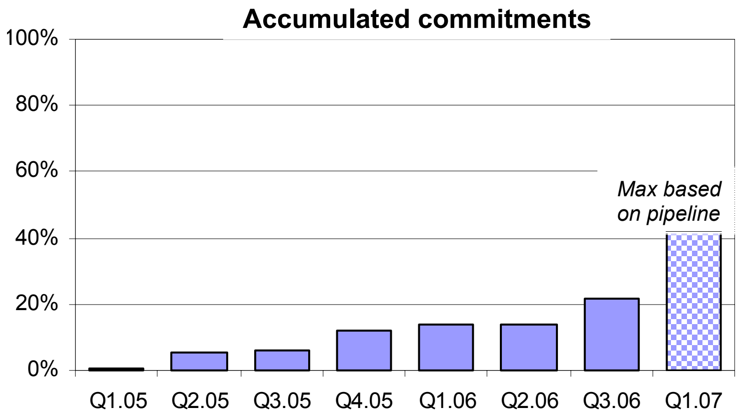
Four *types* of operations have been approved: 8 upstream studies, 2 technical assistance, 1 risk capital operation and 1 internship programme. It is difficult to assess the extent to which this allocation of resources corresponds to expectations given that no operational objectives were set (§2.1). Yet, the fact that most operations are upstream studies shows the need for such studies. As these activities cannot be funded under other FEMIP instruments, the FTF has a significant value added to offer by financing these activities.

The 12 approved operations cover a wide range of *sectors*, with the financial sector being the one that includes more operations (6). The other sectors covered are: energy, transport, cement, tourism and human capital. This dispersion results from the fact that no sector priorities have been defined ex-ante (§2.1). For this reason it is difficult to assess the extent to which this particular portfolio of operations contribute to the objectives of the FTF.



In terms of the *timing*, 4 out of 12 operations have required or will require 10 months or more between approval by the AoD and the signature of the contract.

For the FTF as a whole, there is no explicit expectation in terms of how fast funds should be committed and used as to have a reference against to which performance can be assessed. Yet, from different documents and discussions at the time of the creation of the FTF, it can be assumed that it was expected to commit all funds by mid 2007. In that regard, the FTF is under-performing although part of the delay can be explained by the learning process. In 2005, 7 operations were approved for a total of EUR 3.38m (11% of available funds) and only 2 operations actually started the same year. Between January and September 2006, 5 new operations were approved for a total of EUR 3.10m which brings the accumulated commitment to EUR 6.48m or 22% of available funds. There are 8 projects in the pipeline for EUR 6m (EUR 3m on studies and TA and EUR 3m on risk capital). If these new operations were approved, the rate of disbursement would increase to 42% of available funds, which would be a significant improvement with respect to current disbursement rates. It would be appropriated to set up an indicative commitment period in order to improve not only effectiveness but also future impact.



Financial Situation

	M EUR
Contributions	31.00
Available	29.76
Committed	6.48
Contracted	2.05
Disbursed	1.51
Pipeline	*6.00*

3.2 Efficiency

A cost-benefit analysis of the FTF should not be carried out independently of other FEMIP activities. As the FTF was created to complement reinforced FEMIP, cross-dependency in terms of both cost and benefits may imply a certain degree of subsidization of one FEMIP instrument to another. Furthermore, the efficiency of studies (66% of operations approved) can hardly be measured; only TA activities and risk capital operations could be measured, once they are well advanced. Therefore, this section only attempts to give a first estimate of the *costs* induced by the management of the FTF.

In terms of the operations, a rough comparison has been made with operations under the FEMIP Support Fund and under the Risk Capital Facility. In both cases, the administrative cost of FTF operations appears to be higher than in similar operations under other FEMIP instruments. This is explained by the higher complexity of FTF operations: upstream and not linked to operations, in the case of studies and TA, a more active role of the Bank (notably to set up the fund) in the sole Risk Capital operation to date.

For the FTF as a whole, it is recorded that FTF expenses in 2005 amounted to EUR 362,000. Between January and June 2006, expenses amounted to EUR 363,000. This twofold increase suggests a significant progress in the activity of the Fund. Note that while these numbers are useful to analyze the trend, they should be taken with care as they may not reflect all real costs; in some cases time is not allocated or it is allocated to the FEMIP in general and not to the FTF in particular. In addition, the Bank assumes other costs linked to the operations once they are completed (dissemination, meetings, publications, etc.)

Based on the fact that EUR 0.72m were recorded as the cost to commit EUR 6.48m, we can have a rough estimate of the total cost that will be incurred to commit all available funds (EUR 29.86m), i.e. EUR 3.34m to which we add 20% of unaccounted expenses. Estimated total cost is therefore EUR 4m which is about 13% of total funds. As the revenues received by the Bank to manage the FTF amount to EUR 1.24m (a fixed 4% fee over the life period of the Fund), the estimated cost coverage ratio (revenues/cost) over the life of the fund is about 31% i.e. the Bank would be refunded about one third of the costs it will incur in managing the FTF.

How to assess whether this is a reasonable cost? Comparing with the industry standard, the MDB Roundtable on Trust Fund Administration and Co-financing[6] recognizes both the difficulties of calculating the real cost of administrating trust funds and the fact that these are often below full cost of operations and administration. The majority of MDBs charge around 5% (an exception being the IMF that charges 13%) while the real cost is estimated to be between 8% and 26%. Therefore, under the assumptions mentioned above, the FTF would still be relatively cost-effective if compared to other MDBs.

3.3 Coordination with other IFIs

Coordination with other institutions is managed on a case-by-case basis. Most proposals to the AoD provide some information on similar activities funded by other IFIs, by the EC or by bilateral development agencies such as KfW and AfD. However, this does not always imply that discussions have been carried out with these IFIs or that work will be coordinated; indeed it may also be the result of “desk work”.

In most cases, very little information has been found on actual coordination, which is reflected on the ratings: Out of 11 operations, 1 is rated “good”, 5 are “satisfactory” and 5 have not been rated due to the lack of appropriate information. The handling of coordination on a case-by-case basis, while ensuring flexibility, involves a risk of duplicating efforts and even lacking coherence with other programmes. This risk is particularly important for studies and technical assistance and relatively low for risk capital operations due to the fact that there are only few players managing financial instruments.

When coordination has taken place, experience shows that the process is complex and thus that sufficient time should be foreseen from the start.

At a more general FEMIP-level, regular meetings are held with the World Bank in Brussels and, at least once a year, with other IFIs but this does not ensure effective coordination for each FTF operation. A more structured FTF management could ensure coordination without having to impose heavy procedures.

6 Proceedings of the MDB Roundtable on Trust Fund Administration and Co-financing, 21 April 2005, Washington and 21 February 2006, Luxembourg.

4. Expected impact

It is too early to assess the ***expected impact of operations****, yet based on the few operations that are well advanced, it can be stated that: (i) early involvement of beneficiaries is an enabling factor but does not guarantee acceptance and therefore implementation of results and (ii) dissemination and press coverage can play an important role to increase expected impact.*

Operations have showed a varied potential to contribute to ***EIB core business****. In particular for studies, this potential depends on: (i) the definition of the operation, (ii) the sector of intervention, and (iii) the 'level' of study (policy or planning level).*

Nb of operations by criteria and rating					
	High	Signif	Medium	Low	NR/NA
Expected impact operation	1	1	1	1	8
Expected impact on EIB	1	2	3	1	5

4.1 With respect to the objectives of the operations

The evaluation attempted to assess the expected impact of the individual operations but proved to be too early to do so. Out of the 12 operations approved, 8 have not been rated because they have not yet started or because, although they have started, it is too early to have any information on potential impacts. Among the 4 others, 1 has been rated high, 1 significant, 1 medium and 1 low.

The first one, rated *high*, is completed, results have been welcomed by different stakeholders and discussions are been carried out in different fora. A FEMIP Experts Committee meeting will be organized to discuss the subject and the possible course of action. A particular effort to disseminate the results of the study has been made. The second one has been rated as having a *significant* potential impact based on the progress of the study and its TOR, as the study includes an experts meeting in the region before the final report is completed and it proposes to disseminate the results to other institutions. One operation has been rated *medium*, as local authorities (one of the two institutions involved) do not welcome part of the results of the study but still there is scope to develop proposals with the private sector. It should be stressed that this situation comes in spite that: (i) the study was requested by local authorities (the other institution involved) and (ii) both institutions were closely involved in all stages of the study. Finally, one operation has been rated *low* based on the fact that the local context does not encourage the use of the results; domestic liquidity is currently too abundant to propose new financial instruments.

Dissemination activities are central for increasing the impact of the operations. The cost per operation could be difficult to estimate ex-ante. A specific budget allocation could be set aside to cover, for all operations for which this justified, dissemination expenses such as conferences, seminars, etc.

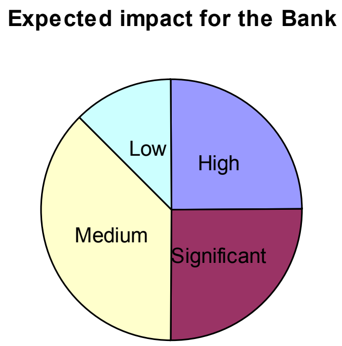
4.2 With respect to EIB core business

Although it is not explicitly stipulated in the Rules of the FTF, it is clear from discussions of the AoD and EV interviews with some of them that FTF operations should contribute to the Bank's core business. Yet, donors are also sensible to the fact that the FTF should not fund part of the Bank's day-to-day activities and some proposals have been criticised in this sense. The frontier between both kinds of operations is difficult to establish without further discussion between the AoD and the management of the FTF.

So far operations have showed a varied potential to contribute to EIB core business operations. Risk capital operations are already part of core Bank operations but for studies and TA this potential depends on: (i) the definition of the operation – whether it aims at identifying potential Bank operations, (ii) the sector of intervention – an operation on the financial sector may more easily lead to further Bank interventions, (iii) the 'level' of the operation – whether it is more at the strategic/policy level or at the planning level as operations of the latter kind may more easily be followed up by Bank core business operations than strategic studies.

Note however, regarding point (i) that when the potential for Bank operations is explicitly requested as a result of the study, there is a risk that beneficiaries find this approach unjustified, as has been the case in one of the studies.

Out of 12 operations approved, 2 are rated as having a high potential to contribute to the Bank's core business, 2 are rated significant, 3 medium and 1 low, while 4 operations have not been rated, mainly because there is not enough information yet or the criteria does not apply.



It is worth to note that the ratings reflect *current potential which can change over time*. For example, one of the operations rated as having a medium potential to contribute to the Bank's core business would have been rated "high" few months ago because the study explicitly identified (as requested) potential Bank interventions. However, in spite of early involvement of local authorities in the operations, disagreement around the proposals made by the studies suggests only a partial follow up.

5. EIB management of the operation cycle

Coordination, administration and management of the individual FTF operations are satisfactory but areas of improvement are identified if the FTF is to engage into a more active phase: lack of overall active management, insufficient focus on policy dialogue, risk of low impact and not taking into consideration the importance of dissemination.

A dedicated management team could help to implement many of the recommendations included in this report.

Nb of operations by criteria and rating					
	Good	Satisf	Unsat	Poor	NR/NA
EIB management		8	1		3

5.1 Coordination of the FTF

Overall coordination of the FTF is done by 2 members of the FEMIP Institutional & Policy Unit Division. Coordination has been satisfactory; with no previous experience managing trust funds in the Bank, the FTF was set up and started operations in one year. The coordination team has ensured relations with the donors, organisation of Assembly of Donors meetings, elaborating relevant documentation and presenting operations proposals.

5.2 Management and administration of operations

Individual operations are *managed* by a member of the staff from any of the different services of the Bank. Responsibilities include drafting the proposal for the AoD, elaborating TOR, participating to the procurement procedure to evaluate tenders and supervising overall progress of the operation up to completion. It also includes making contact and ensuring involvement of MPCs and coordinating with other IFIs working in the same field. Follow up can be ensured by the same service or not, depending on the nature of the operation. The management of FTF operations is therefore complex and time consuming and, for most operations, it has been satisfactory.

Administration of operations is ensured by the FEMIP Special Operations Division: TA operations and studies are administered by the TA Unit that is also in charge of the TA Support Fund while risk capital operations are administered by the Division itself which is also in charge of the Risk Capital Facility.

With regards to TA operations and studies, the EIB, as manager of the FTF, decided from start to use the same rules and procedures than those used for the FEMIP TA Support Fund. This decision has proven efficient and transparent and the team has not wasted time creating new methods. According to these rules and procedures, three procurement procedures are available depending on whether the budget of the operation is above or below EUR 200,000:

- Operations worth EUR 200,000 or more are awarded by restricted tender procedure following international publication in the Official Journal of the European Union; the process takes about 6 months.

- Operations worth less than EUR 200,000 are awarded either using the framework contract of the EuropeAid Cooperation Office of the EC[7] which needs about 3 months to contract signature or a competitive negotiated procedure[8] which needs about 5 months.

Out of the 8 operations for which a procurement process was launched, 2 used the restricted tender procedure, 3 the Framework Contract and 3 a competitive negotiated procedure.

Preparatory work (elaboration of TOR, tender and contracting)[9] has in most cases taken more time than foreseen in the proposal submitted to the AoD, as shown in the timeline presented in Annex A.3. Against this reference, out of 12 operations approved, 7 have started (or will start) implementation with a delay of 1-8 months. For many of them, time allocated to this preparatory phase was underestimated at proposal.

Taking into account the time needed to prepare the TOR and the time involved in procurement procedures, a more realistic preparation time would be 7 months for operations above EUR 200,000 and 5 months for the others. When compared to these preparation periods, 8 operations started on time. This suggests that other reasons may also explain preparation delays such as limited resources in terms of personnel and insufficient definition of the operation before it is proposed to the AoD.

5.3 Resources

Three main limitations have been identified in terms of resources allocated to the identification, preparation and management of the FTF and its operations. They are mutually reinforcing: *time*, *institutional incentives* and *type of competences*:

FTF operations come in addition to the day-to-day responsibilities of the members of the staff and they have therefore little time to spend on them. While the staff in charge of FTF operations often have a particular interest on the subject, at the same time they feel that time constrains limit the quality of their work. This may also explain the slow pace at which operations are proposed to the AoD as well as the delays on the preparation of the operations (elaboration of TOR) after approval.

The Bank has set corporate goals and staff members are asked to contribute in the best of their capacity to achieve these goals. Further, they are individually evaluated each year on these bases. As the Bank's objectives are mainly measured in terms of the volume of operations, FTF operations – by their nature - are not encouraged. In fact, staff spending time on FTF operations can potentially be penalised as compared to those who concentrate on the Bank's core operations.

The aim of the FTF is to foster private sector development in MPCs and the scope of activities includes "policy, legal, regulatory and institutional reform, sector

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7 Under this contract, fields of expertise are organized in 13 lots. Two of them are particularly used by the FTF: Lot 10 "Support to industry, commerce and services" in which there are 7 consortia comprising 60 European consulting firms and Lot 11 "Macroeconomics, public finances and regulatory aspects" with 7 consortia and 89 European consulting firms.

8 Procedure without prior publication of a procurement notice, in which only invited candidates may submit tenders. This procedure is used, for instance, when the expertise needed is not found in the Framework Contract, but it needs a database of firms that the Bank is only starting to put in place.

9 This analysis focuses on preparatory work. It is not possible to cover implementation as only one operation has been concluded to date.

development strategies, capacity building, and training”. Policy dialogue with beneficiary countries and other international organizations as well as an overall view of the main bottlenecks of private sector development will be needed to effectively tackle the first aspect, namely, policy, legal, regulatory and institutional reform. The Bank has yet to ensure that the relevant competences are made available to the FTF.

5.4 A dedicated management team?

If the objectives of the FTF are better defined in terms of focus, timing and disbursement rates, a dedicated team with a hands-on attitude could be needed. Such team could speed up FTF activity, stimulate discussion and ideas and motivate both potential beneficiaries and the staff involved. Its responsibilities would include the following:

- Ensure that objectives are achieved in terms of time, volume and quality.
- Ensure the impact of FTF operations by defining by whom and how the operation will be followed up.
- Ensure coordination with donors.
- Coordinate with MPCs to elaborate the pipeline and ensure their involvement during implementation and follow up of operations.
- Closely follow the discussions on ministerial and experts meetings; meet with MPCs when the FTF can contribute to implement some of the ideas that emerged from such meetings and encourage active participation of Bank staff to experts’ meetings.
- Rely on the relevant units for the administration of operations. Profit of the Bank’s sectoral expertise and alleviate services as much as possible of the burden of the management of the operations.

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Summary of ratings

Number of operations per criteria and per rating

	Rating					
		“3”	**“2”**	**“1”**	**NR/NA**	**# ops**
Relevance						
- Objectives		12				12
- Additionality	11				1	12
- Ownership	3	5		4		12
Performance						
- Effectiveness		6	1		5	12
- Coordination	1	5			6	12
Expected Impact						
- Expected impact operation	1	1	1	1	8	12
- Expected impact on EIB	2	2	3	1	4	12
EIB management		*8*	*1*		*3*	*12*

Notes:
“4” = Good / High / Yes
“3” = Satisfactory / Significant / -
“2” = Unsatisfactory / Medium / -
“1” = Poor / Low / No
NR/NA = Not rated (due to lack of info or operation not yet started), not applicable or unclear (only used for Additionality)
Efficiency does not apply to studies and, for other operations, it is to early to assess
Flexibility applies only to the FTF as a whole and not to the individual operations

Annexes

A.1. FEMIP – A brief description*

The **Facility for Euro-Mediterranean Investment and Partnership** (FEMIP) brings together the whole range of services provided by the EIB in the Mediterranean partner countries (MPC). Its creation was decided by the European Council at its meeting in Barcelona in March 2002. FEMIP's principal remit is to support the modernisation and opening-up of the MPCs economies so as to make them more competitive and efficient, and in particular to prepare them for the free-trade area due to start in 2010. It is an important stage in the EU-Mediterranean financial partnership furthering the Barcelona Process and fits in with the new European Neighbourhood policy adopted in 2004.

FEMIP's projects have two priority objectives: development of the private sector and creation of an investment-friendly environment. In order to meet its objectives, FEMIP finances projects carried out by the private sector, whether in the form of local initiatives or foreign direct investment. It also supports infrastructure schemes, investment in human capital and projects aimed at protecting the environment.

In 2003, the Euro-Mediterranean Finance Ministers decided to expand FEMIP's range of tasks; the so-called "reinforced FEMIP". This was done mainly by the infusion of additional resources, acceptance of greater risk, the establishment of a Trust Fund and by intensified dialogue with the Mediterranean countries on economic and financial issues through annual ministerial meetings and the creation of a committee of experts. The resources deployed by FEMIP stem largely from the Euromed II Mandate, augmented by a number of complementary facilities geared to specific objectives:

- FEMIP's loans are granted by the Bank under the **Euromed Mandate** conferred on it by the Member States. As such, they are covered by the EU's Guarantee Fund in respect of political and, in certain cases, commercial risks. This mandate was set at EUR 6.520bn for the period 2000-2006. A new mandate is currently being discussed.

- The Euromed mandate is supplemented by a EUR 1bn facility for EIB loans, without the benefit of cover from the Guarantee Fund, for projects of regional interest and of common interest between the EU and the MPC, notably in the energy and communications sectors. This **Euro-Mediterranean Partnership Facility** was established in 2001 on the recommendation of the fourth Euro-Mediterranean Foreign Ministers' Conference.

- FEMIP also operates as a provider of investment capital (equity and quasi-equity resources for unlisted private companies), drawing on a so-called **Risk Capital Envelope** financed by the EU budget. The total amount earmarked for this type of investment runs to EUR 200m for the period 2001-2006.

- **Technical assistance Support Fund** is designed to improve the quality and impact of the Bank's lending operations. The Support Fund's resources are used to carefully prepare investment projects and implement them with increased efficiency. For the period 2003 - 006, the EC has allocated EUR 105m to the Support Fund under the MEDA Regulation.

- In order to encourage environmental projects, an **interest rate subsidy** on FEMIP loans is granted out of European Union budgetary resources. The effect is to improve the economic and financial impact of the projects concerned. Since 1995, interest rate subsidies totalling more than EUR 200m have enabled FEMIP to finance a portfolio of environmental projects running to over EUR 2.5bn in aggregate.

- Established at the end of 2004, the **FEMIP Trust Fund** is modelled on the co-financing funds of other international financial institutions. Its activities span two areas: investment capital and financing technical assistance and studies, thereby supplementing both the risk capital envelope and the Technical Assistance Support Fund. Participation in the Trust Fund enables donors to augment the contributions coming from the EU budget allocated to FEMIP under the MEDA programme. As of July 2006, resources totalling EUR 33.5m – garnered from 16 different donors (15 Member States and the EC) – stand at the Trust Fund's disposal for technical assistance and risk capital operations.

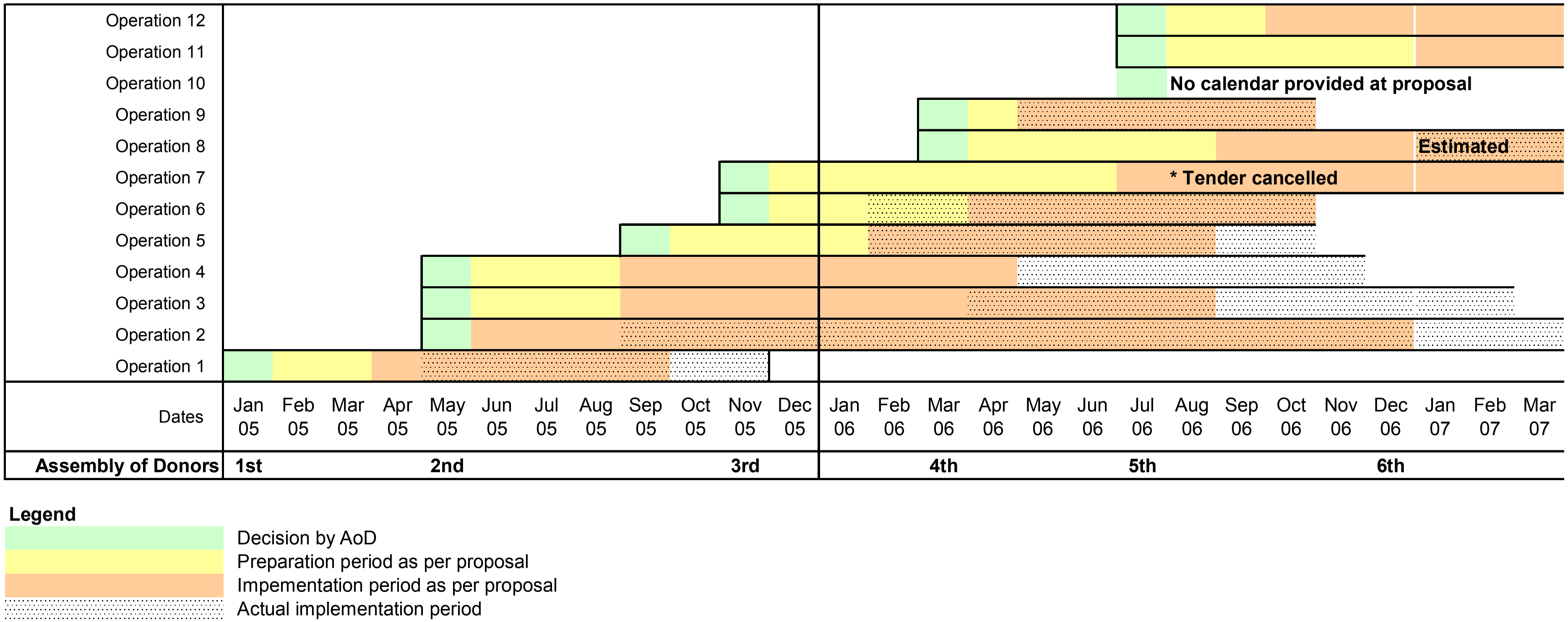
** Predominant source: FEMIP, Annual Report 2005*

A.2. Contributions to the Fund as of July 2006 (million EUR)

Donor	Announced			Paid up to July 2006
	up to 2006	post 2006	Total	
Austria	1.00	0.00	1.00	1.00
Belgium	1.00	0.00	1.00	1.00
Cyprus	0.45	0.55	1.00	0.45
European Commission	1.00	0.00	1.00	1.00
Finland	0.50	0.50	1.00	0.50
France	4.00	0.00	4.00	4.00
Germany	2.00	0.00	2.00	2.00
Greece	2.00	0.00	2.00	2.00
Ireland	0.50	0.50	1.00	0.25
Italy	2.50	0.00	2.50	2.50
Luxembourg	1.00	0.00	1.00	1.00
Malta	0.60	0.40	1.00	0.30
Netherlands	2.00	0.00	2.00	2.00
Portugal	1.00	0.00	1.00	1.00
Spain	10.00	0.00	10.00	10.00
United Kingdom	2.00	0.00	2.00	2.00
TOTAL	**31.55**	**1.95**	**33.50**	**31.00**

Funds available for operations (96% of contributions)	**29.76**

A.3. Timeline of operations



Source: Prepared by EV based on proposals submitted to the AoD and examination of each operation

A.4. Summary of operations as of September 2006

Operation Nb	Country	Sector	Status	Budget
1	Region	Finance	Completed	200,000
2	Region	Finance	On-going	500,000
3	Region	Transport	On-going	600,000
4	Region	Energy	On-going	200,000
5	Algeria	Finance	Close to completion	200,000
6	Morocco	Finance	Close to completion	180,000
7	Syria	Industry	Tender cancelled	1,500,000
8	Region	Human capital	Analysis of candidatures	470,000
9	Region	Energy	On-going	200,000
10	Tunisia	Finance	To be launched	2,000,000 +150,000
11	Region	Finance	Preparation of TOR	80,000
12	Region	Tourism	Tender	200,000
			Total approved	**6,480,000**
			Total in the pipeline	**6,000,000**

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)).
9. EIB financing of energy projects in the European Union and Central and Eastern Europe (2001- available in English (original version), French and German (translations from the original version))
10. Review of the Current Portfolio Approach for SME Global Loans (2002 – available in English (original version), French and German (translations from the original version)).
11. EIB Financing of Solid Waste Management Projects (2002 – available in English (original version), French and German (translations from the original version)).
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))
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) and French.)
20. Evaluation of PPP projects financed by the EIB (2005 - available in English (original version).
21. Evaluation of SME Global Loans in the Enlarged Union (2005 - available in English (original version) and German.)
22. EIB financing with own resources through individual loans under Mediterranean mandates (2005 - available in English (original version) and German.)
23. Evaluation of EIB financing through individual loans under the Lomé IV Convention (2006 - available in English (original version) and French.)
24. Evaluation of EIB financing through global loans under the Lomé IV Convention (2006 - available in English.)
25. Evaluation of EIB Investments in Education and Training (2006 - available in English.)
26. Evaluation of Cross-border TEN projects (2006 - available in English.)
27. FEMIP Trust Fund (2006 - available in English.)

These reports are available from:EIB website: http://www.eib.org/publications/eval/.
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