Evaluation Report

Operations Evaluation (EV)

EIB financing with own resources through individual loans under Mediterranean mandates

Synthesis Report

European Investment Bank

EIB financing with own resources through individual loans under Mediterranean mandates

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NOTICE

GLOSSARY

COP	EIB Corporate Operational Plan
DFIs	Development Finance Institutions
EIB	European Investment Bank
EV	Operations Evaluation of the EIB
EIA	Environmental Impact Assessment
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
IFI	International Financial Institutions
MPCs	Mediterranean Partner Countries
MDBs	Multi-lateral Development Banks
MED region	According to EUROMED mandates, this includes the following countries: Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Malta, Cyprus, Turkey, Israel and Gaza-West Bank. In 2004 the EUROMED mandate was amended to exclude future lending in Cyprus, Malta and Turkey, which are covered by other mandates at present.
MENA	Middle East and North Africa region as defined by the WB
METAP	Mediterranean Environmental Technical Assistance Programme
OJEU	Official Journal of the EU
OpsB	EIB Lending Directorate outside the EU
PCR	Project Completion Report
PJ	EIB Projects Directorate
RM	EIB Risk Management Directorate
SMEs	Small to medium-sized enterprises
TA	Technical Assistance

Evaluation

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

This evaluation covers EIB financing with own resources through individual loans under Mediterranean mandates during the period 1993-2003. It is part of a broader evaluation, of which a first report dealing with financing with own resources through Global Loans in MED, has already been published.

The EIB's activities in the southern and eastern non-member countries of the Mediterranean Region have developed within the framework of the mandates given by the EU to the Bank; the latest covers the period up to 31st January 2007. The mandates include EIB own resources loans, as well as risk capital financing and interest subsidies for environmental projects from EU budgetary resources. The level of assistance and cooperation to the region has broadened and deepened over time, which has also led to a more prominent role for the EIB. In 2002, the European Council expanded the Bank's mandate in the region through the setting-up of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), which led to an increase of the Bank's lending in the region and placed a particular emphasis on helping to foster the development of the private sector.

During the period covered by this evaluation, the Bank has financed 272 operations - of which 236 with own resources, 36 with EU Budget resources (i.e. risk capital) and 4 with both own resources and EU Budget resources. EIB lending from own resources (including operations financed with both own resources and EU Budget resources) amounts to EUR 12 717m in 1993-2003. The main recipients of this financing have been Turkey (21%), Egypt (17%), Morocco (16%), Algeria (14%) and Tunisia (13%). Energy, transport, water and sewerage sectors have received the largest share of EIB finance. Financing through global loans, which are not covered in this evaluation, has represented about 13% of the total.

For an in-depth evaluation, EV has selected a sample of 22 individual loans from own resources corresponding to projects completed in the period 1998-2001. In addition, the evaluation has reviewed the internal files of 7 other operations and the operational framework set up by the EIB in MED to develop this type of financing.

Relevance

All the projects evaluated were considered relevant, as their objectives were deemed consistent with, on the one hand, the objectives of the MED mandates and EIB policies and, on the other, the beneficiaries' requirements and the policies of the MPCs. The infrastructure projects have contributed to covering the basic needs of the population or overcoming substantial bottlenecks for the economic development of the respective MPCs. Industrial projects supported the development of the private sector in the region. In general, the projects financed have contributed to promoting economic growth and to employment creation.

The mandates do not present a prioritisation of the EIB's objectives in MED, but a set of rather general objectives. In this context, the Bank has preferred to have a high degree of flexibility in its activity in MED, in order to allow for a quick response to MPCs' needs and to achieve the lending targets established in the mandates. Large variations have been noted among the projects evaluated in terms of the value added provided by the EIB. A more focused approach would increase the impact of EIB lending. This would imply that the Bank defines precisely its role to contribute to the development of the MPCs.

Performance of the sample of projects evaluated
The operations were evaluated based on the internationally accepted evaluation criteria (see Appendix 3) of relevance, efficacy, efficiency and sustainability. Against these criteria and using a 4-level rating scale, four operations were rated 4 (good), 15 were rated 3 (satisfactory) and three were rated 2 (unsatisfactory). None were rated 1(poor).

The implementation results of the projects evaluated seem rather good, except in terms of project delays. The final cost was similar or lower than expected at appraisal for most of the projects evaluated. However, most of the projects were completed much later than initially foreseen. Delays ranged normally from 6 months to 36 months, except in one case where the delay was higher. The main reasons for delay were changes in the project design, complex procurement procedures or unforeseen events.

Only four projects of the 22 evaluated were rated unsatisfactorily in relation to the achievement of their specific objectives (effectiveness), normally due to key project components, often not part of the EIB financing, not being carried out. The efficiency of the projects evaluated (usually measured by the economic and financial rates of return) was satisfactory or good, except in one case. In general terms, this shows that the economic benefits generated by the projects were substantial. On the contrary, project sustainability was a significant issue in several of the projects evaluated, mainly in the water sector. This mostly reflects weak institutional background in the case of public sector projects, or the impact of economic instabilities in the case of private sector projects.

These positive results reflect the fact that the MDBs, including the EIB, or other international agencies (including the EU Commission) help weak promoters to improve the projects or the institutional context. There were more opportunities for the Bank to improve the situation in the water projects and, to a lesser extent, the transport projects, than in the other projects evaluated. The evaluation also analyses whether having TA would have or had improved the performance of the projects. The answer to this was positive for all the water and transport projects, while it was not considered necessary in the other projects, except in one case.

The Bank's contribution to the operations financed
The Bank's financial contribution was generally substantial. This reflects the fact that at the time the projects were financed, term finance was in limited supply in the MPCs. Nevertheless, medium-long term financing from the domestic markets is increasingly available in some MPCs. In about half of the projects evaluated (mainly in the water sector), the projects would have to be delayed or reduced in the absence of the EIB financing and in the other half, the financial terms of the EIB were significantly better than the alternative funding available. Several public sector borrowers have mentioned that the Bank's intervention was considered important to provide implicit support to the project. In the case of the private borrowers, EIB financing has provided a quality stamp and comfort to other financiers of the projects. However, the main issue in the private sector operations reviewed was related to the Bank's stringent security requirements, as the Bank requests a first class international guarantee in its own resources lending. This has significantly reduced the value added of the EIB in many of the operations evaluated. The Bank's recent decision to broaden the range of eligible counterparts for its own resources loans is aimed at addressing this issue.

The non-financial contribution to the projects has varied depending on the project. The highest value added corresponded to the water projects, where the Bank often contributed significantly to improving the project and/or the institutional background. The non-

financial contribution was also substantial in the transport projects, but it was generally limited in the energy, telecom and industrial projects. The latter reflect the fact that the promoters in these sectors were generally competent and the Bank's help was not necessary. Concerning private sector projects, the Bank's role to support the long-term sustainability of the companies was rather limited, as it did not take credit risk in the operations evaluated.

Certain opportunities to provide value added were missed by not placing enough focus on the institutional issues, or by not ensuring that the key components of the programmes that the projects were part of are carried out. The fact that the Bank did not have direct access to TA funds limited significantly the possibilities to provide such a contribution. This has changed under FEMIP, with the availability of a TA support fund.

EIB management of the project cycle

Through its well-established presence in the region and regular financing of the public sector in the MED countries, the Bank has developed strong relationships with the main public sector entities. The situation is different in the private sector, where financing provided by the EIB has been, until recently, less significant by comparison to the public sector. However, in the last few years the Bank has developed a more systematic approach to project identification in the private sector.

Generally, the Bank's appraisal of the projects evaluated was satisfactory to good in most of the cases. The Bank's deep understanding of project issues has allowed Bank experts to identify most of the key issues in the projects evaluated. However, the focus of the Bank's appraisal was on the investments financed by the EIB, while less attention was given to the investment programmes of which the investments formed part, which sometime led to important issues being overlooked. For private sector projects, the analysis of the companies' future prospects was often superficial, particularly the financial prospects (this was related to the fact that the Bank did not take credit risk in the projects evaluated). The evaluation found evidence of a lack of clarity regarding the Bank's environmental requirements. In addition, the detailed findings of the environmental studies carried out were often not clearly presented in the Bank's appraisal reports. This does not allow for a detailed verification that all the impacts are under control.

The physical and financial follow up has been weak in many of the operations evaluated. In such cases, the follow-up has not ensured proper monitoring of the implementation, including the environmental and financial performance of the operations financed, and has also led to missed opportunities to provide value added. In addition, the Bank has not systematically re-assessed the development impact of the projects financed, which did not allow useful lessons to be drawn for the future. Recently, the Bank has undertaken different initiatives to improve the situation, which are still under implementation.

FEMIP GENERAL COMMENTS ON THE REPORT

Ops B and PJ concur with the general conclusions and recommendations of the report and note with satisfaction that, on the basis of the sample of projects reviewed, (i) EIB's activity in the Mediterranean region in the 1990s was consistent with the MED Mandates and EIB objectives, (ii) most projects are rated good or satisfactory in terms of relevance, effectiveness, efficiency and sustainability, (iii) the Bank's contribution is deemed substantial in financial terms, and found adequate in terms of non-financial value added and (iv) the EIB's appraisal of the projects is rated good to satisfactory in most of the projects under review.

The evaluation report identifies some areas of improvement, in particular: (a) a more global – at sector or country level – approach, translating in project prioritization and, if deemed necessary, in an earlier involvement in institutional aspects, (b) a clearer definition of its policy and requirements as regards environmental issues, (c) the widening of EIB's financial products, to include risk taking lending mechanisms (implying a deeper analysis of the private sector borrower) and (d) the reinforcement of monitoring activities.

Chapter 2.2 of the evaluation report indicates that lending targets were established in 2000 and were not followed up. As clearly mentioned in the note quoted by the evaluation report, these objectives were general and purely indicative and cover the Bank's **approvals** for the years 2000-2003 under the EuroMed II Mandate, whereas the projects under evaluation were **completed** in the period 1998-2001. In addition, the operational objectives to be achieved are generally specified in the documentation published by the Bank on the project it finances.

The report puts emphasis on volume lending. It is however reminded that mandates in the Mediterranean region are for limited amounts and that, although the Bank has always achieved the mandates' lending targets, EIB has sought a balance between large and small or medium size projects, and added value whenever necessary at project level, sharing the institutional reforms with the EU Commission and MDBs, in particular the World Bank, which are less project-oriented.

Since the projects evaluated were appraised by the Bank in the 1990s, the conclusions drawn by the report reflect the Bank's *modus operandi* at the time and do not take stock of the reinforcement of the Bank's policies, in particular in terms of environmental standards, project monitoring and conditionality, nor of the initiatives launched under the Facility for Euro-Mediterranean Investment Partnership (FEMIP) since 2002.

FEMIP's priorities are as follows:

- giving priority to financing the private sector and projects that help to create an environment that is conducive to private investment;
- involving the partner countries in FEMIP's investment policy guidelines and promoting greater dialogue ;
- increasing the presence on the ground by opening representative offices;
- continued lending for infrastructure projects that will encourage economic development ;
- increasing the level of lending in the region.

In December 2003, the FEMIP was reinforced by introducing the following instruments:

- the creation of a "special FEMIP envelope" (SFE), a new facility for lending to relatively riskier projects;
- the establishment of a trust fund, to help with reform and privatisation, in the form of non-reimbursable aid;

The FEMIP objectives and operational features directly address most of the deficiencies identified by the evaluation report, and in particular: sector and country strategies, risk-oriented lending products through the SFE, and on-the-spot monitoring from the Bank's local offices.

TABLE OF RECOMMENDATIONS

	EV Recommendation	Accepted Yes / No	Ops B / PJ/RM Comments
1.	The Bank should establish detailed lending priorities, in cooperation and coordination with MPCs and other stakeholders (including the EU Commission and other donors), including sectoral and country strategies when appropriate. Appraisal reports should present the project's contribution to the lending priorities.(Chapter 2, section 4.2.4.)	Yes	Sector and country work is under implementation under the FEMIP, with country papers under preparation for Tunisia and Morocco, and sector strategies (specifically for infrastructure projects) being coordinated with the countries with other donors, in particular in the framework of the MOUs.
2	The Bank should promote institutional reforms, notably to contribute to increasing the efficiency of the public sector (often involving the private sector). This implies that the EIB is involved in institutional aspects and more upstream in the project cycle than in the past. (Sections 1.2, 3.1, 3.3 and 4.1)	Yes	The TA component (TA Support Fund launched in 2003 and FEMIP Trust Fund launched in 2004) provides FEMIP with a strong instrument to improve the quality and development impact of its lending operations in the Mediterranean region. As a consequence, FEMIP has become more proactive and selective with regard to future investments, with a clear focus on creating an enabling environment for its projects. At present, FEMIP is considering strengthening investment operations' links with clearly defined sector policies, thus putting more emphasis on sustainability and development. To this end, cooperation with other international institutions is being developed and/or strengthened.
3	The Bank should contribute more than in the past to the development of priority projects (to support its lending strategies) and/or improve the projects it finances. This is now easier thanks to the availability of TA funds under FEMIP. (Sections 3.1.1, 3.3 and 4.2.1)	Yes	In 2002, in the context of the discussions to increase the Bank's capital, the Board of Governors asked the Bank to define precise criteria to assess the value-added of EIB funding. Following this request, value-added has been defined with reference to three elements that the Bank must consider in its financing decisions, which will be called *the three pillars of the value-added*: 1. the consistency between each operation and the objectives of the Union; 2. the quality and soundness of each project; 3. the particular financial benefits obtained by the use of EIB funds.

	EV Recommendation	Accepted Yes / No	Ops B / PJ/RM Comments
			Inclusion of value added sheet (Pillar n°2) is under test phase since beginning of 2005 for all Femip projects. The use of technical assistance increases the ability of MPCs and promoters to better prepare investment operations and improves their ability to both manage and supervise those operations. It helps to avoid typical problems such as delays, cost overruns and other blockages. More generally: (a) in the short and medium term, it helps improve disbursement rates for lending operations; (b) in the medium and long term, it contributes towards further developing FEMIP's portfolio of sustainable investment projects in the region.
4	In order to increase its financial value added when financing private projects, the Bank needs to expand its range of products, in particular taking more credit risk. (Section 4.1.2)	Yes	At the request of the European Council in December 2003, it was decided to dedicate up to EUR 200m from the Bank's reserves to allow for extended risk-sharing operations of up to EUR 1 billion, and a better structuring of lending to mitigate private sector risks (a "special FEMIP envelope" or "SFE") . The SFE aims to address some of the constraints created by the MPCs' relatively poor credit ratings and the Bank's usual requirements on private sector borrowers (e.g. in the form of a guarantee from a strong investment-grade third party or equivalent collateral).
5	In the appraisal of companies the focus has been the investments financed by the Bank. It is recommended that the analysis of the future prospects of the companies financed is reinforced, including competitive position, business strategy, financial prospects, etc. This recommendation is linked to point 4 above. (Section 4.2.2)	Yes	The reinforcement of the appraisal of the borrower's prospects is already under implementation with SFE projects, for which the Risk Management Directorate of the Bank is also involved. The enhanced due diligence, approval and monitoring procedures already established for SFF have been approved by the CD for SFE in October 2004

	EV Recommendation	Accepted Yes / No	Ops B / PJ/RM Comments
6	The Bank should define more precisely its policy in relation to the environmental requirements to be applied to its projects in the MED region, taking into account local conditions and law. Additionally, for projects with potentially significant environmental impacts, the EIB assessment at appraisal should systematically present the detailed findings. Where necessary, the Bank should request the preparation of additional environmental studies in order to improve the environmental performance of projects. (Section 4.2.2)	Yes	The subject of "local conditions and law" has been elaborated by PJ in a paper to the July 2005 CA ("Environmental Progress Report", Annex 1). Appendix D to the PJ Appriasal Report already provides for a detailed environmental assessment of environmental impacts and proposed mitigation measures. The Bank also has a number of facilities to finance additional environmental studies - both general and project specific - where required, e.g. The FEMIP TA Support Fund (and the METAP facility during the period under review) is often mobilized for the preparation of environmental impact studies or more generally studies for the improvement of the environmental standards applied by the Bank's promoters.
7	Ensure that specific recommendations proposed at appraisal relating to institutional or project-specific aspects are included in the financial contract (FC), and their implementation is followed up. The reasons for not including specific recommendations in the FC should be justified. (Section 4.2.3)	Yes	This is usually done, with specific conditions identified at appraisal stage now spelled out in details in the Board report and the BoDs' decision translated into specific conditions in the FC.
8	Physical and financial follow-up need to be reinforced in order to ensure proper monitoring of the project's implementation, financial and environmental performance. The development impact of the projects should be systematically re-assessed once projects are completed and early operational information is available. Recent initiatives by the Bank to address the deficiencies at this level need to be fully implemented. (Section 4.2.3)	Yes	The monitoring of projects and borrowers has been recently reinforced with the creation of monitoring assistants posts and the setting-up of local offices, whose responsibilities include site visits and the follow up of projects and borrowers. Now implemented in chapter 2.10 of 2005 revised PJ Procedures Manual.

1 INTRODUCTION

1.1 The approach followed in the evaluation

This evaluation covers financing through individual loans from own resources under Mediterranean mandates during the period 1993-2003. It is part of a broader evaluation of EIB financing with own resources under the Mediterranean mandates, of which a first report dealing with financing with own resources through Global Loans has already been published[1]. It also complements the EU Commission's evaluation,[2] which covered the financial assistance to MPCs in the form of risk capital and interest subsidies on EIB loans relating to environmental operations.

The focus of this evaluation is the implementation of the MED mandates by the Bank, based on an evaluation of a sample of individual projects financed. The performance of each project has been evaluated using the internationally accepted evaluation criteria (Appendix 3 presents the definition of these criteria). The comparison of the ex-post results with the expectations and objectives at appraisal is the main basis to evaluate the operations.

The projects selected have been evaluated using the same approach to assessing the different evaluation criteria (see Appendix 1). This allows the results of the evaluation of the individual projects to be integrated.

EV selected a sample of 22 individual loans from own resources corresponding to projects completed in the period 1998-2001[3]. This allowed the early operational results of the projects (from 2 to 5 years of operation) to be analysed, while avoiding evaluating rather old operations. In 15 of the 22 operations, the promoter and the project were visited, as well as, on occasion, other relevant parties. Meetings were also held with the Bank's operational staff responsible for the operations. In selecting this sample, account was taken of the need to ensure a reasonable spread of the operations evaluated, both across sectors financed and the countries of the region. The operations selected were carried out in Algeria, Egypt, Morocco, Jordan, Lebanon, Tunisia and Turkey. Out of the 22 loans, 6 concerned the water sector (wastewater and water supply), 6 the transport sector, 6 the energy sector, 3 the industrial sector and one a telecoms project. In addition, the internal files of 7 other operations, 4 fully or majority owned by private shareholders, were also reviewed[4], mainly in order to extend the coverage of private sector operations.

The evaluation has been developed in three sequential phases:

- A general overview of EIB financing through individual loans under Mediterranean mandates in the period 1993-2003, the operational framework set up by the EIB to develop this type of financing and a brief analysis of the economic background[5] of the MED countries.
- Individual in-depth evaluation of the 22 operations selected and review of the internal files of 7 other operations.

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[1] Operations Evaluation, EIB financing with own resources through Global Loans under Mediterranean mandates. December 2004. Available on www.eib.org

[2] Eva-EU Association, Evaluation of financial assistance for the Mediterranean countries managed by the EIB on behalf of the EC. Final report May 2001. Evaluation Unit of the Joint Relex Service of the European Commission.

[3] Except in one case where the project was completed in early 2002.

[4] This task was also carried out by Mr. Joan Paredes Lodeiro.

[5] This was carried out by Mr: Joan Paredes Lodeiro, who was a trainee in EV in 2004.

- Synthesis report, presenting the main findings of the previous phases and drawing conclusions and recommendations.

The EV team carried out the first phase of the evaluation and evaluated 4 projects in the industry and telecoms sectors, while the external consultants carried out the evaluation of the 18 individual projects in the water, energy and transport sectors. Based on this, EV produced the final synthesis report.

1.2 The economic background of the Mediterranean countries since 1990

This section focuses on MPCs in Maghreb and Near East regions, but many of the comments apply also to Turkey. Despite the high diversity of economic situations in this group of countries, there are some common features, which explain the main past trends of financial flows in the region. In particular, private capital inflows have historically been low, but have been rising recently.

Countries in the region have had positive GDP growth in the last decade, but growth has been volatile and often significantly affected by the political instability in the region. Turkey and Tunisia has achieved the best performance since 2000, with an average GDP growth above 4% a year in the period, while Gaza-West Bank has presented the least favourable figures (GDP dramatically declined in 2000-2002). Turkey is the largest MED economy; it responded strongly after the severe recession of 2001, and growth is also generally improving in the other countries in recent years. The GDP breakdown varies substantially. The share of the primary sector is the highest in Syria (23%), followed by Egypt (17%) and Morocco (16%), but it only represents 2% in Lebanon. Oil and gas represent a substantial share of the GDP in Algeria and Syria.

Most of the countries have experienced high population growth in the last decades (around 2.5% per year in the 1990s). This, combined with the inability of these economies to create substantial new jobs, has led to high and rising unemployment. The unemployment rate in the MENA region, which includes the MED countries, is 13%. This is among the highest in the world according to the International Labour Organisation. The high unemployment represents an unprecedented challenge for the future. The WB estimates that in order to absorb unemployed workers, the MENA region needs to create close to 100 million jobs by the end of the next decade, more than doubling the current number of jobs in the region[6].

The public sector has been the primary engine for job creation in the past and still represents the largest employer[7]. The high share of the public sector, with its low efficiency, is a serious impediment to more rapid growth, which is necessary to create more jobs. In addition, the strategy of creating public sector employment is no longer sustainable. The high cost of supporting the public sector explains in large part the substantial budget deficits in many MED countries. These large deficits remain a problem, despite the overall trend towards fiscal consolidation in the region over the past decade.

[6] From WB, Jobs, Growth, and Governance in the Middle East and North Africa, 2003

[7] In terms of public expenditure in relation to GDP, the size of the public sector is the highest among the developing regions.

Generally, privatisation programmes have had limited success in reducing the size of the public sector. In this respect, the most active countries in the region have been Egypt and Morocco, although with uneven results until now. Privatisation has tended to be pursued more as a means of obtaining foreign currency and financial resources for governments than as a means of improving efficiency.

Trade protection levels remain among the highest in developing regions and have been slow to come down, in contrast to the rapid decline observed in other developing countries. Despite reforms introduced, Egypt, Morocco and Tunisia remain among the top ten most protected countries in the world. Overall, trade is still far from its potential given the region's favourable characteristics in terms of size, low labour cost, income and location (close to the large European market). In addition to trade liberalisation, MED countries need to advance in the privatisation and deregulation of some key sectors to increase efficiency via competition. Administrative and legal reforms, encompassing the financial sector, are also critical factors to achieve sustained economic growth.

Most of these countries have adopted more flexible exchange regimes in the 1990s and early 2000 that led to currency depreciations. This has had a significant impact on the private sector projects evaluated.

Workers' remittances are the largest component of the total financial inflows to these countries, followed by private creditor flows. Five countries in the region-Egypt, Jordan, Lebanon, Morocco and Turkey-are among the top ten recipients of remittances globally in terms of Gross National Income.

In this context, the official debt and grant flows, including the EIB, play a significant role in financing investments in several Maghreb and Near East countries. In the last few years the official debt flows have represented a substantial part of the total long-term debt flows (official plus private flows) in the countries of Maghreb and Near East (about 35% in 1996-2002). Algeria, Morocco, Tunisia and Jordan have been the main recipients of official debt flows, while private debt flows have mainly concentrated on Lebanon, Tunisia and Morocco.

2 THE EIB'S OBJECTIVES AND LENDING IN MED: RELEVANCE

2.1 The EU mandates

Beginning in the late1970s[8], a series of Cooperation Agreements were signed between the European Community and Mediterranean Partner Countries (MPCs), which included bilateral *Financial Protocols* providing for loans from the European Investment Bank and grants from the aid budget of the European Commission. In 1992, the *Horizontal Financial Cooperation Programme* was adopted as an instrument for reinforcing financial assistance to the region through additional financing from EIB own resources and risk capital finance, in parallel with the balance of funding under the Fourth Financial Protocols. The Barcelona Declaration adopted by the 15 Member States and the 12 MPCs[9] in 1995, established a framework for broader and deeper co-operation. As of 1997, the former Financial Protocols were replaced by the EUROMED resolution, resulting for the Bank in a new Mandate for operations in the region, i.e. EUROMED. The main objectives of the EUROMED mandates can be summarised as follows:

[8] Prior to this an Association Agreement had been signed between the EC and Turkey with similar objectives.
[9] Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Malta, Cyprus, Turkey, Israel, and Palestine.

- Upgrading of economic infrastructure, including that necessary to encourage inter-regional trade such as telecommunications, transport and power.
- Private sector development, including support for SMEs and for joint investment between EU and MPCs enterprises.

The EUROMED I Mandate covered the period 1997-2000 and established a ceiling on own resources financing of EUR 2310m for the period. This mandate was followed by EUROMED II, covering the period 2000 to 31st January 2007, and the ceiling on own resources finance was extended to EUR 6540m[10]. This mandate includes risk capital financing and interest subsidies for environmental projects.

Following the conclusions of the Nice Council Presidency in 2000, the Bank was invited to finance projects of mutual interest between EU and Partner countries without recourse to the EU guarantee for political and commercial risk (up to EUR 1bn).

In 2002, the European Council called for a further initiative in the Mediterranean region, leading to the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). With a particular focus on the development of the private sector, the main changes to the EIB's remit resulting from the establishment of FEMIP are the following:

- Increase the Bank's financing with own resources in the region by up to EUR 1.5 billion in the period 2003-2007.
- Lending from own resources to be complemented by risk capital operations whose use will be extended through the creation of new financial instruments.
- A Technical Assistance support fund for the identification, design and management of new investment projects.
- The creation of a Supervisory Ministerial Committee composed of representatives of Member States, MPCs and Experts Committees.
- The establishment of decentralised operational EIB offices in the Region.

In terms of financial products, under the current mandate the EIB offers the standard senior loan from own resources, risk capital that can be used for different purposes (equity or quasi equity instruments etc.), interest subsidies for environmental projects and TA funds. However, since 2003, under the "reinforced" FEMIP, the Bank has decided to broaden the range of eligible counterparts for its own resources loans. It can now lend, up to a certain limited amount, to eligible borrowers without government or international guarantees.

In 2004, the EUROMED mandate was amended to exclude future lending in Cyprus, Malta and Turkey from the EU-guaranteed lending envelope for the MED countries and the overall financial ceiling has increased. Lending in Turkey is now included in the envelope for the countries of Central and Eastern Europe.

[10] Ceiling without Turkey-increased in 2005. The ceiling was set up in 2000 at 6425 MEUR.

Country framework agreements

Under the Financial Protocols, Bank lending to individual MPCs was carried out within the framework of a bilateral agreement between the European Community and each country. With the phasing out of the Financial Protocols, a new legal structure was required to provide the Bank with the necessary guarantees regarding tax exemptions and availability of foreign currency.

In their place, framework agreements have been signed between the Bank and each country that are then ratified by the legislative assembly of the country concerned or similar procedures. The agreement allows the Bank to finance projects in both the public and private sectors in the host countries and sets out withholding tax exemptions. In addition, the Government undertakes to make foreign currency available for the servicing of debt by EIB borrowers. Procedures are also agreed through which the selection of projects to be financed by the Bank is subject to the agreement by the Bank's counterpart Ministry (generally Finance or Planning). Thus through the Framework Agreements the *de jure* preferred Creditor Status of the Bank has been preserved.

2.2 EIB objectives

The Bank has established its operational objectives in MED taking into account the EU development priorities, but also reflecting market needs and the dialogue with governments and project promoters in the countries concerned. The main EIB objectives in the region can be summed up as contributing to regional development and cooperation, development of the private sector (particularly SME), improving the natural and urban environment, development of communication infrastructures, energy conservation and, in recent years, the Bank has started to finance the health and education sectors.

In the period covered by this evaluation (1993-2003), the EIB lending strategy in MED has been to achieve the global lending ceiling set by the mandates (although there is no obligation to attain the ceiling) taking into account the objectives of these mandates. Since 1999, with the adoption of the COP, an annual lending target for MED has been presented in the COP. The fact that the Bank's activities in MED are driven by EU mandates that establish a global financing target for a certain period makes lending volume an important objective of the Bank. Promoting institutional reforms was not an objective of the mandates for the EIB.

The Bank has not established country-lending targets[11], except for Turkey. Lending targets by sectors and/or objectives were established in 2000, following a specific request of the EUROMED II mandate[12], but the implementation of these targets has not been followed up. In addition, the definition of the targets was very general.

This situation has changed significantly with the creation of FEMIP. The institution of a new governance structure through FEMIP provides a discussion forum through which MPCs participate with the Bank in the definition of objectives, which better cater for their development needs.

[11] Whilst the Financial Protocols were in force (up to 1996), the Bank's lending strategy in each MPC was determined by the Programming Document and the Bank. Unlike other MDBs, the EIB did not adopt the practice of drawing up Country Strategy Papers as part of the participative process in designing future lending programmes to replace the Country Programme exercise.

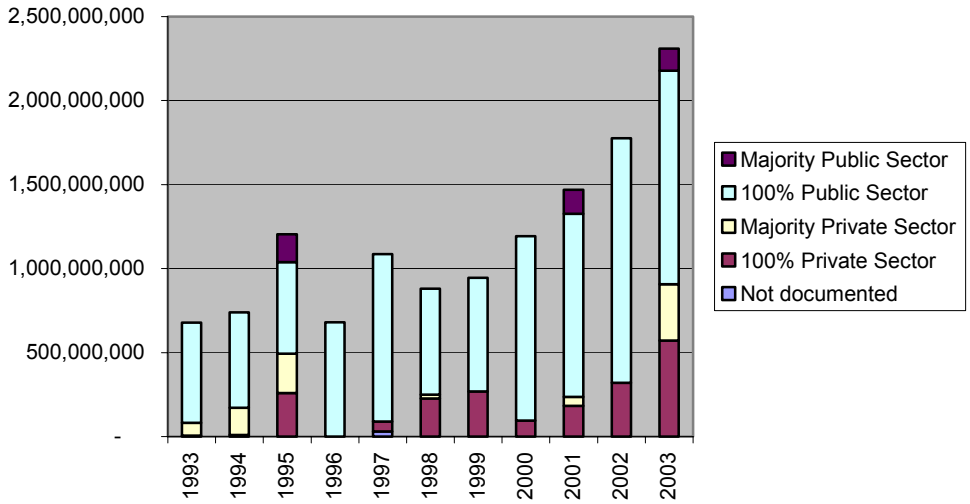
[12] The mandate asked to assess the contribution of the lending to the objectives and an appropriate measurement of their fulfilment.

In general, the Bank has preferred to have a high degree of flexibility in its activity in MED, rather than relying on the rigid setting of precise quantitative projections of Bank support for particular Community objectives or countries. This flexible approach has allowed for quick response to country needs and to achieve the lending targets established in the mandates. However, with this approach there is a risk that the objectives more difficult to achieve are less followed up than the others and thus might not maximise the impact of the EIB financing.

EIB financing against the mandates' main objectives
Most of the lending with own resources has gone to projects contributing to the objective of strengthening economic infrastructures. The bulk of the lending contributing to environment corresponds to the water sector projects. As a result, the EIB has become the largest financier of the water sector in the region in relation to the other IFIs active in the area. Therefore, making a significant contribution to the achievement of the Millennium Development Goals, related to the water sector (although these objectives were established after the projects evaluated were financed).

In the past, the Bank has had difficulties developing lending to the private sector, which has become a key objectives of the mandates, particularly since the establishment of the FEMIP (only about 20% of the total in 1993-2003). This reflects the limitations of EIB financial products, particularly the Bank's stringent security requirement (see 3.1.1.) and the limited development of the private sector in these countries. This has changed recently, as private sector lending has rapidly expanded (see figure 1 below). Financing to the private sector has significantly increased in 2003 and 2004 to reach close to 40% of total annual commitments. Most EIB financing to the private sector corresponds to small projects financed through GLs, as well as large industrial and energy projects financed through individual loans. However, the information in the internal databases on this is not fully reliable, as some projects were not well classified.

Figure 1: Lending in the public and private sectors in 1993-2003



The Bank financed very few operations under the risk-sharing scheme. They represent about 3% of EIB total finance under EUROMED I and II (9 operations in total), well below the targets in the mandates, which were 25% and 30% respectively. This is a consequence of the low financing of the private sector in general and the guarantee requirements of this type of loans.

2.3 EIB financing in MED

During the period 1993-2003 (period covered by this evaluation), the Bank has financed 272 operations, of which 236 with own resources, 36 with EU Budget resources (i.e. risk capital) and 4 with both own resources and EU Budget resources. EIB total signatures amount to EUR 12 987m, with an average loan per operation of EUR 48 million. EIB lending from own resources (including operations financed with both own resources and EU Budget resources) thus amounts to EUR 12 717m (see table 1 below), of which 54% has gone to 3 countries, namely Turkey (21% of total finance), Morocco (16%) and Egypt (17%). Algeria and Tunisia account for 14% and 13% of total loan signatures, respectively. Lending has rapidly increased since 2000 due to the increase in MED mandates and the new lending facilities for Turkey (see figure 1 above).

Table 1: Own resources lending by countries from 1993 to 2003

In MEUR

Country	Total	Percentage
ALGERIA	1,760	14%
CYPRUS	931	7%
EGYPT	2,099	17%
ISRAEL	108	1%
JORDAN	484	4%
LEBANON	558	4%
MAROCCO	2,077	16%
SYRIA	380	3%
TUNISIA	1,676	13%
TURKEY	2,645	21%
Total	12,718	100.00%

Energy, transport, water and sewerage sectors have received the largest share of EIB finance (see table 2 below) to Mediterranean countries (27%, 20% and 19% respectively). The water and sewerage sector leads in terms of number of operations (54) followed by transport (45) and energy (36). Morocco and Egypt absorbed a significant proportion of EIB lending to the energy sector (26% and 24%, respectively). Turkey accounted for the largest share of EIB lending to the water sector (22%) and EIB finance through global loans (42%). Algeria, Morocco and Tunisia absorbed the second largest share of lending to the water sector i.e. 15% each.

Table 2: Own resources lending by sectors from 1993 to 2003
In MEUR

Sectors	Number of projects	%	Lending EUR	%
Agriculture	4	2%	116	1%
Water & sewerage	56	23%	2,078	16%
Education & health	8	3%	645	5%
Energy	43	18%	3,399	27%
Industry	27	11%	1,518	12%
Infrastructure	5	2%	695	5%
Global loans	41	17%	1,666	13%
Services	2	1%	40	0%
Telecom	3	1%	85	1%
Transport	51	21%	2,476	19%
TOTAL	240	100%	12,718	100%

EIB financing is a significant part of total official lending in the Maghreb and Near East countries, as it represents close to a quarter of total official lending in the last few years. Considering the rapid expansion of loan signatures since 2000, the EIB has become the top lender to the region.

The picture for Turkey is rather different than in the other MED countries. Official debt flows play a minor role, as private debt flows represent close to 90% of total long-term debt flows. EIB debt flows amounted to about 10% of the official debt flows in 1996-2002. However, like for the other group of countries, the EIB's share should increase quickly in coming years as a result of the expansion of EIB lending.

2.4 Relevance of the operations evaluated

The objectives of all the projects evaluated were deemed consistent with, on the one hand, the objectives of the MED mandates and the EIB policies and, on the other, the beneficiaries' requirements and policies of the MPCs.

All the infrastructure projects (water, energy, transport and telecoms) were part of national, regional or urban programmes strongly supported by the respective governments. Water projects aimed at addressing the often appalling environmental and sanitary degradation in the areas concerned, or to cover the basic water supply needs of the population. Transport, energy and telecommunications projects contributed mostly to covering the fast growing additional demand. Two energy projects, two transport projects (a port and a road) and the telecoms project contributed to the development of trade and cooperation (or better integration) with the EU. By contributing to developing or rehabilitating much needed basic infrastructures, all the infrastructure projects have significantly helped to cover the basic needs of the population or to overcome substantial bottlenecks for the economic development of the respective MPCs.

On the other hand, industrial projects supported one of the key objectives of the mandate, namely the development of the private sector in the region. The projects evaluated contributed to covering domestic demand and increased export potential of the country concerned by providing cheaper and better products, normally with the participation of reputable international companies.

In general, the projects financed have contributed significantly to promoting economic growth. At the same time, they have contributed to employment creation, including training of the workforce.

The evaluators were not able to rank the projects in terms of their relevance to the EU or national objectives. This is because there were not defined sectoral and country priority objectives (as indicated in section 2.2) against which we could rank the projects. This is also reflected in most of the appraisal reports consulted. Commonly, appraisal reports do not analyse in detail the projects' contribution to the main mandates or national objectives, and often those objectives are not specifically stated at appraisal.

3 PERFORMANCE OF THE SAMPLE OF PROJECTS EVALUATED

The operations were evaluated based on the internationally accepted evaluation criteria (see Annex 3) of relevance, efficacy, efficiency and sustainability. Against these criteria and using a 4-level rating scale, four operations were rated 4 (good), 15 were rated 3 (satisfactory) and three were rated 2 (unsatisfactory). None were rated 1(poor). See table 3 below.

Table 3: Overall ratings of projects evaluated

	Good	Satisfactory	Unsatisfac.	Poor
Energy	2	4	0	0
Transport	1	5	0	0
Water	0	4	2	0
Industry & telecoms	1	2	1	
Total	4	15	3	0

3.1 Projects' Effectiveness

3.1.1 Implementation performance

Project preparation

There are large differences in the promoter's competence to implement the projects. The weakest promoters were in the water public sector[13], while the strongest were in the industry and energy sectors. Weak institutional background was also a significant issue with negative implications for many of the projects evaluated, particularly in the water sector. In the past, the Bank did not have instruments to adequately address these issues. Therefore, it relied mostly on the institutional and project preparation work of other MDBs, bilateral development agencies, and the EU Commission[14]. At present, the FEMIP, with the TA facility, enables the Bank to have a significant role in these matters.

[13] None of the water projects evaluated have been developed by the private sector.
[14] In addition, several of the Bank's experts mentioned that the TA funds from the EU Commission were often difficult to use due to long delays in obtaining them.

In four of the six water projects, MDBs played a substantial role in the project preparation phase. Only in one of the transport projects was an MDB (the WB) involved in the project preparation. In two projects, the promoter benefited from many years of cooperation with the WB in previous projects. This cooperation significantly helped the promoter to better prepare the projects.

In contrast, national gas or electricity companies and the telecoms company evaluated prepared the projects themselves without assistance from MDBs, with the exception of a complex energy project (an international interconnection), where the national company received assistance from the European company that owns the European side of the project. Industrial projects were generally developed as joint ventures with well-known international companies.

The evaluation also analyses whether having TA would have or had improved the performance of the projects. The answer to this was positive for all the water and transport projects. In the water projects the assistance seemed necessary at both project and institutional level, while for the transport projects assistance was generally necessary at institutional level, as the promoters seem competent. TA was not considered necessary for the energy, industry or telecom projects, with the exception of one specific case[15].

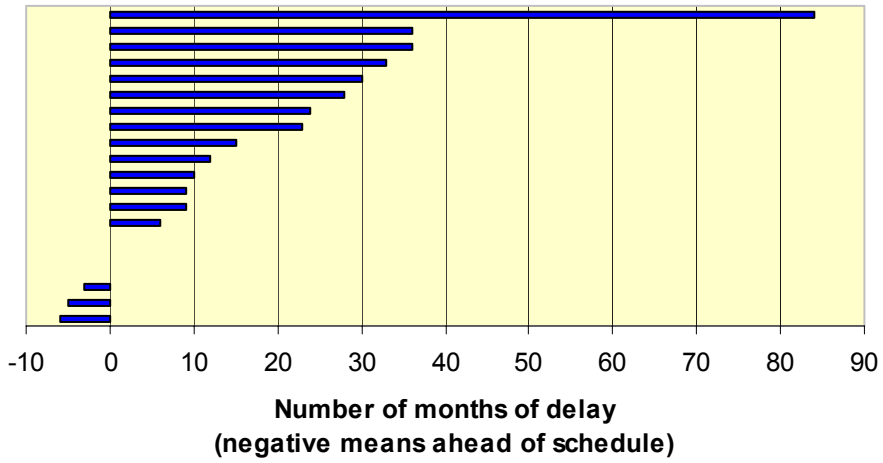
For TA to be effective the promoter must understand its need and participate in the definition of the scope of the TA. In one of the water projects, it would appear that the promoter did not subscribe to the necessity of TA, or gain much benefit from it. One reason stated in the PCR is the possible lack of "ownership" of conceptual ideas by the Project Implementation Unit. Due in part to this, the project experienced problems.

Delays and cost assessment

The scope of works changed significantly in relation to initial expectations for several water projects, whereas changes were less substantial in the other sectors. In 3 of 6 water projects the final scope of works was rather different than initially foreseen. These changes mostly reflected that, once the projects were more advanced, the promoter realized that the work scope needed to be modified e.g. new works needed in rehabilitation projects or lower than expected household connections to the networks. The scope also changed significantly in two transport projects and in one energy project. Industrial projects need to be adapted to changes in the market[16].

[15] In the latter, a complex electricity project, TA was provided by a European company and the proposal by the Bank experts to have additional assistance was not taken up by the promoter.
[16] In one project a second phase was delayed due to the slowdown of the domestic market.

Figure 2: Work duration in relation to the estimates at appraisal



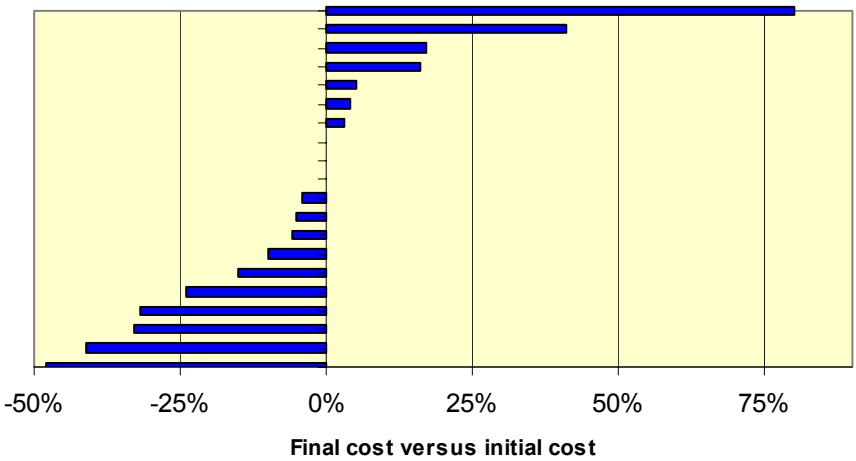
Most of the projects were completed much later than initially foreseen (see figure 2 above). Delays ranged normally from 6 month to 36 months, except in one case in Algeria where the delay was over 7 years (works came to a halt for about 5 years because of a lack of security on the site). The main reasons for delays were changes in the project design, complex procurement procedures or unforeseen events. The delay in completing some projects reflects the fact that the project started later than expected[17], but the actual implementation duration was close to the initial expectations. In total, delays in project schedules have, in most cases, been due to circumstances beyond the promoters' control; in only a few cases they seem to reflect the promoters' weak managerial capacity.

In several projects, it was not easy to decide what was the right reference to compare the expected project costs with the outturn cost, due to exchange rate fluctuations or the impact of inflation. Commonly, this comparison has been made in EUR or USD. The results of the comparison are quite surprising, as in approximately half of the projects evaluated the outturn costs are significantly lower than initially expected (see figure 3 below). This is normally explained by the lower scope of the works, except in the transport sector. In 3 out of 5 transport projects[18] evaluated, the final cost of the project was significantly lower than initially expected (41%, 24% and 33% lower), due to strong competition among contractors, overestimation of the initial costs and/or the impact of currency devaluation. This lower than forecasted cost was an issue for the Bank, as sometimes it needed to allocate part of the loan to other projects.

On the contrary, 4 projects experienced significant cost overruns (over 15%). The reasons for these cost overruns were mainly related to the realization of additional investments or technical modifications. In one water project, the final cost was 80% higher than expected. The project involved the reconstruction of a large number of water and sewerage facilities following a war in the country. The feasibility study could only make a rough estimate of the works to be carried out, but more detailed studies showed that substantial additional work was needed.

[17] In several cases, the delay in starting the project was due to delays in putting the necessary financing in place.
[18] In one of the projects evaluated, the promoter did not provide information on the final cost of the project.

Figure 3: Outturn costs in relation to the estimates at appraisal



Overall the implementation results for the projects in the sample seem rather good, as outturn costs are similar or lower than initial expectations for the majority of projects, but project delays are significant in some cases. However, this acceptable result reflects in large part the fact that external consultants supported most of the weak promoters in preparing their projects, as indicated before.

3.1.2 Operational effectiveness

The specific objectives of the projects evaluated were often formulated at appraisal in general terms, making difficult their follow-up. Appraisals present few indicators of the project's contribution to the development of the specific MPCs. As a result, the analysis of the project's effectiveness was difficult to carry out. In addition, there was generally limited information ex-post to verify whether the objectives were achieved or are expected to be achieved. Despite these limitations, all the projects were rated, based sometimes on qualitative analysis. Only 4 projects were rated unsatisfactory in the effectiveness criterion (see table 4 below), out of the 22 evaluated: 2 water projects, one energy and one industrial project.

Table 4: Effectiveness ratings of the projects evaluated
(number of projects)

Effectiveness	Good	Satisfactory	Unsatisfac.	Poor
Energy	2	3	1	
Transport	2	4	0	0
Water	3	1	2	
Industry & telecoms	2	1	1	
Total	9	9	4	0

The reason for the unsatisfactory rating of the water projects was that some key project components were not carried out and thus the expected reductions of pollution were only partially met. These components were often not part of the works financed by the EIB. This shows that the Bank needs to ensure that the key parts of the programme are carried out. For the projects rated "good", the project scope increased, thus achieving higher benefits than foreseen initially. In the water supply projects, demand expanded faster than forecasted due to high population growth and the additional capacity provided by the projects was fully utilized. Although the main objective of most of the water projects was to reduce pollution, the promoters did not provide information (or it was not available in the Bank's file) on the level of pollution before and after the project. This information would have been very useful to assess whether the environmental programme is achieving its objectives and the contribution of the specific projects financed by the EIB.

Most of the energy projects raised similar issues to those in the water sector. The projects were part of investment programmes and thus their justification was related to the other components of the programme. Therefore, the effectiveness of the whole programme should be analysed rather than the achievement of the specific objectives of the components financed by the EIB. This was often poorly covered by the EIB follow up because it focussed on the specific components financed by the Bank rather than the whole programme. The main aim of four projects was to cover additional demand. As gas and electricity demand in the countries involved has expanded at a similar rate or faster than initially expected[19], it can be concluded that the project's main objective has been achieved.

All the projects evaluated in the transport sector were rated satisfactory to good. This reflects that, in most of the projects, the expected benefits were achieved or surpassed in relation to the expectations at appraisal. For road projects, outturn traffic was rather close to the initial estimates.

In three out of the four projects evaluated in the industrial sector the rating was satisfactory to good; only one was rated unsatisfactory. The three industry projects were significantly affected by changes in the market. In two of them, located in Egypt, the weakening of the economy in recent years, combined with a series of currency devaluation, substantially reduced the prices and the volume of sales in the domestic market, but, at the same time, increased the competitiveness of their products in the international markets. Both companies were able to substantially increase their exports and compensate for the decline in the domestic market. The companies went through a difficult period, but in the last few years their financial situation has been satisfactory to good.

No significant issues were noted in the appraisal reports concerning environmental performance. This reflects that both the promoters and the EIB pay significant attention to these issues. However, in some cases the data available in the Bank's files, was not sufficient for a detailed ex-post assessment of whether the main environmental impacts were under control. This in part reflects the fact that the Bank has not systematically monitored the environmental performance of projects with significant impacts.

[19] Gas consumption has increased at a rate of about 7%, 13% and 16% respectively in Tunisia, Egypt and Turkey in the last few years.

3.2 Projects' Efficiency

Table 5: Efficiency ratings of the projects evaluated
(number of projects)

Efficiency	Good	Satisfactory	Unsatisfac.	Poor
Energy	3	3	0	0
Transport	3	3	0	0
Water	0	5	1	0
Industry & telecoms	2	2	0	0
Total	8	13	1	0

Public sector projects
Most of the economic benefits of the water projects, mainly related to environment and public health, were difficult to measure in monetary terms. At appraisal, the economic profitability was estimated in 5 out of the 6 projects evaluated, and it ranged between 5%[20] and 22%. These figures underestimate the economic profitability of most of the projects, as they often fail to include some difficult to quantify environmental benefits.

The ERR at appraisal of the energy projects evaluated was between 10% and 36%, except in two projects where it was 5-10%[21] and 1-3%. In the latter case the Bank expressed strong doubts to the national authorities concerning the economic viability of the project. Changes in the initial power generation plan and higher oil prices than initially expected resulted in a significantly higher than forecasted ex-post ERR for this project. The ex-post economic rate of return could not be calculated accurately for any of the projects evaluated because some detailed information was not available. However, the ex-post ERR should be higher than the ex-ante estimates in most of the projects, for two main reasons: higher than initially expected oil prices, combined with the fact that gas or electricity demand has been similar or higher than expected.

The ex-ante ERR of the transport projects ranged between 17% and over 30%, taking into account only the direct economic benefits generated by the projects (time and vehicle saving and increased efficiency in general). It was possible to calculate the ex-post ERR for 4 of the 6 projects and for the other 2 a qualitative estimate was made. In all but one case the outturn ERR was higher than at appraisal. In the latter case, the ERR fell from 28% to 10% ex-post, mainly due to a long implementation period, due to the difficult security situation in Algeria, as indicated before.

In the public sector projects, financial profitability was only an important issue in the water projects and in one transport project (a port). In the energy projects, the companies involved presented a rather satisfactory financial situation, reflecting reasonable tariff levels. However, it was noted in several energy projects that tariffs were distorted by direct or indirect subsidies and that they may not be sufficient to cover full costs. Similarly, fixed telecom tariffs in the project evaluated were substantially unbalanced at appraisal, but have since been significantly rebalanced.

[20] This rather low profitability was considered acceptable because it did not include other benefits difficult to quantify.
[21] However, this figure does not take into account some additional benefits that are difficult to quantify (mainly environmental benefits).

In all the water projects evaluated, the Bank's experts considered tariffs too low. The criteria to define the acceptable level of tariffs varied from one project to another, and depended on the level of subsidies from the State. In some cases it was considered sufficient that tariffs cover O&M costs, and in others they should ensure that the companies self-finance part or all their investments. The household capacity to pay was an important issue in all the projects evaluated, but it was not analysed in detail at appraisal for any of the projects concerned. In five out of six cases, it was possible to have information on the present tariff level; in the other case, no accounts from water offices were available to enable verification of the tariff level. In three of these cases, water tariffs were not increased, or not sufficiently to be considered acceptable for the Bank. In all these cases the problem was the households' limited capacity to pay or social acceptability of higher tariffs[22].

Private sector projects
Financial profitability was rated unsatisfactory in two of the three industrial projects evaluated. In one case, net profits were negative in 2000-1 and the company requested a debt rescheduling. However, from 2002 the company's financial situation dramatically improved. In the other case, a mine, proven reserves turned out to be considerably lower than expected and the net present value of the project's cash flows has become negative.

3.3 Project Sustainability

The sustainability of the projects was a major concern in many of the water projects. This is reflected in a less than satisfactory rating in 4 out of the 6 projects evaluated. The major areas of concern were related to the financial sustainability (low tariffs) and managerial/institutional sustainability. Low tariffs, combined with the limited capacity of the state to subsidize the companies, resulted in a high risk that the facilities were not adequately maintained, reducing their expected life. Weak managerial and institutional capacity was also an issue that might have negative implications on the long-term viability of the facilities. In some cases managerial weaknesses were faced by relying on external assistance, as indicated before. In some projects, environmental sustainability was mentioned as an issue, as significant additional investment was needed to further reduce pollution[23].

Table 6: Sustainability of the projects evaluated
(number of projects)

	Good	Satisfactory	Unsatisfac.	Poor
Energy	1	5	0	0
Transport	1	4	1	0
Water	0	2	3	1
Industry & telecoms	1	2	0	1
Total	3	13	4	2

On the contrary, sustainability was rated satisfactory or good in practically all (except one) energy and transport projects evaluated. This generally reflected that the promoters were competent and that they are strongly supported by their respective governments (also by keeping tariffs at a reasonable level, as previously mentioned).

[22] In addition, in all the water projects except one, water consumption was metered and billed.
[23] The start of operations in the case of one project was delayed until biological treatment was built, which, although anticipated for future phases, was required by the National Environmental Agency prior to project start-up.

In the case of transport projects, some concerns were expressed as to whether enough funds were available to adequately maintain the projects. In two transport projects, sustainability was a significant issue. In one case, the promoter's technical and managerial weaknesses resulted in implementation problems. In another project the technical solution used was controversial, which significantly delayed project completion. In the same project, the WB suggested an ambitious reform in axle loading and road use charges, which caused further delays. Had the Bank remained active in the final preparation phase alongside the WB, the problem could have been avoided.

In the industrial project the key issue relating to sustainability was the ability of management to adapt the company strategy to changes in the market. This was rated satisfactory in the three project evaluated. However, the mine project was rated poor because of the significantly lower proven reserves. If the company does not find additional reserves, the project will not reach its expected life, but this is an inherent risk in mining. The telecoms project is considered sustainable, as the company has a strong position in the market (it is the incumbent in the fixed telephony market). However, the company will need to be substantially restructured if the market opens up to competition as foreseen.

4 EIB PERFORMANCE

4.1 EIB contribution to the projects financed

At the time the projects evaluated were financed, term financing was in limited supply in the domestic financial markets of the MED countries. However, this situation is changing in recent times and in some countries, such as Morocco, it is increasingly possible to raise medium-long term finance on the domestic markets. Access to private financing from international markets is generally costly and unreliable, as it is dependent on the perceived political risk of these countries. In addition, as mentioned before, the region has attracted limited foreign direct investment, mainly as a result of the slow progress of the privatisation programmes. In such circumstances, it is not surprising that the region is still rather dependent on official debt and grant flows, including EIB financing, to fund its investments. In this context, EIB finance played a critical role in about half of the projects evaluated, as these projects would have had to be delayed or reduced in the absence of EIB financing. For the remaining projects, EIB financing contributed to providing substantially better financial terms than the alternative funding available.

The EIB is generally perceived by most of the partner countries as another MDB. In that sense, several public sector borrowers have mentioned that the Bank's intervention was considered important to provide implicit support to the project. In the case of private borrowers, EIB financing provides a quality stamp and comfort to other financiers of the project. In addition, the Bank's risk sharing loans to the private sector projects enable classic political risks to be covered, free of charge, although this type of loan has rarely been used in MED. In addition, the country framework agreements provided additional benefits, mainly linked to the *de jure* preferred Creditor Status of the Bank and some tax exemptions.

The Bank played a positive role in improving most of the projects evaluated. However, certain opportunities to improve the projects or the institutional background were missed (see examples in section 4.2).

4.1.1 Public sector borrowers

Financial value added

As EIB loans to sovereign borrowers are fully guaranteed by the Commission budget, the Bank has been able to offer very attractive lending conditions, because the EIB - like other MDBs - does not charge any risk premium. In most of the water projects evaluated, and to a lesser extent transport projects, Bank finance was critical in the development of the operations. Energy and telecoms promoters had substantially easier access to finance than the other two sectors.

Non-financial value added

The higher non-financial value added corresponded to the water projects, as the promoters are generally weak. Although the EIB did not participate in the early phases of project preparation (except in one project using METAP funds), but got involved once feasibility studies had been carried out and the project was more or less defined, the Bank sometimes provided significant value added in terms of ensuring that the water projects were well implemented. In four cases the Bank asked for additional TA and the promoter accepted, although in some instances support was already provided by other MDBs. In retrospect, this additional support was necessary and contributed to improving the project.

In five of the six projects in the water sector the EIB exerted pressure at appraisal to increase tariffs, which seemed justified to ensure project sustainability. Commonly, this was done by including special conditions in the loan contract that tariffs should be regularly increased, particularly to keep up with inflation. However, in several cases the pressure was relaxed later, often owing to lack of monitoring by the Bank[24].

The non-financial value-added in the transport projects was also substantial. In one project, the Bank's experts helped raise awareness of road maintenance and contributed to improving budgetary allocations in the road sector[25]. In another, the Bank contributed to meeting environmental standards, in terms of protection of wetlands, forest areas and sources of water supply. In a third case, the EIB was also additional by causing the promoter to focus on essential rehabilitation projects.

Nevertheless, some opportunities to provide value added were missed by not focusing enough on the institutional issues or on the overall investment and because the Bank did not have access to TA funds[26]. In two cases, the Bank was too flexible in relation to enforcing loan conditions, which could have had negative implications in terms of value added. In one project, at loan negotiations an important condition of first disbursement was modified and this potentially weakened the WB impact on important policy reform, which could have undermined the project. In another case, the Bank's experts recommended the creation of a separate motorway agency, but this was not included in the loan agreement. However, the agency was created later (6 years after loan signature) and will now receive TA provided by the Bank's FEMIP programme. Finally, in a port

[24]For instance, in one case the loan was conditional on the realisation of a tariff study and the agreement of the promoter to apply the tariffs from the study. However, the promoter did not accept the conclusions of the tariff study, which was accepted by the Bank, although in retrospect tariff increases seem necessary.

[25] This aspect was specifically commented upon by the Borrower which pointed out that positive results were achieved through a dialogue without specific loan conditions.

[26] In one transport project the Bank could have provided TA for a traffic management programme, which could have been very useful. In a port project the Bank did not review the Port Master Plan, although it could have provided useful comments.

project, the Bank lent to a government organisation[27] that then passed on the funds to the port entity, potentially reducing the impact of the EIB loan to improve the project[28].

The non-financial value-added in the energy projects evaluated was generally rather limited, because the promoters are often competent. The Bank mainly provided value-added linked to its thorough technical-economic due diligence, in particular the scrutiny of the contracting process. For instance, in one project, the Bank's participation was instrumental in the promoter's decision to adopt more open and transparent tendering procedures for the major supply contracts. In another case, the Bank's experts suggested and the promoter agreed to extend the project to include a spur gas line, which was beneficial to the project.

4.1.2 Private sector borrowers

In the private sector operations reviewed, the terms and conditions of the EIB loan were generally significantly better than alternative funding in foreign currency, with the exception of one case where the borrower cancelled the loan after signature, as it was able to finance the project from cheaper funds (US EximBank funding in local currency). From the borrowers' point of view, the main advantages of EIB financing are the long maturity and grace period, low interest rates and currency of disbursements suited to export activity.

However, the main issue in the private sector operations reviewed was related to the Bank's stringent security requirements (the Bank requests a first class international guarantee). In all the private sector operations evaluated, the borrowers faced significant difficulties to obtain the guarantees required by the Bank. Out of the four operations reviewed, two encountered problems related to the EIB guarantee requirements. One was cancelled after signature because the guarantee was never signed; in another case the Bank accepted an external guarantee that did not meet the normal EIB requirements in terms of credit standing, and relied ultimately on the Community budgetary guarantee. In the case of risk-sharing loans, sometimes the lack of understanding by clients of their benefits, explains in part the limited success of this type of loans in MED. Generally, EIB financing has not played a *critical role* in the private operations financed, as the potential to play such a role in private investments is tied in with the lender's capacity to take credit risk, which has not been the case in the projects evaluated.

Additionally, as the external guarantees are normally established for a substantially shorter duration than the EIB loan they need to be renewed during the loan period. This renewal is sometimes difficult, as it depends on the changing appetite for country risk of the banks guaranteeing the operation. The promoters of the two private sector projects evaluated confirm this. In one case, the promoter decided to finance a new project with a more expensive loan[29] than the EIB one, from another MDB, because it reduced the risks related to the renewal of the guarantee in the case of the EIB loan. In the other private sector operation, loan disbursement was delayed for more than a year after the commissioning of the project, due to reluctance on the part of the borrower and guarantor to offer the guarantee required by the EIB. This reduced the value added of the EIB loan as in the meantime the promoter had to use expensive short-term finance.

[27] Where appropriate the Bank should lend to the entity in charge of the project rather than to a government organisation.
[28] Although the evaluation has not assessed whether it might have been possible to lend directly to the port entity.
[29] Including in both cases guarantee costs.

This is changing. Since 2003, under the "reinforced" FEMIP, the Bank has decided to broaden the range of eligible counterparts for its own resources loans. Credit risk gives the Bank a much larger role as to the long-term financial sustainability of the company, compared to the case of a loan with a first class guarantee.

The evaluators also found evidence that the EIB loan provided a quality stamp on the projects that facilitated co-financing by other banks. This was mentioned as a positive contribution of EIB financing in the two operations evaluated (in one case in relation to other donors financing the project and in another concerning local banks' guarantees).

The Bank did not provide non-financial contribution in any of the operations evaluated, as the promoters were generally very competent and, in most cases, received technical and commercial support from leading international companies. Several promoters praised the pragmatic approach and limited requirements of the EIB.

In one project, co-financed by another MDB, the other MDB requested additional environmental measures, following a detailed environmental assessment. The implementation of those measures was also supported by the EIB. The company involved had foreseen the implementation of the environmental measures, but the intervention of the MDB accelerated their implementation.

4.2 EIB management of the project cycle

4.2.1 Identification and selection

Through its well-established presence in the region and regular financing of the public sector in the MED countries, the Bank has developed strong relationships with the main public sector entities. These entities rely on the Bank to cover their needs for long-term financing. Many of the individual operations evaluated were part of a series of loans to the same promoter to finance additional investments. In some cases, mainly in the water sector, the Bank was invited to finance the project by another MDB that helped the promoter in the preparation of the project.

The situation is different in the private sector, where financing provided by the EIB has been until recently less significant by comparison to the public sector. There was not a systematic approach to identify private projects in the region. However, this has changed recently. The Bank has developed a more systematic approach to project identification by relying systematically both on its established cooperation with the financial institutions and its strong relationships developed with EU promoters.

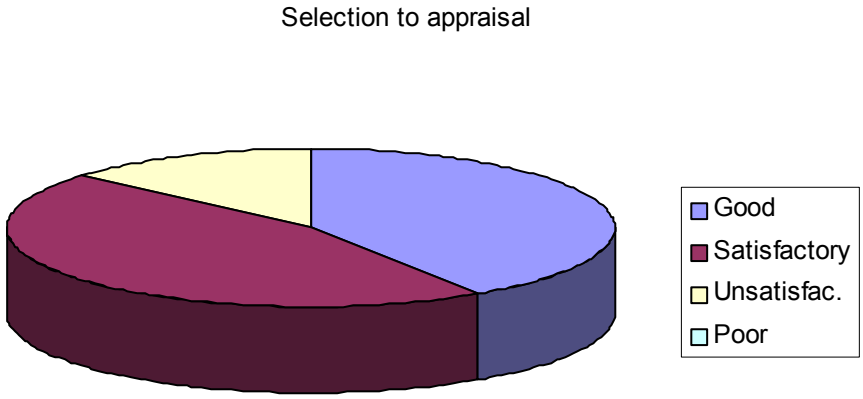
As indicated before, the Bank has not produced country or sectoral strategy papers to guide the project identification process. Therefore, the Bank did not look for specific types of projects in a certain country, or for projects where the Bank could add more value. The only exception was environmental projects (mainly water projects), as they were the only ones eligible to interest rate subsidies under the mandates.

Similarly, the Bank rarely participated in the preparation phase of the projects evaluated, which is also reflected in the rather late entry of the Bank in most of the projects. The Bank became involved just before the start of the procurement process in more than half of these projects.

Once identified, the projects went through the internal screening process to assess their technical, economic and financial justification. The quality of this initial screening of projects, which is largely informal, is quite remarkable, as it has allowed the selection of sound projects in most cases.

4.2.2 Appraisal

Generally, the Bank's appraisal of the projects evaluated was rated satisfactory to good in most of the cases. Only in three of the 22 projects evaluated the rating was less than satisfactory (see reasons in the previous chapter). The Bank's deep understanding of project issues, built on its experience both within the EU and outside, as well as from market/sector studies undertaken, has allowed the Bank's experts to identify most of the major issues of the projects evaluated and to try to address them. The reports were generally focused and produced in relatively short time frames, which made it possible to respond quickly to the promoter's request.



The Bank's appraisal process aims at checking the justification of the project from an economic, technical and financial point of view. This approach is well suited when dealing with competent promoters. However, in several of the projects evaluated the promoters were weak and needed help to develop the project, or to address various institutional issues. In some cases, when the Bank's experts realised that a more proactive approach was necessary, such as in the water sector, the appraisal and monitoring were used as a tool to contribute to improve the project (see examples in previous section). This was not always the case, and in some projects a more proactive attitude by the Bank might have been useful.

The focus of the Bank's appraisal was on the investment earmarked for EIB financing, but less attention was generally given to the overall investment[30] of the entity or company. In many projects this limited analysis did not create problems, as the promoter was able to properly develop the programme, the institutional background was strong enough or in the early operations other MDBs helped the promoters. However, in some cases problems appeared because of this limited approach (see examples in previous sections).

[30] Examples of weakness in the appraisals consulted were limited analysis of the conditions of the road sector in general and whether road maintenance procedures and funding were adequate; or superficial analysis of the regulatory background, including the establishment of tariffs, for energy projects.

For private sector operations, the analysis of the company's future prospects was often rather superficial, particularly the financial analysis[31]. However, the appraisal of the investments financed by the Bank was generally detailed. It normally included an analysis of competitive position and business strategy of the specific activities relating to the investments financed by the Bank. This seems an unbalanced approach, as the key sustainability issues are normally at company level, rather than at the level of the specific investment financed. This is not a significant issue when the investments financed concern the main activities of the company, but this was not always the case in the projects evaluated. EV has raised this issue in previous evaluations.

Environmental assessment

The Bank requires projects outside the EU to apply EU environmental legislation, subject to local conditions and law. Where this requirement is relaxed, the Bank uses its judgment, in an attempt to maximise the environmental benefits whilst ensuring that the project still remains viable. The evaluation found evidence that the policy in relation to the environmental requirements to be applied in each case has varied depending on the expert involved, which is not surprising as there has been limited guidance on this matter. Although the EU's EIA Directive contains criteria for determining the need for an EIA for Annex II projects, this is also a matter of judgement that seems not always to have been applied in a consistent way.

In all of the appraisals evaluated, we found evidence that the main environmental issues of the projects were reviewed; but often the detailed findings of the Bank's services and the mitigation measures proposed were not clearly reflected in the appraisal. In some cases reviewed it was not clear whether or not the assessment at appraisal was based on appropriate studies and management plans. Streamlining the appraisal process might be perfectly justifiable for certain projects with limited impacts, but not for projects with potential significant impacts. For the latter, the detailed environmental analysis was not presented in some cases. Therefore, the quality of the environmental assessment carried out by the Bank is difficult to verify in these cases. In general, insufficient time has been given during project appraisal to undertake scoping sessions on environmental issues (in some cases this is probably a reflection of late participation by the Bank). A modulated environmental assessment of the project can result in missed opportunities to improve the environmental performance of projects, as has happened in one of the projects evaluated in the private sector[32]. Therefore, where necessary, the Bank should request the preparation of additional environmental studies.

Procurement

The Bank reviewed the procurement approach adopted by the promoter and, where necessary, the Bank's experts suggested changes in order that the Bank's procurement requirements were respected. In some cases, the Bank had to insist that the promoter follow international bidding procedures. In several cases, this contributed to ensuring that the procurement process was more open and transparent. However, the Bank's late entry in some of the projects limited the potential impact of the Bank's scrutiny process, sometimes creating problems. For instance, the Bank's involvement at a late stage in a project (port) when tendering of several key components was already underway, together

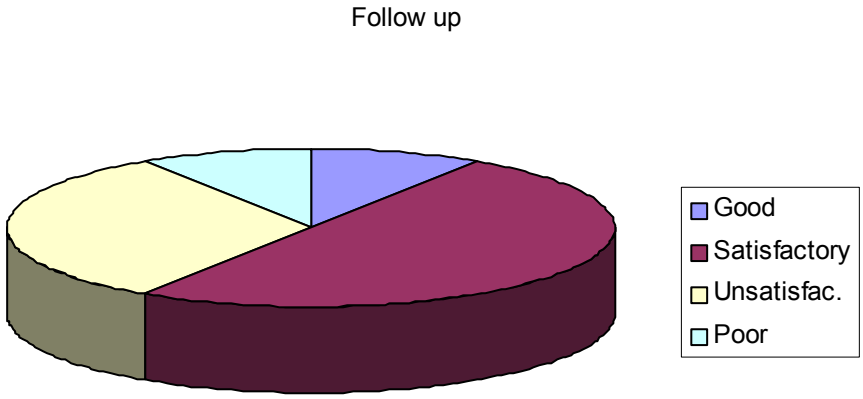
[31] Arguably, this might be related to the fact that the Bank did not take credit risk in the operations evaluated.

[32] Out of the three cases reviewed in the private sector, in two an environmental assessment was carried out of which one at the request of another MDB and the other at the initiative of the promoter itself. However, in the third case, no detailed assessment was performed. Later, a detailed assessment was carried out at the request of another MDB to finance the extension of the project. Following this the company was requested to implement additional mitigation measures for environmental and social issues. The promoter indicated that these investments would have been delayed, had not been imposed by the other MDB.

with a lack of specific assistance in preparing tendering documents, led to a number of late procurement issues.

4.2.3 Follow up and monitoring

Lack of or limited monitoring has been a deficiency for many of the projects evaluated. The rating of the Bank's follow-up was unsatisfactory or poor in 9 out of the 22 projects evaluated. This has led to a lack of awareness of changes in project scope, limited or no follow-up of environmental mitigation measures, or of important issues such as tariff evolution. In some cases, the lack of monitoring was explained by the promoter's limited cooperation, i.e. not replying to the Bank's request for information. A follow-up of the financial situation and of the key financial ratios was not regularly carried out for most of the private sector projects evaluated. In addition, the development impact of the projects has not systematically been re-assessed once projects are completed and early operational information is available. These deficiencies have been noted in previous evaluations and the Bank is taking measures to improve the situation.



Several appraisal reports included special recommendations at signature or disbursement aimed at addressing some key issues, either at project or institutional level. They concerned, for instance, conditions to increase the tariffs, ensuring that enough funds were available to properly maintain the projects or addressing various institutional weaknesses. As noted in previous sections, several of these recommendations were not reflected in the loan agreement or were not enforced during the disbursement period. Commonly, this aiming at facilitating loan signature or loan disbursement. The evaluation shows that the Bank's potential value-added has been reduced because of this.

4.2.4 Co-operation and co-ordination with other EU institutions and MDBs

The Bank keeps in regular contact with the relevant EU Commission services, either to keep them up-to-date of the mandate developments or when discussions are held on the new mandates. Similarly, contacts have been established with the EU delegations in the different MED countries to exchange information and to establish means of cooperation, although the information available in the Bank's dossiers on these exchanges is very limited.

Cooperation with other MDBs or bilateral agencies has been mainly at project level and therefore directly related to EIB activities. The evaluation has found significant evidence of good cooperation in a number of the projects evaluated. Several projects had been prepared with the help of MDBs, and the EIB was invited to finance part of the project. This concerned mainly public sector projects. However, the cooperation established with other donors participating in the projects is rarely reported in detail in the appraisal or PCR[33]. This does not give enough relevance to these important activities and does not allow for verification that the proper mechanisms have been established to ensure good cooperation.

One project to rehabilitate the water supply and sewerage systems was an example of good cooperation with other donors. Under the sponsorship of the EU Commission and the WB, a National Emergency Plan was established. The EIB reviewed and discussed the plan with the WB and the promoter on several occasions. Once the plan was completed, the EIB and the WB cooperated with the promoter to define the project, following many sessions of discussions. Project management and implementation units were formed and were a condition of the EIB loan, which was partially financed by the promoter and the EU. Once the project started, the experts in charge discovered that the scope of the works needed to be extended. Both the Bank and the WB were kept informed of the necessary changes and agreed on them, albeit keeping tight control over the use of the funds. Without good cooperation among donors this much-needed project could hardly have been developed.

Only in one of the projects reviewed the cooperation was clearly less than satisfactory. As indicated before, during loan negotiations, the Bank agreed to the eventual substitution of the funds provided by the other MDB by other sources (cross-effectiveness clause). This could have potentially weakened the required policy reforms favoured by the other MDB and could have undermined the project. This example raises an important issue in the cooperation of donors. Donors should support each other to favour necessary policy reforms, and discuss among themselves and with the promoters to ensure that the reforms proposed are necessary and the approach justified. When appropriate, cross-effectiveness and cross-default conditions should more often be used when financing alongside other donors.

5 LESSONS LEARNED AND RECOMMENDATIONS

The main objective of the mandates to the EIB in MED was to finance sound projects in certain specific areas. This evaluation shows that the Bank has met this objective in a fairly effective way. However, the more ambitious objectives under FEMIP than previous mandates, together with the importance of the EIB's activities in the region, call for a significant change in the approach to enable the Bank to play a more substantial role in supporting the economic and social development of MPCs, using all the instruments it has at present.

[33] The cooperation with other stakeholders may be mentioned in back to office reports, but this is difficult to find out as they are not normally included in the project files.

Recently, the Bank has tried to better assess the value added of its interventions through the so-called three pillars of value added:

- Pillar one: Consistency between operations and the priority objectives of the EU
- Pillar two: quality and soundness of each project
- Pillar three: financial value added
  - to which EV add particular non financial benefits obtained by the use of EIB funds

The recommendations proposed in this evaluation have been placed in the context of these three pillars.

In the past, the Bank's activities in MED were driven mainly by the objective to achieve the lending targets established in the EU mandates. Given that the specific objectives of the mandates are rather general, the Bank has had a lot of freedom in relation to the projects it financed. This framework has not ensured that the Bank focus on the areas where it provides more value added. Large variations have been observed among the projects financed in terms of the value added provided, but all the projects seemed to have had the same priority for the Bank.

In order to have a more focused approach, the Bank should define more precisely than in the past its role in each MPC and/or in the important sector of intervention (pillar 1). This should be performed in cooperation with the MPCs and the other stakeholders, particularly the EU Commission and other MDBs active in the region. The Supervisory Ministerial Committee under FEMIP seems the appropriate forum to organise a dialogue with MPCs on the Bank's strategy. Lending should be more clearly linked to the priorities defined and appraisal reports should present the project's contribution to the sectoral or national priorities identified.

This evaluation shows that the Bank has sometimes provided a significant non-financial contribution to the projects it has financed in MED. However, opportunities to provide value-added were missed, as the Bank, unlike the other MDBs, did not have direct access to TA funds. The technical assistance facility under FEMIP allows for this to be addressed. In addition, in a few cases, opportunities to provide value added were missed, because specific recommendations proposed at appraisal relating to institutional or project-specific aspects were not included in the financial contracts, or when they were included their implementation was not followed up.

The recent emphasis by the mandates to finance private sector projects should not result in missing opportunities to provide value-added in the public sector. This evaluation shows that there are significant opportunities to provide value-added in the public sector.

In the past, the Bank's specific non-financial contribution was focused at project level, while its contribution at institutional level was rather limited. However, in many of the projects evaluated, the achievement of the project objectives was often dependent on institutional issues, such as sectoral organisation or low efficiency of the public sector. In the past, the Bank relied mostly on the work of other MDBs to address the institutional aspects. The Bank now has the instruments to play a significant role in supporting institutional reforms. This implies that the EIB is involved more upstream in the project cycle than in the past.

The overall performance of the water projects (pillar 2) is worse than for the other projects evaluated. However, the non-financial contribution has been the highest and they can be considered priority projects in relation to the main objectives of the mandates (pillar 1). Despite the Bank's help, the quality of these projects (pillar 2) ended up being worse than in the other sectors (stronger promoters and stronger institutional backgrounds). This apparent contradiction between pillars 1 and 2 seems justified in this case.

The financial value added (pillar 3) provided in the projects evaluated has generally been high due to the limited access of most of the promoters to long-term finance. However, this evaluation shows that the Bank's products to finance private sector projects present some limitations. Concerning own resources loans, the main issue in private sector operations relates to the Bank's stringent security requirements and the exchange risk cover, as the loans provided by the EIB were in foreign currencies. In terms of loan maturity and interest rate, the stringent security requirements limit both EIB financing in the private sector and the value added provided. The Bank's recent decision to broaden the range of eligible counterparts for its own resources loans aims at addressing this issue. The EIB should continue to enlarge the range of financing instruments, which should be flexible enough to adapt to the local financial and banking environment. The Bank should be less risk adverse, which supposes that the general approach as well as the operational framework of the Bank in the private sector needs to evolve.

In the appraisals reviewed, the focus was on the investments earmarked for Bank's financing, but less attention was paid to the investment programmes of which the projects formed part and the institutional issues. Opportunities to provide value added were missed because of this limited approach, particularly in terms of improving the overall programme or addressing some key sustainability issues (pillar 2). In addition, focus at project level does not make it possible to properly assess whether the key outputs of the programme can be achieved. This was the case, for instance, for several environmental projects, as some key project components, often not part of the works financed by the EIB, were not carried out. Similarly, for private sector projects, not enough analysis of the overall company was carried out, while the analysis of the specific project financed by the Bank was quite detailed.

The evaluation found evidence of significant variations in the Bank's environmental requirements, depending on the expert involved at appraisal. This reflects the fact that there has been limited guidance in relation to this matter. The main environmental impacts and mitigation measures of the projects evaluated were reviewed by the Bank's services at appraisal. However, the detailed environmental analysis carried out at appraisal was often not presented (including some projects with potentially significant impacts). Therefore, the quality of the environmental assessment carried out by the Bank was sometimes difficult to verify. In addition, this can result in miss opportunities to improve the environmental performance of projects.

The physical and financial follow-up has been weak in many of the operations evaluated. This has not ensured proper monitoring of the implementation, including the environmental and financial performance of the operations and has led to missed opportunities to provide value-added. Additionally, project development impact has not been systematically re-assessed, in order to draw useful lessons for future operations. Recently, the Bank has undertaken different initiatives to improve the situation, which are still under implementation.

Annex 1 -EVALUATION SUMMARY

EVALUATION CRITERIA	*Rating*	Comments
1. RELEVANCE		
Extension and/or reinforcement of national or regional infrastructures		
Development of the private sector		
Protection of the environment		
Regional co-operation		
Improvement of country living standards, particularly of poor population		
Other objectives (to be specified)		
2. EFFICACY		
3. EFFICIENCY		
Implementation performance (section 3)		
Demand and output (section 4.1)		
Economic and financial profitability (section 4.3)		
4. SUSTAINABILITY		
5. TOTAL PROJECT PERFORMANCE (1+2+3+4)		.
6. EIB PERFORMANCE		
A. EIB contribution (section 6.2)		
The Bank's technical-economic expertise have significantly improved project performance		
EIB financial value added		
B. Management of the project cycle		
From project selection to appraisal		
At monitoring		

TECHNICAL ASSISTANCE: Would TA have improved the performance of the project?	

Note: Performance ratings: 4 (good), 3 (satisfactory), 2(unsatisfactory) and 1 (poor).

Annex 2 - Evaluation Process and Criteria

Project performance is assessed using the core evaluation criteria as defined by the Evaluation Cooperation Group (ECG), which brings together the operations evaluation units of the multilateral development banks (World Bank group, regional development banks, and EIB), in line with the work of the OECD-DAC Working Party on Aid Evaluation, and adapted to meet the particular operating needs of the EIB. 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.

1. RELEVANCE TO EU, EIB AND NATIONAL POLICIES

Relevance 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 Article 267 of the Treaty which defines the mission of the Bank. Outside the Union, the main references are the policy objectives considered in the relevant mandates.

2. PROJECT PERFORMANCE

- **Effectiveness** (or efficacy) concerns 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** is 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 the project's 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.

3. EIB CONTRIBUTION

- **EIB Financial value added** identifies the type of financial value added provided in each operation and the level of itin relation to the alternatives available.
- **Other EIB contribution** may take the form of participation in the design process, technical assistance, reputation; it relates to any non-financial contribution to the operation provided by the EIB, may take the form of improvements to the technical, economic or financial aspects of the project, facilitating co-financing from other sources (catalytic effect), etc.

4. EIB MANAGEMENT OF THE PROJECT CYCLE

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

Final remark: for the sake of clarity, the EIB's ex-ante "three pillars of value added" correspond to part 1 (Relevance) for the first pillar, part 2 (Effectiveness, Efficiency and Sustainability) for the second, and part 3 (Financial value added only) for the third.

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. Self-evaluation was introduced in 1999.

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 self-evaluation and ex-post evaluation. The lessons learned should improve operational performance, accountability and transparency.

Self-evaluation, based on a project scorecard system, is carried out by the operational directorates. EV coordinates this process, and prepares an independent annual self-evaluation report.

Each ex-post evaluation involves an in-depth evaluation of selected investments following which a synthesis report is produced and sent to the Management Committee. The Management Committee then decides if the report is to go to the Board and be published on the EIB Website, in keeping with the importance the Bank attaches to transparency.

The following thematic ex-post evaluations have been 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) and French).
19. Evaluation of PPP projects financed by the EIB (2005 - available in English (original version).
20. Evaluation of SME Global Loans in the Enlarged Union (2005 - available in English (original version)).
21. EIB financing with own resources through individual loans under Mediterranean mandates (2005 - available in English (original version)).

These reports are available from:EIB website: http://www.eib.org/publications/eval/.
E-mail: EValuation@eib.org