Operations Evaluation

Overview Report 2006

EIB financing
in the ACP countries under
the Lomé IV Convention

Message from the President

This second edition of the overview report prepared by Operations Evaluation focuses on the assessment of the Bank's financing operations in ACP countries under the fourth Lomé Convention.

I note that this report usefully combines ex post evaluations of individual projects financed by the Bank with lines of credit granted to local financial intermediaries in order to support SMEs. These operations complement each other to achieve EIB objectives, as highlighted by the high degree of relevance of the assessed operations.

I wish to underline the importance of implementing the recommendations that have been made. The procedures regarding the more recent Cotonou Agreement are regularly updated and already incorporate most of the recommendations made by Operations Evaluation.

Philippe Maystadt
EIB President



Each year Operations Evaluation (EV) publishes a report summarising its view of the operations evaluated and presented during the year in question.

Since 2005, EV has drawn a distinction in its activity between 'European' operations (Member States and candidate countries) and operations outside the European Union.

In 2006, significant work was done to evaluate operations financed by the Bank in the ACP (African, Caribbean and Pacific) countries.

This report summarises the evaluations of EIB financing through individual loans and global loans under the Lomé IV Convention and covers a sample representing 20% of the Bank's activities over the period in question.

The presentation of the evaluations relating to financing within the European Union will be published at the end of 2007 and will cover EV's activities for 2006 and 2007.

P.J. Maertens
Inspector General

Table of contents

Purpose and background

Role of EV: *Operations Evaluation (EV) carries out ex post evaluations of the EIB Group's operations. The objective is to assess operations with a view to identifying both the impact of the projects funded and opportunities to improve the Group's operational performance, accountability and transparency.*

Purpose: *This report summarises the conclusions reached by Operations Evaluation (EV) in 2006 in assessing the Bank's activities in the ACP countries under the Lomé IV Convention over the period 1990-2003.*

Macroeconomic context
(over the period 1998–2004)

Although it is difficult to get an overall picture of the ACP economies, given their varying sizes and their geographical differences, it is possible to make some comments regarding the general context. During the period under review, economic growth in Africa was uneven and insufficient to satisfy the needs of the growing populations, which are primarily young and severely affected in many sub-Saharan African countries by the spread of AIDS, a number of local or sub-regional conflicts and political instability. Private-sector growth has been affected by all these factors and by the fact that most countries have been held back by weak administration. Since 2000, however, there have been some positive trends – a decline in sub-regional instability, a return to positive economic growth rates and greater financial stability in a number of countries.

The development of the Pacific and Caribbean regions has been hampered not only by natural disasters (hurricanes, flooding), but also by constraints inherent in island economies, which are in general heavily reliant on one or two sectors (particularly agriculture and tourism), although some have diversified their economic bases to include, for example, financial services, telecommunications, oil and gas (e.g. Trinidad).

GDP growth in the ACP countries is very dependent on external financial flows, in the following order of importance: FDI (foreign direct investment), remittances, financial contributions from official/public creditors (such as the EIB) and private creditors.

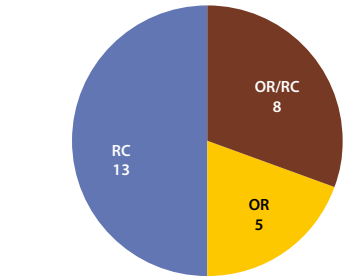
The EIB has played an important role among official creditors in financing public and private-sector investments, particularly in sub-Saharan Africa.

Implementation of the evaluations presented

The evaluated operations were financed under the Lomé IV Convention and EV has attempted to give a detailed presentation of the Bank's activities in that context (see box). That presentation gives a better understanding of the nature of the Bank's portfolio in the light of the wide diversity of the countries concerned and the financial products on offer. EV has endeavoured to reflect that diversity as far as possible in selecting the operations on which an in-depth evaluation was conducted.

This report is based on in-depth evaluations of 26 operations (11 direct loans and 15 global loans) and on self-evaluations of 29 direct loans/projects[1]. Those operations were taken from 30 different countries and employ a wide variety of resources. The global loans were divided between seven operations with a single financial intermediary and eight (apex) operations signed simultaneously with several intermediaries.

Resources used in the operations evaluated



RC = Risk capital
OR = Own ressouces

[1] Self-evaluation – project completion report produced by the Bank's departments, which assesses project performance.

Methodology

EIB operations are assessed using internationally accepted evaluation criteria and include an examination of EIB performance.

- 'Relevance' measures the extent to which the objectives of a project are consistent with the objectives of the Lomé IV Convention, EU policy and the EIB's strategy, as well as with the requirements and priorities of the countries concerned.
- Project performance is assessed on three criteria:
  - 'effectiveness': the extent to which the objectives of the project have been achieved;
  - 'efficiency': the extent to which project benefits/outputs are commensurate with resources/inputs;
  - 'sustainability': the likelihood of continued long-term benefits and the resilience to risk over the intended life of the project.
- Global loan performance is assessed on the basis of two criteria:
  - The performance of financial intermediaries, measured in terms of experience, organisation and sustainability;
  - credit line performance, measured in quantitative terms (volume), qualitative terms (lending conditions) and with regard to the quality of the final beneficiaries.
- The EIB's contribution is measured through the EIB financial value added. Other EIB contributions, such as technical assistance or expert advice, can also be identified.
- EIB management of the project cycle is examined from project identification to post-completion monitoring.

For each criterion, projects are rated on a four-step scale: Good - Satisfactory - Unsatisfactory - Poor.

From the findings, EV proposes a series of recommendations. The Bank's services comment on these and agree on specific measures that need to be taken.

The EIB and the Lomé IV Convention

1. Conventions between the European Union and the ACP countries

Cooperation between 'Europe' and certain developing countries and territories was launched by the Treaty of Rome in 1957. Having been formalised in the Yaoundé Conventions (1963, 1969), followed by the Lomé Conventions (1975, 1980, 1985, 1990), it has been governed since 2000 by the Cotonou Agreement, which ensures that the Union continues to pursue its development cooperation aims.

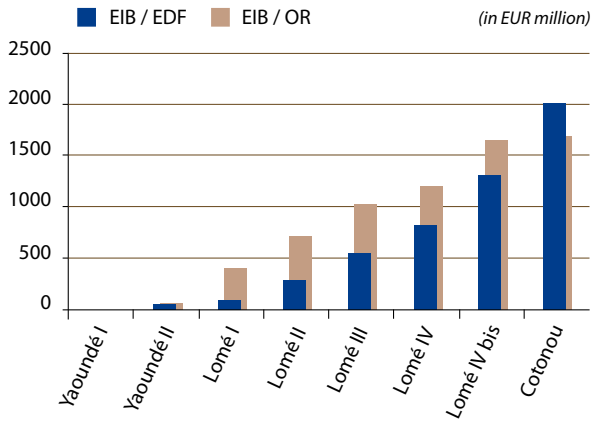
The EIB's role began in 1963 and since then the Bank has managed some of the European Development Funds (EDF) earmarked for the countries in question and supplemented that financing with loans from its own resources. The proportion of EDF resources managed by the EIB (around 6% up to Lomé III) has increased considerably, rising to 7.6% (Lomé IV in 1990), then 10% (Lomé IV bis in 1995) and 15% under Cotonou.

2. The Bank's tasks under Lomé IV

Background

Operating through its assistance measures, there are two aspects to the Bank's specific role:

- **Financial products:** lending operations and more complex arrangements (capital or quasi-capital injections);



- **Sectors:** the Bank gives priority to operations in industrial and profitable infrastructure sectors, such as energy, transport and telecommunications, water and wastewater.

Its role complements that of the European Commission, which manages the "grant" element of the EDF funds (more than EUR 10 billion for each five-year period under Lomé IV).

Programming

The Commission and the Bank prepare the implementation of each Convention by means of two-part programming exercises with each ACP country comprising:

- an analysis of the country's situation and a definition of its priorities;
- an indicative programme setting out priorities (sectoral priorities for the Bank) and amounts (risk capital only).

The financial products deployed by the EIB can be broken down according to three criteria:

- **origin of funds:** Bank's own resources (own funds plus borrowing on financial markets) or risk capital from EDF funds;
- **beneficiaries of funds:** individual promoters (in some cases with a different borrower such as a State), financial intermediaries;
- **instruments:** ordinary loans from own resources with the possibility of a subsidy of up to 4%; ordinary loans from risk capital; conditional (and/or subordinated) loans from risk capital, where certain elements are linked to the success of projects; direct equity operations (in financial businesses in general or in investment funds).

In risk capital operations the exchange risk may be partially borne by the EC.

3. EIB financing under Lomé IV

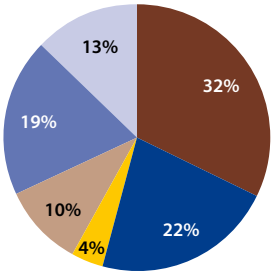
Sectoral breakdown

The ex post statistical analysis shows the dominance of the energy and infrastructure sectors whilst global loans for SME financing represent sizeable volumes for risk capital in particular.

Geographical breakdown

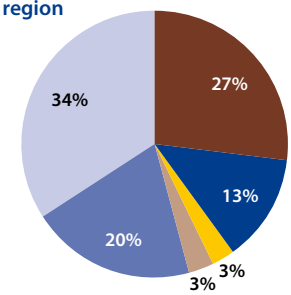
The existence of an indicative programme (for risk capital) has prompted the Bank to guarantee a minimum service for each country. However, the final geographical breakdown is clearly biased towards 'bankable' countries in the Caribbean and Southern Africa. This means that the ratio between financing (OR and RC) and programming varies from 140/150% (West Africa, Central Africa, Pacific) to 250% (Southern Africa) and 350% (Caribbean).

Own ressources by region

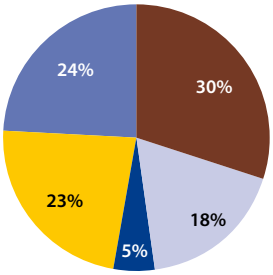


- Southern Africa and Indian Ocean
- Caribbean
- Pacific
- Regional
- West Africa and Sahel
- Central and East Africa

Risk capital by region

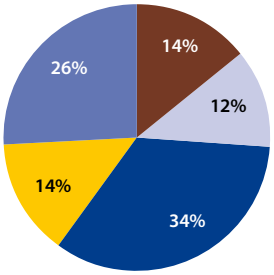


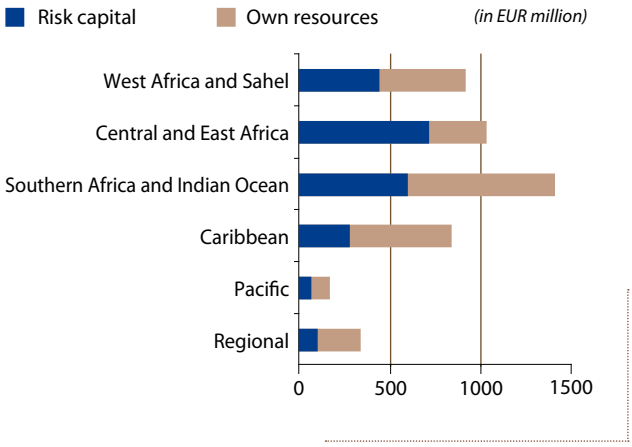
Own ressources by sector



- Industry
- Global loans
- Transport and telecoms
- Electricity
- Other

Risk capital by sector





The Lomé IV Convention and country priority:

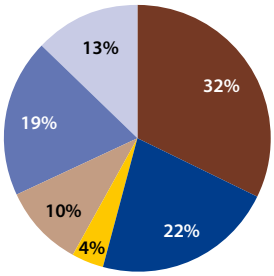
Relevance of operations

The relevance of all the operations evaluated is rated as GOOD. As well as meeting the objectives of Lomé IV, they are very consistent with the priorities set in the programming exercises in particular by the beneficiary States.

Presentation of the operations evaluated

EV has endeavoured to ensure that each main ACP region is well represented and all the Bank's sectors of activity are reviewed. Furthermore, nearly 60% of individual projects come from the public sector and 40% from the private sector. The global loans selected resulted in the examination of 23 financial intermediary banks (6 development banks and 17 commercial banks).

Own resources



- Southern Africa and Indian Ocean
- Caribbean
- Pacific
- Regional
- West Africa and Sahel
- Central and East Africa

All the individual projects evaluated (those examined both in-depth by EV and by self-evaluation) are in sectors which are eligible for funding under the Lomé IV Convention: energy, transport and telecommunications, water and waste processing, and industry. Since support for productive sector growth, and SMEs in particular, is a priority under the Lomé Convention the opening of credit lines for financial intermediaries is also in keeping with the Convention's objectives.

In addition, all the operations – individual loans and global loans – were included in the indicative programmes[2] drawn up by the European Commission, the beneficiary States and the Bank. The operations in the primary sectors are in sectors vital to the economies of the countries in question (cotton, sugar). Others relate to the provision of public services, which are essential to economic growth, but also to combating poverty and improving living standards. Lastly, one project concerns a major cross-border development involving three countries (energy).

The credit lines support private-sector growth, with particular attention being paid to growth in small and medium-sized investments in productive sectors. They also help to improve performance in the financial sectors. Nevertheless this objective has been achieved only partially.

Overall, in the period under review there is a high commitment rate for the amounts programmed: 91% for risk capital (the arrival of the Cotonou Facility terminated the commitments under Lomé IV), but only 74% for own resources. The envelope (own resources), which represents a maximum without any formal commitment obligation, appears to have been overestimated for Lomé IV bis in particular. From those commitments must be deducted 10% of the individual operations cancelled after signature, either because the project was shelved or because the Bank's loan was cancelled, and up to 30% of the global loans cancelled generally because the available credit line was not utilised in full (see § 4.1).

[2] It should nevertheless be noted that the indicative programmes were often defined in very broad terms, which imposed few constraints on the project selection criteria.

Recommendations[3]

The Bank, in close coordination with the other parties concerned, should establish priorities related to geographical and sectoral allocations for its resources; regular reporting to the Investment Facility (IF) Committee could be justified.

Preparation and implementation of assistance programmes in the ACP countries are coordinated directly with the authorities of the relevant country and with the Commission, which means that priorities can be defined more precisely. The Investment Facility, which has a remit to operate in all ACP countries, defines strategic, geographical and sectoral orientations in close consultation with the IF Committee. There is regular reporting on the implementation of operations and on results achieved.

An appraisal fee should be regularly envisaged for public and private-sector operations so that, among other things, the Bank's administrative costs can be recovered more effectively.

Appraisal fees are regularly charged for private-sector operations financed under Cotonou; they may also be requested from public enterprises with commercial status. The application of these provisions requires a case-by-case approach.

[3] In this report EV's recommendations are followed by the responses (measures planned or already taken) provided by the relevant EIB directorates.

Case study

Region: Central and East Africa
Sector: Telecommunications
Resources: combined OR and RC

Project evaluation: Good

The project concerns the construction of a second national telecommunications network, based on GSM technology. As well as setting up the network, the project includes a centralised management centre and an international satellite link.

The project forms part of a programme to privatise the telecommunications sector supported by the World Bank. The private promoter is responsible for developing basic infrastructure. The project is consistent with the objectives of the Lomé IV Convention. It was also made a priority by the local governmentand is therefore a very relevant project.

The project was completed ahead of time and new developments were considered and implemented. The promoter has become the market leader in the local telecommunications market. Effectiveness and efficiency are GOOD with returns higher than forecast. The project is viable thanks to appropriate regulation and a competent promoter.

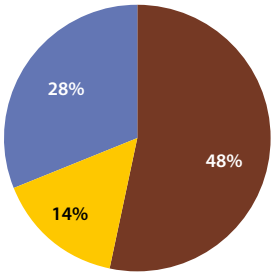
The Bank made a significant contribution to the project by contributing combined resources during the critical start-up period for a new private enterprise, a structure which was initially considered high-risk (privatisation of a public service). Because of the operation's success, the promoter was able to repay the Bank's loans early after five years.

Performance of individual projects:

effectiveness, efficiency and sustainability

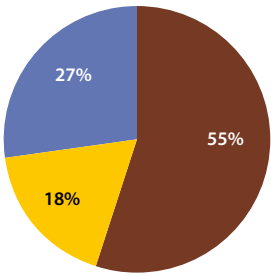
EV classifies its conclusions on the basis of the three criteria of effectiveness, efficiency and sustainability, each of which encompasses more specific notions, which will be examined in detail below.

In-depth evaluation

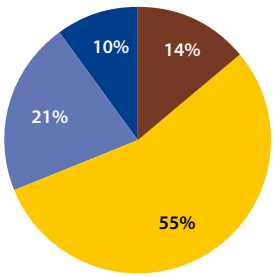


Performance of the projects
- Good
- Satisfactory
- Unsatisfactory

Self-evaluation



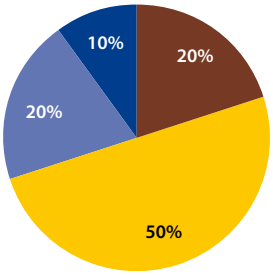
In-depth evaluation



Cost of the projects
- Difference less than -15%
- Difference between -15 and +15%
- Difference between 15 and 30%
- Difference more than 30%

(vs initial estimate)

Self-evaluation



Overall, the performance of the individual projects evaluated was high, with 84% achieving a rating of good or satisfactory. In the in-depth evaluation, two projects were considered to be unsatisfactory, one in the water sector, the other relating to the processing of agricultural raw materials. In many cases the difference between a satisfactory project and a good project is the calibre of the promoter, a key factor in guaranteeing the project's sustainability.

3.1. Effectiveness of projects

In general, the projects' effectiveness rating is fairly close to the overall rating shown above. Particular attention needs to be paid to some of the indicators used to assess effectiveness.

For the implementation phase three indicators are used: project cost, execution period and impact on the environment.

Project cost (vs initial estimate)

Inadequate management and/or changes in the scale of the project resulted in high cost overruns. The final costs fell significantly in some cases because of either devaluation of the local currency or very open competition between suppliers.

Overall, more than 70% of projects did not show sizeable cost differences because the construction cycle was well managed.

Execution period

The public sector has significant deficiencies here in terms of timetable management since nearly all the overruns observed were in that sector of the economy. Private projects, on the other hand, are well managed, resulting in deadlines and budgets being observed, even where it was necessary to change the project specifications.

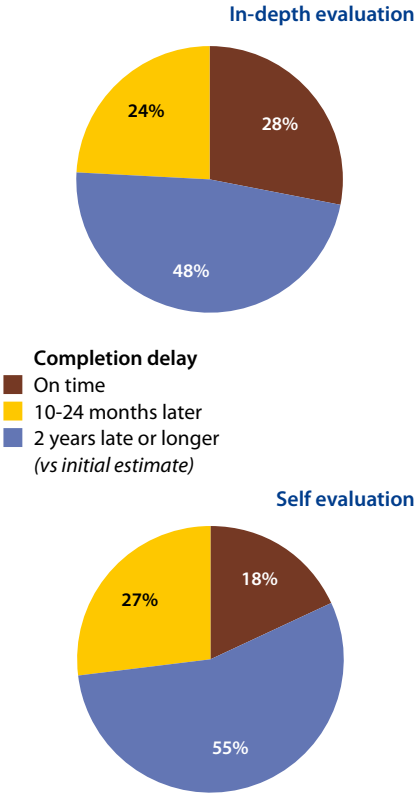
Environment

The evaluation highlighted the special attention paid by the Bank to the environmental aspects of projects. In several cases the Bank imposed conditions relating to the introduction of additional equipment or the use of less polluting primary materials (such as low sulphur content fuels). In just one case the Bank's demands were not complied with (without any detrimental impact). However, the use of another provider of fuels would have allowed better conditionality management.

Operational effectiveness is assessed over the period of operation for projects financed, but only for projects subject to an in-depth evaluation.

Two public-sector projects proved to be inadequate, in both cases because independent management structures, though initially planned, were not established.

In all other projects the objectives relating to production and improved environmental impact were achieved in a satisfactory manner. Some projects had to deal with unfavourable developments on the local market (in volumes or price levels), but good management meant that expected project performance levels were able to be maintained.



Recommendations

In order to strengthen the project implementation and management capacities, in particular of public-sector promoters, institutional issues need to be analysed more carefully at the appraisal stage and appropriate measures (project implementation units, technical assistance, training etc.) need to be included as loan conditions. This may require the provision of adequate resources to strengthen the Bank's monitoring capacities, where appropriate through technical assistance.

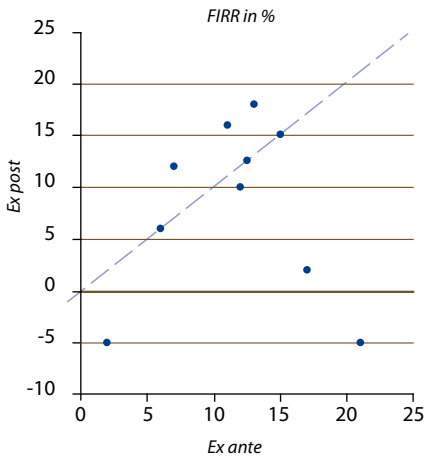
The principle has been agreed with the Commission under Cotonou that funds are identified for technical assistance. The Bank's services will reinforce the application of compensatory measures for the construction period. The implementation arrangements for this technical assistance have been defined with the Commission, so specific measures can be taken as from 2007.

Regular and appropriate supervision and monitoring of financing conditions is essential. Where this is directed more at government institutions than promoters, an appropriate level of monitoring must be ensured.

Additional resources are earmarked for supervision and monitoring; where the conditions are directed at bodies other than promoters, the Bank must rely on the European Commission or make sure, in principle, of the commitments that are deemed necessary. There are ongoing efforts along these lines.

3.2. Efficiency of projects

This aspect is normally assessed on the basis of the economic and financial return of the projects evaluated (in-depth evaluations only). The data available for the calculation of the economic return did not allow any significant conclusions to be drawn regarding the projects and EV has focused its analysis on the financial return of the eleven projects evaluated.



For one energy project, calculations were defined on the basis of the least-cost solution and the project's justification was confirmed ex post.

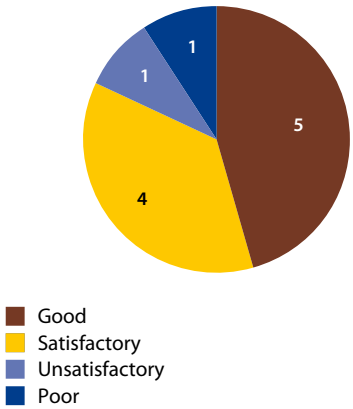
Seven of the other projects had ex post financial returns comparable with the ex ante evaluations, including three which were better.

Three projects are encountering difficulties: a public transport project with an unsound financial footing, a project in the water sector where tariffs are inadequate and management is lacking, and a semi-public agro-industrial project where all parameters are in the red.

Overall it is not possible to identify any one sector that is better than any other, except when we contrast the public and private sectors. In the public sector the Bank must tighten its conditionalities and in particular the monitoring of how they are applied.

3.3. Sustainability

This criterion is analysed in the in-depth evaluations, since self-evaluation does not enable conclusions to be reached.



The importance of sound management to guarantee the sustainability of projects is reiterated here. In competitive markets, managers have been able to adapt their products, and in some cases even their investments, to changing market conditions.

The future of other projects is guaranteed by the good performance of the technical teams (public projects or similar). Two projects are deficient: an agro-industrial project affected by changes in the market, devaluation of the local currency and public interference, and a (water) service project where the tariffs remained too low and management was not entrusted to private teams even though undertakings had been given on these two points.

The Bank has demonstrated its ability to impose conditions essential to the success of operations and, in most cases, the calibre of the managers has made it possible to comply with those conditions in a changing environment.

Recommendations

The reports should explain and justify more clearly the methodology used in the financial and economic analyses. Where necessary, the benchmarks used to accept/reject a project should be specified. Furthermore, for projects in protected markets that are subject to reforms, the potential impact of such reforms must be analysed in detail and the risks identified and taken into account in the economic and financial analysis of the project.

The Bank's services will explain and justify more clearly the methodology used and the assumptions made. In line with the practice of other multilateral institutions, the benchmark economic rate of return for projects in these regions is 10%, with the results being interpreted according to the sector and the extent to which economic externalities have been included. However, for a number of sectors it is not possible to quantify the economic return and other methodologies must be used. The potential impact of reforms will be taken into account in the examination of the various scenarios.

Case study

Region: West Africa and Sahel
Sector: Water and sanitation
Resources: Risk capital

Project evaluation: Unsatisfactory

The project aimed to extend and rehabilitate the drinking water distribution network in a large city in order to satisfy the needs of 90% of the population and reduce network losses from 39% to 20%. The project's success rested on two key conditions being met: the introduction of independent private management and an adequate increase in the tariffs. It is a relevant project, which was given priority both in the Bank's objectives and in the country concerned, and had a clear purpose in terms of social impact, namely improving the population's living conditions.

The project failed to reach 90% of the population, mostly because of a sharp increase in the population size. Tariffs could not be increased as desired and the results in terms of return are also unsatisfactory. Sustainability ('poor') is not guaranteed because of inadequate tariffs and, above all, lack of effective management, since the private management authority was never created.

The Bank's contribution was important, in terms of both financing and expertise. However, conditionalities were not complied with, although the Bank did not suspend its payments. This case is typical of a public-sector project failing because of management deficiencies.

Global loan performance

The evaluation attempts to analyse the quality of the financial intermediaries selected by the Bank and the effectiveness of the proposed characteristics for global loans in terms of results, products, financing terms and target (the quality of the final beneficiaries).

4.1. Financial intermediaries (FIs)

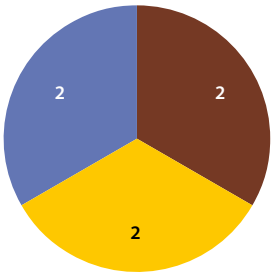
For the 15 credit lines in total, EV analysed 23 different financial intermediaries (selecting the two or three FIs which had been most active in each apex GL). Two distinct groups are represented: development banks (6) and commercial banks (17).

We shall see that overall performance is very closely correlated to the sustainability of the FIs, which is itself largely contingent on the quality of management. The experience factor is satisfactory in general, but does not indicate the quality of the FI.

a. **Experience:** All the banks except for one development bank were rated as satisfactory or better. This criterion is clearly easy to assess and is a common eliminating criterion in the appraisal phase.

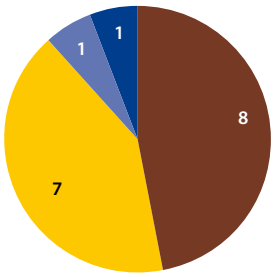
b. **Management and organisation:** The Bank was able to select its intermediaries in a satisfactory manner. In the three 'unsatisfactory' cases, weaknesses had been identified at the appraisal stage but the recommended measures were applied inadequately or poorly, showing that the means needed to rectify difficulties were underestimated.

Developement banks



Global performance
- Good
- Satisfactory
- Insatisfactory
- Poor

Commercial banks



c. **Sustainability:** The evaluation analysed the FIs' financial results (balance sheets and operating accounts) with close attention being paid to the volume of bad and doubtful debts. There were wide differences here, ranging from 2.2% of the portfolio of one commercial bank compared to 56% of the portfolio of one development bank.

Recommendations

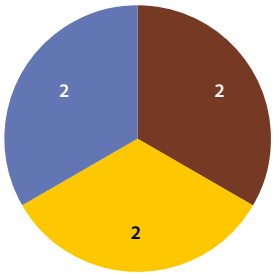
In order to increase the impact of global loans on the development of the financial sector, the Bank should consider support for improving the institutional environment in coordination with other providers of funds. To that end, it is preferable to use technical assistance funds rather than conditionalities attached to interest rate subsidies.

Whilst the Bank agrees with these recommendations, it should be noted that the European Commission is often in a better position to undertake reforms of this type; the Bank intends to strengthen its cooperation with the EC on this matter; funds for technical assistance are now available under the Cotonou Agreement.

Greater attention needs to be paid when selecting FIs in order to gauge their interest in the resources proposed (which can be used for loans or for OR financing). Consideration should be given to the introduction of appraisal and commitment fees.

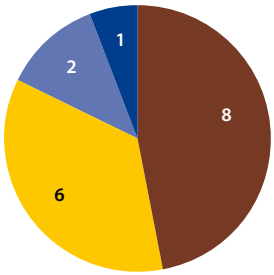
Under Cotonou, appraisal fees are generally charged to commercial FIs; it is important to retain a certain flexibility; more comprehensive procedures should be developed for commitment fees. For OR financing operations, the Bank is now turning to more specialised institutions (investment funds in particular).

Developement banks



Sustainability
- Good
- Satisfactory
- Insatisfactory
- Poor

Commercial banks



In the two difficult cases, the rating reflects both the poor quality of the portfolio and the inability to manage future risk, as shown by poor balance sheets. In one case the development bank expanded its activities in a high-risk sector (housing) after the GL had been granted, with a subsequent failure. In the other case, the problems identified during the appraisal were never rectified.

Conversely, good (or very good) results can be seen in the other cases. In particular, **development banks enjoy significant success in small economies, where they play a key role** and which are less attractive for commercial banks.

Despite high risks in the economies of the countries concerned, the commercial banks' performance was satisfactory or better in more than 80% of cases. This shows the progress made to strengthen banking regulation and supervision in many ACP countries. The difficulties experienced by two banks are essentially related to socioeconomic problems in the host countries. Overall, the rating for commercial financial intermediaries is good.

Case study

Région: **Southern and East Africa**
Global loan to a development bank
Resources: **Risk capital**

GL evaluation: Satisfactory

This risk capital loan allowed finance denominated in local currency to be provided to the development bank (DB). The aim was to use 90% of the resources for lending and 10% for financing equity operations. The global loan was consistent with the programming agreed between the country in question, the European Commission and the Bank and was granted against the backdrop of a long-standing relationship between the Bank and the DB. Relevance was good. The DB's performance was satisfactory with good experience, competent management and good medium to long-term sustainability; the bad debt ratio was satisfactory (lower than 10%).

The amount of funding for this operation was ambitious compared with previous loans. The amount was not fully utilised and then only for loans (no equity allocation). The financing terms with regard to maturity and spread were satisfactory for the beneficiaries, who have shown good results with few projects encountering difficulties.

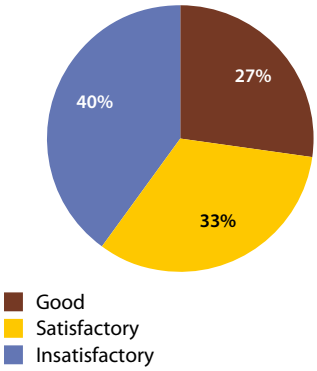
The Bank makes a significant contribution in terms of both financing and providing advice. In addition, the Bank required a supplementary adviser for operations, which has strengthened the teams.

This GL illustrates the case of a development bank in a small economy, where the DB plays a significant role in providing MLT funding and where the EIB's support is crucial in developing the DB's portfolio.

4.2. Global loans

a. **Amount and products offered:** The 15 operations evaluated relate to the signature of 6 OR contracts and 12 RC contracts.

Of these 18 contracts, the planned amounts were fully disbursed in only seven cases, including two with an extension of the allocation period, and the disbursement rate was 90% or more in four other cases.



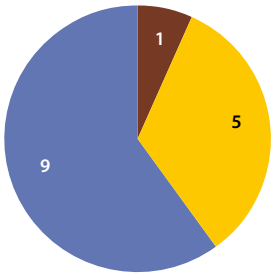
EV notes a tendency towards over-optimism, often greater in the case of apex loans than individual loans. It can also be seen that small operations have a better disbursement rate than large operations. It seems that there is insufficient incentive to use the credit lines.

The major objective of financing SMEs has been achieved. Nevertheless, small enterprises are poorly represented in the portfolio financed by the Bank, in particular because commercial banks prefer larger clients, which have a better risk profile.

The credit lines were used to a very limited extent for equity financing and it is clearly better to use more specialised intermediaries.

b. **Financing terms:** Since the Bank's policy is not to distort the local market, the use of interest rate subsidies, provided for under the Lomé Convention, is justified by complementary measures such as training programmes, exchange risk conversion, institutional development and technical assistance. It has proved difficult to monitor these measures, often because they are too complex (see recommendations).

The duration of the credit lines (10-15 years with grace periods of 3-4 years)



is satisfactory. On-lending is often shorter-term, but it has been shown in several cases that good use was made of this difference, to help portfolio growth in particular.

Case study

Region: **West Africa and Sahel**
Apex global loan
Resources: **combined OR and RC**

PG Evaluation: Satisfactory

This global loan was granted to three financial intermediaries (commercial banks) to finance SMEs with an OR loan denominated in euros (with interest subsidies) and an RC loan for financing in local currency.

The relevance of this operation is good in the light of the country's priorities, SMEs' MLT funding requirements and the programming carried out.

One of the financial intermediaries did not utilise the loan. The largest user performed well in terms of organisation, financial structure and sustainability despite a bad debt ratio of almost 20% (which is still reasonable for the country in question).

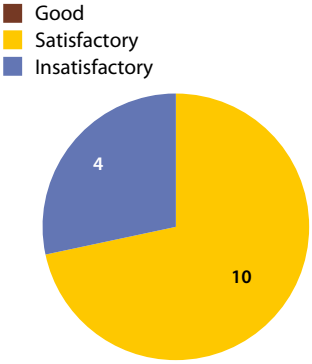
The risk capital GL was utilised, due to the satisfactory financing terms. However, the own resources GL was not utilised. Even with the interest subsidy, the commercial banks did not want to offer funds denominated in euros, which are not accepted by SMEs.

The Bank's financial contribution, for the risk capital loan, was high both for financial intermediaries and for final beneficiaries.

The Bank's management of the operation was satisfactory.

The GL illustrates the difficulties encountered in providing finance to SMEs in foreign currencies and the importance of contributing resources in local currency.

c. **Quality of final beneficiaries:** This rating is based on observations made during meetings with FIs and visits to projects (15% of allocations were checked in situ).



92% of final beneficiaries visited operated in a satisfactory manner, leaving only 8% facing difficulties. However, some FIs did not achieve the anticipated targets, mainly in equity financing operations. In one other case, the FI on-lent resources to local banks without any great success.

A more specific analysis of the impact on the development of SMEs (see box) shows that the final objectives were largely achieved.

Case study

Region: **Southern Africa and Indian Ocean**
Global loan allocation
Sector: **Industry**

The project concerns the construction of a soap factory. The project, which was completed on time, is technically advanced. The plant operates 24 hours a day. Products are sold on the local market, where demand is high. The problems encountered primarily concerned raw material imports, which are subject to administrative constraints involving the customs authorities.

The impact on the environment was managed in a satisfactory manner. The project was profitable and sustainable.

The financing terms was appreciated (the origin of the funds is known).

This is a development project and has created around 90 jobs .

Recommendations

It is suggested that consideration be given more often to defining amounts reserved for the financing of 'small' enterprises, that the Bank avoid using another level of intermediation (between the FI and the final beneficiary) and also that the relationship between the term of the Bank's loan and the term of on-lending be managed closely.

The Bank plans to implement these various recommendations.



Recommendation

The Bank should consider the introduction of a limited number of development impact indicators, to be communicated to it for each allocation. This would form the basis for the final report on allocations transmitted by the FI to the Bank and would be used for subsequent evaluations.

The Bank has a list of information to be submitted, which must be expanded. This will allow better assessment of the impact of global loans, but an excessive administrative burden in the management of allocations must be avoided.

Development impact

Global loans

- Under the Lomé IV Convention, the Bank's role, its operating arrangements (volumes and financial products) and its sectoral and geographical targets are governed very tightly by the text of the Convention and by the programming exercises coordinated with the European Commission and the beneficiary States. In this context, no attempt was made to assess the development impact.

- Despite the absence of pre-defined indicators, EV attempted to ascertain development impacts through global loan operations financed by the Bank in the ACP countries. Development impact was evaluated at five different levels: macroeconomic, financial sector, financial intermediaries, industrial sectors and beneficiary enterprises. This can help to define future indicators for assessing development impact in this kind of activity.

Macroeconomic impact: global loans have increased medium and long-term capital flows to ACP countries, thereby contributing to consolidation of financial sectors and to development of the private sector with a satisfactory albeit marginal impact.

Impact on the development of the financial sector: global loans have improved the quality of financial intermediation and enabled more funds to be mobilised (multiplier effect). However, the global loans evaluated have not led to any progress in the regulatory environment in the financial sectors concerned.

Impact on the development of financial intermediaries: the availability of additional long-term resources has a significant impact on the financial intermediaries (FIs) where satisfactory utilisation of the available funding has been achieved, which was not always the case. Some work has been done on institutional development of the FIs, although more might have been achieved (through closer monitoring).

Impact on the development of the industrial, agro-industrial, tourism and services sectors (which are the main sectors targeted by global loans): more than 7,150 jobs have been created or safeguarded (for the 15 global loans evaluated) according to a very conservative estimate, and taking into account only direct employment creation over a limited period of time. In addition, the management of environmental protection is satisfactory, with good compliance with the Bank's recommendations.

Impact on the development of companies: the companies observed achieved stable positions in terms of the market and industrial experience and many are planning further expansion.

Conclusion: in the light of all the above factors the development impact of global loans in the ACP is SIGNIFICANT.

Individual loans

Because there are insufficient pre-defined development indicators, it was not possible for the ex post evaluation to assess the development impact.

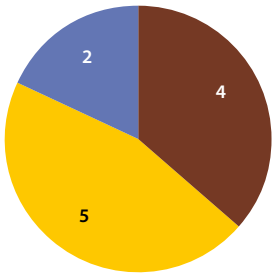
Since 2005 the Bank has worked on establishing the indicators necessary for assessing the development impact of ACP projects, in close coordination with the European Commission and other multilateral or bilateral financial institutions. They are specified for each individual project financed, thereby allowing relevant ex post monitoring.

EIB contribution

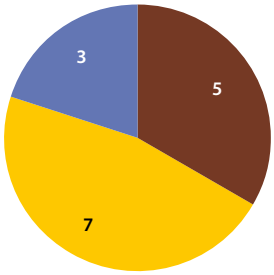
5.1. Financial contribution

The Bank's financial contribution was significant in the case of public-sector borrowers. In most cases individual public projects were funded only by international providers of funds and/or by local authorities, and the Bank finance was decisive for four projects. For development banks the Bank's support is high, particularly in cases where the operation takes place against a backdrop of long-standing cooperation with the FI.

Individual projects

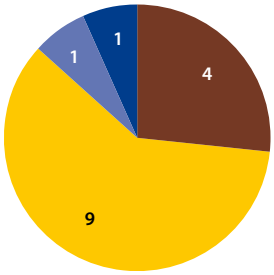


Global loans for the FI



High
Significant
Medium
Low

Global loans for the FB



In the private sector, a distinction must be drawn between:

- OR operations, where the contribution lies in the mobilisation of long-term funding, but with interest rates that may be seen as high. These are offset by interest subsidies used in almost two-thirds of cases for staff training.

- RC operations, where EIB financing is very attractive because it can be denominated in local currency.

5.2. Other contributions

Other contributions were made by the Bank in more than 60% of the operations evaluated. The expertise provided by the Bank's staff is essential here; when it is applied to financing terms it is often possible to obtain a better success rate.

The Bank's expertise is almost important in the appraisal phase, but also for global loans in the allocation approval phase.

Interest subsidies were turned into staff training initiatives, but with varying degrees of success on account of weaknesses in the monitoring of this training.

Most of the time, in the public sector in particular, this additional support is requested by borrowers/promoters. This specific characteristic of ACP countries (there is virtually no such demand in the European Union and it is not as high in other regions such as the Mediterranean) must be taken into consideration through the use of technical assistance funds.

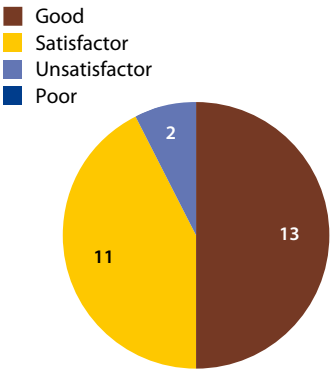
EIB management of the project cycle

6.1. Identification and selection of operators

The Bank's long-standing experience in the ACP countries has allowed it to establish close relations with authorities and governments, and with many promoters, particularly in the semi-public sphere and in the financial sector. Operations are often identified at a very early stage, with the Bank playing a key role in the more precise formulation of the project, which in some cases can result in less than ideal selection of operations.

6.2. Appraisal

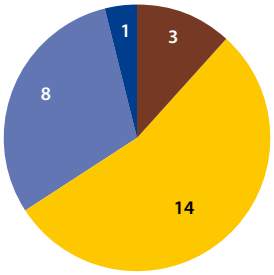
The appraisal of operations by the Bank is a complex and very detailed process, which normally covers all the factors involved in reaching a decision. In the case of direct operations, the absence of a threshold for the rate of return should be noted. Nevertheless, the financial calculations are complete. In the case of global loans, the evaluation of potential is often insufficient. Generally, implementation periods, for both projects and global loans, may be lengthy (longer than expected). This results in contracts being cancelled (10% of direct operations) or very large sums not being disbursed (global loans).



6.3. Monitoring of operations

For individual projects, the comments already made in other EV evaluations are still relevant since the Bank has not given high priority to project monitoring. Recent measures should remedy this shortcoming.

As far as global loans are concerned, unsatisfactory results were observed in many cases: some (rare) anomalies in allocation procedures, weak monitoring of FIs, particularly after allocation (often no annual reports despite the difficulties endemic in the region justifying regular monitoring) as well as arrangements for using interest subsidies that are too complex and whose application was not properly monitored.



Overall, the Bank's allocation procedures are satisfactory but can be fine-tuned. Management of the environmental aspects is regarded as satisfactory: no irregularities were found in the final beneficiaries visited and FI procedures are adequate, often because the Bank's recommendations have been taken on board. The most important thing is to identify projects with a high environmental risk and to introduce a specific monitoring procedure.



6.4. Cooperation with other international financial institutions

a. European Commission

There is significant coordination between the two institutions, essentially in three areas:

- at the general institutional level through discussions concerning conventions, protocols and their annexes and horizontal issues such as debt, structural adjustment and combating poverty;
- at the institutional level with each beneficiary country, through programming exercises and discussions on the economic situation and solutions to be found;
- operationally through contacts, either at sectoral level or in on-the-spot meetings (with systematic meetings at the EC Delegation).

b. World Bank

Contacts exist at three different levels, with a hierarchical distinction often being drawn:

- participation in general IBRD meetings and work in the development groups;
- participation in consultative groups at country level and informal meetings with local representatives;
- through the co-financed projects.

c. other financing institutions

Occasional or more frequent, but increasingly organised, contacts exist with the other providers of funds that are most active in the region: the African Development Bank, AFD/Proparco (France), KfW/DEG (Germany), FMO (Netherlands) and DFID/CDC (United Kingdom).

The Bank's decision to open regional representative offices in the ACP countries should enhance cooperation with the other providers of funds.

Recommendations

Cooperation with other co-financiers needs to be strengthened to ensure a more coordinated approach to the identification, formulation and follow-up of project-related measures.

Greater cooperation with co-financiers is clearly to be encouraged. In a number of sectors (e.g. water) it is one of the main reasons for the good performance of some of the projects evaluated.

Nevertheless, successful implementation also depends on the acceptance of certain common rules by all co-financiers, even though they may have their own particular practices and constraints.

Case study

Region: Southern Africa and Indian Ocean
Global loan allocation
Sector: Industriy

The project concerns the upgrading and expansion of an integrated tannery. It provides for a more than threefold increase in production and includes a new effluent treatment facility. The project covers the manufacture and marketing of finished leather goods from local and imported raw materials. 90% of sales are to South Africa, where there are high quality requirements.

The company is profitable and carefully managed. The effluent treatment facility complies with local rules and also European standards. The financing terms are regarded as satisfactory (origin of funds known).

This is an important development project for local industry (the number of jobs has risen from 90 to 118) and product quality has been greatly improved, offering greater export prospects.



Glossary

ACP	African, Caribbean and Pacific
AFD	Agence française de développement
DB	Development bank
DEG	Deutsche Investitions- und Entwicklungsgesellschaft – German Government development agency
DFID	Department for International Development – British Government development agency
EC	European Commission
EDF	European Development Fund
EIB Group	European Investment Bank and European Investment Fund
EU	European Union
FB	Final Beneficiary
FDI	Foreign direct investment
FI	Financial intermediary
FIRR	Financial internal rate of return
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
GDP	Gross domestic product
GL	Global loan
IBRD	International Bank for Reconstruction and Development
IF	Investment facility
KfW	Kreditanstalt für Wiederaufbau
MLT	Medium and long-term
OR	Own resources
RC	Risk capital
SMEs	Small and medium-sized enterprises*

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