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Operations Evaluation • Operations Evaluation • Operations Evaluation • Operations Evaluation • Operations Evaluation

Synthesis Report

Evaluation of operations financed by the EIB
in Asia and Latin America
between 2000 and 2008

EIB Operations Evaluation

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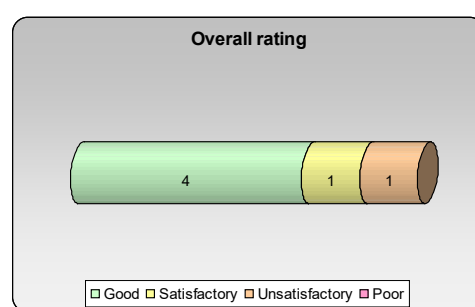
Executive Summary

In early 1993, the Council of the European Union gave the EIB the mandate to finance projects of mutual interest in Asian and Latin American countries (ALA). This first mandate has been renewed and extended several times. With the 2000-2006 mandate (ALA III) granted by the EU Council in December 1999 and covering the period 2000-2006, the EIB was authorised to lend up to EUR 2480 million for financing operations supporting the EU cooperation strategies in these regions and complementing other EU development and cooperation programmes and instruments in these regions. During the period under review, the Bank could support projects in the 28 countries that had accepted to enter into framework agreements with the EIB (16 countries in Latin America and 12 countries in Asia). A portfolio overview of EIB financing in the area for a period up to end 2008, is addressed in a separate report. The ALA IV mandate, 2007-2013, includes broader eligibility criteria for EIB financing.

This evaluation includes the in-depth evaluation of six completed operations funded by the EIB under the ALA III mandate up to January 2007¹. This mandate allowed the Bank to operate in 35 countries that have signed cooperation agreements with the EU.

Main conclusions of the in-depth evaluations are:

- All projects, except one, received a satisfactory or good rating. No project was rated overall poor, nor did any project receive a poor rating on any of the separate evaluation criteria. One global loan was rated unsatisfactory overall and in three evaluation criteria. Overall, this suggests that the Bank supported well performing projects in the ALA region.
- The overwhelming majority of investment projects have achieved their objectives. This achievement goes beyond the mere physical implementation to include the fulfilment of overarching project objectives, such as improving the environmental and safety situation, reducing transmission losses and meeting rising demand, supporting liberalisation and EU foreign direct investment. The evaluation has further demonstrated that these objectives have mostly been achieved efficiently, in most cases through competent private sector promoters.
- The effects of the economic crisis on the private sector projects are considered limited, since albeit the economic downturn will impact on demand, they have an established market position with favourable production cost, thereby having a competitive edge over competitors.
- A key finding relates to the environmental and social performance; the vast majority of projects had appropriate measures in place to minimise, mitigate and compensate for negative impacts, which demonstrates the value-added of major EU companies applying best practice also outside of the Union. The positive environmental and social performance has been used by local authorities as a benchmark in the sector.
- The results for the financial intermediation operation show a rather negative result. However, the size of the sample is small (only one project) and cannot be considered as representative of the Bank's operations in the region and for the sector.
- The EIB contribution is mostly financial through loan maturity and grace periods, as well as low interest rates and risk sharing. Other contribution or non-financial contribution were in most cases low and limited to catalytic and signalling effects of the Bank's presence.
- All projects evaluated were rated satisfactory or better for the project cycle management criterion although the need for a reinforced monitoring (progress reports) is highlighted. The Bank had good relationship with most clients, either in the countries concerned and/or through operations with them in Europe. Nevertheless, several promoters called for more clarity and information on the loan approval process during the initial appraisal and decision-making process, which they felt often took long compared to that of commercial banks.



¹ In total, EV has evaluated about 32% of the portfolio available for evaluation in the region, taking into consideration previous Evaluation reports (see p. 5).

Table of recommendations

	<u>Observations & Recommendations</u>	Response of the Operational Directorates
	This report is one of a group of 3 reports covering the Bank's external mandates by region. In cases where similar issues are identified in more than one region, the relevant recommendation has not been repeated but reference is made to the appropriate report.	
	Financial products	
1	<p><u>Currency:</u> <u>Observation:</u> The Bank has so far not been able to offer financing in local currencies in ALA, which was an issue and constraint mentioned by several promoters. This together with the Bank's demanding security requirements has limited EIB lending in ALA countries. For projects where main revenues / expenses are in local currencies, financing in foreign currencies exposes borrowers to significant exchange risks if not mitigated.</p> <p><u>Recommendation:</u> Financing opportunities in local currency is a fairly recent phenomenon in many developing countries and could be considered in the major economies / EIB target countries in ALA i.e. Brazil, China and Mexico, depending on the needs of the Bank's potential borrowers and on market conditions. EV suggests that the services further study this possibility.</p>	<p>Agreed. To offer financing in local currency in selected ALA markets would certainly enable the Bank to deliver higher financial value added to our borrowers and to remain structurally competitive vis-à-vis some other IFIs in several markets, for example, in countries such as Mexico and Brazil, where revenues derived from infrastructure projects are based in local currency.</p> <p>In recent years, the services investigated on several occasions the possibility of offering loans denominated in local currencies to private sector borrowers without success thus far. In the absence of a treasury in the corresponding local currency, the financial products offered by the Bank are in general not competitive for ALA borrowers. Other issues can include legal, regulatory and administrative hurdles as well as, in certain cases, an insufficient depth of the local bond market.</p> <p>The operational services will continue to explore with the Financial Directorate all viable venues to address the demand for financing in local currencies,</p>
	Project Cycle Management	
2	<p><u>Negotiation - Language</u> <u>Observation:</u> An issue arises with regard to the language outside of the EU in which the promoter is contractually bound to submit to the Bank administrative and legal documents. It is therefore suggested to include for non-EU operations that the language ruling all information requirements related to a project is the language in which the Finance Contract is signed (or any other of the Bank's working languages).</p> <p><u>Recommendation:</u> In Latin America, promoters have expressed that it would greatly facilitate their work, if Finance Contracts could be written in the two EU languages spoken in the region as is the case in the EU operations (namely Spanish and Portuguese).</p>	<p>Agreed. Operational Directorates will continue to convey the clients' requests to the Legal Directorate and to reinforce, to the extent possible, the assignment of team members having such language skills.</p>

	<u>Observations & Recommendations</u>	Response of the Operational Directorates
3	<p><u>Monitoring:</u> <u>Observation:</u> It has been difficult to get an overview of projects' progress and key events. The different departments of the Bank occasionally produce notes on project progress independently of each other, which often do not follow any systematic archiving practice. Much monitoring work is not recognised and project overview, delegation of project tasks or handing over of projects would be facilitated by a common and regular Monitoring Progress Report.</p> <p>Recommendation: EV recommends that a Monitoring Progress Report should be produced jointly by the Operational and Project Department for complex projects requiring significant follow-up and monitoring. <i>Refer to recommendation 3 in the synthesis report: "Evaluation of operations financed by the EIB in Neighbourhood and Partnership Countries between 2000 and 2008".</i></p>	Operational Directorates see the merits of a joint and regular MPR. For full answer, please refer to the other report.
4	<p><u>Environment & Social Performance:</u> <u>Observation:</u> Operations in countries unfamiliar to the Bank, in particular countries in development, offer many new challenges in terms of changing legal and technical aspects. It requires significant time and technical insight to fully appreciate the consequences on a project of certain environmental and social procedures whose importance are becoming increasingly important to the Bank.</p> <p>Recommendation: In view of the Bank's new environmental and social statement, review corresponding ESIAF guidelines. <i>Refer to similar recommendation 5 in the synthesis report: "Evaluation of operations financed by the EIB in Neighbourhood and Partnership Countries between 2000 and 2008".</i></p>	Please refer to the answer of the Operational Directorates in the other report.

1. Introduction and Portfolio Presentation

Background

Annex II of the European Parliament/Council Decision 633/2009/EC (granting a Community guarantee to the EIB) has defined the broad lines of the Mid Term Review of the EIB external mandates, which should be completed by 30 April 2010 (article 9 of the Council Decision).

Two main sets of tasks are foreseen:

- an evaluation of the EIB's external financing activities. Parts of the evaluation are conducted in co-operation with the EIB's and the Commission's evaluation departments.
- an assessment of the wider impact of the EIB's external lending on interaction with other IFIs and other sources of finance.

This report forms part of the EV contribution to the Mid-Term review of EIB external mandates and should be read in conjunction with the "Portfolio and Strategy Review of EIB activities in 2007 Partner Countries from 2000 to 2008". Two other evaluation reports are also available: "Evaluation of EIB financing in Candidate and Potential Candidate Countries between 2000 and 2008" and "Evaluation of EIB financing in Neighbourhood and Partnership Countries between 2000 and 2008".

Approach and methodology

This evaluation concerns Asia and Latin America² countries. A full overview of all operations financed under the mandate can be found in the separate portfolio review.

Approach

The comparison of ex-post results with the expectations and objectives at appraisal is the main basis for the evaluation of the operations; this was carried out both by internal EV staff as well as external consultants (COWI A/S for energy projects and a freelance consultant Noel S. Gamo for the line of credit).

In accordance with the Bank's evaluation procedures, individual projects were rated in four categories: "Good", "Satisfactory", "Unsatisfactory" and "Poor"³. This evaluation assesses each of the operations using the following OECD/DAC criteria: Relevance; Effectiveness; Efficiency; Sustainability. In addition, a special rating is given for Environmental and Social Performance. One specific methodological feature of this evaluation is the application of the Economic and Social Impact Assessment Framework (ESIAF) framework from an ex-post perspective.

The EIB financial contribution is assessed, taking into consideration the financial needs of the beneficiaries, while the EIB non-financial contribution is assessed through transfer of expertise, technical assistance or any other form of support. It also includes an assessment of the cooperation between the Bank and the EC as well as an assessment of the cooperation with other IFIs, where appropriate. In addition, the management of the project cycle by the Bank is assessed.

² EIB operations under the ALA mandates have been evaluated in one earlier evaluation: Evaluation of the projects financed by the EIB under the Asia and Latin America mandates (January 2004) and can be found on the EIB/EV website.

³ "High", "Significant", "Moderate" and "Low" for EIB contribution.

Selection process of individual operations - methodology

- Mandates and facilities: operations were selected within all Mandates and Facilities, which allows coherence in the evaluation and ensures that all types of financing offered by the Bank are included in the EV assessments.
- As an overall rule, the in-depth evaluation of an individual operation should take place between one and two years after completion of the investments.
- Based on EV experience, the following rules for defining the operations, which can be evaluated were proposed:
 - Operations fully disbursed:
 - ✓ Direct investments: Project Completion Reports (PCR) should normally be available (at the end of 2009 at the latest) and/or operation in activity for a minimum of one year.
 - ✓ Lines of credit: fully disbursed for more than six months.
 - Operations partially disbursed: Framework and Programme Loans. For these operations financing multiple investments, evaluation can take place when 50% of the subprojects are completed.
- Final selection was randomised; but preliminary criteria were introduced, such as:
 - all sectors represented,
 - minimum number of countries present in the selection,
 - all type of financial products represented (e.g. risk-sharing or not)
 - and also including operations evaluated previously (Evaluation of the projects financed by the EIB under the Asia and Latin America mandates, January 2004)

As operations concerned should be mature, all in-depth evaluations are dealing with operations financed under the 2000-2006 mandates.

Taking into consideration 5 previously evaluated projects (Evaluation of the projects financed by the Bank under the Asia and Latin America mandates, January 2004)), total operations evaluated in ALA region represent about 32% of the portfolio available for evaluation.

Detailed project analysis and field visits for the selected projects have been conducted. Individual evaluation reports have been prepared and discussed with the operational staff associated with the project, and the main elements were provided to project promoters for their comments. As usual, the information contained in these reports is of a confidential nature and availability is restricted.

The following table summarises the main features of the selected projects, which were all financed through the Mandate:

#	Country	Sector	Signature Date	M EUR Signed	Date PCR
1	Pakistan	Private Sector	2006	35	2007
2	Vietnam	Private Sector	2006	38	2008
3	Philippines	Line of Credit	2004	40.6	N/A
4	Brazil	Private Sector	2003	45	2007
5	Brazil	Private Sector	2003	34.2	2005
6	Peru	Private Sector	2006	40	2009
P	China	Public Sector	2001	56.2	2007

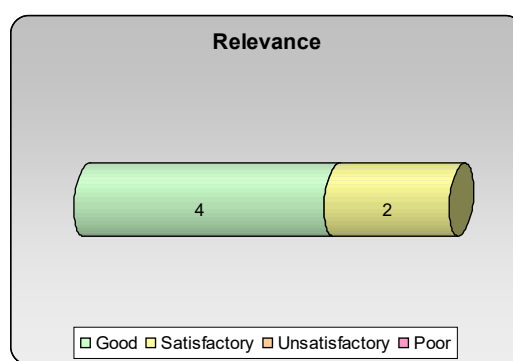
A desk review of a public sector project (P) in China was undertaken in order to provide a comparison to the private sector projects evaluated, where appropriate. No ratings were included for the Chinese project since an in-depth evaluation was not done.

Synthesis: This evaluation report is a synthesis of the findings of the individual evaluations.

2. Policies and strategies - Relevance

RELEVANCE is the extent to which the project objectives are consistent with EU policies, the decisions of the EIB Governors, the mandates as well as the country objectives and thus reflects the first pillar of the EIB value added pillar framework.

All six projects were consistent with EU and EIB objectives and priorities, as outlined in the relevant Council decisions and EIB strategies. They are also fully in line with the respective country objectives which demonstrates the strong coherence between the operations financed by the EIB and the EU policies translated in the Bank's strategy.



2.1. EU/EIB objectives

The 1999 Council Decision sets out the eligibility parameters for all external lending mandates (period 2000-2006) benefiting from a Community guarantee, and stipulates region-specific eligibility criteria further described under Mandate and Country Objectives below.

The strategic framework for the Commission's actions in Asia is based on the Commission's Communication "Europe and Asia" of 2001, which identifies six objectives for EU-Asia cooperation:

1. contribute to peace and security in the region and globally, through a broadening of EU engagement with Asia;
2. strengthen mutual trade and investment flows with the region;
3. promote the development of the less prosperous countries of Asia, addressing the root causes of poverty;
4. contribute to the protection of human rights, the spread of democracy, good governance and the rule of law;
5. build global partnerships and alliances with Asian countries to help address both the challenges and the opportunities offered by globalisation and to strengthen joint efforts on global environmental and security issues;
6. help to strengthen the awareness of Europe in Asia and vice versa.

Cooperation and policy approaches with Asian sub-regions and countries have been developed through a series of new Communications on South-East Asia, India and China.

EU policy priorities towards Latin America have been further defined in the Communication on a 'Stronger Partnership between the European Union and Latin America' 2005. In this communication, the Commission puts forward a response and some proposals for revitalising the EU-Latin American partnership:

1. It proposes stepping up and focusing political dialogue.
2. It wants to create a climate favourable to trade and investment.
3. It intends to support the efforts of countries in the region to contribute to stability and prosperity.
4. It proposes to cooperate more effectively and increase mutual understanding.

In terms of creating a favourable trade and investment climate the strategic paper states that investment growth potential opportunities still exist in Latin America, especially in the strategic sectors where European excellence has proved its mettle: information and communication technologies, the aerospace and automobile industries, engineering and metal-working, energy, the environment, infrastructure and transport. The presence of European businesses in Latin America is a source of growth and employment and may help reduce social inequalities. It encourages the transfer of know-how and offers outlets to local businesses (sub-contracting).

2.2. Mandate and country objectives

The Bank's operations in ALA are under the different mandates given to the EIB by the Council of the European Union.

The Bank's strategic and operational guidelines for Bank lending under the 2000-2006 ALA Mandate were reviewed in 2004 and clearly outlined that *"all projects financed under the ALA Mandate will have to feature a significant, clear and visible European interest"*. *"Consequently, the ALA Mandate should continue to support European FDI in ALA. If not possible, it will support transfers of technology and know-how from the EU to ALA, but avoiding projects for which the mutual interest is essentially based on support to EU exports, in order to avoid clashing with OECD rules on export credits"*.

Loans from own resources		
Recourse to EC Guarantee		
Full recourse	Risk Sharing	No recourse
	1, 2, 3, 4, 5, 6	No Facility until 2007°

° individual operations can always exceptionally be presented for financing under Article 18 of the EIB statutes

On the basis of the definition of mutual interest given above, we have found that all the operations involving EU companies - 6 in total including a global loan operation to an EU bank - met the mutual interest criterion and support of EU presence and were consistent with the objectives of developing new business opportunities for the EU companies and of contributing to important policy objectives in the partner countries. However, the relevance of a global loan operation in relation to the EU was not explicitly established during its implementation. The evaluation concludes that the main objective of providing medium to long term funding to medium sized investments of mutual interest to the EU and to the Philippines was only partially achieved.

Private sector projects were in competitive markets and contributed significantly to meeting new demand and/or increasing the level of competition (new products, reduced imports from abroad, etc.). The policy objectives and sector orientations enshrined in the EIB mandate were for the projects under evaluation fully consistent with domestic policy strategies and objectives and coherent with the country's economic and social development orientations.

3. Performance of Investment Projects

Project performance relating to EIB's second pillar of value added, is assessed using the three core evaluation criteria, namely Effectiveness (3.1), Efficiency (3.2) and Sustainability (3.4), which are all rated individually in this section. Beyond these criteria, EV systematically highlights the Environmental and Social Impact of the project under evaluation. This is achieved through the addition of specific "Environmental and Social" ratings, which are considered an integral part of the overall project performance.

Even though only 5 investment projects (1, 2, 4, 5, 6) have been evaluated in depth, the project in China has been included in the analysis as the only public sector operation with a presentation of its physical performance but without any ratings' attribution (referred to as Project P).

3.1. Effectiveness

Project **Effectiveness** relates to which project objectives have been achieved, based on the following two major parameters:

a) implementation: the evaluation looked at the completion information, coherence with the technical description, timing, procurement, costs and funding and

b) operation: management and organisation of project operations and achievement of higher-level objectives.

The result is very positive, since for all investment projects the extent to which project objectives have been achieved was satisfactory or better. The vast majority were implemented professionally and time delays or cost overruns, if existing, have been often caused by external factors.



The projects evaluated not only delivered on the physical implementation, but EV found also clear indications that overarching, higher level objectives have also been or are being achieved, even though at times, clear causal linkages between the projects and the higher-level effects can not be fully established. Still, some overall positive results include: supporting liberalisation, competition and foreign direct investment, and improving environmental and social standards.

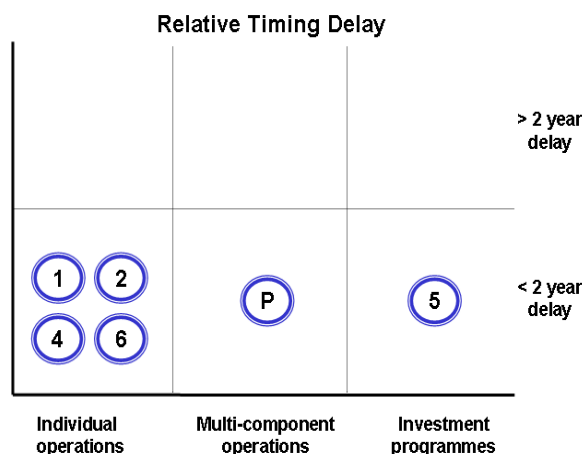
3.1.1. Implementation performance

Physical implementation, schedule and procurement

Physical implementation: The vast majority of projects evaluated featured professional project management and satisfactory implementation by private sector promoters, even though some projects have experienced minor delays and/or cost overruns, as will be shown later.

Time schedule: The implementation delays, when compared to the initial duration of works appraisal estimates, are depicted in the graph aside.

Relatively minor and acceptable delays were experienced in two private sector projects (1, 2) and in one public sector project (P). For project 2, only one out of five sub-components was delayed and did therefore not affect significantly the overall performance of the project. The delay was due to a change in the city master plan and subsequent availability of land and necessary permits and as such out of control of



the promoter. For project 1 a more realistic time schedule than the one initially foreseen was defined at appraisal with the advice of the Bank, which proved to be correct judging the experienced delay. For the public sector project some relatively minor delays were experienced due to later than expected start of the project.

Procurement: Procurement procedures for all EIB financed components were in line with the general EIB procurement standards and guidelines.

For all private sector projects, the procurement procedures followed the Bank's guidelines for private sector operations and were all done in a competitive environment. In addition, the Bank's services have reviewed the underlying procurement procedures to ensure that these were in the best interest of the project.

For the public sector project, the procurement procedures with publication in the national and international press and the EU Official Journal were clearly facilitated due to local presence of another IFI and co-financing partner, whose procurement procedures were followed in line with Bank guidelines.

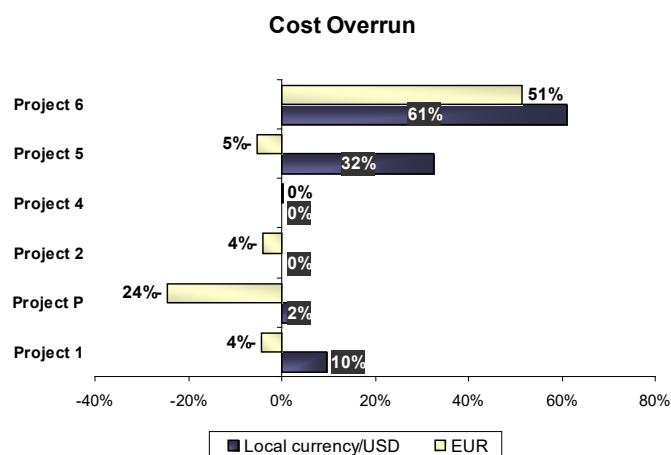
Project 1: The project experienced a delay of about 4-5 months, which is judged acceptable given the complexity of the project. Some of the problems indicated by the promoter during the implementation were related to:

- a) High percentage of locally procured and manufactured equipment (some 70%), whereby initial expertise was lacking locally. In fact, this was the first industrial project of such a size, which was depending to a large extent on locally manufactured equipment;
- b) Local contractors were not geared up properly to deliver equipment on time due to resource shortages;
- c) Steel and other heavy equipment purchase was difficult due to significant international market price fluctuations;
- d) Certain delays were experienced in the availability of civil design and structural steel drawings;
- e) Bad weather conditions affected civil works during peak construction periods;

A certain shortage of international inspectors from the equipment supplier to maintain highest quality of locally fabricated items was reported.

Project cost and financing plan

Project cost: The pattern of outturn cost to appraisal estimates is presented in the graph below. With two exceptions, the cost increases, both in local currency and in EUR are considered as acceptable (below 20%). In fact, in EUR terms, most of the projects have experienced a reduction of the initial ex ante cost, which is linked to the recent appreciation of the EUR against most other currencies in the sample evaluated. The most significant cost increase is found on project 6 that was completed on-time but 61% (in USD) above the initial planned cost (51% in EUR), which was caused by additional network investments. For project 5, the Bank supported an infrastructure conversion and renovation investment programme where some deviations are normal and acceptable. The cost overrun was largely absorbed by the depreciation of the local currency.



Project funding: On the funding side, the evaluation found that in line with EIB guidelines, ex post financing remained within the usual limits for almost all projects. The Bank's funding share for the all projects but one was below 30%. Only in one project (2), was the usual lending limit marginally exceeded because final project cost was lower than estimated at appraisal.

3.1.2. Operational performance

Management and employment

Management: The vast majority of projects are operated by competent private sector promoters. Training of local staff is an integral part of all operations and is being provided for all new projects on the job and often in Europe for senior management staff since all private sector operations are supported by European companies. All projects visited during the evaluation were technically sound, functional and in good condition and the management considered appropriate, which evidenced the operational performance and excellence.

Employment: Direct and indirect employment effects were important in particular for three projects evaluated. Overall, more than 3000 direct jobs have been created by the 5 private sector projects while the indirect jobs in most cases have not been quantified but are expected to be higher than the direct employments. It is difficult to obtain exact figures on indirect job creation as this is often not measured by the promoter and would require additional studies and analysis.

Achievement of objectives

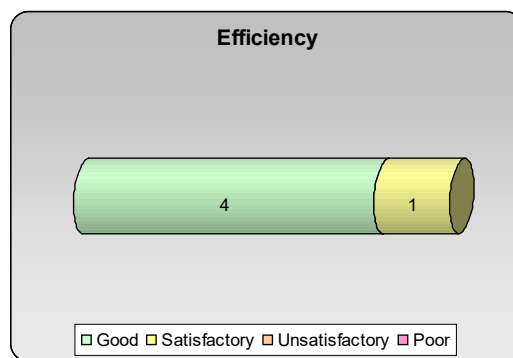
The effectiveness criterion also measures the extent to which both the specific, as well as the higher level project objectives have been achieved. The physical objectives have been largely achieved by all projects.

The assessment of the achievement of the higher level objectives is highly qualitative as no specific indicators have been given at appraisal and due to the broad nature of the objectives i.e. diversification of the economy and fighting of poverty, it would be difficult to judge to what extent these objectives were achieved.

3.2. Efficiency

Project Efficiency measures the extent to which project benefits/outputs are commensurate with resources/inputs. Here, the evaluation considered the following parameters: (a) market and demand aspects, including capacity utilisation of the underlying infrastructure/project, (b) operations, tariffs, prices and operating costs, including overall operational efficiency, extent of cost recovery, etc. and (c) the financial and economic impact of the projects. Depending on the nature of the project, its sector and/or size different indicators can be used to evaluate "efficiency", including financial and economic rates of return, cost-benefit analysis and unquantified socio-economic benefits.

All projects were rated good or satisfactory for the efficiency criterion. Four projects were rated good, thanks to excellent operational performance and/or high utilisation of the assets (with ex post either meeting or exceeding ex ante expectations) For most projects the ex post economic rate of return is assessed to be well above 10%.



3.2.1. Market, demand aspects

Demand development has been correctly or slightly underestimated for the majority of the projects, which reflects sound banking prudence. Demand has typically been better than expected during the economic upturn while sales have slowed down during the last year due to the economic crisis. However, it seems that the Asian and Latin American markets have so far been less affected than the more developed countries in Europe, US and Japan. In their respective markets, the operations financed by the Bank have performed better than their peers and have in most cases been able to adjust rapidly to changing market conditions.

3.2.2. Operations, tariffs/prices, operating costs

Under *operations, prices, tariffs and operating cost* the evaluation analysed to what extent the operations of the projects post completion can be said to be managed efficiently. Resulting from the projects diversity regarding the nature of the promoter/operator (public vs. private sector)

and the market (regulated vs. non-regulated), different indicators were taken into consideration, including the degree of cost recovery, the evolution of operating expenses, and the composition and development of the relevant output prices or tariffs.

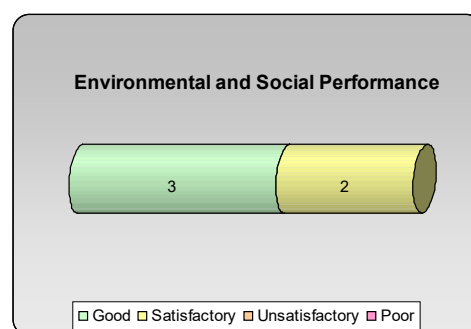
Generally, the evaluation found professionally operated and managed projects, with for most cases increasing operating efficiencies and improved cost management. The private sector operations are performing very well, demonstrating highest operational efficiency based on extensive experience from other similar operations elsewhere. Most promoters have implemented internationally and locally recognised quality control standards, i.e. ISO 14001 certifications, etc.

3.2.3. Financial and economic impact

Even though the ex-post IRR and ERR could not be recalculated, in all evaluated projects except one (1), the ex-ante anticipated financial and/or economic impact was determined to be equivalent or better, leading to a generally positive rating for this criterion. In most cases, this is a reflection of higher demand / capacity utilisation, lower than expected cost and increased availability and use of public services. A large number of factors influence the financial and economic impact on private sector operations in which demand depends on import/export levels and consequently in fluctuations in currency exchange rates. This results in a high uncertainty in profitability calculations and sensitivity analysis.

3.3. Environmental and Social Performance

Beyond the traditional evaluation criteria for Project Performance, EV systematically highlights and rates the Environmental and Social Performance of the projects under evaluation. It considers specifically two categories: (a) compliance with guidelines, including EU and/or national as well as Bank guidelines at the time of project appraisal, (b) environmental and social performance including the relationship between ex ante expectations and ex post findings and the extent to which residual impacts are broadly similar, worse or even better than anticipated.



The findings for the environmental and social performance are positive. All projects were rated satisfactory or better, which is a reflection that i) most of them were in line with EU and/or national guidelines and ii) exceeding the minimum required mitigation measures to minimise, mitigate and/or compensate negative impacts and/or, showing positive environmental and/or social externalities (such as noise reduction, energy savings, improved education, and others).

The environmental procedures applied by the promoters, were in line with EIB requirements. For two of the private sector operations (1, 5) an EIA was deemed necessary, and was undertaken in full compliance with international environmental impact assessment including public consultation. Regular environmental monitoring is provided during and after the implementation according to national environmental quality standards and most of the promoters are also the international norm ISO 14001 certified. The relevant environmental studies, permits and certificates were submitted to the Bank in line with disbursement conditions and undertakings.

Social performance of the projects was in general of high standards for all private sector operations and the European promoters companies transferred and applied similar standards required in their home countries to the beneficiary countries. Training programmes were conducted on the job to raise awareness of health and safety standards at the work place. In most cases, the companies have introduced attractive social security, health schemes and pension plans that have proved popular between the local employees and job seekers.

Several projects reported significant direct and indirect employment effects (see chapter 3.1.2), as well as a good performance with regard to the project's integration in the local community was noted. In one case (2), a bilateral agency from the promoter's country of origin had initiated a community programme for local farmers (see box above).

Project 2: With the establishment of their stores and a policy of applying the same high level of quality and environmental standards in any country, the promoter demonstrated the value of know-how transfer to a beneficiary country. The local environmental authorities have expressed that they often use the facilities as a benchmark in requirements for building permit / license for new commercial and industrial developments.

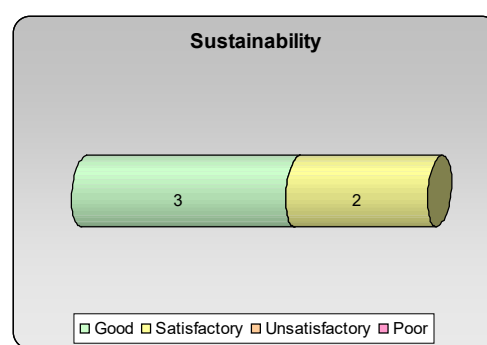
The promoter has in co-operation with a European bilateral agency participated in a training programme for the development of the supply chains for the food sector which fulfil certain quality criteria for food safety and contribute to higher income for the farmers and collectors. The programme has raised the quality awareness and efficiency in the supply chain.

3.4. Sustainability

The sustainability criterion assesses the probability that the resources are appropriate and sufficient to maintain the outcome achieved over the economic lifetime of the project, and that any risks can be managed adequately. In this evaluation, sustainability was analysed under (a) physical and operational sustainability, including the likelihood of reaching the physical and economic lives of the underlying assets, the long-term operational competency of the promoter/project operator, etc. and (b) financial sustainability, including revenue generating capacity through concessions, tariff policy, budgetary allocations, profitability trends, etc.

All five individual investment projects evaluated received a satisfactory or better rating (graph); in fact, despite some natural uncertainty inherent in the long term prospects of private sector projects due to the economic crisis, three projects obtained a good rating.

Overall, this positive outcome is a reflection of the high-quality specifications of the assets financed, the competency of the promoters/operators and the projects financial sustainability. The impact of the current financial crisis on the private sector projects under evaluation is considered relatively limited since albeit an economic downturn will impact on demand; they have an established market position with favourable production cost, thereby having a competitive edge over other competitors.



3.4.1. Physical and operational sustainability

There are no concerns with regard to the physical sustainability of the installations financed. All operations were either new or upgrading of existing facilities and operated properly. For the new installations or new technology implemented in existing installations, the promoters had specialists providing training programmes to existing and newly recruited local staff. All operations are covered either under ISO 9001 and/or national quality control standards. The site visits performed during the evaluation missions confirmed the ISO 9001 certifications and acceptable operation and maintenance levels for the projects financed.

In almost all projects evaluated, the managerial capacities of the project promoters were acceptable and operational sustainability concerns are limited in this respect. One natural gas project (5) is operated under a 30 year concession agreement and new gas reserves have been discovered in the country ensuring the longer term sustainability of the project.

3.4.2. Financial sustainability

As a consequence of their strong performance, all private sector operations except one (1) have an excellent financial performance and good prospects for continued further growth. The project that has experienced lower than expected financial performance was highly dependent on the price of raw materials, which has now receded and thus improving the financial outlook of the promoter.

The effects of the economic crisis on the private sector projects are considered limited, since albeit economic downturn will impact on demand, they have an established market position with favourable production cost, thereby having a competitive edge over competitors. The markets in Asia and Latin America have in addition so far been less severely affected than many other regions.

Project 4

The decrease in volumes sold was concentrated in the last quarter of year 2008 as a result of the global economic recession which negatively impacted the orders from Original Equipment Manufacturers (OEMs). Whilst the group's consolidated sales remained on the levels of the previous years, the promoter's operating margins in 2008 were strongly affected by (i) a strong increase in raw material prices, (ii) some restructuring measures implemented in the year to face the changes in the economic situation and (iii) a drop in orders from the OEMs, especially in the last quarter of the year. However, the impact is expected to affect mainly the OEM segment, directly influenced by the levels of production and characterized by a higher cyclical. The replacement market, though influenced by the consumers' spending confidence, is less cyclical.

To rapidly address the changes incurred in the market situation, the promoter has implemented some restructuring measures that are expected to show their positive effects already starting from 2009 and to allow a complete recovery of the group's profitability within 2011. The successful implementation of the restructuring strategy and its ability to react quickly to market changes in a difficult and globally deprived sector, demonstrates its likelihood of continued good financial performance. The upgraded plant and highly specialised staff can rather easily be adapted to a different product mix, which further demonstrates the project's operational sustainability. Over the last year the promoter has performed better than its main peers.

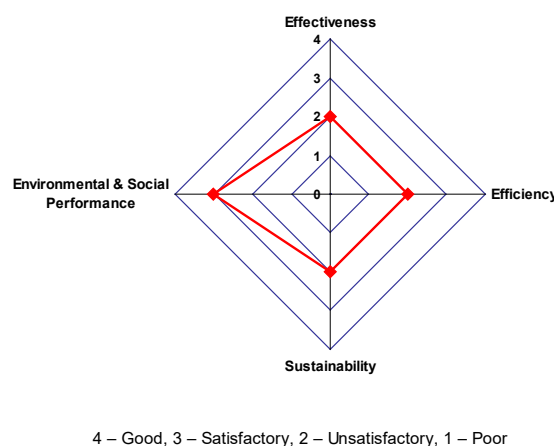
4. Performance of Financial Intermediation Operation

The specific objective of the lines of credit has been and continues to be to channel EIB funding to investments, which were below the threshold for EIB direct lending – primarily to SMEs. The selection of strong financial intermediaries, with a sound organisation and management structure is an important feature since appraisal and monitoring of the financed sub-projects is delegated to the intermediary.

The chapter follows the line of the standard project performance assessment (quality of the operation) mirroring the pillar 2 of EIB value added approach. The performance of a line of credit has been evaluated using standard EV criteria for these operations:

- a) Loan effectiveness assessed with regard to amounts disbursed versus initial expectation, on-lending conditions and reporting;*
- b) Performance of the financial intermediary, as a measure for the efficiency of the operation. Main indicators are the organisation and management set up and its financial situation;*
- c) Environmental and social performance;*
- d) Sustainability*

Since only one global loan operation was evaluated with a financial intermediary, its project performance results are summarised graphically here and briefly described in continuation.



4.1. The Global Loan Performance – “Effectiveness”

Only 25% of the global loan was allocated (one allocation only), thus diminishing its effectiveness. The sole project financed under the facility also proved to be unsuccessful resulting in an unsatisfactory rating.

Commitment and disbursements

The purpose of the global loan was for the financing of medium-sized investment projects in commercial infrastructure, industry, agro-industry, eligible health and urban development sectors, tourism and related services. Sub-loans should either be to companies which are subsidiaries of EU companies or joint ventures that involve EU companies, or projects with a high content of transfer of technology from the EU.

For the lone allocation the Bank elaborated an allocation report based on information from the FI that the project included an EU interest. The Bank services approved the sole allocation on the basis of transfer of technology from an EU supplier. However, the promoter subsequently replaced the EU supplier by another one; the Bank was not informed accordingly. Although the supplier of the supplies is of mainly EU origin, ex-post, the EU interest is considered as not fully established. As the FI was unsuccessful in fully allocating the global loan, the Bank decided to cancel the balance (75% of the loan) and re-allocate the amount to other eligible projects within the mandate.

On-lending conditions: In accordance with the terms and conditions of the global loan between the Bank and the FI the amount disbursed to the sole project was USD 12.5m, which was the maximum amount that may be allocated per project. The said amount represented approximately 25% of the total cost of the project. The FI chose fixed interest rates for the global loan.

Reporting: Documentation and reporting in connection with allocation approval and disbursements appear to be in order. However, a Side Letter to the Finance Contract sent to

the FI should have included a section on the allocation fiche mentioning whether there was an 'EU interest' or not.

4.2. Financial Intermediary Performance – “Efficiency”

The FI organisation and reporting was satisfactory, but its management did not handle the global loan as expected; it failed to fully allocate the facility. Since then, its financial position has deteriorated.

Organisation and management

The current operational structure of the FI consists of the Country Executive (President) and three main units: the Front Office, which includes Client Coverage and Local Market Trading; the Middle Office, which includes Portfolio Management and Credit Administration; and the Back Office, which includes Finance and Legal. In addition, there are the Human Resources Group and the Compliance Group that report directly to the Country Executive. Upon signing of the Finance Contract between EIB and the FI, the initial task of identifying potential projects for sub-loans under the facility was undertaken by the Client Coverage group.

Although the FI appeared to have the capabilities to handle the global loan, there were some deficiencies. At appraisal, the FI presented a pipeline of projects to the EIB but, in fact, it was not able to fully allocate the global loan, thus resulting in the cancellation of 75% of the facility. While this may have been due to difficulty in finding projects that meet the global loan's on-lending conditions, it may also have been because of its limited marketing capability, as it has just one branch in the country (the head office).

Financial situation: The financial situation of the FI has deteriorated gradually in recent years and a loss was posted in 2007. The portfolio of non-performing loans increased significantly over the period

4.3. FI - Environmental and social performance

The FI was fully aware of EIB's environmental policies and covenants. The FI also uses an Environmental Social and Ethical Risk filter to evaluate projects for their lending operations to help ensure that projects do not result in any negative environmental or social impacts. The overall rating for this criterion is satisfactory because necessary steps were taken to help ensure that the Project would not have any negative environmental or social impact.

In line with standard practice, EIB delegated the responsibility for the verification of environmental and social impacts to the intermediaries. This assessment is then (at least for the first allocations) validated by the EIB. The FI's capabilities to carry out appropriate assessments are established during the loan appraisal.

In compliance with the provisions of the Finance Contract between the EIB and the FI, the FI included a provision in its Term Facility Agreement with the FB for the FB to implement and operate its Project in conformity with environmental laws of the country. The FB also obtained an Environmental Compliance Certificate (ECC) from the Environmental Management Bureau of the Department of Environment and Natural Resources, since this is a requirement for guaranteeing the loan.

4.4. FI - Sustainability

The only Project financed by the global loan was put under corporate rehabilitation despite being in business for just three years. Although prospects for the company are improving, there is still a lot of ground to cover in order to turn around the company. The FI, on the other hand, is being sold by its parent company, a process that should continue to be monitored closely by the EIB to make sure that its interests are well secured.

Financial intermediary

In October 2007, the group to which the FI belonged was acquired by a consortium of two major international banking groups. Following the acquisition, the FI's operations went to one of these two acquirers, whose parent company was subsequently hit by the financial crisis, recording one of its biggest loss in corporate history. As a result, the distressed parent company decided to sell its Asian assets. As to whether this has a bearing on the credit risk for the Bank depends

on the institution that will buy the FI and on the institution that will act as guarantor for the outstanding amount due to the Bank.

Final beneficiary

As described above there was only one FB under this operation. The company has had a difficult start with limited revenues and thus facing financial problems. The situation seems to be improving. See presentation of its operations below.

Example of operational problems faced by a FB:

The Project was scheduled for completion in December 2005. To test the facilities in February 2006 the FB purchased various grains from Brazil, Argentina and China. The importation of the grains was funded by an additional borrowing from local banks. During the unloading of the first shipment, the ship unloaders broke down and disrupted operations. Repairs had to be undertaken for a couple of months. By then, the company had accumulated additional expenses such as demurrage fees, rerouting of the vessel and handling costs of transferring the grains from the rerouted vessel. The FB was not able to immediately dispose of the commodities imported and was unable to repay the short term loan. Faced with loan defaults and left without working capital, the company filed for suspension of payments in Dec. 2006. The company, with a new name, is now under a Court-approved corporate rehabilitation plan .

The company needs to unload 700,000 MT of grains per annum to jump-start operations. So far only 58,000 MT have been unloaded in 2009. On a positive note, the company has several new clients in the pipeline, grain traders using the facilities of the company's only competitor. It makes economic sense for these traders to use the FB's facilities because it is closer to their markets. The traders' only concern is the reliability of the company's equipment. The company has already proven that the initial problem with the unloaders has been resolved as evidenced by the trouble-free operations of six shipments of wheat. At the time of the evaluation unit's visit to the project in March 2009, the company had already opened one new account with a shipment arriving in April. Two other accounts were being negotiated with possible shipments in May and June. It is too early to tell whether the company would be able to sustain operations, but at least the prospects are improving.

5. Project Results

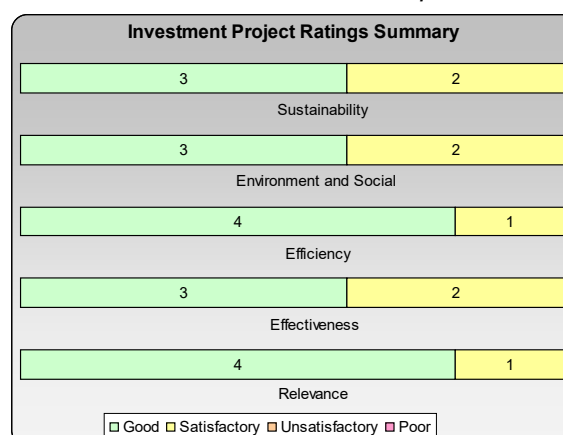
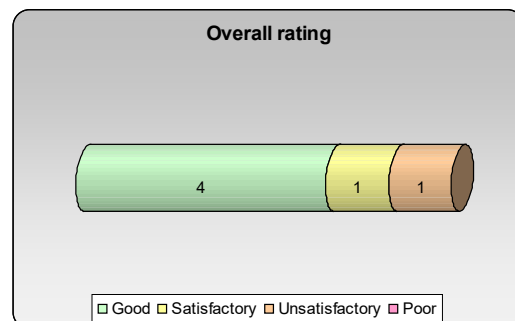
The ratings on relevance, project performance and EIB contribution reflect the EIB's three pillars of value added. As outlined in the introduction, the six operations were evaluated on the basis of internationally agreed evaluation criteria for Relevance, Effectiveness, Efficiency, Sustainability and the Environmental and Social Performance (see graph below). This forms the basis for the aggregated project rating on pillar 1 and 2 in this evaluation.

All projects except one received a satisfactory or good rating. No project was rated overall poor, nor did any project receive a poor rating on any of the separate evaluation criteria. The Global Loan (4) was rated unsatisfactory overall and in three evaluation criteria.

The finding confirms that the overwhelming majority of investment projects have achieved their objectives. As the evaluation found this achievement goes beyond the mere physical implementation to include the fulfilment of overarching project objectives, such as improving the environmental and safety situation, reducing transmission losses and meeting rising demand, supporting liberalisation and EU foreign direct investment. The evaluation has further demonstrated that these objectives have mostly been achieved efficiently, through in most cases competent private sector promoters. In most projects, there is a high likelihood that appropriate resources are sufficient and provided timely to maintain the outcomes over the economic life-time of the projects. The effects of the economic crisis on the private sector projects are considered limited, since albeit and economic downturn will impact on demand, they have an established market position with favourable production cost, thereby having a competitive edge over other competitors.

Finally, a key finding relates to the environmental and social performance: the vast majority of projects had appropriate measures in place to minimise, mitigate and compensate for negative impacts; a number of projects had even positive environmental and/or social externalities. The positive environmental and social performance of one operation was used by the local authorities as a benchmark in the sector.

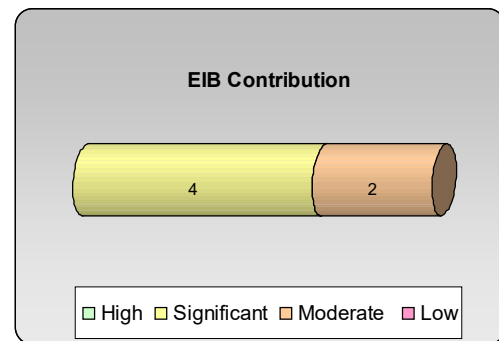
The results for the financial intermediation operation show a rather negative result. However, the size of the sample is small (only one operation) and cannot be considered as representative of the Bank's operations in the region and for the sector.



6. EIB Contribution

EIB contribution assesses the Bank's added value to the projects. The ex-post rating system (high, significant, moderate, low) follows the Bank's "Third Pillar of Value Added" and considers two categories: (a) the Bank's financial contribution, including any funding advantage over alternative sources, terms and conditions, etc. and (b) other contributions, which include any non-financial impact the Bank's presence might have.

Overall, the results of the evaluation are positive; four projects (67%) received a rating of significant while two projects received a moderate rating. The EIB contribution is mostly financial through loan maturity and grace periods, as well as low interest rates and risk sharing. In general, EIB loan terms were appreciated by all the promoters but it appears that probably only very few projects would not have been implemented without EIB financing. In a number of cases this was the first time the EIB financed the sector in a country, which gave specific impetus to its development.



Other contributions were in most cases limited to catalytic and signalling effects of the Bank's presence.

6.1. Financial contribution

In all but two cases (3, 4), the financial contribution of the Bank's intervention is through the provision of attractive terms and conditions (i.e. long maturities and grace periods combined with attractive interest rates), even though, for private sector projects, at times the attractiveness is reduced by the cost of the Bank's guarantee requirements. In two cases, parts of the signed loans were cancelled and the financial value added reduced due to either external factors (high cost of hedging currency risk; 4) or internal factors (procedural constraints and inability of promoter to select eligible investments; 3).

EIB loan volumes per project vary from EUR 34 m to EUR 56 m, ranging from 11 % to 50 % of total project cost. EIB loan duration ranged from 7 to 20 years, while grace periods varied between 2-5 years with the longest durations for the sole public sector project. The majority of the loans were provided with a maturity of less than 15 years and a grace period of 3 years, which characterises private sector operations.

Through signed loans of EUR 289 m in the evaluated sample, the EIB has supported total investments of some EUR 1.3 bn in the projects concerned (leverage x 4.5). All loans were opened in EUR and disbursed in USD; the Bank could not offer financing in local currencies in the two regions.

In several cases the Bank was already familiar with the promoters from operations in other (EU) countries. In two cases of private sector projects, a second operation (2) is under negotiation in another country while another one (5) is in the pipeline.

All private sector operations have been financed under the mandate with partial recourse to the EU guarantee to cover political risk, which seems to be the most adequate financial product available to support EU FDI since most ALA countries are below investment grade.

Project 6:

The EIB loan gave the possibility – through the Political Risk carve out – for the local subsidiaries of a European company to have direct access to long-term finance (12-year term, including 3-year grace period) at a competitive all-in cost. At that time, the promoter's alternative source of finance had a cost of Libor+200 bps; EIB's conditions were very attractive at that time in comparison.

6.2. Other contribution

The Bank's experience and expertise on multiple levels (financial, sector, environment, procurement etc.) often allowed providing important **additional contributions** beyond the mere financial contribution.

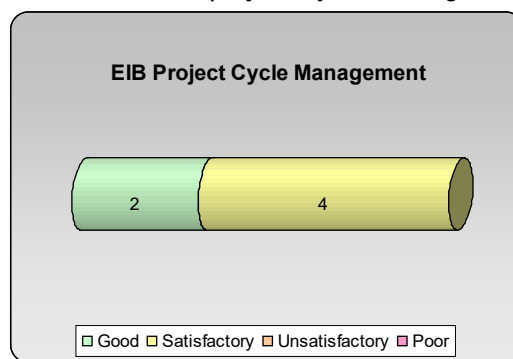
The evaluation found that in all private sector operations under review, including financial intermediation no specific support was provided by the Bank, since most of them were implemented by well established and large companies and promoters.

Some promoters mentioned, however, that the presence of the Bank could provide for important catalytic and signalling effects when entering into new and challenging markets in developing countries and improving the project's reputation through the EIB participation.

Appropriate **conditionalities** are important means to structure and implement investment projects and can provide additional value added to the operations, if appropriately enforced. Besides the usual standard contract conditions, the EIB has introduced in all, but one investment project (4), conditions and /or undertakings to either ensure proper deal closure and /or condition signature and/or disbursements. The conditions and undertakings were fairly standard for the Bank due to the limited complexity of most of the projects.

7. EIB Project Cycle Management

All projects evaluated were rated satisfactory or better for the project cycle management criterion. The Bank had good relationship with most clients, either in the countries concerned and/or through operations with them in Europe. All promoters were in general satisfied with the Bank's management of the project cycle and flexibility in accommodating or addressing specific needs and difficulties and compare favourably to other IFIs. Nevertheless, several promoters called for more clarity and information on the loan approval process during the initial appraisal and decision-making process, which they felt often took long compared to that of commercial banks. Cooperation and coordination with other IFIs has been limited largely as a result of the Bank's core markets in ALA being different from the other IFIs.



7.1. Project identification and pre-appraisal

Most of the projects were identified based on existing client relationships in the country/other regions and/or through the underlying European shareholders of the company with whom the Bank has long standing relationships. The loan appraisal, approval and documentation process from first meetings / identification of project to concluding a loan agreement often took long time, which can be explained by a series of factors including the state of project maturity at identification, the requirements of the risk sharing product (mobilisation of acceptable guarantors and documentation), the cyclicalities of the markets, as well as uncertainties in eligibility criteria and budget allocations under the ALA mandate.

7.2. Appraisal

While the initial contacts often are done with the respective EU headquarters of the promoters, the following discussions on potential operations often take place with the local management in the beneficiary countries. The promoters expressed that the loan appraisal process would have been facilitated had the Bank had a local representation with which contact could have been maintained at a more regular basis and thus providing more clarity in the loan approval process.

However, it still has to be said that most promoters interviewed during the evaluation missions were satisfied with the EIB appraisal process, which in a number of projects, even rather complex one's, can be considered as fast track. Some promoters underlined the seriousness of the Bank's due diligence process. It was also stated that efficiency of EIB procedures compare favourably with other IFI's operating in the country.

In the case of the Global Loan it clearly demonstrates that the Bank's procedures and constraints must be thoroughly communicated to financial intermediaries selecting and managing sub-investments.

The **Economic and Social Impact Assessment Framework (ESIAF)** was adopted by the Bank in 2006 and is a requirement for all Ops B operations. It applies to operations in all regions in which the EIB has a mandate, irrespective of whether a project is under the Mandate or at EIB own risk.

The ESIAF follows the three-pillar system of the Bank's standard value-added framework (Pillar 1 "contribution to mandate objectives and priorities", Pillar 2 "quality and soundness" of the project, Pillar 3 "Bank's contribution"). Since the start of the ESIAF framework, EV has been involved in the set up of ESIAF, as it was anticipated that it would allow for project assessment/evaluation to be fully consistent throughout the project cycle, from appraisal, to monitoring, to ex-post evaluation.

It should be recalled that the (ex-post) measurement of the Economic and Social Impact of an operation differs from the ex-post assessment performed by the evaluator, since the ex-post evaluation includes other elements: The first and most important dimension is the comparison of objectives, outputs, outcomes and results ex-ante and ex-post. This is the reason why the ESIAF uses the rating dimensions low/moderate/medium/high while EV ratings consider poor/unsatisfactory/satisfactory and good. The other dimension added from an ex-post perspective is the assessment of the project cycle management of the Bank.

In this context, EV endeavoured to measure the economic and social impact from an ex-post perspective for the sample of selected projects in the water and waste water sector outside the European Union. It was clear from the outset that it would be impossible to clearly benchmark ex-post findings to the ex-ante scenario, since ESIAF has not been applied at the time of appraisal.

While it is too early to draw final conclusions from this evaluation, initial lessons for the test application of the ESIAF framework for this study can be drawn:

- Despite certain limitations in applying this framework ex-post without having the ex-ante base case assessment; it can be useful for ex-post evaluations (and missions).
- Data requirements are significant, but in most cases can be assessed during ex-post evaluations – in particular when in future the ex-ante basis is available.
- The consistent application of ESIAF has to be ensured to be fully useful throughout the project cycle.
- In particular in light of the new environmental and social statement of the EIB and the requirement to fulfil the ESIAF framework ex ante, more clear guidelines and procedures to ensure that these statements are actually applied seems required. This is the case for direct operations, but in particular for financial intermediation projects.

7.3. Project Implementation/Financing Arrangements

In the vast majority of cases, the (limited) conditions established at appraisal have been complied with by the promoter. The project implementation was well managed by the private sector promoters and not much input was required or needed from the Bank. Only the intermediated loan has suffered difficulties during implementation but is being monitored by the FI.

In one project the disbursement conditions were not fully adequate and could have imposed certain constraints in more complex projects but were managed well in the private sector environment.

The Bank has so far not been able to offer competitive financing in local currencies in ALA, which was an issue and constraint mentioned by several promoters. This together with the Bank's demanding security requirements has limited EIB lending in ALA countries. For projects where main revenues were in local currencies, financing in foreign currencies exposes borrowers to significant exchange risks if not mitigated.

Funding opportunities in local bond markets is a fairly recent phenomenon in many developing countries and could be considered in the major economies or EIB target countries in ALA i.e. Brazil, China and Mexico.

An issue arises with regard to the language used in project related documentation. Some reporting documents are required in the English language (the contract language) while the language is not specified for other documents. In order to facilitate the work of everyone, essential documents should be received in a language commonly used by the Bank.

In Latin America, promoters have also expressed that it would greatly facilitate their work, if Finance Contracts could be written in the one of two EU languages spoken in the region as is the case in the EU operations (Spanish and Portuguese).

Disbursements

The EIB handling and disbursement processes were appreciated by most promoters and in some cases praised in comparison with other IFIs. Overall, the EIB was considered to be rather flexible in implementation and disbursement.

7.4. Monitoring

Operational follow-up and reporting incl. project completion reports

Follow-up on projects implementation has been satisfactory in the majority of cases but as mentioned above, the private sector promoters were all competent and not much intervention was required from the Bank.

Regular reporting during the different phases of the projects implementation and after completion was done in the majority of projects, but in others the Bank should ensure to receive, review, comment on and file regular project progress reports of adequate quality.

For the evaluated projects, for which PCR's were available, the evaluation could confirm the overall ratings for VA pillar 1 and 2 and only minor inconsistencies could be observed. No ratings for pillar 3 were given and a closer collaboration between the techno-economic services and the loan departments of the Bank could further improve reporting quality and consistency.

Electronic data management and accuracy

While most information can be found in the hard copy files (once these have been retrieved from archives), very limited information is available in electronic format. However, most operations are fairly recent and nearly all project monitoring information and correspondence would have been produced electronically and could subsequently have been stored in GED. The Bank does not have sufficient guidelines for electronic storage, which should however be encouraged. It might be advisable for the Bank to establish standard guidelines for GED utilisation, besides the standard authorisation documents, and ensure their implementation throughout all departments of the Bank.

In order to make this follow-up more transparent, all departments concerned should regularly make use of the project progress reports in the Bank's internal project management databases (Serapis) to ensure retrieval.

7.5. Coordination and Cooperation with Other Financial Institutions

The extent of coordination and cooperation with the European Commission and/or other bilateral or multilateral funding agencies is one of the important indicators for the Bank's complementarity in the region. These are particular aspects, which in recent years have been continuously emphasised in the Bank's overall approach and at the same time strengthened, not least through numerous Memoranda of Understanding and closer project coordination.

In most cases EIB was the provider of financing together with commercial banks, while in Brazil two projects were co-financed with the Brazilian Development Bank (BNDES⁴) but no apparent co-ordination took place.

The presence of the EU Delegation in all countries has proved beneficial in terms of overview and administration of sector issues and contacts to local authorities.

⁴ The Brazilian Development Bank (BNDES) is a federal public company, linked to the Ministry of Development, Industry and Foreign Trade (MDIC). Its goal is to provide long-term financing aimed at enhancing Brazil's development, and, therefore, improving the competitiveness of the Brazilian economy and the standard of living of the Brazilian population.

Annex 1 Evaluation Process and Criteria

Rating scale for operations

1. Individual assessments on project quality are rated in four categories: “Good”, “Satisfactory”, “Unsatisfactory” and “Poor”. The overall project assessment reflects the individual assessments within the same scale.
 2. Individual assessments on EIB contribution are rated in the following four categories: “High”, “Significant”, “Moderate” and “Low”.
Individual assessments on the EIB management of the project cycle are rated in the four categories: “Good”, “Satisfactory”, “Unsatisfactory” and “Poor”.
-

Evaluation Criteria

In accordance with EV's Terms of Reference, the objectives of this evaluation are:

1. **to assess the quality of the operations** financed, which is assessed using generally accepted evaluation criteria, in particular those developed by the Evaluation Cooperation Group, which brings together the evaluation offices of the multilateral development banks. This assessment is then reflected in the overall rating of the operation. The criteria are:

a) **Relevance** corresponding to the first pillar of value added: is the extent to which the objectives of a project are consistent with EU policies, as defined by the Treaty, Directives, Council Decisions, Mandates, etc., the decisions of the EIB Governors, as well as the beneficiaries' requirements, country needs, global priorities and partners' policies. In the EU, reference is made to the relevant EU and EIB policies and specifically to the Article 267 of the Treaty that defines the mission of the Bank. Outside the Union, the main references are the policy objectives considered in the relevant mandates.

- b) Project performance, measured through **Effectiveness (efficacy)**, **Efficiency** and **Sustainability** (second pillar of value added).

Effectiveness relates to the extent to which the objectives of the project have been achieved, or are expected to be achieved, taking into account their relative importance, while recognising any change introduced in the project since loan approval.

Efficiency concerns the extent to which project benefits/outputs are commensurate with resources/inputs. At ex-ante appraisal, project efficiency is normally measured through the economic and financial rates of return. In public sector projects a financial rate of return is often not calculated ex-ante, in which case the efficiency of the project is estimated by a cost effectiveness analysis.

Sustainability is the likelihood of continued long-term benefits and the resilience to risk over the intended life of the project. The assessment of project sustainability varies substantially from case to case depending on circumstances, and takes into account the issues identified in the ex-ante due-diligence carried out by the Bank.

Environmental and Social Impact of the projects evaluated and specifically considers two categories:

- (a) compliance with guidelines, including EU and/or national as well as Bank guidelines, and (b) environmental performance, including the relationship between ex ante expectations and ex post findings, and the extent to which residual impacts are broadly similar, worse or even better than anticipated.

Evaluations take due account of the analytical criteria used in the ex-ante project appraisal and the strategy, policies and procedures that relate to the operations evaluated. Changes in EIB policies or procedures following project appraisal, which are relevant to the assessment of the project, will also be taken into account.

2. **to assess the EIB contribution (Third Pillar) and management of the project cycle:**

EIB Financial contribution identifies the financial contribution provided in relation to the alternatives available, including improvements on financial aspects as facilitating co-financing from other sources (catalytic effect).

Other EIB contribution (optional) relates to any significant non-financial contribution to the operation provided by the EIB; it may take the form of improvements of the technical, economic or other aspects of the project.

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

EUROPEAN INVESTMENT BANK OPERATIONS EVALUATION (EV)

In 1995, Operations Evaluation (EV) was established with the aim of undertaking ex-post evaluations both inside and outside the Union.

Within EV, evaluation is carried out according to established international practice, and takes account of the generally accepted criteria of relevance, efficacy, efficiency and sustainability. EV makes recommendations based on its findings from ex-post evaluation. The lessons learned should improve operational performance, accountability and transparency.

Each evaluation involves an in-depth evaluation of selected investments, the findings of which are then summarized in a synthesis report.

The following thematic ex-post evaluations are published on the EIB Website:

1. Performance of a Sample of Nine Sewage Treatment Plants in European Union Member Countries (1996 - available in English, French and German)
2. Evaluation of 10 Operations in the Telecommunications Sector in EU Member States (1998 - available in English, French and German)
3. Contribution of Large Rail and Road Infrastructure to Regional Development (1998 - available in English, French and German)
4. Evaluation of Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development (1998 - available in English, French and German)
5. An Evaluation Study of 17 Water Projects located around the Mediterranean (1999 - available in English, French, German, Italian and Spanish).
6. The impact of EIB Borrowing Operations on the Integration of New Capital Markets. (1999 – available in English, French and German).
7. EIB Contribution to Regional Development A synthesis report on the regional development impact of EIB funding on 17 projects in Portugal and Italy (2001 – available in English (original version), French, German, Italian and Portuguese (translations from the original version)).
8. Evaluation of the risk capital operations carried out by the EIB in four ACP countries 1989-1999 (2001 - available in English (original version), French and German (translations from the original version)).
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)
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