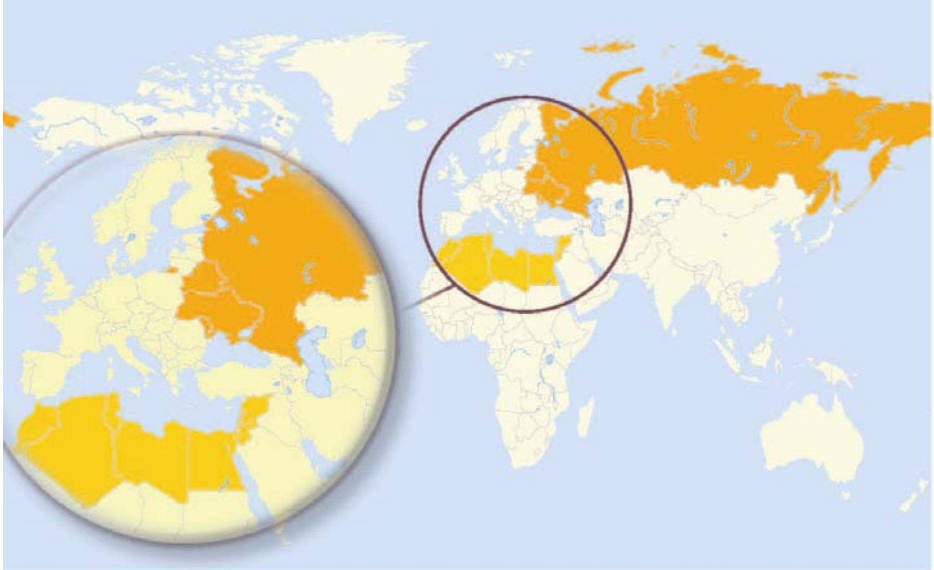

July 2009

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

Synthesis Report

Evaluation of operations financed by the EIB in Neighbourhood and Partnership Countries between 2000 and 2008

EIB Operations Evaluation

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EVALUATION REPORT

Evaluation of operations financed by the EIB in Neighbourhood and Partnership Countries between 2000 and 2008

Prepared by

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July 2009
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NOTICE

The EIB has an obligation of confidentiality to the owners and operators of the projects referred to in this report. Neither the EIB nor the consultants employed on these studies will disclose to a third party any information that might result in a breach of that obligation, and the EIB and the consultants will neither assume any obligation to disclose any further information nor seek consent from relevant sources to do so.

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GLOSSARY OF TERMS AND ABBREVIATIONS

Borrower	The legal persona with whom the Bank signs a Loan Agreement.
bp	basis points (one hundredth of one percent interest)
CA	EIB's Board (q.v.) The EIB Board of Directors, which has sole power to take decisions in respect of loans, guarantees and borrowings.
CD	EIB's Management Committee (q.v.)
COP	Corporate Operational Plan
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ERR	Economic Rate of Return
ESIAF	Economic and Social Impact Assessment Framework
EU	European Union
EV	EIB Operations Evaluation (Ex-Post)
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FI	Financial Intermediary for lines of credit
IRR	Financial Rate of Return
FVA	Financial Value Added
GED	Gestion Ēlectronique de Documents (Electronic Documents and Records Management System)
IFIs	International Financial Institutions
MEDA	COUNCIL REGULATION (EC) No 1488/96 of 23 July 1996 on financial and technical measures to accompany (MEDA) the reform of economic and social structures in the framework of the Euro-Mediterranean partnership
NIF	Neighbourhood Investment Facility
Ops-B	EIB Directorate for Lending Operations outside the EU
PCR	Project completion report
PJ	EIB ProJects Directorate – Responsible for ex-ante project techno-economic analyses and the physical monitoring of implementation and completion.
Project	A clearly defined investment, typically in physical assets.
Promoter	Normally the persons responsible for identifying and developing a project. The promoter may also be responsible for operating and/or implementing the project.
SFE	Special FEMIP Envelope
SME	Small or medium sized Enterprise. A company with less than 250 employees.
SPV	Special Purpose Vehicle – A company, with its own legal persona, set up for a limited set of specific purposes, e.g. to borrow for the construction of a project.
TA	Technical Assistance
TACIS	Technical Assistance for the Commonwealth of Independent States
TEN	Trans-European Networks
Technical-description	Project definition - the basis of the Loan Agreement; prepared by PJ.
VA	Value Added

Executive Summary

Introduction

This ex-post evaluation covers a sample of thirteen projects financed by the EIB in six Mediterranean[1] countries (Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia). It forms part of the EV contribution to the mid-term review of its external mandates and should be read in conjunction with the “Portfolio and Strategy Review” of EIB activities in 2007 Partner Countries from 2000 – 2008.

In line with normal EV practice, the evaluation assessed the projects against standard international evaluation criteria (Relevance, Effectiveness, Efficiency, Sustainability and Environmental and Social Performance) as well as the Bank’s contribution and project cycle management.

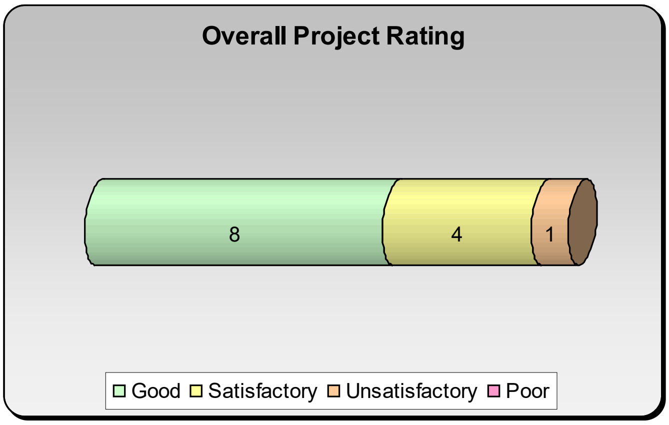
Relevance

In March 2002, the Barcelona European Council decided to enhance the existing activities of the European Investment Bank in the Mediterranean Partner Countries through the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The Council’s overall objective was to “stimulate private sector development in the Mediterranean Partner Countries, in order to facilitate a higher level of economic growth consistent with the growth of the labour force in the region”. The European Council of 12th December 2003 endorsed to reinforce the FEMIP within the Bank. In particular, the ECOFIN Council decided to strengthen FEMIP operations with a number of instruments in support of the private sector.

All 13 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. Hence, all projects are rated Satisfactory or better for the Relevance criterion. These results demonstrate the strong coherence between the operations financed by the EIB and the EU policies translated in the Bank’s strategy.

While the majority of projects were funded with own resources under the Euromed II mandate without risk sharing and country guarantee, the blending of different EIB financing sources under the available EIB mandates and facilities has often proven to be an important triggering point for successful project/sector development.

Overall 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 13 operations were evaluated on the basis of internationally agreed evaluation criteria for Relevance, Effectiveness, Efficiency, Sustainability and the Environmental and Social Performance (see graph). This forms the basis for the overall project rating on pillar 1 and 2 in this evaluation.

92% of all projects received a satisfactory or good rating. No project was rated poor overall, nor did any project receive a poor rating on any of the separate evaluation criteria. Only one project (9) was rated unsatisfactory overall, as well as in three evaluation criteria. This suggests that the Bank was financing rather well performing projects in this region.

Project Performance

The findings confirm that a large majority of the nine evaluated investment projects have achieved their objectives. As the evaluation found, this result 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, diversifying or securing energy supplies for Europe, supporting liberalisation and foreign direct investment. As the evaluation

[1] In total, EV has evaluated about 30% of the portfolio available for evaluation in the region, taking into consideration previous Evaluation reports (see p. 7). For the recent mandates in the Eastern Partnership region, one project in Russia was evaluated in 2007 in an earlier thematic evaluation. No other project was ready for evaluation..

has further demonstrated, these objectives have mostly been achieved efficiently through, in most cases, competent promoters in their respective fields and where appropriate supported by technical assistance. In most projects, there is a high likelihood that appropriate resources are sufficient and provided in a timely manner in order to maintain the project outcomes over their economic life-time. The impact of the current financial crisis on the projects under evaluation is considered relatively limited, although projects requiring regular support from the governmental budget might be indirectly concerned through reduced governmental income from taxes. For the private sector projects, the economic downturn will impact on demand, but 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 even had positive environmental and/or social externalities. The main driver for the one evaluated education project was the improvement of the social situation in the country concerned.

The results for the four financial intermediation projects similarly show rather positive results. One financial intermediary in a microcredit operation was facing increasing financial pressure through high amounts of bad loans. A recent merger (April 2009) is expected to improve the situation, but no full assessment of the impact is possible yet.

EIB Contribution

All projects (92%) except one received a rating of significant or high. The EIB contribution is mostly financial through long loan maturity and grace periods, as well as low interest rates. In general, EIB loan terms were appreciated by all the promoters and even though probably only very few projects would not have been implemented without EIB financing, at least eight incorporate distinct innovative features.

The EIB's financial product offer (risk sharing, Special Femip Envelope, risk capital) and the blending of different EIB financing sources under the available EIB mandates and facilities has often proven to be an important triggering point for, in particular, successful private sector development. Risk capital contribution, providing local currency financing, helped to develop new private sector activities.

Through its experience and expertise, the Bank has at times provided important additional contributions beyond the pure financial aspects. The evaluation found several instances where this additional contribution was important. In recent years, the EIB has significantly stepped up its provision of technical assistance measures to support promoters in project definition, preparation and implementation. When the EIB entered into more innovative schemes, important catalytic and signalling effects were reported by project promoters. Furthermore, the use of technical assistance and conditionalities has, in most projects, improved their implementation.

EIB Project Cycle Management

More than 90% of all projects evaluated were rated satisfactory or better for the project cycle management criterion. The Bank had a good relationship with a number of clients, either in the countries concerned and/or through previous operations with them in other countries. In a number of projects the EIB explored more innovative structures. Project appraisal was in most cases well structured and efficient. The depth of analysis was a reflection of the project's complexities with regard to financial, economic and socio-environmental aspects. Although in the vast majority of cases, the Bank's project cycle management has been satisfactory, certain improvements in appraisal and monitoring procedures (periodic progress reports) can be made. One particular improvement could be the reinforcement of the Bank's external offices to support the Bank's operations and its entire project cycle management from project identification to monitoring. Cooperation and coordination with others together with appropriate technical assistance, either provided or facilitated by the EIB, have yielded positive results (see below).

Table of recommendations:

	Observations & Recommendations	**Response of the Operational Directorates**
This report is one of a group of 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.		
1	**Financial product blending and Technical Assistance (TA):** Observation: As the evaluation has shown, the Bank's financial value added can be highest, when blending of different financial products (risk capital, risk sharing) can be done. This was particularly positive in some private sector operations. In addition, the provision of technical assistance (through EIB or provided by others) for certain public sector operations has often improved implementation results. **Recommendation:** Continue to develop new innovative projects through blending of financial products. In public sector projects, this can be supported by Technical Assistance to support institutional development and to smoothen project implementation.	Agreed. The scope for using TA to improve project quality will continue to be a driver of value-added. The Bank will remain focused on project related TA, but will continue to liaise closely with the Commission and other development partners who normally lead on broader institutional development issues.
2	**Appraisal:** Observation: Appraisal processes were in most cases appropriate and fast, but in particular more innovative project finance deals require significant and appropriate resources for deal closure. **Recommendation:** The Bank should continue to a) ensure precision in traffic forecasts and profitability assumptions, b) use conditions to structure the projects – and ensure their enforcement.	The Bank's technical services will maintain a critical approach to demand forecasts in all sectors and support country loan officers with advice and due diligence in any proposed project finance structuring.
3a	**Monitoring and reporting:** Observation: Project monitoring and completion reporting have been mostly satisfactory. More frequent promoter contacts could help project implementation and monitoring. The establishment of local EIB offices has improved the situation, but they are not staffed to address technical issues. The recent introduction of monitoring assistants has helped to improve follow up. **Recommendation:** All operations should be subject to formal periodic progress reporting by the Bank. The extent of this can be tailored to the risks of the operation, but reports should cover all of the Bank's operational inputs and the current distinction between physical and financial monitoring should be dropped. The current practice of project completion reporting for investment projects should be extended to line of credit operations. These enhancements should also help with establishing a formal handover procedure during changes to operational staff. Adequate use of GED should be ensured.	Agreed. Measures to improve monitoring, both in scope and from an organisational point of view, are currently being examined. This will cover i.a. the frequency and adequacy of progress reporting systems, the need for on site visits, the integration of project/credit issues, and internal procedures for handling projects and for handing them over when they run into particular difficulties. Agreed.

3b **3c**	Closer collaboration between the project and lending departments could further improve monitoring quality and consistency. This could reduce inherent inefficiencies and streamline internal procedures, not only for Project Completion Reports. The Bank should examine whether local EIB offices could be reinforced through additional staff for follow up. The office could be the base for a regional expert, who could have the responsibility of supporting the Bank's operations, where specific attention is required and regular follow up from HQ is difficult to ensure.	The principle of reinforcement of the local offices outside Europe to follow-up more regularly on monitoring - but also to assist with upstream project preparation TA tasks - is agreed. The right balance between operational and technical staff to cover multiple sectors is under consideration. Improving monitoring / reinforcing local offices will both have resource implications.
4	<u>**Economic and environmental ex-post studies:**</u> <u>Observation:</u> Environmental and economic studies have been done by some promoters after project completion. This could be useful for some public sector promoters and could help to identify that mitigation measures are implemented effectively. <u>**Recommendation:**</u> Ex-post economic and environmental studies could be requested by the Bank for certain cases as a special undertaking.	Agreed, where operationally relevant for the Bank to protect against reputation risks, where there are significant lessons to be learned about effectiveness of mitigation measures or where significant mitigation/compensation measures are of a longer term nature and there is a real need to follow this aspect longer term. This type of reporting requirement is already specified in some cases and the need for such reporting should be assessed on a case-by-case basis. However, post-PCR reporting (i.e. more than 15 months after project completion) should be limited to cases where there is a significant need identified.
5	<u>**Environmental and social guidelines and ESIAF:**</u> <u>Observation:</u> Environmental and social procedures for lines of credit have not been clear in the evaluated sample. In addition, the ex-post application of ESIAF, in particular for environmental and social aspects, has been difficult. <u>**Recommendation:**</u> In view of the Bank's new environmental and social statement, review both corresponding ESIAF guidelines and procedures for lines of credit.	Awareness of, and checks on, compliance with the Bank's E&S standards by financial intermediaries, including TA support where required, will progressively be mainstreamed into the Bank's procedures. This will be reviewed when updating the Handbook. It should be remembered that whereas general environmental requirements are long standing, these have been refined in recent years and social requirements have been added. The latest E & S principles and standards were not in place when the sample projects were appraised.
6	<u>**EIB data management:**</u> <u>Observation:</u> For some projects all important documents, including e-mails and other electronic documents, have been saved in GED. While this can help the retrieval of documentation, a mere and unstructured "dump" of data into the knowledge centre has to be avoided, since this makes data retrieval almost impossible. <u>**Recommendation:**</u> Standard guidelines for GED utilisation should be established and their implementation has to be ensured.	Agreed – Essential documents should be identified and correctly stored to avoid GED becoming a dustbin of electronic files. Project files should also be kept in good order and properly archived.

1. Introduction

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 Asia and Latin America between 2000 and 2008".

Approach and methodology

This evaluation concerns Neighbourhood and Partnership[2] countries, where **European Neighbour Policy** is applicable and covers the following countries:
Mediterranean Partner Countries (Algeria, Egypt, West Bank and Gaza, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia); Eastern Europe, Southern Caucasus; Russia.

Specific objectives for the Mediterranean region include at EU level: enhanced focus on private sector development; cooperation with partner countries should include issuance of bonds in local markets. For all regions, overall objectives are added: "Moreover, the protection of the environment and energy security of the Member States should form part of the EIB's financing objectives in all eligible regions."

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 transport and energy projects, Agit Prod. SA for solid waste and MWH SA/NV for lines 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 and 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) from an ex-post perspective.

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

Selection process of individual operations - methodology
- 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.

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[2] EIB operations under the Mediterranean mandates have been evaluated in two earlier evaluation: EIB financing with own resources through global loans under Mediterranean mandates (2004) and EIB financing with own resources through individual loans under Mediterranean mandates (2005) and can be found on the EIB/EV website.

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

- As a general rule, the in-depth evaluation of a project should take place between one and two years after completion of the investments.
- Based on EV experience, the following rules were proposed for defining the operations that can be evaluated: a) operations fully disbursed: Direct investments: Project Completion Reports (PCR) should 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, b) 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: a) all sectors represented, b) minimum number of countries present in the selection, c) all type of financial products represented (e.g. risk-sharing or not).

As the operations concerned should be mature, all in-depth evaluations are dealing with operations financed under the 2000-2006 mandates. Taking into consideration two previously evaluated projects (in Russia and Turkey) for this mandate period, total operations evaluated in the region represent about 30% of the portfolio available for evaluation.

Detailed project analysis and field visits, where possible, have been conducted for the selected projects. Individual evaluation reports have been prepared and discussed with the operational staff associated with the project, and the main elements were sent to the 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:

#	Country	Sector	Signature Date	M EUR Signed	Date PCR
1	Algeria	Private sector	2002 2004	66 12.5	2005 2009
2	Algeria	Financial sector	2005	10	N/A
3	Egypt	Private sector	2003 2005	304.5 234.4	2007
4	Jordan	Public sector	2003	39.7	N/A
5	Jordan	Private sector	2004	100	2007
6	Lebanon	Financial sector	2005	50	N/A
7	Morocco	Public sector	2001	100	2007
8	Morocco	Financial sector	2003	10	N/A
9	Morocco	Public sector	2003	14	N/A
10	Tunisia	Public sector	2000	25	N/A
11	Tunisia	Financial sector	2001	100	N/A
12	Tunisia	Public sector	1998 2000	45 45	2008
13	Tunisia	Public sector	2004	65	N/A

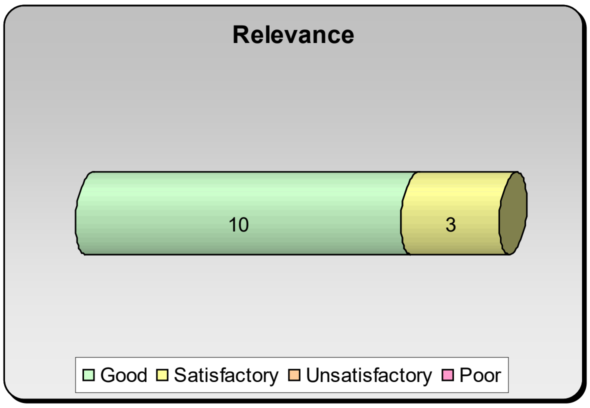
One project in Russia was evaluated in 2007 and the results have been included in an earlier thematic evaluation. No other project in the Eastern Partnership region was completed and at a stage to be evaluated.
Some key characteristics for the selected projects in the three sub-regions is given below:

	Maghreb	Maschreq
Number of projects	10	3
Loan volume	40%	60%
Investment cost	35%	65%

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 and the country objectives, and thus reflects the first pillar of the EIB value added framework. All 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.*



The evaluation results for the 13 projects are depicted in the graph above, and show 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

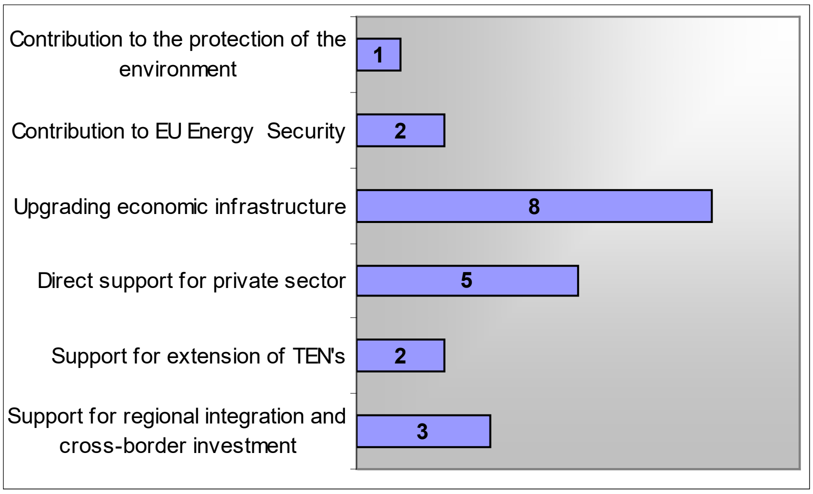
In March 2002, the Barcelona European Council decided to enhance the existing activities of the European Investment Bank in the Mediterranean Partner Countries through the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The Council's overall objective was to "stimulate private sector development in the Mediterranean Partner Countries, in order to facilitate a higher level of economic growth consistent with the growth of the labour force in the region". The European Council of 12th December 2003 endorsed to reinforce the FEMIP within the Bank. In particular, the ECOFIN Council decided to strengthen the FEMIP operations with a number of features and instruments in support of the private sector.

A detailed outline of the history and development of the Mandates and Facilities for the Neighborhood and Partner countries, covering the countries in the evaluation, is provided in the Portfolio and Strategy Review for EIB activities in "2007 Partner countries" from 2000 to 2008.

General EU objectives and the relevant specific EIB mandates are aligned and for the projects in reference can be divided into several categories. Most of the projects under evaluation targetted some form of private sector development, either through the provision of lines of credit and/or through specific support of private sector investments. In one case, an explicit focus was to specifically contribute to the privatisation efforts in the country (1). In line with the general EU objectives and the EIB mandates, the development of economic infrastructure and the contribution to energy supply security were general objectives. Two projects in the sample targetted environmental (10) and social (4) objectives.

Project 2:
The project is fully relevant regarding the EU/EIB/country objectives and is also consistent with the objectives defined in the risk capital regulation, namely "in particular to reinforce the financial sector in MEDA countries". It also meets priority objectives of the "reinforced FEMIP" through the direct support to SMEs, and by specifically involving South-South cooperation. This EIB loan gave confidence to other financial partners, which have joined as shareholders of the project. Consequently, the EIB participation induced an important catalytic effect. It illustrates how the EIB has used the Risk Capital Facility to support the creation of a new leasing company, while respecting market mechanisms and stimulating transfer of know-how and financial cooperation between MEDA countries.

EU/EIB Objectives
- Neighbourhood and Partnership Countries -



It is to be noted that a high number of projects included in this evaluation had some innovative features (i.e. first operation in a country, or sector). Two projects were specific project finance initiatives (1,3), which were a first in the country and provided a reference not only for the country but also for the wider region. In addition, a number of projects explicitly facilitate South – South cooperation.

2.2. Mandate and country objectives

The projects were fully in line with the respective mandates. While the majority of projects were funded with own resources under the Euromed II mandate without risk sharing and country guarantee, the blending of different EIB financing sources under the available EIB mandates and facilities has often been an interesting feature of EIB participation (see table below).

Loans from own resources			**Additional financial support**			
Recourse to EC Guarantee				EC Budget		
Full recourse*	Risk Sharing	No recourse	EIB Special Femip Envelope	Interest rate subsidy	Risk Capital	Support Fund (TA)
4, 5, 7, 9, 10, 11, 12, 13	1, 3	3	6	10	1, 2, 8	10

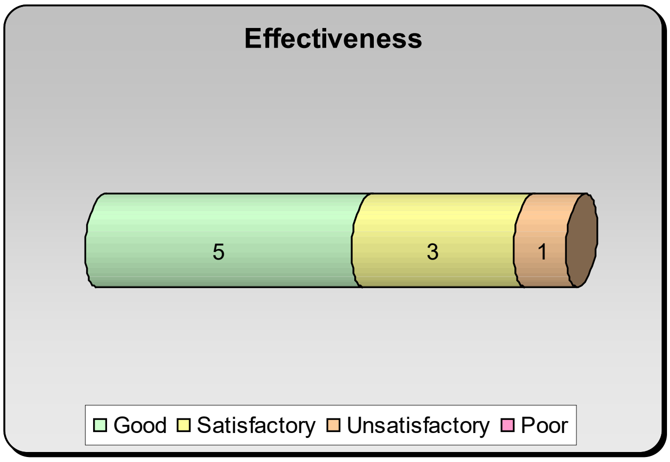
* sovereign loan with country or central bank guarantee

EIB's financial product offer (risk sharing, Special Femip Envelope, risk capital) and the blending of different EIB financing sources under the available EIB mandates and facilities has often proven to be an important triggering point for, in particular, successful private sector development. Risk capital contributions, for instance, partly providing local currency financing, helped to develop new private sector activities. One environmental project (10), benefited from own resources funding with a sovereign guarantee and an interest rate subsidy, as well as the provision of technical assistance through the FEMIP support fund. The loan for project 6 was the first loan to a private sector bank in Lebanon without a State Guarantee. The financing proposal noted the commercial risk arising from a non-secured risk on the borrower. The operation therefore presented a higher risk than normally accepted by the EIB under standard credit risk rules. This additional risk taken by EIB was adequately provisioned through the Special FEMIP Envelope (SFE), which was designed for that purpose.
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 (9)

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.

3.1. Effectiveness



*Project **Effectiveness** relates to which project objectives have been achieved, based on the following two major parameters: a) <u>implementation</u>: the evaluation looked at the completion information, coherence with the technical description, timing, procurement, costs and funding and b) <u>operation</u>: management and organisation of project operations and achievement of higher-level objectives.*

The result is positive, since for all investment projects except one (project 9) 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. Project 9, a decentralised multi-component infrastructure project, was hampered by procurement and environmental concerns. It suffered from an inadequately performing promoter with limited project management capacity and a lack of follow up from the Bank. This impacted negatively on its ratings for environmental performance.

Most of the projects evaluated delivered on the physical implementation and 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: improving the environmental or safety situation, reducing transmission losses and meeting rising demand, diversifying energy supply or securing additional supplies for Europe, supporting liberalisation and foreign direct investment.

3.1.1. Implementation performance

Physical implementation, schedule and procurement

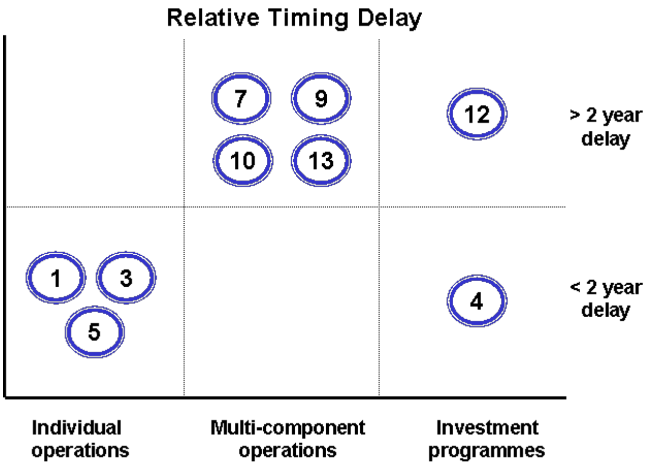
Physical implementation: The vast majority of projects evaluated have seen professional project management and satisfactory implementation, even though some projects have experienced delays and/or cost overruns, as will be shown later.

The larger private sector projects (1, 3) were implemented under turnkey or EPC (engineering, procurement, construction) contracts supported by reputable investors with experience from the implementation of similar projects. An in-house project management team was supervising the project implementation. Also, most of the public sector operations where implemented and coordinated through in-house experts (7, 10, 11, 13), but a number of cases stand out and merit a more detailed analysis.

In one education project (4), besides tangible school investment forming the main focus of EIB financing, a number of more intangible project components were included in the project. The entire set-up was appropriately supported by means of technical assistance. A Development Coordination Unit was established and integrated into the Ministry of Education. Thereby, it had direct access to highest decision making levels, which was important for project management and facilitated efficient reporting. This is a good example of adequate institutional capacity development, which is also expected to be used during the follow-up operations. Project implementation for a new innovative solid waste project (10) also faced a number of challenges, i.e. changes of project site, which is common in the sector. It benefited from technical assistance, provided by a bilateral aid agency, and even though the project experienced delays, it has allowed the promoter to implement a large procurement process, acceptable work supervision as well as the attraction of international companies for sub-project operations.

Time schedule: The implementation delays, when compared to the initial appraisal estimates, are depicted in the graph below.

Projects with performance contracts incentivising fast implementation were executed ahead of time (1, 3), while others have experienced significant delays.



Analysing the nature of the project (framework type versus individual project), it appears that most individual operations with clear project definition and objectives have been implemented on time. However, most multi component or investment programme operations experienced delays in excess of two years. For some projects, implementation start up was delayed, which subsequently delayed overall implementation. In addition, certain projects suffered from procurement delays (re-tendering), change of scope and/or location of sub-projects. Individual components of two larger network projects (12, 13) were delayed due to expropriation, land acquisition and slow action from concessionaires in replacing existing networks. In a number of cases the initial implementation schedule was overoptimistic.

Project 9, a decentralised multi-component infrastructure project, was hampered by procurement and environmental concerns. It suffered from an inadequately performing promoter with limited project management capacity and a lack of follow up from the Bank. The promoter's capacity was overestimated, especially in light of the numerous components. The Bank should have assessed the promoter's capacity more realistically and proposed adequate support measures. This could have been done through the provision of technical assistance at the promoter's premises to manage the project and support its implementation.

Procurement: Procurement procedures for all EIB financed components were in line with general EIB procurement standards and guidelines. Should they have not been respected, the Bank's non-objection was not given (9).

For <u>public sector projects</u>, the procurement procedures with publication in the national and international press and the EU Official Journal were clearly facilitated in cases where the promoter was experienced with the requirements of the EIB and/or other IFI's.

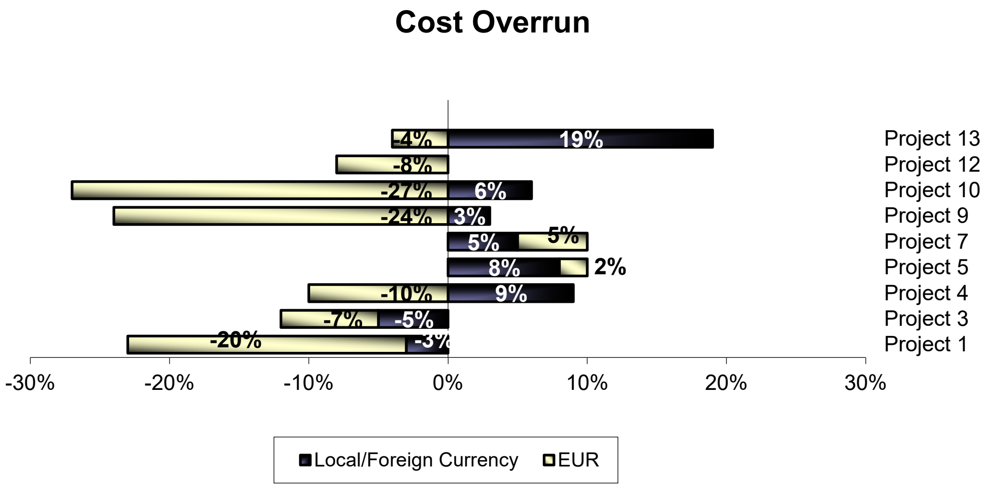
In one case (13), one sub-contract was awarded to the bidder with the most advantageous offer. The promoter considered that the price was too low, but the bidding procedure could not be altered, which ultimately resulted in the contractor only realising 20% of the contract before it could be cancelled and re tendered.

Project 1: The review of the equipment's procurement was of particular importance during the appraisal of the operation, which is not common for standard private sector operations. The turnkey contract was awarded by direct negotiation to an EU based, internationally specialised engineering company, whereby the local components were sub-contracted to and carried out by companies of the promoter. Consequently, the appraisal had to confirm whether the procurement procedure was in the best interest of the project and in line with EIB procurement policy for private sector projects. On the Bank's side, a specific procurement due diligence mission to the European equipment supplier was made to verify and benchmark the procurement procedures and the outcome of the tendering process with the Bank's standards and experience. Ultimately, the analysis concluded that the contract components were procured in a fair and transparent manner and the selected offer was the most advantageous, therefore in line with EIB policy for private sector operations, both in terms of non-discrimination of suppliers and promotion of international competition.

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

Project cost and financing plan

Project cost: The pattern of outturn cost to appraisal estimates is presented in the graph below. With one exception, the cost increases, both in local currency and in EUR, are 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. However, even in local currency or on an USD basis, the cost overruns have been fully acceptable in most cases. Two private sector projects (1 & 3) benefited from the implementation of a second production line at the same site, thereby significantly reducing the cost of installed capacity. This contributes to improving the competitive position of the factories. In projects where cost overruns were noticed, these were due to construction cost increases, variation orders, expropriation costs and additional works, or a combination of these factors.



Project funding: On the funding side the evaluation found that, in line with EIB guidelines, ex post financing remained within the statuary limits for almost all projects. The relative importance of the EIB's financial contribution is, in most projects, very significant when using disbursements compared to total ex post project cost as an indicator. Only in one project (10), where some works are still ongoing, the statuary limit is currently exceeded.
When cost savings were achieved, the promoter's own fund contribution was usually reduced.

3.1.2. Operational performance

Management and employment

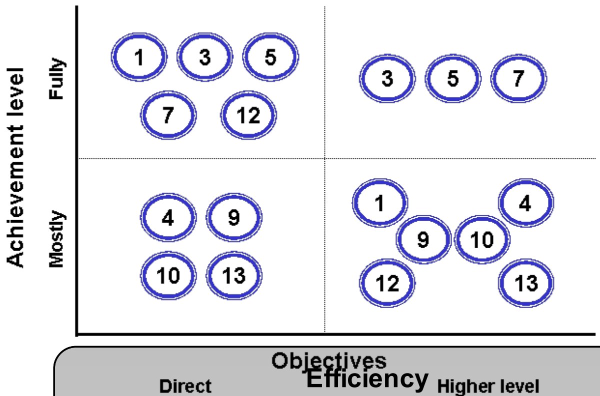
Management: The vast majority of projects are operated by the promoter's experienced teams and/or its joint venture partners. On the job training is being provided for all new projects using existing facilities operated by the same promoter. Some public sector operations are operated by independent governmentally owned companies, while others have outsourced the ultimate operation of the sub-projects to concessionaires and private companies. Human resource development plans exist in most companies. Almost all projects visited during the evaluation were technically sound, functional and in good condition and the management considered appropriate, which evidenced overall the projects good operational performance.

Employment: Direct and indirect employment effects were important, in particular for three projects evaluated. Overall, some 2500 direct jobs and more than 1400 indirect jobs have been created by the projects. The two greenfield private sector operations (1 & 3) and one multi component public sector project (10), developing a new activity in the country, accounted for more than 85% of all direct and indirect jobs created. For the other public sector projects, employment creation was limited, although temporary employment amounted to more than 30,000 person-years, thereby positively affecting the employment situation in the respective regions or countries.

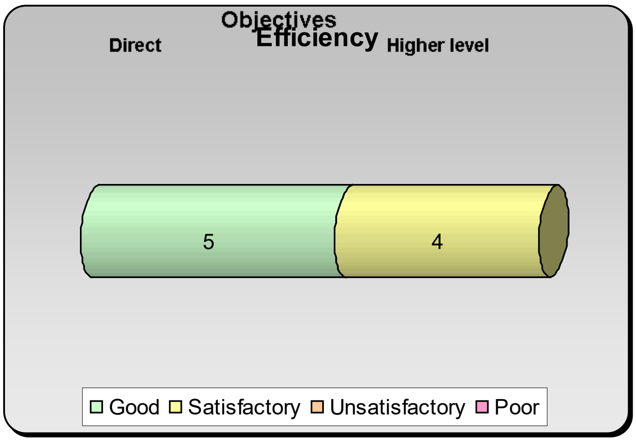
Achievement of objectives

The effectiveness criterion also measures the extent to which both the specific and the higher level project objectives have been achieved. The physical objectives have been or are expected to be (for those projects still not fully completed) achieved by almost all projects. The degree of explicitness differed, but all project targeted – beyond the mere physical implementation – higher level objectives, such as improving the environmental situation (10), improving safety (7, 13), reducing transmission losses and meeting rising demand (12), diversifying energy supply (5) or securing additional supplies for Europe (3), and supporting liberalisation and foreign direct investment (1).

For a large number of projects the achievement level can be only considered as mostly fulfilled, partly related to the fact that for some of these overarching objectives no specific indicators had been given at appraisal and, ex post, some of them might not have been fulfilled completely. One education project (4) for instance had very wide ranging and extremely challenging objectives, which to a large extent were achieved, but might be considered overoptimistic with hindsight.



A graphical overview of the direct and overarching objective achievement levels for the different operations is depicted in the graph.



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 satisfactory or good for the efficiency criterion. Five projects were rated good, thanks to excellent operational performance and/or high utilisation of the assets (with ex post exceeding ex ante expectations) and to very positive economic impacts. For a number of projects the ex post economic rate of return could be calculated and ranged between 13-30%.

3.2.1. Market, demand aspects

Despite the projects' sector diversity (see chapter 3.1), when evaluating market and demand aspects, some common issues emerge:

Demand development has been correctly or slightly underestimated for the majority of the projects, which reflects sound banking prudency. Only three projects revealed a lower than initially anticipated demand growth (9, 10, 13).

None of the projects created a specifc overcapacity situation, and also for the private sector projects, working in an increasingly competitive environment, the market and demand prospects are good. In project 1 an important feature was its early market penetration, which started through imports from an existing plant nine months prior to project start-up. This was important to establish a customer bases, brand image and to achieve a significant market share from the beginning, providing the ground for a successful ramp up of the project.

For a number of projects the planning and implementation times have been longer than anticipated (see chapter 3.1.1), which usually brings a higher degree of uncertainty into the initial appraisal forecasts. Nevertheless, irrespective of the projects nature, i.e. a large infrastucture project with new and/or traditional features or innovative private sector operations, the accurracy of appraisal estimates is rather positive. Even in projects where slight underestimations were reported, this had only a limited impact on final project results.

3.2.2. Operations, tariffs/prices, operating costs

Under *operations, prices, tariffs and operating cost* the evaluation analysed to what extent the projects' operations 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. It is important to note that public sector operators did not necessarily display less skills and/or awareness than their private sector counterparts in this respect.

Both private sector operations are perfoming very well, demonstrating highest operational efficiency based on extensive experience from other similar operations elsewhere.

> **Project 3:** The operator of the plant is ISO 14001, ISO 18001 and OHSAS 18001 certified.
>
> Safety is a major concern in operations, and programmes are implemented on a continuous basis to improve this. By the end of December 2008, nearly 10 million operating hours had been provided without LTIs (Lost Time Injuries). The project was awarded the RoSPA (Royal Society for the Prevention of Accidents) Silver Award in 2007 and the RoSPA Gold Award in 2009. RoSPA grants awards to companies with the highest occupational, health and safety standards.

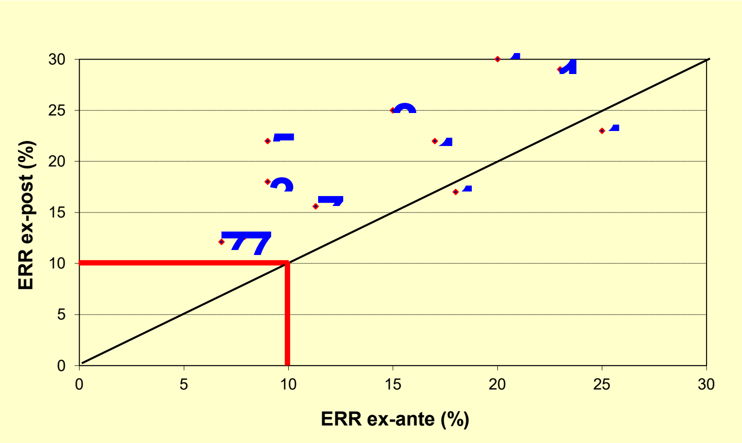
Most of the public sector operations operate in a more or less regulated environment. In these cases, tariffs, when they are applied, which is not the case for all public infrastructures (13), are often subsidised and full cost recovery is not achieved. Pricing/tariff adjustments are in most cases flexible to cater to particular client needs.

In project 10 the pollutor-pays principle is not directly reflected in the charging system for waste disposal. The landfill disposal costs have to be covered at a rate of 20% by the municipalities and at 80% by the State budget via the retrocession of certain taxes. The promoter has no direct influence on the tax, which means that the tax levels remain unchanged, even when the cost of the specific waste flow removal changes.

3.2.3. Financial and economic impact

The type and extent of financial and economic analysis provided at appraisal reflects the diversity of the nine investment projects evaluated. Even though the expost IRR and ERR could not be recalculated, in all evaluated projects the anticipated financial and/or economic impact is 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, increased availablity and use of public services.

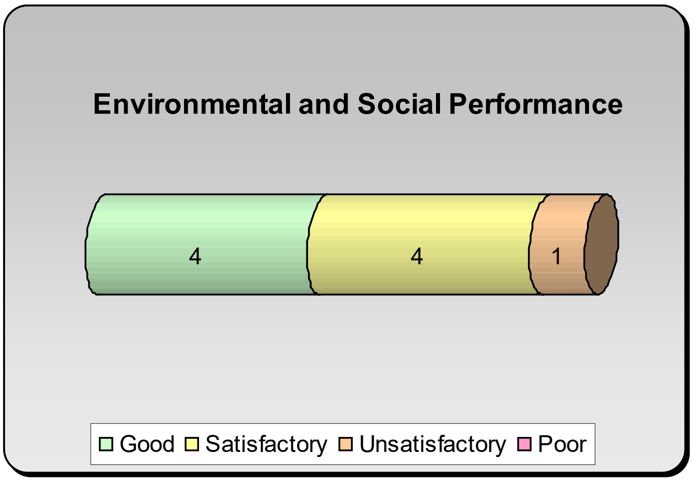
Comparison of ex-ante/ex-post ERR calculations



For five projects (and their sub-projects – i.e. project 13 had four subprojects, which were calculated individually), the explicit re-assessment of the ex ante ERR at the time of the project evaluation could be done (see graph). In one project (1), the IRR was expected to be the lower boundary for the ERR, which could be validated from an ex-post perspective due to significant direct and indirect employment effects, important economic spill-over effects in ancillary sectors of the economy and significant hard currency savings stemming from import substitution.

The ex-ante economic viability of EIB funded projects is usually based on cost benefit analysis, but often the economic analysis of infrastructure projects is limited to a cost effectiveness analysis (least cost solution), and a discussion of affordability considerations (10) based on current and future expected tariff developments.

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 specifically considers 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, better or worse than anticipated.

The findings for the environmental and social performance are largely positive. Almost 90% of 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) beyond appropriate mitigation measures to minimise negative impacts, show positive environmental and/or social externalities (such as noise reduction, energy savings, positive changes in commuter behaviour, improved education, and others).
One caveat is warranted from an evaluation perspective: Most projects evaluated have reached or are reaching completion and have assumed operations fairly recently. The final impacts of some environmental and social measures can ultimately be measured only after a longer period of time; therefore there remains a certain degree of uncertainty in these findings.

The environmental and social performance is evaluated based on compliance with the environmental procedures and environmental and social performance after project start. In addition, three project clusters are differentiated: a) stand alone private sector operations, b) public sector operations with limited impacts and c) public sector operations with major impact (also including environmentally driven projects such as solid waste).

With one exception (9), the environmental procedures applied by the promoters where to a large extent in line with EIB requirements. For both private sector operations included in the sample, the underlying project finance structure, including various parties (also IFI's), led to a full compliance of the projects with international environmental impact assessment procedures, including public consultation. Regular environmental monitoring was provided during and after the implementation and despite recent small deviations in one project (1), both projects comply with highest international environmental standards and can be considered to have limited residual impacts. It is to be noted that project 1 did not request specific monitoring, due to its probable reliance on another IFI, which is uncommon for a project in this sector. A more stringent approach for environmental monitoring was observed in the same sector but in another mandate (Asia and Latin America).

For public sector projects with limited environmental impacts, i.e. where projects related to modifications of existing infrastructures or the impact is very limited (school construction), the applicable national regulations, which were in line with EIB procedures, were applied.

Public sector projects with significant environmental impacts were implemented according to national and EIB standards and EIA procedures were undertaken. In most of the cases appropriate environmental follow up and reporting was also carried out (5, 10).

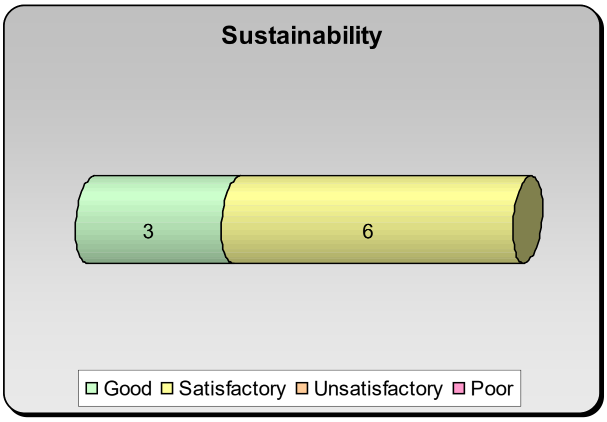
Two specifically environmentally and socially driven projects (4, 10) stand out. In project 10, the environmental achievements were significant, albeit stricter monitoring (in particular underground water quality) is recommended. Project 4 has important social functions by contributing to the population's improved access to both primary and secondary education in the country.
It is to be noted that some of the gas projects support the substitution of oil by gas, thereby helping to reduce polluting emissions from power plants currently using heavy fuel oils.

The projects' social performance varied significantly in direct relation to the size and potential impact of the project.
Several projects reported significant employment effects (see chapter 3.1.2). In particular, for the larger private sector operations, important direct and indirect employment effects, as well as a good performance with regard to the project's integration in

Project 7: In the EU motorways are subject to EIA's, as developments listed in Annex 1 of the Directive 85/337/EEC[1]. However, at the time of the project, the national law did not oblige the Promoter to carry out such EIAs for motorways. The Bank, however, insisted that, in line with the EU legislation principles, an Environmental Impact Assessment be carried out and that recommendations be taken into consideration in the final design.
Environmental considerations were integrated in the project's design and implementation. In its appraisal the Bank showed concern on the due consideration to be given to the technical solution to be adopted in order to minimise the project's irreversible environmental impacts. For one sub-project, the promoter chose to construct a viaduct in order to offer no obstruction to water flow. The Bank's stand to apply EU environmental legislation principles to the project has had a positive impact not only over the project, but on the Promoter's attitude. Its capacity to integrate sound environmental impact assessment processes and apply recommended mitigation measures has increased and is now reflected in other current projects.

the local community, was noted. In one case (3) the community programme started well before project start up to gain the trust and confidence of the local population. This project also utilised an external consultant to verify its alignment with the Equator principles, which is a benchmark for determining, assessing and managing social and environmental risk in project financing. The project was one of the first projects that were subject to this external verification and showed compliance and has implemented an effective environmental monitoring programme. Most larger network projects (7, 12 and 13) improve the accessibility of the population to either energy or transport, thereby fulfilling an important social function.

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 of the individual investment projects evaluated received a satisfactory or better rating (see graph above); in fact, despite some natural uncertainty inherent in the long term prospects of private or public sector projects with an economic life up to 30 years and more; three projects (two transport, one private sector) 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 projects under evaluation is considered relatively limited, although projects requiring regular support from the governmental budget might be indirectly concerned through reduced governmental income. For the private sector projects the economic downturn will impact on demand, but they have an established market position with favourable production cost, thereby having a competitive edge.

3.4.1. Physical and operational sustainability

There are no real concerns with regard to the physical sustainability of the installations financed. All operations were rather new and operated properly. In most cases the promoters had experienced in-house technical staff, who could be appropriately supported by outsourcing maintenance operations if and when required. In some operations, various minor problems with regard to spare parts availability (1) or physical protection of some landfills (10) were reported. The site visits performed during the evaluation missions confirmed acceptable maintenance levels for the projects financed. In some public sector projects, maintenance was provided for some years by the contractors after the hand-over of the facilities (4) or through private operators ensuring the sustainability of the operations.

In almost all projects evaluated, the managerial capacities of the direct project promoters were acceptable and operational sustainability concerns are limited in this respect.

3.4.2. Financial sustainability

In the evaluated public sector projects with no or limited revenue generation capacity and where the liquidity situation might be weak, financial sustainability is almost guaranteed through the commitment of the governments to support the companies. There were no serious doubts in any of the evaluated cases concerning the priority given by the government and the longer term commitment for the companies is obvious.

> **Project 12:**
> The installations are of high standard, which will secure a long lifetime of the installations, and no risks have been identified for the medium to long term physical sustainability. The increased capacity to transmit electricity will sustain the future development in distribution and thus in demand. Overall, the financial situation of the company is good, but vulnerable to increases in oil prices, and tariffs are still subsidised.

As a consequence of their high performance, both private sector operations (1 & 3) have an excellent financial performance and good prospects for continued further growth.

The impact of the current financial crisis on the projects under evaluation is considered relatively limited, although projects requiring regular support from the governmental budget might be indirectly concerned through reduced governmental income. For private sector projects the economic downturn will impact on demand, but they have an established market position with favourable production costs, thereby having a competitive edge.

4. Performance of Financial Intermediation Projects (4)

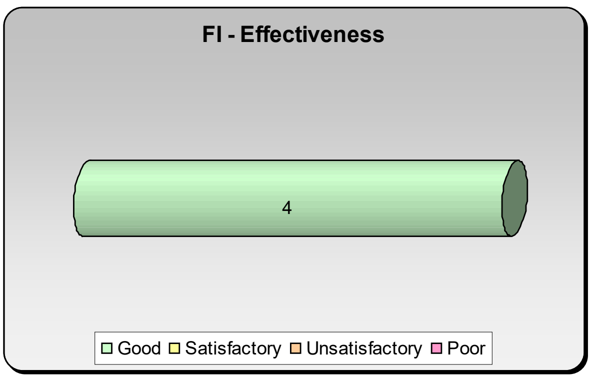
The specific objective of the lines of credit has been and continues to be to channel EIB funding to investments, which were below the threshold for EIB direct lending – primarily to SMEs. In two financial intermediation operations, microcredit and leasing, two new sectors were targetted. The selection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

This chapter follows the line of the standard project performance assessment (quality of the operation) mirroring 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.*

4.1. The Global Loan Performance – "Effectiveness"

All four financial intermediation projects have been fully committed and achieved their overall objectives. They contributed to strengthen the financial sector in the countries by supporting existing markets and/or promoting specific new market segments. They allowed an appropriate client and sector coverage in line with its objectives. Overall, the results of the evaluation are very positive; all four projects (100%) received a good rating.



Commitment and disbursements

All four financial intemediation products, albeit slightly different in approach and target groups, have been fully committed and disbursed and consequently the general objectives of the operations have been met. Two innovative projects (2 & 8) have effectively contributed to develop a new sector in the country, in both cases providing finance for beneficairies that have difficulties in finding adequate finance. All projects contributed to strengthen the financial sector in the countries by supporting existing and/or promoting specific new market segments.

The two traditional FI operations (6 & 11) benefitted some 77 beneficiaries from a diversified spread of sectors and geographical location, in line with the initial project orientation. These were used to finance the acquisition or construction of new premises, to purchase new equipment or a mix of both. The efficient utilisation, in particular for project 6, is a significant achievement in light of the renewed conflict, which broke out during the reporting period. In this case, a few allocations were withdrawn and redirected to other cases. In both cases, a reasonable impact on job creation is noted.

Project 6: A key consideration in the negotiation of the loan was to find adequate means to cover the security exposure of the EIB in the light of the country and financial sector risks. The loan was the first to a private sector bank without a State Guarantee. The political risk was covered on a fall-back basis by the EU Budget Guarantee. The financing proposal noted the commercial risk arising from a non-secured risk on the Borrower. The operation therefore represented a higher risk than normally accepted under EIB standard credit risk rules. This additional risk taken by EIB was adequately provisioned through the Special FEMIP Envelope (SFE).
The Intermediary was already known to the EIB as an active user of two previous Apex loans. The bank was highly regarded for the strength of its balance sheet loan portfolio. It was also known to have successful funding arrangements with other IFIs. Its credit rating was B2 (Moodys) and B- (Fitch), but these ratings were restricted by the related country rating ceiling and did not imply any weakness in the bank itself.

Microcredit (8) and leasing (2) operations were new approaches for the countries concerned. Both operations were financed from risk capital resources, whereby the ultimate risk of the operation is borne by the EU Commission. In both cases the effectiveness of the loans was very high, since they contributed to the development of new sectors in the country. Final disbursement and commitment was very fast in both cases. The microcredit operation (8) aimed at providing (very) short term loans to low-income individuals to help start up and further develop their business. In 2008, the two microfinance institutions considered in this evaluation had a total of some 800 000 loans and benificiaries. They initially offered solidarity group loans, whereby lending is given to individual members in groups of five. The members cross-gurantee each other's loans to replace traditional collateral and collectively guarantee repayment. In addition, new loan products, individual loans for enterprises and for housing have been developed.
In fact microcredit has seen extraordinary growth over recent years, with annual growth rates of more than 40% p.a.. As a consequence of inadequate control processes, this has recenty lead to an increase of bad debt (see chapter 4.2). Microcredit is, to a large extent, provided to women with two sectors accounting for the majority of all loans (commerce, agriculture). One particularity of microcredit operations is the very small average loan size, ranging from EUR 250 to 550.

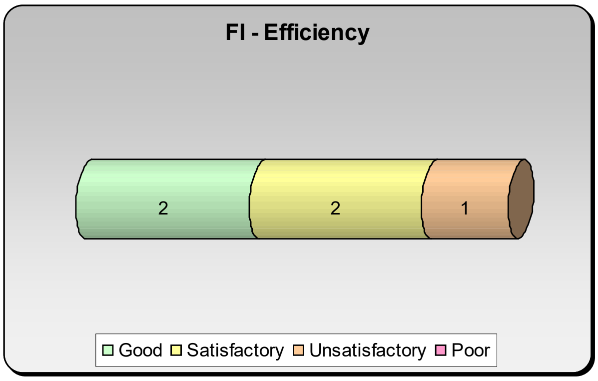
With more than 400 leasing operations in the first full year of operation, project 2 achieved a market share of 26%, becoming a major operator for leasing in the country. This has subsequently strengthened further and in 2008 close to 900 leasing operations were concluded (average size of the leasing operation was 50 000 EUR).

On-lending conditions: The duration of the sub-loans were significantly shorter than the duration of the EIB loan, in particular for project 8, where most of the underlying microcredits have a maturity below one year.

Effective interest rates charged to the final beneficiaries vary significantly in the operations analysed – ranging in general around 8-9% (6 & 11- with reduced rates for promotion to attract specific customers) to upto to 30-40% for the microcredit operations. This high interest rate, compared to the funding cost, is justified through the high administrative costs linked to the small individual allocation size.

Reporting: The EIB standard criteria for reporting on disbursements were applied (6 & 11) but there is no specific reporting requirement for ex-post results of the project financed. These are to be provided only upon EIB request. For microcredit (8), independent information from a rating agency was to be provided to EIB and annual reports indicating the development of their business activity were required.

4.2. Financial Intermediary Performance – "Efficiency"



Two financial operations involved a single financial intermediary and two were an operation with three or more financial intermediaries. The management structure and procedures, as well as the regional coverage and activities of the intermediaries, have improved. While corporate standards for governance and compliance were mostly in line with international standards and practices, the financial situation of one of the FI is precarious, due to increased bad loans. Overall, the results of the evaluation are positive; all projects, except one (80%) received a satisfactory or better rating. Due to their very different performance and specific characteristics, the microcredit operations have been rated seperately for this criterion (and for sustainability).

Of the financial operations evaluated, two involved a single FI (2 & 6) and two were an operation with three (8) or ten (project 11) different financial intermediaries. The APEX operation, with a larger number of intermediaries, was a repeat operation, while FI 2 and 6 were already known to EIB from previous operations, partly in other countries. While project 8 was initially open to all microcredit institutions in the country, the EIB has defined strict eligibility criteria on which basis initially two, and at a later stage a third microcredit institution, were selected. It was intended that these would compete for the use of the facility.

Organisation and management

Since the inception of the operations, most of the FI evaluated have generally improved their management structure and procedures and at the same time diversified their regional coverage and activities. In most cases this was a reflection of stricter domestic control through the Central Banks, domestic policies to improve the banking sector and increasing competition in the countries concerned. In addition, the development of the financial sector has been suported by international aid and financial insititutions (both bi – and multilateral).

Microcredit organisation and management has been evolving rapidly since its inception as a direct consequence of its very significant growth in recent years. While one of the FI continues to expand its activities both domestically as well as possibly also in other countries; another FI, with recent weak performance, has started to engage in a major management turnover.

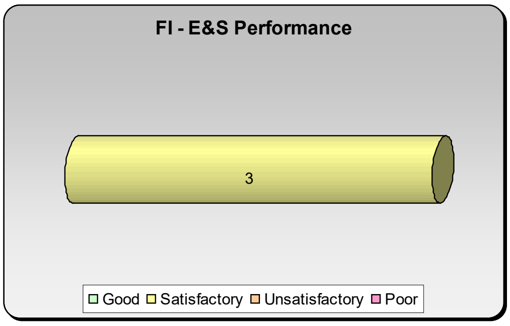
Corporate governance and compliance for the FI evaluated (6 & 11) was mostly in line with international standards and practices. This includes both institutional (i.e. separation of functions at board level, compliance unts) and well as procedural (Basel II, ISO application) aspects, often closely supervised by the Central Bank. Credit risk management tools are applied. The microcredit institutions' (8) governance and compliance functions are still under full development, but both internal and external control mechanisms (audit, ratings) are applied; nevertheless this did not prevent a significant increase in bad debts for at least one association.

Financial situation: The financial situation of the FIs evaluated varies from Unsatisfactory to Good. Three FI's (2, 6 & 11) have continued to expand their compeitive position in recent years. The expansion of their operations was supported by a growing branch network and/or acquisitions and their financial situation is at least stable with key operating ratios within acceptable limits. Their internal structures have developed in line with international good banking practice.

One of the main problems for one operation (8) is the high amount of non-perfroming loans (bad debts). In fact, for one of the FI's, the portfolio at risk has increased to 26%, which is well above any established limits for the operation. The success of the microcredit sector in the country was part of the problem and was induced by a number of factors: a) significant increase of the microcredit portfolio of the bigger associations during the last years has not been accompanied by an increase of risk assessment measures and appropriate stringent procedures, b) refusal of clients to repay their loans, which in some cases are seen as grants (for certain clients, microcredit has not been perceived as a service but rather a right), c) lack of legal procedures to pursue the clients for repayment, d) increase of the cross-debt (number of borrowers that have signed loans with more than one microcredit association) during recent years (up to 50%). In addition, certain cases of fraud by individual credit officers have been reported. As a result, in both microcredit institutions, net profit has been negatively affected, to an extent that the financial viability of one of the intermediaries is questionable. The recent merger (April 2009) is expected to improve the situation, but no full assessment of the impact is possible.

4.3. FI - Environmental and social performance

Overall, the results of the evaluation are positive with all projects rated satisfactory. EIB is delegating the responsibility for the verification of environmental and social impacts to the intermediaries and only limited information and attention on environmental and social considerations is given during appraisal and monitoring. In particular, in light of the new environmental and social statement of the EIB, clearer guidelines and procedures to ensure that these statements are actually applied seem to be required.



In line with standard practice, EIB is delegating 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.

This procedure was applied accordingly to two lines of credit operations (6 & 11). In both cases the environmental requirements were part of the loan conditions. They are reflected in the loan application forms and considered during the loan appraisal process. While the technical capability for environmental monitoring has been strengthened lately, there is scope for improved monitoring of the social aspects (in particular regarding working conditions).

In the microcredit operation (8), at best relatively limited attention to both environmental and social impacts has been paid during appraisal, and also with regard to monitoring. It appears that due to the significant increase of the loan portfolio, the FI management could not appropriately follow the overall risk management and regarded environmental and, in particular, social aspects as lower priority. Most of the clients belong to the informal sector of the economy, where issues such as health and labour conditions and specific environmental issues are not normally covered by the appraisal process of the FI.

Project 8: Social assessment of micro credit

A sample of 2,000 people was selected (1,400 clients, and 600 potential clients).

Profile of the clients

The average age of the FI's client is 40.2 years, married (74%) and with a level of studies under primary education (76%) or illiterate (40%). The monthly income is some EUR 340.

Profile of the micro-enterprise

13.4% of the micro-enterprises are registered and 18.9% have a trading licence. The main activities are: trading 54.3%; artisan 15.9% and services 14.7%. The activity is usually carried out by 2 people in their own house (35%), in their commercial premises, or ambulatory.

Impact

Household

Microcredit has contributed to reduce poverty (the proportion of the population under the poverty threshold has decreased by 2.1% in the urban environment and 5.4% in rural areas).

Income has increased from 14% (in the case of housing-loan borrowers, which however does not generate income) to 22% (individual loan borrower). For the solidarity-group loans, the monthly income has increased by 19% on average (20% in the urban environment and 16% in rural areas).

On average, savings increased by 7% and monthly expenses increased by 33%

Micro-enterprises

The increase in annual income is estimated at EUR 7100, allowing 10.5% of the clients to start a new income-generating activity after receiving microcredit. Employment increases by 2% and commercial registration increases from 11.6% before the loan to 13%.

As a negative impact, the report highlights the increase of the child labour.

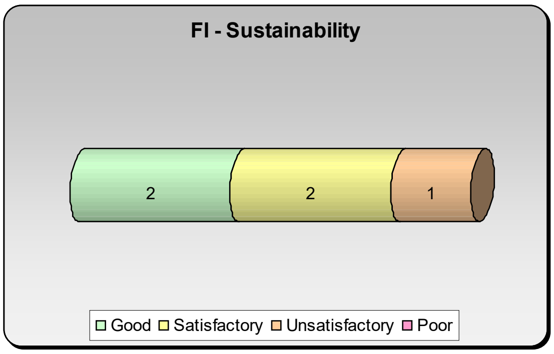
Source: Study to be published in 2009 – information provided during EV mission.

For operation (2), the environmental and social impact has not been particularly analysed at appraisal and no specific ex post assessment was done.

In particular in light of the EIB's new environmental and social statement and the requirement to fulfil the ESIAF framework ex ante, more clear guidelines and procedures seem to be required to ensure that these statements are actually applied.

4.4. FI - Sustainability

The financial situation of one of the FI is precarious due to an increase in bad loans. Overall, the results of the evaluation are positive; all projects received a satisfactory or better rating for the sustainability criterion; for one project with two intermediaries, one counterpart was rated unsatisfactory, but the overall project rating for sustainability was satisfactory.



The sustainability of the operations with the FI is appreciated on two levels: a) the level of the FI, b) the level of the final beneficary.

Financial intermediary

For the larger financial institutions (6 & 11) financial sustainability is assured through their wider access to financial markets, their operational expansion and the quality of the underlying business processes. This is reinforced by the fact that, at least partly, they could benefit from EIB follow up support.

The leasing operation (2) has also achieved satisfactory performance, while one of the FI in the microcredit operation is encountering significant problems. The strong increase of the portfolio in the recent years has not been accompanied by appropriate risk assessment and measures, which has led to a significant deterioration of the portfolio's quality. This, together with an increase in cross-debt and a sense of impunity by the borrowers, has increased the portfolio at risk to a level where the FI's financial sustainability is at risk. This has triggered signifcant discussions with the financing partners, since most contractual covenants are no longer respected. Concerted action might be needed and discussions are ongoing. A recent merger of the institution with another microcredit organisation, which took place after the evaluation mission is expected to improve the situation. For all FIs (except 8), the current worldwide financial crisis is expected to be of minor significance even though immediate effects, such as the reduction in loan applications to support investment projects, could be observed.

Final beneficiaries

There is relatively little information on the quality of the sub-projects financed and consequently the final benificiaries' performance, which is linked to the non requirement for financial intermdiaries to send ex post results on individual operations. Consequently, for this evaluation specific information was only available for those operations subject to an in-depth evaluation with field visit (6 & 11).

All of the final beneficaries visited during these site visits (12% - 9 out of 77 allocations) – were sound businesses that had implemented the investment and put it to productive use (see box below). No defaults or specific signs of threat to loan performance were evident so far. In some cases, repayments have not yet started, but no threat to the sustainability of the final beneficairies was identified.

Projects 6 + 11 - Examples of projects financed:

A privately owned company that is part of a larger industrial group and specialises in the production of **steel products** for construction and concrete. Since 1996 it has embarked on a large modernisation and restructuring programme, of which the project funded through EIB sub loan is an important part. This project has enabled the construction of new production equipment with a better performance and energy balance. Overall, the programme has enabled a 40% production capacity increase. The company is not affected by the financial crisis for the moment, as it can carry considerable inventories which can be used during the periods of price increase. The project has a clear positive environmental impact as it leads to the utilisation of cleaner production methods and a better utilisation of energy.

An SME specializing in **wood treatment** and the production of wood elements for furniture, mainly selling to the local and regional market, with very positive growth over the last years. The project is part of a larger programme aiming at increasing the capacity of the three business lines, as well as wood storage capacity - the latter to compensate for the considerable instability of wood delivery coming from various African countries. The particular project is for a new production line for wood products, which has been entirely installed and is functioning, providing a 15% capacity increase and 4-5% impact on staff numbers.

A leading **hotel** with a private capital structure. The group is majority owned by a domestic family, and managed by a major hospitality company. The project was to upgrade the hotel in order to reach the top segment. The perspectives for the segment and for the hotel are very positive despite the crisis, and a second upgrade phase is planned in the next two years.

The country has an important "**health** tourism" industry. The borrowers provide cardiac scanning clinics at a hospital in the capital. The CT scan provides a sophisticated non-invasive means of checking cardiac irregularities in veins/arteries. It significantly improves preventative interventions. The scanner has been operational since 2006 and is profitable but below original revenue expectations.

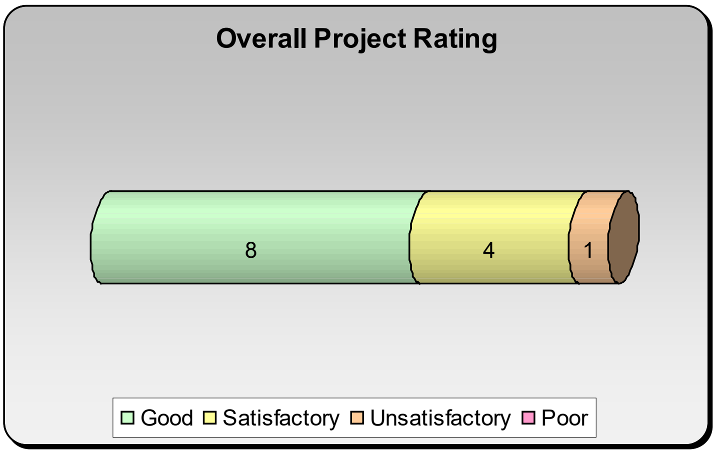
The bakery is a leading **bakery** in the country with 24 retail outlets and a fleet of 56 delivery vans. The loan modernised the production facilities and increased capacity to 160 tons of flour per day. The equipment includes six production lines for pita bread that run for 20 hours per day. The investment allowed the baking operation to be centralised without compromising on quality. About 200 new jobs were created and the company's management structure has also expanded. The investment is exceeding revenue expectations and the payback is estimated at 3 years. The company had a previous IFC loan and had an offer from a competing bank that asked for a mortgage collateral. They chose the FI for the fast decision making and professional management. The FI gave an attractive interest rate to attract the client and did not require a mortgage.

The Loan was used for new **stone cutting machines** and was to boost the marble production work (cutting and polishing). There is a mosaic production line that exports to the region. The facility is an impressively well established business.

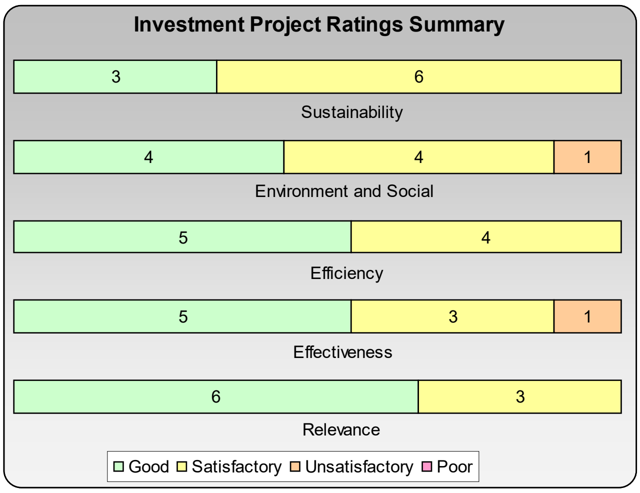
The establishment is the leading **binding company** in the region, providing high quality bound books for customers from across the Middle East and beyond. The new factory and equipment doubled production and includes 2 production lines, each capable of producing 3,500 books per hour. The machines operate for 14 hours per day. There is a 3 month lead time to production. The operation created about 40 new jobs and recycles waste paper. There is a short payback period. The establishment has borrowed from EIB before. It found the application process straightforward but had assistance in completing the application. The loan drawdown was postponed due to the 2006 war but the equipment is operational since 2007. There is a further loan to continue the development.

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 13 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, annex 2). This forms the basis for the overall project rating on pillars 1 and 2 in this evaluation.



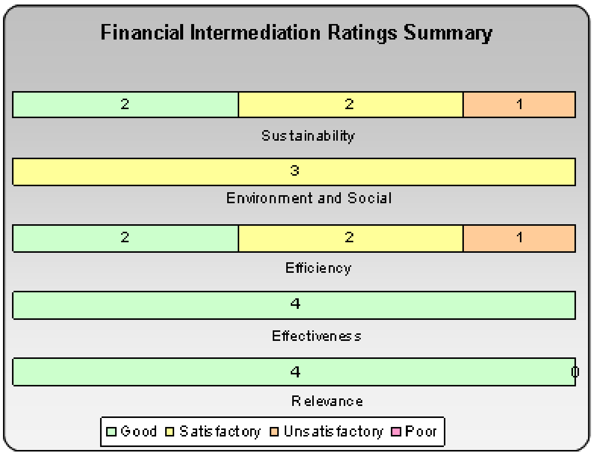
92% of all projects received a satisfactory or good rating. No project was rated poor overall, nor did any project receive a poor rating on any of the separate evaluation criteria. One project (9) was rated unsatisfactory overall and in three evaluation criteria. This suggests that the Bank was financing rather well performing projects in this region.



The findings confirm that the overwhelming majority of <u>investment projects</u> 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, diversifying or securing energy supplies for Europe, supporting liberalisation and direct foreign investment. As the evaluation has further demonstrated, these objectives have mostly been achieved efficiently, through, in most cases, competent promoters in their respective fields and were appropriately supported by technical assistance. In most projects, there is a high likelihood that appropriate resources are sufficient and provided in a timely manner to maintain the outcomes over the economic life-time of the projects. The impact of the current financial crisis on the projects under evaluation is considered relatively limited, although projects requiring regular support from the governmental budget might be indirectly concerned through reduced governmental income from taxes etc as a consequence of falling export earnings for instance. 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.

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 even had positive environmental and/or social externalities. The main driver for the one evaluated education project was the improvement of the social situation in the country concerned.*

The results for the <u>financial intermediation projects</u> similarly show rather positive results. One financial intermediary in a microcredit operation was facing increasing financial pressure through high amounts of bad loans. A recent merger (April 2009) is expected to improve the situation, but no full assessment of the impact is possible.

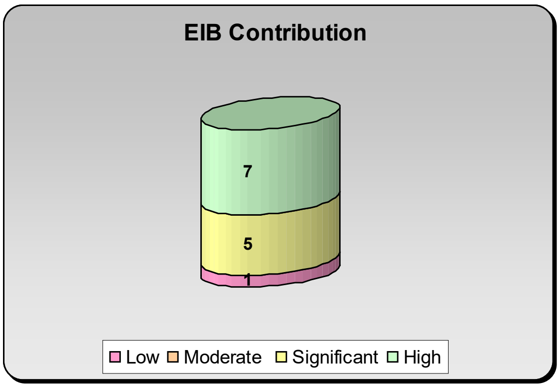


* One micro credit operation, rated satisfactory overall, is intermediated by two financial institutions, which received different ratings (Satisfactory/Unsatisfactory) for the Efficiency and Sustainability Criteria. One leasing operation could not be rated for Environmental and Social Performance. The above explains why the number of operations rated differ.

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.

All projects except one (92%) received a rating of significant or high. The EIB contribution is mostly financial through long loan maturity and grace periods, as well as low interest rates.

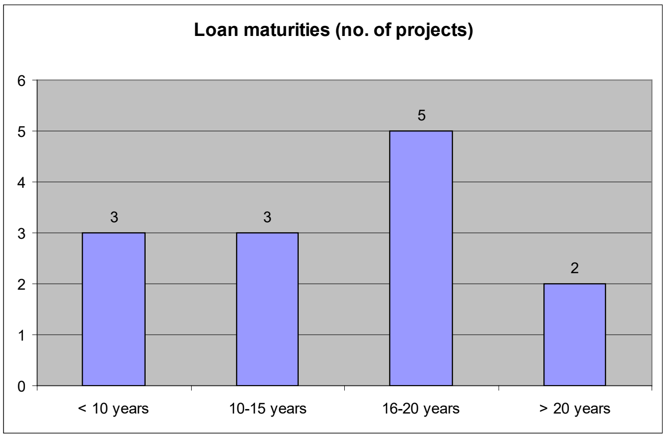


In general, EIB loan terms were appreciated by all the promoters and even though probably only very few projects would not have been implemented without EIB financing, at least eight incorporate distinct innovative features. In a number of cases the EIB financed the sector in a country for the first time and gave specific impetus to its development. In addition, its financial product offer and blending of products have been beneficial to a number of projects.

Thanks to its experience and expertise, at times the Bank has provided important additional contributions beyond the pure financial aspects. The evaluation found several instances where this additional contribution was important. In recent years, the EIB has significantly stepped up its provision of technical assistance measures to support promoters in project definition, preparation and implementation.

When the EIB entered into more innovative schemes, important catalytic and signalling effects were reported by project promoters. Furthermore, in most projects the use of technical assistance, as well as conditionalities, have improved their implementation.

6.1. Financial contribution



In all but two cases (4 and 9), the financial contribution of the Bank's intervention is significant to very high through the provision of attractive terms and conditions (i.e. long maturities and grace periods combined with attractive interest rates), even though at times the attractiveness is reduced through the cost of guarantee requirements. These funds were provided at times when alternative funds were not readily available in the countries concerned. In two cases, the financial value added was reduced due to either external factors (availability of significant grant/soft loan financing - project 4) or internal factors (lack of EIB monitoring and breakdown of communication lines between the promoter and the Bank – project 9).

EIB loan volumes per project vary from EUR 10 m to EUR 539 m, ranging from 12 % to 50 % of total project cost. EIB loan duration ranged from 10 to 23 years, while grace periods varied between 2-6 years. Most of the loans were provided with a maturity between 15 and 20 years and a grace period of 5 years.

Through signed loans of EUR 1.25 bn in the evaluated sample, the EIB has supported total investments of some EUR 4.6 bn While some, mainly public sector operations (7, 9, 11, 12 &

13), followed the more traditional external lending procedures with borrower and guarantor being the Sovereign State to on lend to the project, the outcome of this evaluation demonstrates clearly that the EIB contribution in Neighbourhood countries can (and probably should) go beyond merely providing some basis points and longer maturities to a promoter.

Even though probably only very few projects would not have been implemented without EIB financing, at least eight projects from the evaluated sample incorporate distinct innovative features. Even if the Bank is not the lead arranger for the projects, it assumes an important function in closing the deals and this not only by providing (the) large(est) parts of the external financing (3, 5 & 7). As shown in chapter 7.5, in most cases the EIB was co-financing with other local or international banks and/or financial institutions.

In certain cases, the EIB has taken some risks beyond sheer financial considerations to support successful sector development, and innovative features of EIB contribution can be identified in both private and public sector operations.

In the private sector projects, two project finance deals were new in the country and/or the sector and both in terms of complexity and size paved the way for other project finance deals, not only in the country, but with spill over effects to other regions. One of these projects also contributed to the privatisation of the industry concerned. The utilisation of the risk capital facility providing local currency funding to develop leasing and micro credit operations and providing the basis for successful sector development, which without the EIB involvement would have been difficult (2 & 8), thereby providing important catalytic effects.

Both project finance operations were followed by second operations increasing nominal capacity, in which a significant interest rate reduction, due to reduced risk profile, further increased the financial value added.

Also in the public sector, the EIB pioneered new sectors through the provision of the first loans in certain sectors (human capital, solid waste), thereby triggering important interest and preparing the way for other operations. In some cases the important catalytic effects have led to a crowding out of the EIB from its involvement, since more and more lenders are willing to support the sector (2, 8 and 10).

The blending of different financial products, i.e. risk capital to partially cover the own contribution from the promoter together with a loan on own resources under risk sharing with political risk coverage, can be very beneficial. In one project (1), even though the risk capital part was reimbursed early (where the Bank took a significant financial advantage), it clearly contributed to the success of this operation. The combination of an export credit agency with EIB risk sharing was used as a model for other projects and various partners highlighted the success of EIB cooperation as an example for future operations.

6.2. Other contribution

The Bank's experience and expertise on multiple levels (financial, sector, environment, procurement etc.) often allowed for the provision of important **additional contributions** beyond the mere financial contribution. The evaluation found several cases where this additional contribution was important and welcomed by the promoters.

In a number of public sector projects, project promoters have highlighted a) the Bank's important contribution on procurement advice (7, 10, 12 & 13), which sometimes considerably reduced project cost and b) the Bank's insistence on environmental aspects (13) to improve loan operations.

Technical assistance as a means to support project preparation and implementation has been used in three public sector operations. In one project (12), which is an example of a large framework programme satisfactorily implemented by a public sector promoter, external TA was provided for new technology by contractors and manufacturers. In two new sector interventions, either through the FEMIP Support Fund (10) or included in the project cost and funded under bilateral aid schemes (4), the use of technical assistance has greatly improved the project implementation.

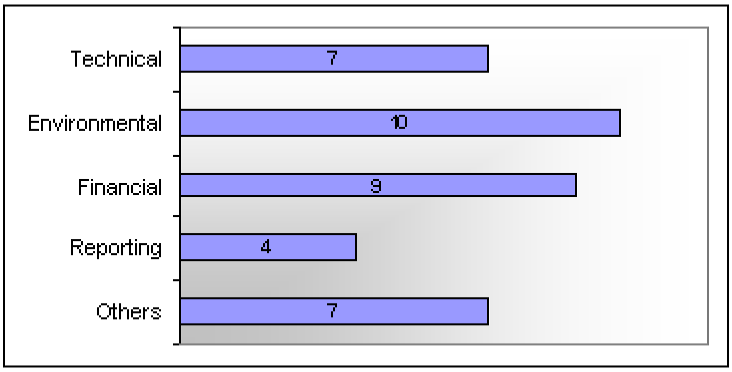
The evaluation found that in all private sector operations, including financial intermediation, no specific support was provided by the Bank, since most of them were implemented by well established and large companies and promoters. This is also the case for most public sector operations (5, 7, 9 & 13), which did not benefit from technical assistance provision, although in one case (9), the capacity of the promoter to implement the project in line with the Bank's requirements was overestimated at appraisal and appropriate technical assistance or independent reporting could have smoothed project implementation and contributed to improved communication flows between the local promoters and the EIB, which most likely would have improved the project's results.

Project 10:
The joint EIB/KfW activity, together with the important contribution of the beneficiary, has certainly paved the way, triggered the establishment and influenced the positive development of the modern solid waste system. Both institutions took a risk and agreed on investing in a specifically complex sector. Without the project no independent solid waste agency would have been established and private sector participation in the sector would not have happened. In addition, catalytic effects are apparent as now a multitude of donor agencies are interested in becoming involved in the SW sector, which was not the case several years ago. The promoter had some TA (Technical Assistance) from the FEMIP Support Fund (also see Annex 2) for procurement and supervision of works. The promoter indicated that further TA would have been appreciated.

The project management unit in **project 4** and its direct access to highest decision making levels has been important for the management of the project and facilitated efficient reporting. It is a good example of adequate institutional capacity development requested from all IFIs in the project financing.

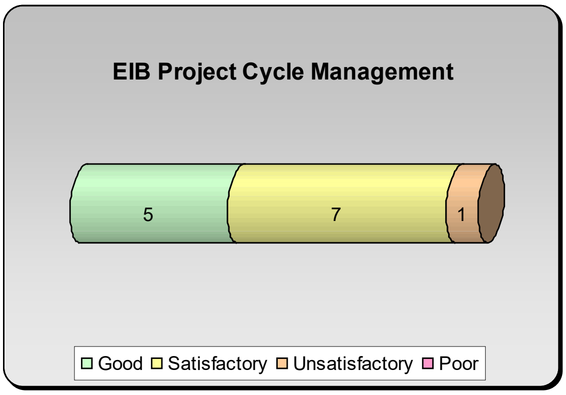
In recent years, the EIB has increased its provision of technical assistance measures to support promoters in project definition, preparation and implementation. Existing TA facilities for the Mediterranean are provided under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) Support and Trust Fund (see annex 1).
Most projects, in particular the ones where EIB entered into innovative financing schemes as discussed above, reported important **catalytic and signalling effects** through EIB participation. In a number of projects, the EIB was, as the biggest and/or only lender, providing both a stamp of approval to the project/sector as well as a significant sign of comfort and seriousness, thus improving the project's reputation through EIB participation. While in certain cases an immeasurable influence on management was reported to impact on the project's management improvements efforts, others reported that EIB participation increased the promoter's know-how to deal with IFIs.

Conditionality of EIB
- Neighbourhood and Partnership Countries -



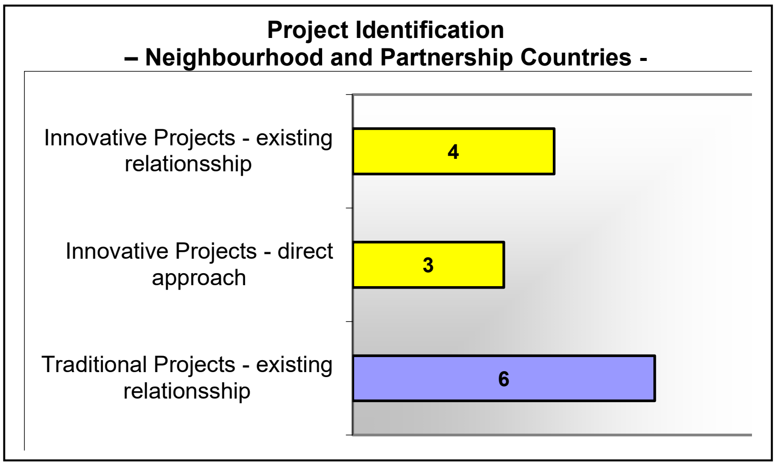
Appropriate **conditionalities** are important means to structure and implement investment projects and can provide additional value added to the operations, if appropriately enforced. Besides the usual standard contract conditions, the EIB has introduced, in all but one financial intermediation project (6), conditions and/or undertakings to either ensure proper deal closure and/or condition signature and/or disbursements. The number and main orientations of the conditions are presented in the graph above. Whether these conditionalities have been met and were fully complied with is an issue that is discussed in the chapter 7.

7. EIB Project Cycle Management



More than 90% of the projects evaluated were rated satisfactory or better for the project cycle management criterion. The Bank had good relationsships with a number of clients, either in the countries concerned and/or through operations with them in other countries. In a number of projects the EIB explored more innovative structures and projects. Project appraisal was in most cases well structured and rather efficient. The depth of analysis was a reflection of the projects' complexities with regard to financial, economic, and socio-environmental aspects. Although in the vast majority of cases the Bank's project cycle management has been satisfactory, certain improvements can be made. Cooperation and coordination with others, together with appropriate techncial assistance, either provided or facilitated by the EIB, have yielded positive results.

7.1. Project identification and pre-appraisal



Most of the projects were identified based on existing client relationsships in the country/other regions and/or through the underlying European shareholders of the company with whom the Bank has long standing relationships. This is the case for both more innovative types of projects, sectors or financing structures as well as for more traditional follow up operations. Four innovative projects were brought to the Bank through direct requests from the promoter or Ministry (see graph).

As shown before, all projects except one were cofinanced with other (international) financial institutions, and in some cases this helped to identify the project for EIB financing. In project 10, KfW and EIB were specifically requested by the government to provide financial support for a new sector. The international syndication for the two project finance operations almost certainly contributed to bringing the EIB into the project. In one case (3) particularly, the large amount of finance required and the experience of the partners from infrastructure financing in Europe, made the request for EIB participation a logical choice.

It is to be noted that half of the projects cover operations in two Maghreb countries, in which the Bank had regular visits and established a good collaboration with the main sector players. This has been strengthened further through the opening of local offices in these countries. As evidenced during the various evaluation missions, these can contribute significantly to the identification and later on follow up of operations in these countries.

7.2. Appraisal

Project 1: For two follow on private sector operations with the same promoter, no site visits to the country were performed, due to the security situation at the time. Although this worked out well in this particular case, it could increase risk with regard to governmental attitude, input and output market appreciation and in particular concering environmental and social considerations.
A specific procurement due diligence mission was performed to ensure that procedures were in the best interest of the project and in accordance with EIB rules.

All 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. The financial closure of the project finance operations (1 & 3), as a reflection of the external pressure, has at times put severe strain on EIB staff to comply with strict deadlines. Even though EIB reaction time for these project finance operations was considered a bit lengthy sometimes, financial closure was ultimately achieved.

In both cases, the promoters indicated that these (new project finance operations in the country) were too legally driven with reporting requirements over the top. In some cases the EIB appraisal process was facilitated, since it could be based on available appraisal documentation from other IFI's (4). Appraisal process and methodology were in most cases appropriate. Areas for improvement could be noted in some projects with regard to the realism of the appraisal assumptions and consistency of profitability calculations.

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. 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 report, some initial lessons for the test application of the ESIAF framework 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

Even though project implementation was faced with numerous challenges (as reported in chapter 3.1), EIB support to the implementation was conceived as professional and adequate by most promoters.

In the vast majority of cases the conditions established at appraisal have been complied with by the promoter, and if this has not been the case (9) the appropriate conclusions have been

taken by the Bank through the non acceptance of certain project components. In this specific case, the Bank managed to protect itself from non-regular procurement procedures, but could have supported project implementation more actively through techncial assistance.
One microcredit operation faces significant financial problems and, due to the increased financial leverage, no longer complies with contractual obligations.The EIB is coordinating with other bilateral and multilateral lenders to ensure conformity with loan covenants.

The presence of local EIB offices clearly impacts positively on EIB visibility, project identification, handling and administration support. However, the lack of technical experts reduces the Bank's efficiency to a certain degree, as problems during implementation have to be resolved through expertise from Luxembourg, which is not always available when required. The external offices could be the base for regional sector experts who could support the Bank's operations if and when specific support is required, which cannot be provided (in a timely manner) by EIB Luxembourg.

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, while sometimes waiver requests tended to be handled relatively slowly in the EIB.

In one project (3), the financial crisis hit one of the underlying guarantors for the EIB loan. Consequently, in the promoter's view a rather "tough" letter was sent to replace the guarantee or repay the loan. Since there was no misbehaviour of the project and/or the promoter, some concern about this, in the Promoter's point of view, "strange" communication policy was reported.

7.4. Monitoring

Operational follow-up and reporting incl. project completion reports

Follow-up on project implementation has been satisfactory in the majority of cases. In several projects, the number of monitoring missions has been appropriate and in line with the Bank's experience with the client. Often, and where available, this was complemented by communications from the external offices. This failed in one case, (9), since the relatively small sums of money involved suggested that a mission should be combined with another visit, which failed to be organised.

The recent introduction of monitoring assistants has been particularly helpful for the regular follow-up and problem solving, due to the highly appreciated fast(er) response, and especially bearing in mind the high turnover of loan officers. In one case (3), the quality of the financial monitoring reports gave a good overview of the current project situation. It is to be noted that this detailed review was considered proactively by the Bank's services in view of the (short-term) departure of the loan officer in charge. The high rotation of operational staff and the integration of newcomers are challenging the EIB project cycle management. More detailed monitoring/progress reports would improve hand-over for a newcomer/interim replacement and is an initiative which should be used regularly.

Regular reporting was done during the different phases of project implementation and after completion in the majority of projects, but in others the Bank should ensure it receives regular project progress reports of adequate quality.

There are no project completion reports as such for the financial intermediation projects. For the projects with an available PCR, the evaluation could confirm the overall ratings for VA pillars 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. This could at the same time reduce inherent inefficiencies, thereby streamlining internal procedures - not only for PCR's.

Electronic data management and accuracy

For most projects, no significant inconsistencies in the Bank's internal data management tools were apparent, except the lack of certain electronic documentation for some projects. In one project (1) almost all project documentation, including e-mails and other electronic documents, have been saved in the GED knowledge centre. While this can help the evaluation process, a mere dump of data into GED has to be avoided, since this renders data retrieval close to impossible. It might be advisable for the Bank to establish standard guidelines for GED utilisation and ensure their implementation throughout all departments.

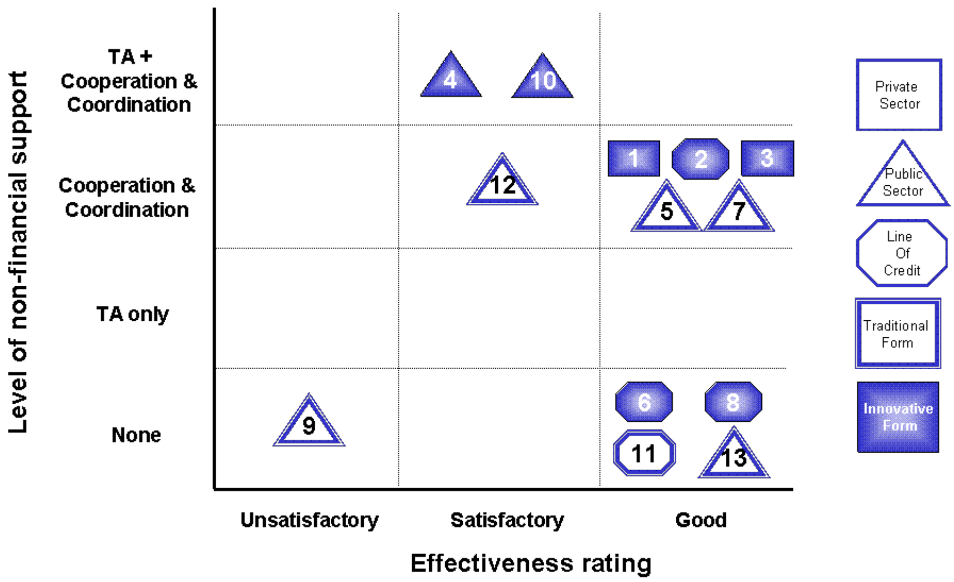
In order to make this follow-up more transparent, all parties concerned (OPS, PJ, JU, RM, EV, as appropriate) should regularly make use of the project progress reports to be stored in the Bank's internal project management databases (Serapis) to ensure retrieval.

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 an important indicator 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.

However, this is an aspect that is difficult to analyse since information on co-financing is recorded during appraisal, but is subject to change due to subsequent decisions taken by the borrower or one of the financing partners, and these changes are not systematically recorded in the Bank's databases. Coordination with other IFIs is even more difficult to review and assess, and more regular use of progress reports to demonstrate the coordination efforts are recommended.

The following section attempts to analyse qualitatively the extent and effectiveness of complementarity of EIB financing. This is done by looking at the co financing arrangements and the level of non-financial support provided to the projects and the relationship of non-financial support and project implementation success (effectiveness), as depicted in the graph below:



Main conclusions:

- In 38% of the projects, the EIB was the sole provider of external financing. These comprised two innovative financial sector operations (6 & 8) or traditional follow on operations, based on established relationships and mutual trust and confidence with the public sector in the countries concerned.

- 62% of the projects were co-financed with one or more financial partners, ranging from domestic or foreign banks to bi- or multilateral financial institutions.
    - In line with the EIB's usual approach, the majority of projects were co-financed with others financiers. In particular, more innovative operations have benefited from

multi partner intervention. The inherent nature of project finance deals (1 & 3) requires extensive coordination and cooperation, but also more innovative public sector projects.

  - TA (either by EIB or other partners) was provided in conjunction to co-financing and significant coordination between other financial institution as a means to support innovative public sector projects in a new sector (4 & 10). None of the projects benefited from technical assistance only.

- Most (8) of the projects were rated good for the effectiveness criterion and most of these benefited from significant coordination and cooperation. In three cases the EIB was the sole funding source with no additional TA support provided.

- 4 public sector projects received a satisfactory rating for effectiveness. It is to be noted that significant coordination, in combination with the provision of technical assistance, has led to a satisfactory implementation of two innovative public sector projects. It is obviously impossible to derive the counterfactual situation, i.e. what the result would have been without intervention, but experience from previous public sector evaluations at least suggests that their outcome might have been worse.

- The implementation problems for project 9 highlight that the promoter's capacity to implement in line with the Bank's requirements was overestimated and increased institutional strengthening through the provision of TA might have helped the project's implementation.

- As the analysis in chapter 2 showed, the utilisation of risk capital resources, providing either an equity participation (1) or local currency financing (2, 3), proved to be successful and highly important for these more innovative projects. For both lines of credit operations, without the EIB contribution, the sector development would probably have been not as rapid.

Annex 1: Technical Assistance under FEMIP

Facility for Euro-Mediterranean Investment and Partnership (FEMIP)

Technical Assistance (TA) is developed further as complements to core lending activity to relieve market capital constraints and as a source of additional EIB value added generation.

FEMIP Support Fund: EUR 105 m using EC grants in support of EIB-financed projects to assists promoters throughout the project cycle.
In the context of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), a Framework Agreement between the EC and EIB was signed in May 2003 concerning the management of the FEMIP Support Fund, providing EUR 93 m for technical assistance activity linked to EIB lending operations in the Mediterranean partner countries excluding Turkey, for which an additional EUR 12 m were allocated. By the end of 2008, more than three quarters of this envelope had been contracted with consulting firms, expert services being delivered through externally recruited consulting firms (outsourcing model).
The year 2008 was the fifth full operational year of the FEMIP Support Fund. At the end of 2008, around 40 TA operations were ongoing. 80% of the FEMIP Support Fund is allocated to infrastructure, environment, water, wastewater and human capital projects. However, direct private sector support, mainly strengthening the lending capacities of intermediary banks for global loan operations to SMEs and setting-up/supporting the implementation of new investment funds, absorbs one fifth of FEMIP Support Fund resources. The allocation of TA funds between Mediterranean Partner countries is determined by the following factors: (i) FEMIP Support Fund TA operations are demand driven and always linked to an ongoing or future EIB investment, (i) the absorption capacity of sectors and countries and (iii) the willingness of individual Promoters to cooperate more intensively with the Bank and to invest in capacity building and institutional change.

FEMIP Trust Fund: funded by the EU Member States and the EC, is more specifically used for upstream activities such as support for institutional reform, sector development strategies and training. Total contributions to the fund were EUR 34.5 m (31.12.2008).
In March 2002, the Barcelona European Council decided to enhance the existing activities of the European Investment Bank in the Mediterranean Partner Countries through the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The Council's overall objective was to "stimulate private sector development in the Mediterranean Partner Countries, in order to facilitate a higher level of economic growth consistent with the growth of the labour force in the region".
The European Council of 12th December 2003 endorsed to reinforce the FEMIP within the Bank. In particular, the ECOFIN Council decided to strengthen the FEMIP operations with a number of features and instruments in support of the private sector, including the establishment of a trust fund allowing resources to complement on a voluntary basis the Bank's own resources as well as the financial resources provided to the Bank by the European Community budget. The Bank and a number of donor countries entered into discussions to establish the FEMIP trust fund dedicated to the Mediterranean Partner Countries, directing resources to operations in certain priority sectors which can be enhanced through the provision of technical assistance or made viable via a risk capital operation.

Neighbourhood Investment Facility (NIF): In order to provide an overall offering that is financially attractive to help the region meet its investment requirements, the Neighbourhood Investment Facility (NIF), established in May 2008, will provide additional resources in the form of co-financing, guarantees, subsidies and technical assistance. The European Union has planned to allocate funding of EUR 700m to this facility (for the period 2007-2013) and has asked the Member States to make contributions gradually in order to maximise the leverage of the loans. The NIF will finance infrastructure projects mainly in the energy, environment, transport and social development sectors in countries neighbouring the European Union. It allocates grants to support lending operations piloted by public European financial institutions. The first TA operations under the new Neighbourhood Investment Facility (NIF) will become operational shortly. To optimise the use of Community resources, it is planned that the NIF will not duplicate operations that FEMIP is or will be conducting.

Annex 2: 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.

Individual assessments on the EIB management of the project cycle are rated in the four categories: "Good", Satisfactory", "Unsatisfactory" and "Poor".

EUROPEAN INVESTMENT BANK
OPERATIONS EVALUATION (EV)

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

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

Each evaluation involves an in-depth evaluation of selected investments, the findings of which are then summarized in a synthesis report.
The following thematic ex-post evaluations are published on the EIB Website:

1. Performance of a Sample of Nine Sewage Treatment Plants in European Union Member Countries (1996 - available in English, French and German)
2. Evaluation of 10 Operations in the Telecommunications Sector in EU Member States (1998 - available in English, French and German)
3. Contribution of Large Rail and Road Infrastructure to Regional Development (1998 - available in English, French and German)
4. Evaluation of Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development (1998 - available in English, French and German)
5. An Evaluation Study of 17 Water Projects located around the Mediterranean (1999 - available in English, French, German, Italian and Spanish).
6. The impact of EIB Borrowing Operations on the Integration of New Capital Markets. (1999 – available in English, French and German).
7. EIB Contribution to Regional Development A synthesis report on the regional development impact of EIB funding on 17 projects in Portugal and Italy (2001 – available in English (original version), French, German, Italian and Portuguese (translations from the original version)).
8. Evaluation of the risk capital operations carried out by the EIB in four ACP countries 1989-1999 (2001 - available in English (original version), French and German (translations from the original version)).
9. EIB financing of energy projects in the European Union and Central and Eastern Europe (2001- available in English (original version), French and German (translations from the original version))
10. Review of the Current Portfolio Approach for SME Global Loans (2002 – available in English (original version), French and German (translations from the original version)).
11. EIB Financing of Solid Waste Management Projects (2002 – available in English (original version), French and German (translations from the original version)).
12. Evaluation of the impact of EIB financing on Regional Development in Greece (2003 – available in English (original version) and French (translation from the original version)).
13. Evaluation of Transport Projects in Central and Eastern Europe (2003 – available in English (original version).
14. EIB Financing of Urban Development Projects in the EU (2003 – available in English (original version), French and German (translations from the original version)).
15. Evaluation of the Projects Financed by the EIB under the Asia and Latin America Mandates (2004 – available in English (original version), French, German and Spanish).
16. Evaluation of EIB Financing of Airlines (2004 – available in English (original version) French and German)
17. Evaluation of EIB Financing of Air Infrastructure (2005 - available in English (original version) German and French)

18. EIB financing with own resources through global loans under Mediterranean mandates (2005 - available in English (original version) German and French.)
19. Evaluation of EIB Financing of Railway Projects in the European Union (2005 - available in English (original version) German and French.)
20. Evaluation of PPP projects financed by the EIB (2005 - available in English (original version) German and French).
21. Evaluation of SME Global Loans in the Enlarged Union (2005 - available in English (original version) and German and French.)
22. EIB financing with own resources through individual loans under Mediterranean mandates (2005 - available in English (original version) and German and French.)
23. Evaluation of EIB financing through individual loans under the Lomé IV Convention (2006 - available in English (original version) German and French.)
24. Evaluation of EIB financing through global loans under the Lomé IV Convention (2006 - available in English (original version) German and French.)
25. Evaluation of EIB Investments in Education and Training (2006 - available in English (original version) German and French.)
26. Evaluation of Cross-border TEN projects (2006 - available in English (original version) German and French).
27. FEMIP Trust Fund (2006 - available in English.)
28. Evaluation of Borrowing and Lending in Rand (2007 - available in English (original version) German and French).
29. Evaluation of EIB Financing of Health Projects (2007 - available in English (original version) German and French).
30. Economic and Social Cohesion - EIB financing of operations in Objective 1 and Objective 2 areas in Germany, Ireland and Spain (2007 - available in English. (original version) German and French)
31. Evaluation of EIB i2i Research, Development and Innovation (RDI) projects (2007 - available in English)
32. FEMIP Trust Fund - Evaluation of Activities at 30.09.2007 (2007 - available in English.)
33. Evaluation of Renewable Energy Projects in Europe (2008 - available in English (original version) German and French).
34. Evaluation of EIF funding of Venture Capital Funds – EIB/ETF Mandate (2008 - available in English.)
35. Evaluation of activities under the European Financing Partners (EFP) Agreement (2009 – available in English)
36. Evaluation of Lending in New Member States prior to Accession (2009 – available in English)
37. Evaluation of EIB financing of water and sanitation projects outside the European Union (2009 – available in English)
38. EIF Venture Capital Operations: ETF and RCM Mandates (2007 – available in English)
39. Portfolio and Strategy Review - EIB Activities in “2007 Partner Countries” from 2000 to 2008 (2009 – available in English)
40. Evaluation of EIB Financing in Candidate and Potential Candidate Countries between 2000 and 2008 (2009 – available in English)
41. Evaluation of Operations Financed by the EIB in Asia and Latin America 2000 and 2008 (2009 – available in English)
42. Evaluation of Operations Financed by the EIB in Neighbourhood and Partnership Countries between 2000 and 2008 (2009 – available in English)

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