

July 2009

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

## Synthesis Report

Evaluation of operations financed by the EIB  
in Candidate and Potential Candidate  
Countries between 2000 and 2008

### EIB Operations Evaluation

Gavin Dunnett (Team Leader)

Werner Schmidt

Max Jensen

Monicá Lledó

Deirdre Gloster

Monique Bianchi

### COWI A/S

### MWH SA/NV

---

Alain Sève

Head of Operations Evaluation



## EVALUATION REPORT

# Evaluation of EIB Financing in Candidate and Potential Candidate Countries between 2000 and 2008

Prepared by

### **Operations Evaluation**

Gavin Dunnett (team leader)

Werner Schmidt

Max Jensen

Deirdre Gloster

Monica Lledo

Monique Bianchi

COWI A/S (consultants)

Michael Kvetny

Niels Pedersen

Anders Richelsen

Jakob Christensen

MWH (consultants)

Colm Dunne

Dietmar Aigner

Sophie Papalexiou

Anders Grettve

July 2009

\* \* \*

### **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.**

## **TABLE OF CONTENTS**

<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>1. INTRODUCTION AND PORTFOLIO PRESENTATION</b>	<b>7</b>
<b>2. POLICIES &amp; STRATEGIES – RELEVANCE</b>	<b>8</b>
2.1 EU AND EIB OBJECTIVES	8
2.2 RELEVANCE OF OPERATIONS	10
<b>3. PERFORMANCE OF (10) INVESTMENT PROJECTS</b>	<b>11</b>
3.1 EFFECTIVENESS	11
3.2 EFFICIENCY	13
3.3 ENVIRONMENT AND SOCIAL PERFORMANCE	14
3.4 SUSTAINABILITY	15
<b>4. PERFORMANCE OF (7) LINE OF CREDIT OPERATIONS</b>	<b>17</b>
4.1 GLOBAL LOAN PERFORMANCE (EFFECTIVENESS)	17
4.2 FINANCIAL INTERMEDIARY PERFORMANCE (EFFICIENCY)	19
4.3 ENVIRONMENTAL AND SOCIAL PERFORMANCE FOR GLOBAL LOANS	20
4.4 SUSTAINABILITY	21
<b>5. OVERALL PROJECT PERFORMANCE RATINGS</b>	<b>23</b>
<b>6. EIB CONTRIBUTION</b>	<b>24</b>
6.1 FINANCIAL CONTRIBUTION	24
6.2 INSTITUTIONAL AND TECHNICAL CONTRIBUTION	24
<b>7. EIB PROJECT-CYCLE MANAGEMENT</b>	<b>25</b>
7.1 PROJECT IDENTIFICATION AND SELECTION	26
7.2 APPRAISAL	26
7.3 PROJECT IMPLEMENTATION/FINANCING ARRANGEMENTS	27
7.4 MONITORING	27
7.5 COORDINATION AND COOPERATION WITH OTHER FINANCIAL INSTITUTIONS	28
<b>APPENDIX 1 EVALUATION PROCESS</b>	<b>30</b>

## GLOSSARY OF TERMS AND ABBREVIATIONS

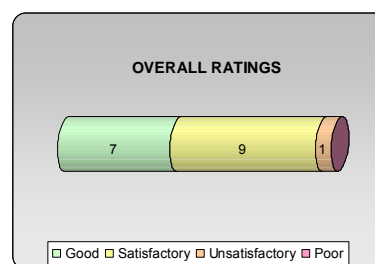
Absorption capacity	The ability to use approved funds in the timescale and manner envisaged
Acquis-communautaire	The total body of EU law
Borrower	The legal persona with whom the Bank signs a Loan Agreement.
bp	basis points (one hundredth of one percent interest)
CA	EIB's Board (q.v.) The EIB Board of Directors, which has sole power to take decisions in respect of loans, guarantees and borrowings.
CD	EIB's Management Committee (q.v.)
CEB	Council of Europe Development Bank
CEE	Central and Eastern Europe
COP	Corporate Operational Plan
CPC	Candidate and Potential Candidate (countries for EU membership)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECOFIN	EU Economic and Financial Affairs Council
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
ESIAF	Economic and Social Impact Assessment Framework
EU	European Union
EuroMed	Euro-Mediterranean (mandate)
EV	EIB Operations Evaluation (Ex-Post)
FDI	Foreign Direct Investment
FIRR	Financial Internal Rate of Return
FVA	Financial Value Added
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GED	Gestion Électronique Documents (Electronic Documents and Records Management System)
ISPA	EU grant instrument (Instrument for Structural Policies for Pre-Accession)
Management Committee	Internal EIB committee, comprising the Bank's President and Vice-Presidents
MIPD	Multi-Annual Indicative Planning Documents
Ops-A	EIB Directorate for Lending Operations – EU Members, Acceding, Accession and Candidate States
OCT	Overseas Countries and Territories
PAF	Project Acceleration Facility (funding for TA)
PCR	Project completion report
PHARE	EU grant instrument
PJ	EIB ProJects Directorate – Responsible for ex-ante project techno-economic analyses and the physical monitoring of implementation and completion.
PPP	Public Private Partnership
Project	A clearly defined investment, typically in physical assets
Project Pipeline	Those projects which have been signalled to the Bank, but have either not yet been approved by the Management Committee, or have been approved but not yet signed.
Promoter	Normally the persona responsible for identifying and developing a project. The promoter may also be responsible for operating and/or implementing the project.
RM	EIB Risk Management Directorate, responsible for credit appraisal.
SEE	South Eastern Europe
SEN	South East Neighbours (mandate)
SME	Small or medium sized Enterprise. A company with less than 250 employees.
TA	Technical Assistance
Technical-description	Project definition - the basis of the Loan Agreement; prepared by PJ.
VA	Value Added

## EXECUTIVE SUMMARY

This report is one of a group of reports prepared by Operations Evaluation as a contribution to the mid term review of EIB external mandates foreseen by annex II of the Council decision 2006/1016 (granting a Community guarantee to the EIB). This defined the broad lines of the mid term review of the EIB external mandates, which was to be completed by mid 2010. This report is a synthesis of individual operations evaluated in pre-accession countries<sup>1</sup> (candidate and potential candidate countries). The sample of individual operations has been chosen from the overall portfolio of EIB operations signed between 2000 and 2006. Further analysis of this portfolio is provided in a separate report.

### Overall Project Performance Ratings

The overall ratings confirm that the majority of those projects which the Bank financed in pre-accession countries between 2000 and 2006 performed well under difficult operating conditions. As has been the case in several previous evaluations, the relevance of the Bank's projects comes out strongly. Relative deficiencies were linked to delays in multiple investment projects which were not anticipated and a failure to tackle a shortage of long term maintenance funding. However, overall the assessment is a very positive one. Line of credit operations performed particularly well in this case.



### Investment Project Performance

All projects evaluated in depth are considered to have contributed to one or more of the Bank's lending priorities at the time and were consistent with the high level objectives of the mandates under which they were approved. Project level objectives were mostly confined to their physical implementation, and there was therefore a gap in the hierarchy of objectives at sector and country level.

In terms of implementation the majority of projects performed satisfactorily or better, with four projects judged to have exceeded expectations, either coming in under cost or earlier than anticipated, or both. Where there were problems in physical implementation, they tended to be as a result of poor project structuring, planning and design resulting in considerable time delays in implementation. They were also located in countries of the region where institutional development was immature. All of the single investment projects were Satisfactory or better, whereas of the six multiple investment projects, three were rated better than Satisfactory and three worse.

It is not possible to come to any firm conclusion on the type of promoter, sector or project format which gave best results, since there are examples of each type performing well. However, it would be fair to say that multiple investment projects promoted by less developed public sector promoters have a higher risk of running into implementation problems in the region. Sufficient allowance must therefore be made at approval stage for possible cost and time over runs when dealing with multiple investment projects and additional help provided to inexperienced public promoters in the form of technical assistance. For the operations which experienced implementation problems, the risks had been generally clearly identified in appraisal documentation.

Three of the projects examined were considered to have net positive effects on the environment. The remaining projects were considered to have adverse impacts overall, but mitigated to an acceptable level. No project evaluated ex-post raised significant concerns from the environmental or social point of view.

In terms of sustainability, for six of the projects examined no significant adverse long term factors stood out and three of these were seen as being particularly robust against future risks. The four projects that are considered to be at some risk share common characteristics related to their inability to generate or receive enough revenue to maintain their operations. To a large extent this problem is due to the chronic lack of budgetary resources coming from the limits set to public investment expenditure. The Bank now needs to take this issue more seriously.

<sup>1</sup> In total, EV has evaluated about 30% of the portfolio available for evaluation in the region, taking into consideration previous Evaluation reports (see p. 8).

## **Performance of Financial Intermediation Operations**

The circumstances and operational characteristics of the seven operations examined varied, but all managed to fully allocate EIB funds in a manner consistent with the original objectives of the operation. In most cases the funds were intended to finance small and medium sized projects or enterprises covering a wide geographical and sector range (with the exception of EIBs normal exclusions). This gave maximum flexibility to the Financial Intermediaries in terms of allocating EIB funds and all managed to do so relatively quickly. Given that these operations were in developing or challenging markets this was a considerable achievement.

All of the chosen Financial Intermediaries continued to grow and prosper during the course of the operations up to and including the 2008 financial crisis, although 2008 results were generally down on previous years.

Most loans were authorised on the basis of tenors of up to 15 years but FIs chose individual tenors to suit their requirements. In some cases Final Beneficiaries would pre-pay for various reasons, or the maturity of their loan was significantly shorter than the EIB loan. Following the initial allocation of funds the Financial Intermediary is under a contractual obligation to report on changes to his portfolio relating to the use of EIB funds, but in general this was not done. The Bank should therefore reinforce its reporting requirements in this respect.

Responsibility for the performance of sub-loans is clearly delegated by the Bank to the Financial Intermediary, but information must be provided upon EIB request. This was the basis for visits to a selection of Final Beneficiaries as part of this ex post evaluation. The overall picture obtained during the nine visits made to Final Beneficiaries was one of resilience in the face of economic downturn. Although the downturn poses an obvious threat in the medium term, a variety of strategies were being employed to mitigate this; the use of financial reserves, reduced working hours, seeking new markets and business diversification.

The Bank's normal approach to environmental and social due diligence was followed for all of the operations examined and the Financial Intermediaries complied with the reporting and information requirements set out by the Bank in each case. In addition, there were no significant issues highlighted during any of the visits made to selected Final Beneficiaries. However, it was noted during the evaluation that there was a lack of standardization of approach by the Bank amongst the operations examined which left some scope for divergent interpretation.

## **EIB Contribution and Management**

For the majority of projects examined, IFI support was the only available source of long term funding. The Bank's financial contribution was therefore important, giving the Bank considerable potential influence over the projects. Those projects where the Bank's financial contribution was less critical tended to be private sector projects funded under the Bank's pre-accession facility where alternative commercial sources of finance were available.

The main non financial contribution of the Bank to individual projects tended to be through the enforcement of the Bank's policies on procurement and the environment which, in most of the cases examined, required a considerable staff resource input. In many cases the Bank also insisted on the appointment of experienced international consultants to assist the promoter in implementing the project. This transfer of knowledge and experience, although difficult to quantify, represents one of the most important aspects of the Bank's contribution. In many cases the Bank also provided direct technical assistance. For financial intermediated operations the Bank did not in general offer any assistance beyond the normal rigour of its appraisal and monitoring processes.

Individual projects were appraised at various stages of development and it was a common feature of this geographical region that the Bank's loan would fund the design as well as the construction of the project. Several projects also represented multiple investment projects where the scope was not well defined in advance. These types of project raise particular issues at appraisal and are often the subject of cost over runs or delays as the design is developed. The availability of more technical assistance funds should improve this situation, but in general the Bank needs to modify its approach to projects which lack sufficient ex ante definition, possibly by introducing a formal review process triggered by a given level of delay in disbursement, which means more efforts on monitoring.

For lines of credit the approval of Final Beneficiaries is through the allocation process following signature and disbursement. There was no standard format for the data to be supplied, and in general there was insufficient emphasis or clarity for environmental information. This is likely to become more of an issue as increased emphasis is placed on social aspects, both through the Bank's new Statement and the terms of the most recent mandates from the Council. Similar issues were noted with multiple investment operations.

### **Coordination and Cooperation with other Financial Institutions**

All but one of the investment loans examined were co-funded with other IFIs or EU grant instruments and the extent to which the Bank cooperated with these institutions varied. However, in general the Bank's approach was to partition the overall project and rely on co-funders to monitor parts of the EIB project. This sometimes led to confusion over monitoring and reporting responsibilities and as a result the EIB was not well informed about the progress or outcome of sections of its overall project monitored by other institutions. The Bank should set out its reporting and other requirements formally as part of a project cooperation agreement in such cases.

## TABLE OF RECOMMENDATIONS

	<b>Observation &amp; Recommendation</b>	<b>Response of the Operational Departments</b>
<p>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.</p>		
<p>1.</p>	<p><b>Observation:</b> In most cases the Bank correctly identified risk factors associated with weak promoters and immature projects but then in some cases made insufficient allowance for these within the project structure. This was a particular issue with multiple investment projects in less developed countries where changes made during the development of the project after appraisal (with or without TA assistance) often delayed the project (and disbursement of the loan) and significantly altered the original appraisal assumptions.</p> <p><b>Recommendation:</b> For immature projects, particularly of the multi-investment type, the Bank should introduce a formal review of the project once it has been sufficiently developed with the help of TA, if necessary.</p>	<p>The observation typically reflects the historical situation in the Western Balkans, a region characterised by the recent creation of countries (and administrations) and post-conflict situations. The intervention of the Bank through multiple investment projects in specific sectors supported by grants, notably from the European Agency for Reconstruction, must be seen as a contribution to this reconstruction effort. Changes to these projects have been assessed and approved by the Bank in line with relevant procedures and the support of additional Technical Assistance where required. A re-appraisal and submission to the Management Committee would be made in case of fundamental changes to the nature of the project. The services will continue to develop systems for identifying and monitoring difficult projects, notably via a more systematic use of the project watchlist. The need for a more formal review process, including the triggers and consequences of such a review, will be addressed in the context of an Inter-Directorate working group on monitoring</p> <p>Disbursement conditions (including those on monitoring) under multiple investment schemes should address the problem highlighted by EV.</p> <p>Taking into account past experience and the improved (but still perfectible) administrative capacity in the Western Balkans region, the Bank has been heavily involved in the provision of different types of technical assistance devised to mitigate these risks e.g. assistance for project management at the level of PMU, feasibility studies of immature sub-projects, assistance to tender processes. This action should significantly reduce potential difficulties linked to immature projects in the future.</p>



<p>2.</p>	<p><b>Observation:</b> There was some evidence of a more strategic involvement in sectors and regions (usually led by the EU or other IFIs) but most EIB projects had no objectives set beyond their direct implementation, even when in some cases broader ambitions were set out in appraisal documentation. As a consequence, more strategic issues, such as sector maintenance spending, institutional restructuring and tariff levels, continue to impact on the ex post performance of projects.</p> <p><b>Recommendation:</b> The Bank should contribute more actively to the development of sectors and institutions which in the longer term will improve the number and quality of future projects as well as contributing directly to EU objectives.</p>	<p>EIB finances projects in an EU policy framework of pre-defined priority areas and objectives, thereby distinguishing itself from for instance the World Bank Group, more closely aligned to the approach proposed in this recommendation. For Candidate and Potential Candidate Countries, the EC spells out the priorities for the Accession Process and the implementation of the <i>acquis</i>, as reflected in the Multi-Annual Indicative Planning Documents (MIPD) for the relevant countries. The Bank is consulted by the European Commission on the preparation of these studies as well as on sector specific policies and action plans applicable to the CPC region</p> <p>As part of the appraisal process, EIB services will clarify the contribution of individual projects to the achievement of these priorities. This being said, in case the Bank regularly contributes to the financing of specific sectors in a given country, a more sector orientated approach could further strengthen the impact of its financings.</p> <p>More active involvement in the definition of sector priorities is expected to come from the definition of a common priority pipeline of projects carried out in the context of the WBIF. These priority projects will be defined and financially supported by pooled grant and loan resources from the EU Commission and the partner IFIs (EIB, EBRD, CEB and involved bilaterals).</p>
<p>3.</p>	<p><b>Observation:</b> In some cases the partitioning of multiple investment projects led to a situation where the Bank had no formal monitoring information for those parts monitored by other co-funders.</p> <p><b>Recommendation:</b> Cooperation with co-funders needs to be more formal at project level so that there is a clearer partitioning of monitoring responsibilities and related document exchange. Ideally this would take the form of a written project agreement.</p>	<p>In line with EIB's standard procedures, adequate ex-post reporting on the whole of the EIB supported project is required. For projects whereby this requires better co-ordination and agreement among co-funders, such arrangement should be worked out.</p> <p>In principle the consultants put in place by the Bank follow the entire project, not only the part financed by the Bank. In the cases where this is not done, the contractual monitoring should be better coordinated by the consultants so that the Promoter would produce a single report covering all lots.</p>

4.	<p><b>Observation:</b> The Bank’s environmental and social due diligence was not consistent across all operations. There appeared to be some scope for interpretation as to what the Bank’s requirements were in certain situations and the quality control framework designed for individual projects is not currently applied to ensuring that procedures, roles and responsibilities have the same clarity for all types of operation. This is likely to become even more of an issue as the Bank begins to implement its latest statement of environmental and social standards and practices and the terms of its new mandates.</p> <p><b>Recommendation:</b> In the light of the increased emphasis on social aspects, the Bank should review its quality control framework for environmental and social requirements so that it covers all types of operation and clarifies procedures, roles and responsibilities for each.</p>	<p>This is an issue for all regions of operation and merits review, particularly in the light of increasing social requirements. The Bank’s technical services, with the support of the Bank-wide environmental and social Working Groups will follow up this recommendation, through a review of the environmental and social practices handbook.</p>
5.	<p><b>Observation:</b> In general, line of credit operations performed well. However, there were some weaknesses identified during the post signature phase of these operations, where changes of ownership and the rollover of EIB funds were not always followed closely enough. The Bank’s efforts tended to be weighted towards the first allocation process. EV recognises that the reporting regime associated with the new Global Loan for SMEs has already addressed some of these shortcomings.</p> <p><b>Recommendation:</b> The Bank should review its post signature efforts for all line of credit operations, adopting a more formal reporting system which covers all aspects of the Banks loan contract. The approach should be risk weighted and should include an appropriate sample of Final Beneficiaries as well as Financial Intermediaries.</p>	<p>The introduction of the EIB Loan for SMEs and its recent implementation in Candidate and Potential Candidate Countries has largely clarified the reporting requirements and focus areas for the ex post due diligence.</p> <p>Updates to the Ops procedure manual have also brought clarifications to the nature and frequency of the monitoring requirements for other intermediated transactions such as Framework Loans. For repeat operations, a review of the facility utilisation is typically performed at the moment of the presentation of a new transaction with the same intermediary.</p> <p>The review of a sample of Final Beneficiaries is currently carried out ex post by EV.</p>
6.	<p><b>Observation:</b> A number of weaknesses were identified in the monitoring and reporting of operations. These ranged from the missing data in the Bank’s electronic databases, the absence of formal reporting for line of credit operations, to an over reliance on other co-funders.</p> <p><b>Recommendation:</b> See recommendations 3 and 6 in report “Evaluation of Operations financed by the EIB in Neighbourhood and Partnership countries”</p>	<p>See response in that report.</p>

## 1. INTRODUCTION AND PORTFOLIO PRESENTATION

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 June 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 Asia and Latin America between 2000 and 2008" and "Evaluation of EIB financing in Neighbourhood and Partnership Countries between 2000 and 2008".

### Approach and Methodology

The comparison of ex-post results with the expectations and objectives at appraisal is the main basis for the evaluation of the operations considered. This evaluation report is a synthesis of the findings of the individual evaluations. The work was carried out both by internal EV staff as well as by external consultants (COWI A/S for transport and energy projects, 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"<sup>2</sup>. 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.

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

*Sample Selection process:*

- Operations were selected from all Mandates and Facilities applicable within the region, which allows coherence in the evaluation and ensures that all types of financing offered by the Bank are included in the EV assessments.
- As an overall rule, the in-depth evaluation of an individual project should take place between one and two years after completion of the project and a Project Completion Report should usually be available.
- More complex operations were considered eligible for inclusion in the sample on the following basis:
  - Lines of credit should be fully disbursed and allocated for more than six months
  - Framework and Programme Loans financing multiple investments can be evaluated when a minimum of 50% of the subprojects are completed.
- Final selection was random, but checked for reasonable representation of the portfolio in terms of:
  - sectors represented,
  - countries present in the selection,
  - financial products represented (e.g. risk-sharing or not)

Given the requirement that the operations evaluated should be mature, it was anticipated that most in-depth evaluations would be of operations financed under the 2000-2006 mandates. Taking into

---

<sup>2</sup> "High", "Significant", "Moderate" and "Low" for EIB contribution.

consideration two previously evaluated projects, the total operations evaluated in pre-accession countries represents about 30% of the portfolio available for evaluation.

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

The following table summarises the main features of the selected projects:

No.	Country	Sector	Signed Size (EUR m)	Mandate/Facility
1	Turkey	Manufacturing	250	FAC
2	FYROM	Electricity Supply	13	MAN
3	Turkey	Construction	450	TERRA
4	Turkey	Transport	100	MAN
5	Croatia	Transport	20	MAN
6	Croatia	Transport	45	MAN
7	Croatia	Global Loans	10	MAN
8	Croatia	Global Loans	20	MAN
9	Turkey	Global Loans	200	MAN
10	Turkey	Global Loans	150	FAC
11	Albania	Electricity Supply	30	MAN
12	Albania	Transport	34	MAN
13	Serbia	Transport	85	MAN
14	Serbia	Transport	95	MAN
15	Serbia	Global Loans	20	MAN
16	Bosnia and Herzegovina	Global Loans	20	MAN
17	Bosnia and Herzegovina	Global Loans	10	MAN

## 2. POLICIES & STRATEGIES – RELEVANCE

*Relevance is the extent to which the project objectives are consistent with EU policies, EIB objectives and the decisions of the EIB Governors, as well as the country policies. This chapter examines the key elements of these in turn before outlining the performance of the project sample.*

### 2.1 EU AND EIB OBJECTIVES

This synthesis concentrates on those countries currently subject to **European Enlargement Policy**:

Candidate countries:

- Croatia, Turkey, the former Yugoslav Republic of Macedonia.

Potential candidate countries:

- Albania, Bosnia and Herzegovina, Montenegro, Serbia, Kosovo under United Nations Security Council Resolution 1244 (1999).

A more detailed analysis of the policy background can be found in the accompanying Portfolio and Strategy Review report.

Although all countries included in this area are now part of the same grouping for EU policy purposes, EU support became progressively available with different motivations. These countries began to become eligible under the “enlargement” policy of the EU at the end of the nineties. Before

then, mandates and facilities were “reserved” to the 12 New Member States. The Balkans countries then progressively joined this “enlargement group” with initial emphasis very much on post war reconstruction. The EIB followed EU policy and these countries became eligible for both the Mandate and the Pre-accession Facility.

The situation was different for Turkey, which before 2000 was part of the Mediterranean countries grouping but with a restricted access to both EC grants and EIB loans. When political relationships changed, a Special Action Programme (EUR 450 million EIB loans in December 2000) was designed to support the consolidation of the EU-Turkish Customs Union. At the end of 1999, the EU provided a significant support to the reconstruction of the Marmara region, including the TERRA mandate (EUR 600 million of EIB loans). Then in early 2001, Turkey became part of the “enlargement group” and was fully eligible under the 2000-06 Mandates and the EIB Pre-accession Facility.

The only specific objective for this region in the 2000 mandate was to give a clear priority to the non-applicant countries (i.e. all Balkans countries at that time). The revision in 2004 made official the inclusion of Turkey under the first Group of the “South-East Neighbours”. The new 2007 mandates contain the following specific objectives for the region:

- increase financing without recourse to the Community Guarantee
- target the protection of the environment and energy security of the member states
- for the Western Balkans: encourage the institution building aspect in cooperation with other IFIs active in the region

It is not clear how the sizes of the financial limits for the early instruments were decided. It is likely that a number of factors were considered, including the decision taken at the Board of Governors’ Annual Meeting of 1994 that external operations under mandate from the Council should be subject to a ceiling of 10% of the Bank’s average overall activity, as well as an assessment of the volume of business available in these countries based on sound banking principles. The size of subsequent instruments would then have benefited from experience gained in working in the countries and the process of gradually building up reliable counterparts and intermediaries.

The current EIB strategy in the region anticipates mobilising two-thirds of the EC mandate in Turkey, with the complement in the Balkans States (which means a relative increase for the Balkan States compared to the initial situation). For the latter countries, there should be a move from reconstruction to pre-accession support.

In addition to the Bank’s activities under mandate, operations with own resources under the pre-accession facilities, established by the Bank’s Board of Governors in 1998, were entirely at the Bank’s own risk as they did not benefit from any Community or Member-State Guarantee. The intention was that the pre-accession facility could be used for projects in investment-grade countries, thus allowing room under the mandates for non-investment-grade countries. Private-sector projects in countries lower than investment grade but for which the borrower could provide a guarantee acceptable to the Bank, could be financed under the facility on a case-by-case basis. Current EIB strategy foresees an increase in the Pre-accession Facility for mid 2010 - necessary for the anticipated activities in Croatia, Turkey and to a lesser extent in other countries.

In 1999, the Corporate Operational Plans (COPs) were introduced. At this stage, measures centred on continued support for candidate countries through the renewal of the Pre-accession Facility, but

### **Case Study (Project 3) – Reconstruction following natural disaster**

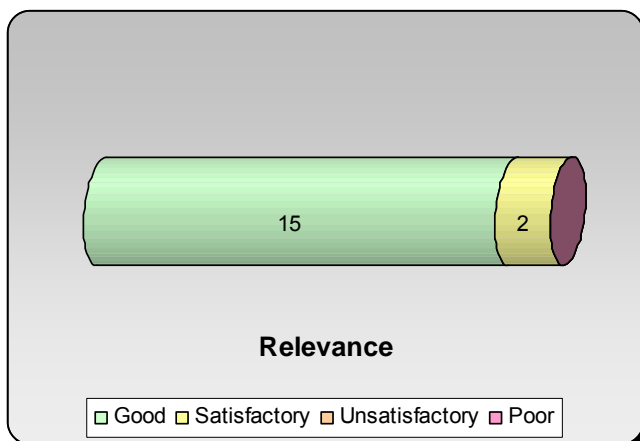
Following a major earthquake in 1999, the EIB accepted a special mandate from the Council covering EUR 600 million of loans to the government of the disaster-hit region aimed at reconstructing vital infrastructure and housing. The operation was the largest of two signed under the mandate and reflected closely the priorities set as part of the EU response to the disaster. The Bank also worked closely with the IBRD, who led the institution building aspects, and became the biggest single contributor to the reconstruction effort. Although the overall project took longer than planned, the majority of the housing and infrastructure was completed within the anticipated three year timescale and was designed to tougher earthquake resistant standards. In addition to being highly relevant in itself, the project was the catalyst for an intensive planning and coordination effort, to which the Bank is also contributing, aimed at both preventative measures and the better coordination of disaster response in the future.

now focussed firmly on “assisting countries to prepare for EU membership by facilitating adoption of the *acquis communautaire*.” Support was also envisaged for private sector development and privatisation, institution-building through support of local banking sectors, and possible application to lending under the Pre-accession Facility of the eligibility criteria applicable to core activity - including investment in human capital. Whilst the supporting documents provided an extensive review of economic development, there was no obvious country or sector approach set out and the Bank continued to retain considerable policy flexibility.

From 2001 onwards, the Bank identified a limited number of top lending or operational priorities in its Corporate Operational Plans. From the outset, the preparation of candidate countries for EU membership became a stated top priority. However, it was accepted that the achievement of lending targets depended on market conditions in the countries, including such aspects as the number and volume of bankable and eligible projects, the willingness of the countries to further indebted themselves and the availability of state guarantees for infrastructure projects of public interest. A preference for grant financing over loans was also anticipated.

As a policy-driven institution, the Bank cooperated with the European Commission in carrying out its operations. Such cooperation was reflected in cooperation and framework agreements, extensive discussion between the Commission’s and the Bank’s services, ongoing contacts with representatives from the various Directorates General; Regio, Enlargement, TREN and others. There was also cooperation with the EC Delegations in the Candidate and Potential Candidate (CPC) countries.

## 2.2 RELEVANCE OF OPERATIONS



*All projects evaluated in depth are considered to have contributed to one or more of the Bank’s lending priorities at the time. Most operations were approved under the enlargement mandates or predecessors with two authorised under the Bank’s own facility and one under a special mandate. The mandates themselves are very broad and the Bank also reserves for itself a wide range of operational flexibility. It is therefore not surprising that all operations were highly relevant to these higher level objectives. Project level objectives were mostly confined to their physical implementation and there was therefore a gap in the hierarchy of objectives at sector and country level.*

*Project level objectives were mostly confined to their physical implementation and there was therefore a gap in the hierarchy of objectives at sector and country level.*

Loan Type	Loans from own resources			Additional financial support	
	Recourse to EC Guarantee			EIB	EIB/Other
	full recourse	partial recourse (risk sharing)	no recourse	Structured Finance Facility	Technical Assistance
Investment Loans	2, 3, 4, 5, 6, 11, 12, 13, 14		1	-	2, 5, 6, 12, 14
Global Loans	7, 9, 15	8, 16, 17	10	-	15

All of the operations examined were in line with the overall terms of the mandates and facilities under which they were approved. This to a certain extent guarantees their relevance at a satisfactory level. In addition, the majority of projects addressed more than one of the Bank’s priority lending areas with

the exception of the two energy projects (projects 2 and 11 in the Balkans) which, whilst still relevant, did not address multiple objectives.

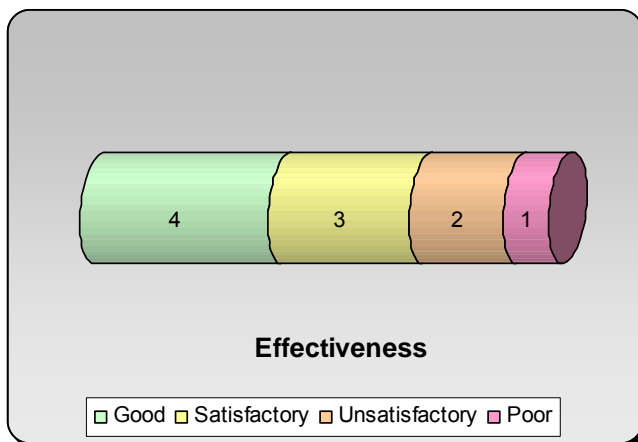
All of the six line of credit (Global Loan) operations had a regional development element as well as targeting the growth of the SME sector in the countries concerned. On this basis they were highly relevant operations. However, it was felt that the SME sector was one which could benefit further from a more targeted approach by the Bank. In many cases the definition of an SME encompassed enterprises which were relatively large by local standards – some even occupying a dominant role in the local market. There was also a tendency for Financial Intermediaries to assign their ‘best’ clients to the EIB loan. These then also tended to be operating in more mature sectors and markets.

Five of the six transport projects included in the sample (projects 5-6 and 12-14) addressed the development of Trans European Networks (TENs) in their respective countries. The remaining transport project (project 4) was targeted at the improvement of the urban environment through the provision of public transport. This is also the only project evaluated under the Bank’s Environment lending priority. This is because this sector has also been dealt with in the separate evaluation of water and sanitation projects<sup>3</sup>.

### 3. PERFORMANCE OF (10) INVESTMENT PROJECTS

*Project performance, relating to EIB’s second pillar, is assessed using three core evaluation criteria, namely; Effectiveness, Efficiency and Sustainability, which are all rated individually. The Environmental and social performance of the project is reflected in these core evaluation criteria, but is also extracted and rated separately for emphasis.*

#### 3.1 EFFECTIVENESS



*Project Effectiveness rates 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. The evaluation looked at the following parameters: a) implementation: coherence with the technical description, timing, costs and procurement, b) operation: management and organisation of project operations, environmental and*

*social performance, cooperation and coordination with counterparts.*

*The rating for the effectiveness criterion is Good for four projects and Satisfactory for a further three. The four Good projects were each located in different sectors, with three promoted by public sector entities. Of the three projects rated Unsatisfactory or Poor, two were energy projects targeting distribution losses and one was a roads rehabilitation project. All three were located in the least developed parts of the region where operating conditions were most difficult and comprised multiple investment programmes which significantly overran the original timescale envisaged for implementation.*

In looking at the extent to which individual projects achieved their objectives, the rating assessment concentrated on the physical and operational objectives of the project, but with due consideration of the inherent characteristics of each project. In general the Bank did not set any higher level objectives for the projects examined.

<sup>3</sup> Evaluation of Water and Sanitation Projects Outside the EU, Board presentation in September 2009

The majority of project promoters were public authorities or publicly owned and controlled companies. Only one project (project 1) was a wholly private sector undertaking. Six of the ten projects examined involved the creation of transport infrastructure, two involved upgrading of power transmission networks, one was an industrial investment and one was a disaster reconstruction project.

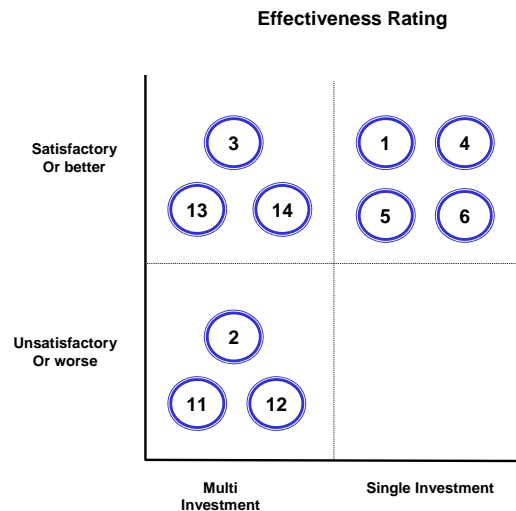
The competence of the promoters to implement the projects varied, but there was no particular pattern related to type of promoter, with public authorities and public companies performing equally. The only private sector promoter achieved the majority of his implementation objectives, as did some public administrations. For those performing less well, problems tended to be associated with poor planning and control rather than technical competence.

### 3.1.1 Physical implementation

The majority of projects performed satisfactorily or better, with four projects judged to have exceeded expectations, either coming in under cost or earlier than anticipated, or both. Project 14 was a framework of small road rehabilitation contracts which was expanded in scope thanks to cost savings realized in the early part of the project.

Where there were problems in physical implementation (projects 2, 11 and 12), this tended to be as a result of poor project structuring, planning and design and execution resulting in considerable time delays in implementation. They were also located in countries of the region where institutional development was immature.

All of the single investment projects were Satisfactory or better, whereas of the six framework (multiple investment) projects, three were rated better than Satisfactory and three worse. Two of those rated worse were similar projects in the energy sector.



#### Case Study (Project 14) – Road rehabilitation project

The project involved the rehabilitation of almost 900 km of roads on priority European corridors. The work consisted of upgrading existing single carriageway roads to a common 7.1 m width, improving road geometry and eliminating accident blackspots. Although the project was somewhat delayed, this was largely due to the inclusion of further works within the project which were made possible by savings achieved through the procurement process on the original lots. This type of project is difficult to manage and similar types of project have experienced significant difficulties in terms of delays and cost over runs. In this case the administrative set up with the country also ensures that adequate levels of funding are available for the ongoing routine maintenance of the upgraded roads – something which is sometimes an issue with this type of project.

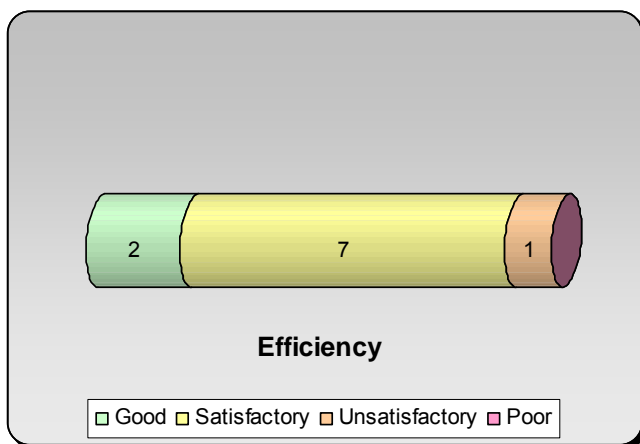
It is not possible to come to any firm conclusion on the type of promoter, sector or project format which gave best results, since there are examples of each type performing well. Project 14 (roads rehabilitation) was a particularly good example of a successful project of this type. However, it would be fair to say that multiple investment projects promoted by less developed public sector promoters have a higher risk of running into implementation problems in the region. Sufficient allowance must therefore be made at approval stage for possible cost and time over runs when dealing with multiple investment projects and additional help provided to inexperienced public promoters in the form of Technical Assistance. For the operations which experienced implementation problems, the risks were generally clearly identified in appraisal documentation.



### 3.1.2 Operational Performance

In general the operational performance of the projects examined was Satisfactory or better and most promoters were experienced operators. However, available data on the demand and use of the projects was in general insufficient. As a result it was not often possible to quantify the economic return of the projects ex post. Although the achievement of a certain level of demand was not a project objective, basic information on the traffic levels achieved should be a standard requirement for the Bank in order to be able to monitor and evaluate the performance of its projects. If necessary, specific data collection provisions should be built into the loan agreement and subsequently enforced.

### 3.2 EFFICIENCY



*Efficiency considers whether the project objectives are achieved in a manner that represents the efficient use of resources. Efficiency is also one of the main considerations when choosing between projects to allocate scarce resources.*

*With the exception of project 12 (roads rehabilitation), all of the individual investment projects examined were considered to represent the efficient use of resources. Project 14 (roads sector) was considered to have a*

*particularly high return on the investment made as the scope of the work was increased as a result of savings on the project. Project 12 exhibited an unsatisfactory economic return due to low traffic levels, although this was considered to be offset somewhat by intangible benefits arising from its wider economic impact.*

The evaluated sample of investment projects contained a variety of project types and sectors and the efficiency indicators examined were chosen accordingly. For public sector transport infrastructure projects the economic internal rate of return (EIRR) was examined. Benefits largely stem from savings in travel time, but can include other aspects such as safety benefits. These benefits are valued and compared to the cost of the project over its economic life. Environmental and social benefits were not quantified but were considered in the context of possible enhancement or reduction in the EIRR. For commercial projects where users were expected to pay for the service provided, efficiency was gauged by the financial performance of the operator. In the special case of project 3 (disaster reconstruction), an attempt was made to assess the impact of the project on the national economy.

#### 3.2.1 Project performance

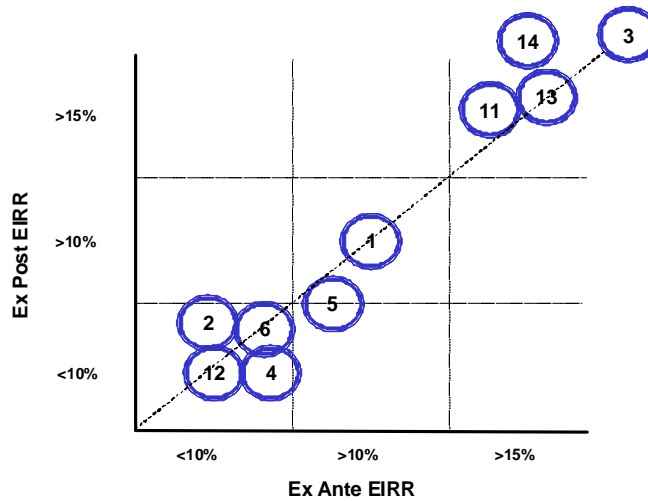
The economic internal rate of return (EIRR) is the most commonly used measure of economic efficiency as it compares the social benefits (valued in monetary terms) with the investment

#### Case Study (Project 4) – New Urban Light Rail System

The project is located in one of the principal industrial cities in Turkey with a population of over one million. Plans had been in place for some time for the construction of a rail based public transport system, and when the Bank came to the project, the first phase had been completed. However, because the specification of the system had been developed during the implementation, there was now no budget remaining to complete the project and passenger levels were considerably down on predictions. After carefully considering the situation, the Bank decided to provide the necessary additional finance based on the project as a whole and was thus able to finance the entire second phase of the system. This in turn unlocked considerable extra patronage and not only made the overall project viable, but represented a particularly good return from the perspective of the EIB investment.

costs. Since this calculation could not be done for all projects examined, the chart below should only be taken as indicative of the general trends in EIRR values estimated before and after the project completion. None the less the chart illustrates some interesting points.

Most of the projects examined exhibit economic rates of return in excess of 10% and are therefore likely to have a positive net present value to society. Although still positive, four projects exhibited smaller returns, and these would generally rely on unquantified 'externalities' to be considered a worthwhile investment. In the case of project 4 (urban public transport) for example, such benefits would be related to the transfer of existing car users to public transport and the consequent reductions in noise and pollution. Project 2 (power network upgrades) was considered to exhibit positive effects associated with continuity of supply and reduced reliance on imports. Project 6 (new motorway) was considered to generate additional unquantified regional development benefits.

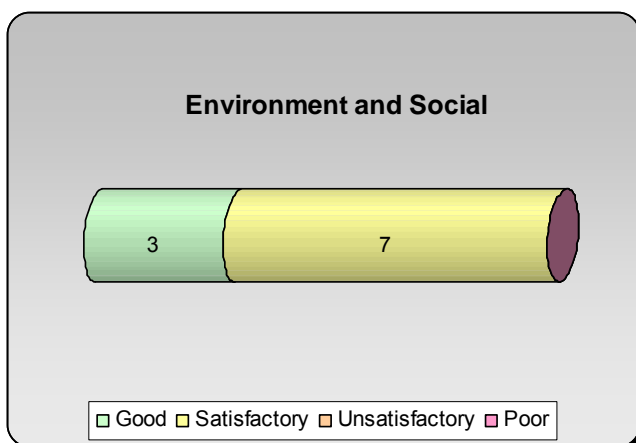


Project 3 is a special case (post disaster reconstruction) and is considered to exhibit economic benefits which are of a greater order of magnitude to the costs involved, since they relate to the economy of the country as a whole. It is estimated that the USD 1.5 billion reconstruction stimulus provided by the Bank and others generated some USD 30.5 billion of additional GDP in 2001 alone.

Projects 3 is a special case (post disaster reconstruction) and is considered to exhibit economic benefits which are of a greater order of magnitude to the costs involved, since they relate to the economy of the country as a whole. It is estimated that the USD 1.5 billion reconstruction stimulus provided by the Bank and others generated some USD 30.5 billion of additional GDP in 2001 alone.

Some projects were considered to have improved their EIRR (as illustrated by being above the diagonal line on the chart), and others were considered to do slightly less well than predicted (below the diagonal line). However, in general the ex post assessments broadly concurred with those made ex ante and there were no dramatic changes.

### 3.3 ENVIRONMENT AND SOCIAL PERFORMANCE



*The Environment and Social performance criterion examines the immediate impact of project implementation and operation, but also extends to the wider view of the project and its long term consequences on carbon emissions, energy efficiency, green spaces, involvement of local communities, transport, local employment, social cohesion, etc. where these are relevant. Consideration of environmental and social factors is already included within the internationally agreed criteria of*

*relevance, effectiveness, efficiency and sustainability above. They are repeated here separately firstly to emphasise the importance the EIB attaches to these matters, and secondly to clearly distinguish these factors from other considerations taken into account.*

Most of the individual investment projects examined were associated with physical infrastructure but within the EU none would have required a compulsory Environmental Impact Assessment according

to EU regulations<sup>4</sup>, although the competent authority in EU member states may have considered requesting an EIA in the case of some of the projects examined. Whilst the transcription of EU law into local law is in a state of flux during the pre-accession period, the Bank, in addition to making its own environmental and social assessment, applies the principles of EU directives regardless of the progress of particular countries in adopting the *acquis communautaire*. The main problems in putting this policy into practice are precisely those projects which within the EU where normally the competent authority would decide on the requirement for a formal EIA. Projects 3, 4 and parts of project 14 fell into this category and, although no significant problems were found ex post, the Bank needs to clarify its requirements in this area.

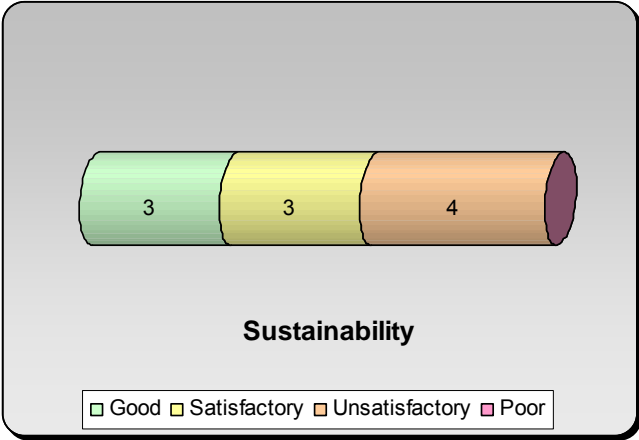
Three of the projects examined were considered to have net positive effects on the environment, and were rated Good. The disaster reconstruction project (projects 3) restored normal life to a chaotic disaster area with disrupted utility networks and thousands of families living in tents. Project 1 (automotive investment) was targeted at components which improved engine efficiency and therefore reduced fuel consumption and pollution on a world wide scale. Project 14 (upgrading of existing roads) targeted improvements which would improve road safety and reduced vehicle and road maintenance requirements as well as saving fuel.

**Case Study (Project 1) – Automotive Investment**

The project represented a significant investment by a large European company in new production capabilities, including factory floor space and complex machinery. The products to be manufactured required the skilled labour force that had been developed over a long period of sustained investment in the host country, and the new parts were designed to improve the fuel efficiency and performance of new diesel vehicles. Two different technologies were being developed, according to the needs of principal customers. Operating in a market driven environment, one of the two technologies was discontinued during the course of the project. The other technology has now become the industry standard and the new factory is taking the technology to second and third generation levels of technology and efficiency. Whilst there are clearly concerns in relation to the current economic downturn, the company has a far sighted management and a strong financial position.

The remaining projects were considered to have adverse impacts overall, but mitigated to an acceptable level. In the course of the approval process, all projects were subject to an environmental review by the Bank, in which compliance with local, state and federal law was verified and confirmation sought that all relevant permits were obtained. No project evaluated ex-post raised significant concerns from the environmental or social point of view.

**3.4 SUSTAINABILITY**



*The sustainability criterion looks at the probability that the resources will be sufficient to maintain the outcome achieved over the economic life-time of the projects, and that any risks can be managed.*

*The majority of the projects examined were considered to be sustainable in that there was minimal risk that the use of the projects would be adversely affected during their economic life. However, four of the ten projects examined exhibited some form of concern regarding their ability to*

*sustain the economic benefits generated. These concerns were principally related to the availability of finance to enable the long term maintenance of the assets.*

<sup>4</sup> (Annex I of Directive 97/11/EC).

In assessing the sustainability criterion it is necessary to take a view on the importance of various risk factors to the project. Since no project is entirely without risk, this is a question of degree, and since there can be no real quantification of risk of this nature, the approach taken is that only those risks which stand out as fundamental to the future success of the project are considered.

For six of the projects examined no significant adverse factors stood out and three of these were seen as being particularly robust against future risks. Project 4 (urban light rail) is situated within one of the strongest municipalities in the country and is a well designed and maintained public service system. Project 5 (air traffic control system) is set up within a legal framework which guarantees cost recovery and is a national priority, and project 6 (new motorway) is situated within a well funded and maintained existing national network.

The four projects that are considered to be at some risk share common characteristics related to their inability to generate or receive enough revenue to maintain their operations. To a large extent this problem is due to the chronic lack of budgetary resources coming from the limits set to public investment expenditure. This is a recurrent theme in projects evaluated in recent thematic evaluations<sup>5</sup>, and although the problem was not apparent in all countries and sectors, the Bank now needs to take this issue more seriously.

Projects 2 and 11 (see box) were in a similar situation. Following the break up of the state electricity companies the resultant distribution companies embarked on a programme of improvements to their networks designed to reduce losses and therefore dependence on foreign power imports. However, the cost of importing power and the inability to raise tariffs leads to a situation of financial insecurity for the future. Projects 12 and 13 (railway and road rehabilitation respectively) also share similar problems in that they are essentially deferred maintenance projects being undertaken by under-funded national government departments. Having begun to tackle the huge maintenance backlog with foreign currency denominated loans, there is insufficient current expenditure to prevent exactly the same backlog developing again.

#### **Case Study (Project 11) – Power Transmission and Distribution**

The unbundling of the state electricity company after the turn of the millennium led to the creation of a joint stock power distribution company which was initially wholly owned by the state. Having adopted a new National Energy Strategy, the Distribution Company began a project to upgrade its transmission and distribution networks with a view to reducing power losses and thereby reducing reliance on imported energy. During the course of the project the company was also being prepared for a sell off to the private sector and the implementation of the project was considerably delayed. The profitability of the company, and therefore its ability to invest in the maintenance and renewal of its assets, is dependent on a series of factors largely outside its own control. The cost of imported electricity varies widely depending on the quantity of local hydro power available. There is also strong political pressure to keep tariffs low. As a result, the Distribution Company has made a paper loss during the last three years and whilst the privatisation of the company may improve the situation, there is serious concern about the sustainability of the current model.

---

<sup>5</sup> See for example; "Evaluation of EIB Lending in New Member states Prior to Accession", "Evaluation of Water and Sanitation Projects Outside the EU" (Board presentation in September 2009).

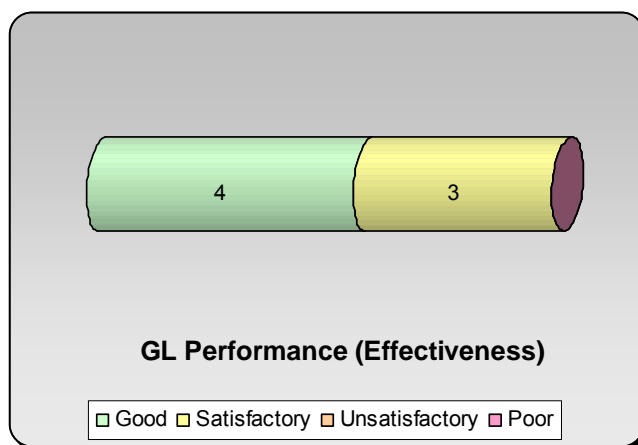
## 4. PERFORMANCE OF (7) LINE OF CREDIT OPERATIONS<sup>6</sup>

The main purpose of the lines of credit (Global Loans) granted to Financial Intermediaries is to channel EIB funding to investments and Final Beneficiaries which are below the threshold for EIB direct lending – primarily to SMEs but also other financial intermediation operations such as microcredit and leasing. These operations are characterised by large numbers of smaller investments managed by a Financial Intermediary who accepts the credit risk of the Final Beneficiaries within his loan portfolio. The selection of strong Financial Intermediaries, with a sound organisation and management structure is an important feature of this type of operation since appraisal and monitoring of the financed sub-project is delegated to the Financial Intermediary.

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

- Global Loan Performance (effectiveness);
- Financial Intermediary Performance (efficiency);
- Environmental and social performance;
- Sustainability.

### 4.1 GLOBAL LOAN PERFORMANCE (EFFECTIVENESS)



The effectiveness of the Global Loan is the extent to which the initial objectives of the loan with regard to amounts disbursed, targetted sectors, on-lending conditions and reporting, have been achieved.

All of the seven financial intermediation operations examined have been fully committed and achieved their overall objectives. This is a very positive assessment. In addition, four of the seven rated operations were considered to have exceeded

expectations in a variety of ways.

#### 4.1.1 Allocation and Disbursement

The circumstances and operational characteristics of the seven operations examined varied, but all managed to fully allocate EIB funds in a manner consistent with the original objectives of the operation. In most cases the funds were intended to finance small and medium sized projects or enterprises covering a wide geographical and sector range (with the exception of EIBs normal exclusions). This gave maximum flexibility to the Financial Intermediaries in terms of allocating EIB funds and all managed to do so relatively quickly. Given that these operations were in developing markets or markets which were new to EIB this was a considerable achievement.

Loan size varied from EUR 10 million (operations 7 and 17) to EUR 200 million (operation 9) and Financial Intermediaries made full use of the Bank's flexible conditions. Operation 10 was disbursed in a single amount, whereas operation 9 was disbursed in 32 individual installments. Most of the operations were allocated and disbursed relatively quickly, the longest disbursement period being operation 15 at two and a half years.

<sup>6</sup> Operation 16 and 17 were part of the same EIB loan contract but involved two separate local subsidiaries of a European bank, one of which was set up as a leasing company. For this reason the two subsidiaries were evaluated separately.

In general allocations were made on the basis of individual sub project fiches containing summary project information. For most operations the number of allocations was relatively small (between 6 for operation 8 and 26 for operation 15). Larger numbers of allocations were handled on a list basis (operation 9 with 63 allocations and operation 10 with 5,880 allocations) as these tended to be small amounts. Little information regarding Final Beneficiaries was available in this case since the list-based approach asks for only very basic information on each allocation.

Operation 15 was prepaid by both the Financial Intermediaries involved, but for different reasons. One was taken over and restructured and the other became subject to a new central bank requirement which made EIB funds less attractive.

#### 4.1.2 On-lending conditions

Loan duration of the sub-loans were in general significantly shorter than the duration of the EIB loan. Most loans were authorised on the basis of tenors up to 12 years (for SMEs) or 15 years (for projects) but FIs chose individual tenors to suit their requirements. These did not always correspond to the characteristics of their portfolio. Operation 10 was disbursed with a 12 year maturity, whereas the portfolio contained over 5,880 small allocations with maturities around 3 years. In other cases, tenors chosen more closely matched the average portfolio maturity. In one operation (operation 7) the FI partially revolved the EIB loan by adding a further allocation when an earlier one was prepaid.

#### Case Study (Project 9) – Industrial Sector Global Loan

This operation was the third in a series of similar operations targeting small and medium sized projects in the industrial sector. Two separate Financial Intermediaries were chosen and allocations of the EUR 200 million facility were made on a first come first served basis. The loan was allocated over a two and a half year period and fully disbursed in 32 tranches with some 63 individual allocations in a wide variety of sectors - but principally textiles and tourism. The average allocation was EUR 3.1 million for an average project size of EUR 10.8 million. Approximately one third of the portfolio was SME customers by the local definition. The banking sector in this region has not suffered the worst of the global crisis and both FIs were considered to be sound with stable prospects.

Financial Intermediaries did not provide details of their charging regimes except to say that these varied by product and sector on a commercial basis. However, there was circumstantial evidence to suggest that some of the benefit of EIB funding was being passed through to Final Beneficiaries, particularly in terms of increased maturities.

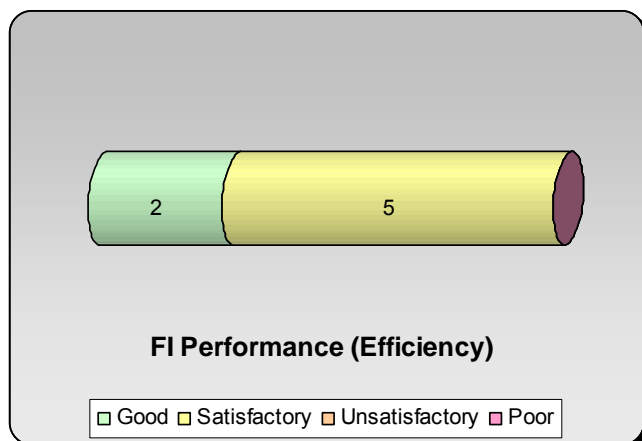
#### 4.1.3 Reporting

The EIB standard criteria for reporting on disbursements were applied. For 'fiche' based allocations this involved summary information regarding the sub project characteristics. 'List' based allocations contained less information regarding the ultimate use of the funds. Following the initial allocation of funds the Financial Intermediary is under a contractual obligation to report on changes to his portfolio relating to the use of EIB funds but in general this was not done. The Bank should therefore reinforce its reporting requirements in this respect.

Responsibility for the performance of sub-loans is clearly delegated by the Bank to the Financial Intermediary, but information must be provided upon EIB request. This was the basis for visits to a selection of Final Beneficiaries as part of this ex post evaluation.

In cases where a follow-on operation was being contemplated, a report of the utilisation of the previous loan was made as part of the appraisal documentation for the new operation. However, this had to be based on the original (first) allocation information, since no more up to date information was available.

## 4.2 FINANCIAL INTERMEDIARY PERFORMANCE (EFFICIENCY)



The performance of the Financial Intermediary is taken as a measure of the efficiency of the operation. The main indicators are the organisation and management of the institution and its financial situation.

Three operations involved a single Financial Intermediary whilst the others involved two<sup>7</sup>. The management structure and procedures, as well as the regional coverage and activities of the intermediaries, were all considered to be Satisfactory or better, whilst

corporate standards for governance and compliance were elaborate and in line with international standards and practices.

### 4.2.1 Organisation and management

The chosen Financial Intermediaries varied widely in terms of ownership, size and activity but corporate governance and compliance for the FIs was elaborate and in line with international standards and practices. It included both institutional (i.e. separation of functions at board level, compliance units) as well as procedural (Basel II, ISO application) aspects. Credit risk management tools were applied and non performing loans were well under control in most cases. Four of the operations involving five Intermediaries undoubtedly also benefited from strong central bank supervision (operations 7-10). The following table gives a general overview of the Intermediaries examined:

No.	FI	Ownership	Origin	Main Activity	Total Assets (EUR bn)
7	FI 1	Public	Local	Development	2.6
8	FI 1	Private	European	Retail	3.9
9	FI 1	Private	Local	Investment	3.0
	FI 2	Public	Local	Retail	25.4
10	FI 1	Private	Local	Retail	43.3
15	FI 1	Public	Local	Retail	1.3
16	FI 1	Private	European	Retail	2.2
17	FI 2	Private	European	Leasing	0.2

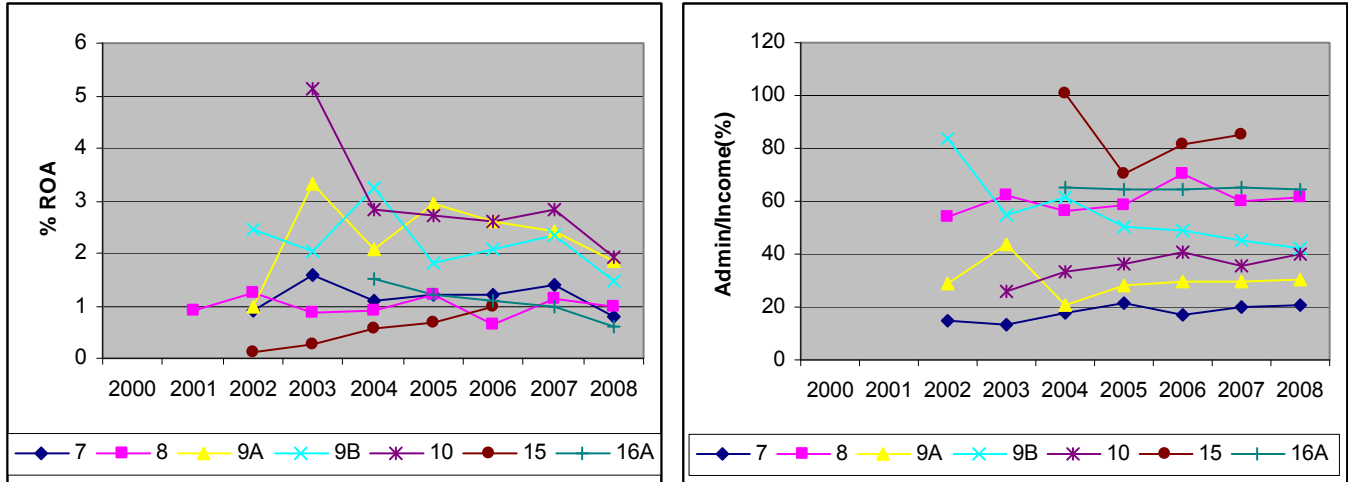
During the course of operation 15 one of the two original FIs was taken over and dropped out of the operation. The FI of operation 8 was taken over and reorganised twice during the course of the operation and as a result supervision of the EIB portfolio by both parties was not as effective as it might have been.

### 4.2.2 Financial situation

All of the chosen Financial Intermediaries continued to grow and prosper during the course of the operations up to and including the 2008 financial crisis, although 2008 results were generally down on previous years. EIB funds were particularly important for the FI in operation 17 which was effectively a start up leasing operation that has now both established itself and helped to develop its local market at the same time.

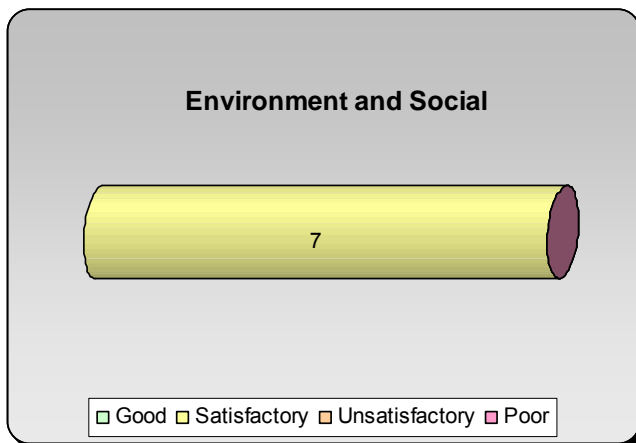
<sup>7</sup> For Operation 9, two FIs were examined but rated together as one. For Operation 15 one intermediary withdrew early and was not assessed, leaving 7 ratings for 8 FIs.

The financial situation of the FIs is illustrated by the following charts. Two indicators have been chosen because they are related to the efficiency of the organisation and because they are relatively straightforward to extract from annual accounts with differing formats. These are not the only indicators considered when rating the Financial Intermediary. Return on Assets (ROA) is a measure of the profitability of the organisation, whereas the ratio of Administrative Costs to Income is a measure of how 'lean' the organisation is.



None of these results are considered to be less than satisfactory given that all FIs continue to operate profitably under increasingly difficult market conditions. However, the differences between the two indicators are clearly illustrated when examining operation 7, which has one of the lower returns, but is also one of the more efficient in terms of administration. Since the bank involved is a publicly owned development bank, the operation has been rated as Good. Another clear case is operation 10, which generates high end returns from a low administrative base and has also been rated Good.

#### 4.3 ENVIRONMENTAL AND SOCIAL PERFORMANCE FOR GLOBAL LOANS



*For Intermediated operations EIB delegates the verification of environmental and social compliance to its Financial Intermediaries, and the Environmental and Social criterion assesses the extent to which EIB requirements are understood by the Financial Intermediary and applied through its management procedures to sub loans.*

The Bank's standard approach for this type of operation is to place an obligation on the Financial Intermediary to include the Bank's

environmental and social requirements in any sub loan agreements which it signs with Final Beneficiaries. This is reinforced through the allocation and disbursement procedures which are detailed in a separate 'Side Letter' before disbursement of the loan takes place. In the vast majority of cases individual sub loans are relatively small and the investments involved would not require a formal Environmental Impact Assessment. The risk of environmental non compliance is therefore relatively small and justifies the approach. However, the Bank reserves the right to request a full dossier for projects deemed to be at higher risk.

This procedure was followed for all of the operations examined and the Financial Intermediaries complied with the reporting and information requirements set out by the Bank in each case. In



addition, there were no significant issues highlighted during any of the visits made to selected Final Beneficiaries (see box). All operations have therefore been rated Satisfactory.

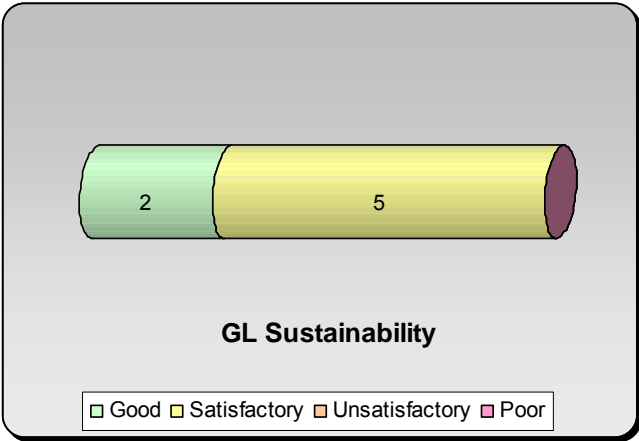
Whilst Financial Intermediaries complied with the requirements placed on them, it was noted during the evaluation that there was a lack of standardization of approach by the Bank amongst the operations examined which left some scope for divergent interpretation, for instance in relation to which was the applicable environmental law.

The Bank has now adopted a new Statement of Environmental and Social Principles and Standards which places additional emphasis on the social aspects of projects. Whereas the current delegated approach to environmental due diligence reflects the lower risk profile of smaller projects, the same cannot necessarily be said for social aspects and therefore the Banks approach to intermediated operations will require to be strengthened in response to the recent inclusion of stronger social considerations. Clear guidelines and procedures should be developed to ensure that the new statement is applied to intermediated operations.

**Case Study (Project 7) – Public Investment Bank**

This was the first EIB operation with this publicly owned investment bank and was in a sense a small pilot operation intended to be a useful facility that would enable it to diversify its funding in terms of both sources and maturity but also to allow a productive working relationship to be established. Two further operations were subsequently signed. The Financial Intermediary was already well known to other IFIs, who had contributed to its establishment and in some cases its share capital. Its main task is to contribute to the sustainable development of the national economy by providing loans nationwide (a) directly to customers or (b) indirectly through one of its accredited commercial banks. In fulfilling its tasks the Financial Intermediary carries out the threefold role of a development bank, export bank and an export credit insurance agency. The main areas of lending include: reconstruction and development of economy and infrastructure; SME development; tourism; export of goods and services.

**4.4 SUSTAINABILITY**



*For intermediated operations the sustainability criterion looks at the likelihood that the Financial Intermediary will continue to operate successfully, that resources will be sufficient to maintain the outcome achieved over the economic life-time of the sub projects, and that any risks can be managed. Despite the current financial crisis it was felt that all of the Intermediaries examined were in a position to continue beneficial operations to a greater or lesser extent and the Final Beneficiaries visited, although experiencing a downturn, were robust and flexible in their responses (see box).*

**4.4.1 Financial Intermediaries**

All of the Financial Intermediaries examined declared reduced but positive financial results in 2008 and it was felt that they were now capable of seeing out the remainder of the downturn. The sustainability ratings are therefore all positive. In addition four of the Financial Intermediaries benefited from a strong capital base as a result of central bank regulation. Operations 9 and 10 were based in a country which had already experienced a banking crisis in recent years, and its remaining institutions are particularly robust to the current crisis. Operations 7 and 8 had benefited from a strong and far sighted regulatory regime in previous years and retained particularly high capital adequacy

ratios. None of the operations had particular concerns with non performing loans and provisioning was generally considered to be adequate.

Two operations stood out in terms of sustainability and were rated Good. Operation 10 was a large and successful retail bank which had come through its country previous financial crisis with an extensive customer network and strong balance sheet. Operation 15 has consolidated its position as a leading retail bank in its country with an expanded SME customer base and well established management processes and procedures through an extensive branch network. It appears to be well placed to deal with the current international economic crisis. There is strong sustainability present at the level of the Final Beneficiaries, with the Financial Intermediary reporting that no operational problems have been observed among the Final Beneficiaries and seven loans, covering 41% of the total, have been prepaid.

#### 4.4.2 Final Beneficiaries

Since the Bank delegates responsibility for their performance to its Financial Intermediaries, there is relatively little information available within the Banks files on the quality of the sub-projects financed and consequently on the performance of Final Beneficiaries. Consequently, specific information was only available for those operations subject to an in-depth evaluation with field visit (all with the exception of operation 8).

The overall picture obtained during the nine visits made to Final Beneficiaries was one of resilience in the face of economic downturn. Although the downturn poses an obvious threat in the medium term, a variety of strategies were being employed to mitigate this; the use of financial reserves, reduced working hours, seeking new markets and business diversification. All of the Final Beneficiaries visited appeared to be 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. Although the downturn poses an obvious threat in the medium term, a variety of strategies were being employed to mitigate this; the use of financial reserves, reduced working hours, seeking new markets and business diversification.

##### Visits to Final Beneficiaries

**Operation 7:** A privately owned company located in a priority area for economic development in the country concerned (current unemployment rate 17%). Founded in 1996, the company originally started as a producer of tools. In 1998 it started to produce and assemble **flatscreen brackets**. These products account for 90 percent of the total company turnover and are almost exclusively sold to a major distributor in Sweden. In 2007 the company reached its performance peak with a turnover of EUR 4 million, employing 45 people and showing an export share of 95 percent. Since spring 2008, client demand and thus production have rapidly decreased by 50 percent. Attempts to attract new clients and to diversify into new products in local and foreign markets have been largely unsuccessful so far. A strong ownership and entrepreneurial spirit continues to prevail among the owners. The internal costs are under strict control and liquidity is ensured at least until the end of 2009.

**Operation 9 FB1:** One of the main **aluminium profile producers** in the country concerned. The management is family controlled and has been active in business since 1987. Since 2002, as a result of the company's export orientation the share of exports within total sales has been up to 81% and became one of the main aluminium suppliers in the European market. The main export markets are Germany, Netherlands, UK, Austria and Poland with representative offices established in UK and Germany. Turnover has expanded continuously and reached EUR 54 million in 2008. At present the company employs 250 staff. The global economic down turn has so far not significantly adversely influenced operations. Some decreases in a few export markets have been overcome by other prospective markets. The price and production decline in the overall aluminium market led to temporarily less competition from other non EU-producers. A quality orientation and a sound and balanced client portfolio have helped to stabilise company performance.

**Operation 9 FB2:** A family owned company working in the **wire industry** has more than 35 years of trading and manufacturing expertise in the wire market. At present it is the leading manufacturer and exporter of wire products in the country concerned. The loan enabled a substantial investment programme that increased the overall production capacity to 130,000 tons/ year and widened the product range. The product range comprises hot dip galvanized wire, drawn wire, coated wire, nails, barbed wire, chain link fences and other. The annual turnover reached 95 M USD in 2008. 80 staff are employed at the company. Up to 30% of the production is sold to foreign markets with particular emphasis given to EU markets. Due to the economic crisis there has been a significant decline in the EU exports. At present the company is trying to recover by targeting prospective markets in North Africa and the Middle-East regions. Further investments have been postponed. The plant is currently running at 75% capacity.

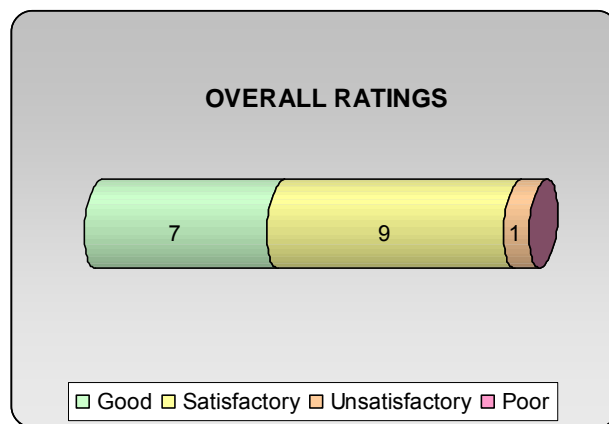
**Operation 10:** A restaurant located in a major city and operating since 1965. **The restaurant** is owned by a small consortium of investors who together run three further restaurants in the city. The purpose of the investment was to increase the capacity of the restaurant by buying a further storey in the restaurant building and adapting it into a further dining room for around 140 guests. No immediate consequences were noted from the current economic downturn but, according to the owner, further substantial investments have been currently put on hold.

**Operation 15:** The borrower is a municipality owned public enterprise that undertakes public investments for a town with a population of 100,000. There is a large coal driven power station near the town and the objective of the investment was to capture the heated water by-product from the power generation process and use it to produce a cheap source of **heating for districts** in the town. The project includes the heating plant and the laying of 66,000 square metres of pipes for the distribution of the heating. The project has significant sustainable development features. Apart from improved environmental standards and the benefits of replacing older boilers and wood burning heaters, thus reducing pollution, there is an economic benefit both to the town (a new revenue stream) and to the individual citizen (cheaper heating) and a social benefit of a secure, reliable heating supply.

**Operation 16:** Four clients were visited. These sub-loans represented 49% of all allocations under the operation. These visits confirmed a generally good performance at project and enterprise levels. Several sub-borrowers in **foods processing, distribution and services** proved relatively less affected by the current financial crisis. By contrast, the sub-borrowers with projects and activities related to **construction and real estate** were experiencing a clear market downturn. The borrowers visited for construction and real estate had various forms of risk mitigation - one family enterprise diversifying by opening a successful new dairy operation. Another company had an existing profitable soft drinks bottling and foods distribution business to compensate for the higher risk in an ongoing commercial property development project. Another sub-borrower with a main business in construction showed good crisis resilience in having a flexible organization and cost structure.

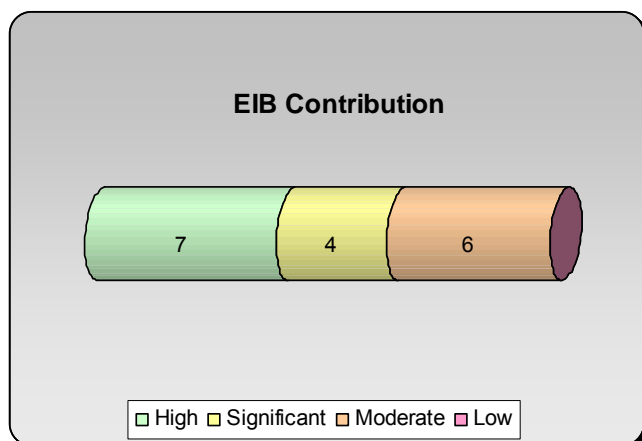
## 5. OVERALL PROJECT PERFORMANCE RATINGS

**Ratings on relevance and project performance:** *As outlined in the introduction, the operations were evaluated on the basis of internationally accepted evaluation criteria of Relevance, Effectiveness, Efficiency and Sustainability. These individual ratings are considered together to produce an overall rating for the project. This is not an arithmetical exercise, and reflects the extent to which individual aspects contribute to the whole on a case by case basis. Environment and Social aspects are rated separately, but are already accounted for within the four main ratings.*



*The overall ratings confirm that the majority of those projects which the Bank financed in pre-accession countries between 2000 and 2006 performed well, often under difficult operating conditions. As has been the case in several previous evaluations, the relevance of the Bank's projects comes out strongly. Relative deficiencies were linked to delays in multiple investment projects which were not anticipated and a failure to tackle a shortage of long term maintenance funding. However, overall the assessment is a very positive one. Line of credit operations performed particularly well in this case.*

## 6. EIB CONTRIBUTION



*The contribution which the EIB makes to the achievement of economically productive projects is both financial and non financial. This contribution is assumed to be positive and the criterion is therefore rated on a four point positive scale (high, significant, moderate and low).*

*The EIB contribution is assessed for both its financial and non financial components and both are considered equally important when arriving at an overall rating for the project or operation. In almost all cases the*

*Banks financial contribution was important and the differences in overall rating were then more related to the extent of the Bank's non financial contribution to the project.*

### 6.1 FINANCIAL CONTRIBUTION

For the majority of projects examined, IFI support was the only available source of long term funding. The Bank's financial contribution was therefore important, giving the Bank considerable potential influence over the projects. In most cases these projects were also part of a series of investments in a well defined programme, many of which also benefited from other multilateral and bilateral funding sources. This combination of circumstances potentially gave the Bank considerable leverage, often not only over the project but also over the sector.

Those projects where the Bank's financial contribution was less critical tended to be private sector projects (projects 1 and 10) funded under the Bank's pre-accession facility where alternative commercial sources of finance were available, but where the Bank's terms were more attractive overall, taking account of the cost of the loan as well as the flexible terms and maturities on offer.

None of the operations examined benefited from additional financial incentives (interest rate subsidies, structured finance facilities) funded through EU budgetary resources.

### 6.2 INSTITUTIONAL AND TECHNICAL CONTRIBUTION

As might be expected, the Bank's non financial contribution varied by type of operation and promoter.

#### *Lines of Credit (Global Loans)*

For all but one financial intermediated operation the Bank did not offer any assistance beyond the normal rigour of its appraisal and monitoring processes, although in two cases (operations 9 and 10) promoters mentioned that the involvement of the EIB had been used to advantage in the marketing of their products. However, in another case (operation 8) the Bank lost touch with the operation because of successive changes in the ownership structure of the promoter. Overall, there was a general sense that the Bank had contributed in an indirect way to the development of the financial services sector in the countries involved but had tended to follow the lead of other IFIs. The one exception was operation 15, where the Bank funded direct technical assistance to the Financial Intermediary aimed at institutional development.

#### *Investment Loans*

The main contribution of the Bank to individual projects tended to be through the enforcement of the Bank's policies on procurement and the environment which, in most of the cases examined, required a considerable staff resource input. In many cases the Bank also insisted on the appointment of experienced international consultants to assist the promoter in implementing the project. This transfer of knowledge and experience, although difficult to quantify, represents one of the most important aspects of the Bank's contribution. In many cases the Bank also provided direct assistance. For

projects 2, 6 and 12 the Bank funded Technical Assistance for the Project Implementation Unit when funding from other sources ceased, and in one case (project 14) further TA to assist with sector reform. For project 3 the Bank negotiated a specific new lending mandate to enable it to intervene. The more recent initiatives to increase the resources available for funding TA were not yet implemented, and in most cases the TA was funded either through the Bank's loan or using the Bank's modest Project Acceleration Facility (PAF). In one case (project 5) funds were provided from the EU 'Quick Start' facility.

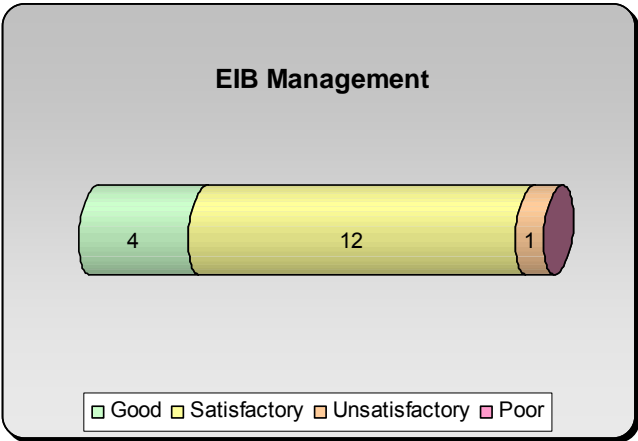
These contributions were mainly made at project level and where occasionally a suggestion was made at appraisal for the introduction of a conditionality extending beyond the project, this was either not followed through or diluted. Lack of adequate resources to maintain infrastructure networks was a recurring theme (projects 2, 11, 12 and 13) which the Bank identified as a risk factor at appraisal, but was unable to influence at project level. Although in many cases operational staff were well aware of the importance of these issues, and made considerable efforts to indirectly influence them, the Bank did not directly tackle these issues, even as part of a series of projects in the same region or sector. The exceptions were projects 5 (see box) where the Bank funded a sector study, and project 14 (mentioned above). Given that in most cases the attractiveness of the Bank's funds gave it considerable influence in candidate and potential candidate countries, it could be argued that the Bank, acting where necessary in concert with other IFIs and the Commission, could have done more to stimulate and develop sectors and institutions which would in the longer term have improved the pipeline of bankable projects.

**Case Study (Project 5) – Air Traffic Control centre**

The project involved the design, construction and commissioning of improvements for air traffic services at a major city. Included in the project were: (i) preparatory studies and project management, (ii) a new area control centre building, (iii) a new ATM system, (iv) consoles for controller working positions, (v) upgrades to the voice communications system, and voice recording and replay system, and (vi) new digital telecommunications infrastructure. The new ATM system was designed to cover 17 sectors instead of the 10 sectors previously covered.

The project was the first concrete investment to come out of the EIB-managed Air Traffic Services Study undertaken as part of the Stability Pact "Quick Start" package. During project implementation, both EIB and EBRD insisted that a PIU be established and external consultants be recruited. Both IFIs also required the drafting of a Strategic Plan with the help of Eurocontrol. The procurement process was supervised jointly with EBRD.

**7. EIB PROJECT-CYCLE MANAGEMENT**



*This criterion assesses the way in which EIB identifies, appraises and monitors its projects. The current EIB project cycle management approach has been developed over a long period of time and is being continuously developed and improved to meet new challenges. The approach is systematic, structured and well adapted to the vast majority of the Bank's operations. In the majority of cases projects were well handled from a procedural point of view, and all but one were rated Satisfactory or better*

*from this perspective. The one exception was a financial intermediation operation where the Bank lost contact with the promoter because of a series of ownership changes.*

## 7.1 PROJECT IDENTIFICATION AND SELECTION

The Bank has good relationships with many of the main counterparts, who are often repeat borrowers. Most of the projects evaluated in-depth were identified responding to requests from existing customers, government agencies or as a follow up from earlier projects, although there were also notable examples of the Bank identifying new counterparts and actively seeking projects in priority sectors. Once identified, the projects went through the initial internal screening process, which largely concentrated on the bankability of the project.

The Bank reserves for itself a wide scope of operation, which allows it to prioritise bankable projects over more difficult sectors or promoters. This has the advantage of making the most efficient use of the Bank's staff resources, but has the effect of limiting the ability of the Bank to add value to individual operations. It could be argued that in less developed countries this balance needs to be adjusted and for the Bank to refocus its project identification and selection efforts towards a more strategic level of intervention aimed at addressing country and sectoral constraints which are likely to limit the supply of bankable projects.

### Case Study (Project 12) – Roads rehabilitation programme

The original project envisaged the upgrading of 90km of single carriageway road in three priority sections along a corridor of European interest. The project was co-funded with Italian bilateral aid and an early agreement was reached to fund separate sections. However, during the development of the design over the next several years, the Italian funded section was upgraded to dual carriageway, triggering a substantial cost increase and the requirement for an EIA. The costs of the EIB section also rose. This necessitated an effective reappraisal of the project, which was reduced in scope to 42 kilometres. Overall the project was delayed in excess of five years and was still not finally complete at the time of evaluation. Very little information was available in the Bank concerning the Italian funded section which appeared to have been effectively implemented as a separate project.

## 7.2 APPRAISAL

Project appraisal was usually well-structured and systematic, although the approach varied considerably by sector. In most cases the appraisal documents gave a knowledgeable and balanced view of the project and its sector and correctly identified the likely risk factors.

### Case Study (Operation 10) – SME Global Loan

The operation was the first with a private bank in the country concerned and the Intermediary was chosen because of its strong balance sheet and extensive branch network, since the intention was to target Small and Medium-sized Enterprises. The operation was highly successful and was fully allocated and disbursed. Some 5,880 allocations were made in local currency with an average equivalent amount of EUR 25,000. There was good country and sector coverage and some evidence that the EIB funds encouraged the Financial Intermediary to grant longer loan tenors to customers. The portfolio is strong and impaired loans are fully provisioned. The longer term prospects for the FI are good in comparison with other countries which have been more affected by the financial crisis.

The extent of ex-ante project definition varied by type of operation, the sector and the stage of development of the project. Individual projects were appraised at various stages of development and it was a common feature of this geographical region that the Bank's loan would fund the design as well as the construction of the project. Several projects also represented multiple investment projects where the scope was not well defined in advanced (projects 2, 3, 11-14). These types of project raise particular issues at appraisal and are often the subject of cost over runs or delays as the design is developed, which can often then contribute to late first disbursement. The availability of more Technical Assistance funds should improve this situation, but in general the Bank needs to modify its approach to projects which lack sufficient ex ante definition, possibly by introducing a formal review process triggered by a given level of delay to disbursement.

The ex ante economic analysis also varied by sector, but generally followed sector best practice and gave a reasonable view of the project's

economic quality (but see remarks above regarding project scope). However, there was a general lack of benchmarking available within the appraisal documentation to indicate what sector or country norms could be expected for the type of project under appraisal.

Whilst some guidance is available, this will require considerable strengthening followed by extensive roll out (with appropriate training) and quality control, particularly in light of the new statement of Environmental and Social Principles and Standards of the EIB.

The Bank's internal environmental and social assessment in general highlighted the appropriate issues for individual projects where project scope was well defined ex ante. However, the same level of control was not exercised over multiple investment projects or those less well defined at appraisal. These in general lie outside the Bank's normal quality control framework for environmental and social matters. This issue will become even more important as the Bank implements its new statement of Environmental and Social Principles and Standards 2009 and the terms of the most recent mandates from the Council.

#### **ESIAF Framework**

The Bank is slowly moving towards a common set of indicators to track projects through the project cycle, and the Economic and Social Impact Assessment Framework (ESIAF) was tested as part of this evaluation, although *senso stricto* the ESIAF framework is not applicable in CPC countries. Potential problems identified in using the framework related to: the choice of indicators and their measurement (threshold or continuous variables), potential confusion over the frame of reference of the chosen indicators (project, promoter, economy), the independence of indicators (some double counting), and the intended process stage (forecast, input, process, output, outcome or impact). In order for the assessment to provide a useful and consistent picture over time, detailed guidance will be required on the measurement of indicators and normative benchmarks, their relative importance and their combination and their aggregation into summary indicators.

Whilst some guidance is available, this will require considerable strengthening followed by extensive roll out (with appropriate training) and quality control, particularly in light of the new statement of Environmental and Social Principles and Standards of the EIB.

### **7.3 PROJECT IMPLEMENTATION/FINANCING ARRANGEMENTS**

In general projects promoters and intermediaries were satisfied with the EIB's internal handling and procedures to support a smooth project implementation, and some were expressly complimentary (projects 3 and 7).

Having correctly identified the project risk factors at appraisal, these were not always followed through to project implementation. In the case of projects 2 and 11 the appraisal identified weaknesses in the sector and with the promoter, but then made insufficient allowance for these during the projects implementation – in particular low tariff levels were identified as a significant risk factor but no concrete measures were taken to mitigate this risk. In two other cases (projects 12 and 13) suggested conditions for addressing weaknesses were not followed through.

### **7.4 MONITORING**

Monitoring issues can best be considered in two broad categories of operation; those which are defined prior to loan approval and those which can only be defined after loan approval.

The majority of the Bank's operations are Investment Loans, where the scope of the project or projects are known at the time of appraisal. In general the Bank handled these well and any post approval changes to the scope were properly recorded and authorized, the necessary non objections were given and the promised documentation was provided. Projects 1, 4, 5 and 6 fall into this category.

Six of the operations (operations 7-10 and 15-16) were through Financial Intermediaries (Global Loan operations) intended to finance a large number of small projects which were not known in advance. The approval of Final Beneficiaries is through the allocation process following signature and disbursement. The information to be provided with each allocation request is defined in the loan contract and its accompanying side letter. The number of allocations for each operation varied from 6

to 5,880 but were for the most part less than 20. There was no standard format for the data to be supplied, and in general it was felt that there was insufficient emphasis or clarity for environmental and social information. Furthermore, the approval of these allocations was outside the Bank's normal framework for environmental and social due diligence. This is likely to become more of an issue as more emphasis is placed on social aspects.

For multiple investment projects where some form of post signature approval process could be expected, the Bank's approach relied on Project Implementation Units with or without the assistance of international consultants. Individual sets of contract documents were passed to Bank staff for 'non objection' and it was via this process that any changes in the scope of the project were to be assessed. This process worked well for due diligence associated with the Bank's procurement requirements, but less well in relation to environmental and social issues. On project 3 a number of new housing areas were created on greenfield sites without any formal request for environmental assessment and project 12 where one of the online road improvements was discovered later to be a new bypass on a separate alignment.

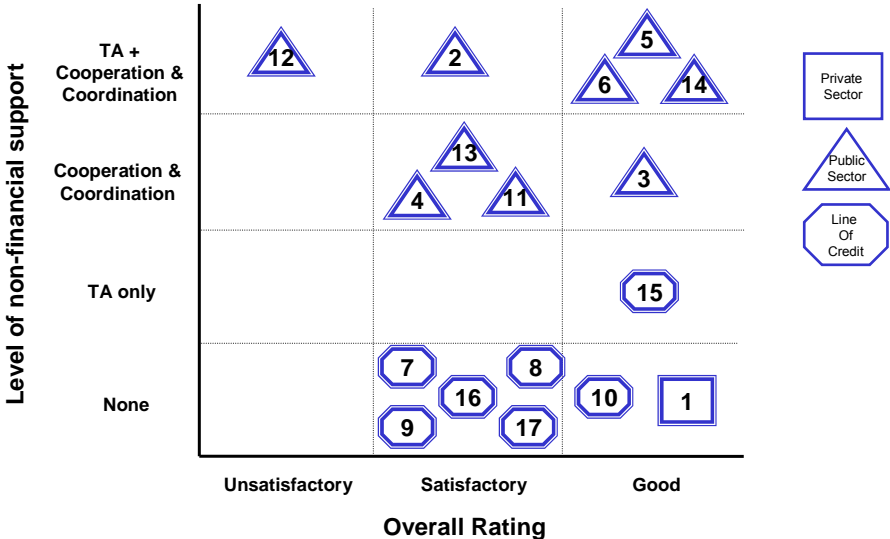
For most of the projects examined, the Bank had asked for some form of enhanced progress reporting. This was usually accompanied by the appointment of international consultants who were responsible for progress reporting and in general the requirement was respected.

Completed Project Completion Reports (PCRs) were examined for the in depth sample. All but one were completed and most of these gave a good picture of the project at completion. However, in rating the quality of the projects there was a tendency to be optimistic compared with the finding ex post.

**7.5 COORDINATION AND COOPERATION WITH OTHER FINANCIAL INSTITUTIONS**

Several of the projects examined were co funded with other IFIs or EU grant instruments and the extent to which the Bank cooperated with these institutions varied. However, in general the Bank's approach was to partition the overall project and rely on co-funders to monitor parts of the EIB project. This sometimes led to confusion over monitoring and reporting responsibilities.

The following figure indicates the relationship between co-funding, technical assistance and the overall outcome of the project. In the sample examined, none of the operations were considered to be particularly innovative. No clear picture emerges, except that the success of a project is not necessarily guaranteed by either cooperation with other IFIs or by the provision of technical assistance. The way in which these factors contribute is likely to be more related to the extent and appropriateness of cooperation and technical assistance on an individual project basis.





### ***Co-financing with IFIs***

Of the 17 operations examined, 7 were lines of credit provided by the EIB, and two were funded under the Bank's pre-accession facility without co-financing. The remaining eight operations benefited from some form of co-operation with other IFIs. EBRD were involved in 5 of the projects (operations 5, 6, 11, 13 and 14). Project 3 had multiple co-financing partners including IBRD and CEB and project 4 was co-financed with KfW. Project 12 was jointly financed with Italian bilateral assistance.

In all cases the respective IFIs agreed to fund distinct components of the overall project or programme. However, this agreement was informal and it was not always made clear to other IFIs that the EIB retained an interest in sections funded by others. As a result the EIB was not well informed about the progress or outcome of these sections of its overall project. It is recommended that the Bank set out its reporting and other requirements formally as part of a project cooperation agreement in such cases.

### ***Co-operation and co-financing with EU Pre-Accession Instruments***

Of the 8 operations which under the mandate, the European Agency for Reconstruction (EAR) provided grant support for the preparation and supervision of three of the projects examined (projects 2, 13 and 14) and the continuity provided for project implementation units was found by the operational staff of the Bank to be highly beneficial. Project 12 also benefited from PHARE grants for project supervision. Project 3 represented a major international disaster reconstruction effort and the EU provided substantial grant assistance during the initial disaster relief phase, but did not participate directly in the reconstruction effort. Only project 13 benefited from direct co-funding through EAR. However, when considering EU involvement in the region, it should be borne in mind that projects in the water and sanitation sector (one of the main EU priorities in the region) were excluded from the current sample since they had already been covered in a separate evaluation.

#### **Case Study (Project 6) – New Motorway**

The project concerned doubling the width of 30 km 2-lane national highway to full 2x2 lane motorway. The route follows a European corridor and corresponds to the key northwest-southeast transport axis, which is used by long-distance transit traffic travelling between several countries. Both the motorway and the double track electrified railway line along this route were previously financed by repeated loans from the EIB and the World Bank. A number of loan conditions from both EIB and EBRD were implemented, including standards for managing financing records, procurement and maintenance. Technical Assistance was engaged to assist the promoter to fulfill these preconditions and prepare needed reports to fulfill EBRD and EIB requirements. The promoter considered that the collaboration between EBRD and EIB has been good, benefitting the project especially during the preparation of the project.

## APPENDIX 1 EVALUATION PROCESS

### Rating scale for operations

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

---

### Evaluation Criteria

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

1. **to assess the quality of the operations** financed, which is assessed using generally accepted evaluation criteria, in particular those developed by the Evaluation Cooperation Group, which brings together the evaluation offices of the multilateral development banks. This assessment is then reflected in the overall rating of the operation. The criteria are:
  - a) **Relevance** corresponding to the first pillar of value added: is the extent to which the objectives of a project are consistent with EU policies, as defined by the Treaty, Directives, Council Decisions, Mandates, etc., the decisions of the EIB Governors, as well as the beneficiaries' requirements, country needs, global priorities and partners' policies. In the EU, reference is made to the relevant EU and EIB policies and specifically to the Article 267 of the Treaty that defines the mission of the Bank. Outside the Union, the main references are the policy objectives considered in the relevant mandates.
  - b) Project performance, measured through **Effectiveness (efficacy)**, **Efficiency** and **Sustainability** (second pillar of value added).

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

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

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

Environmental and Social Impact of the projects evaluated and specifically considers two categories: (a) compliance with guidelines, including EU and/or national as well as Bank guidelines, and (b) environmental performance, including the relationship between ex ante expectations and ex post findings, and the extent to which residual impacts are broadly similar, worse or even better than anticipated.

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

2. **to assess the EIB contribution (Third Pillar) and management of the project cycle:**
    - EIB Financial contribution** identifies the financial contribution provided in relation to the alternatives available, including improvements on financial aspects as facilitating co-financing from other sources (catalytic effect).
    - Other EIB contribution (optional)** relates to any significant non-financial contribution to the operation provided by the EIB; it may take the form of improvements of the technical, economic or other aspects of the project.
    - EIB Management of the project cycle** rates the Bank's handling of the operation, from project identification and selection to post completion monitoring.
-

## **EUROPEAN INVESTMENT BANK OPERATIONS EVALUATION (EV)**

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

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

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

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

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

## **EUROPEAN INVESTMENT BANK OPERATIONS EVALUATION (EV)**

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)

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

E-mail: [EValuation@eib.org](mailto:EValuation@eib.org)