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COMMISSION STAFF WORKING DOCUMENT

**Mid-term evaluation of the European Union Guarantee for the EIB External Lending
Mandate**

Accompanying the document

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**on the mid-term review of the application of the Decision N° 466/2014/EU as regards the
EU guarantee to the European Investment Bank against losses under financing
operations supporting investment projects outside the Union**

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Contents

- 1. Introduction 3
 - 1.1. Purpose of the evaluation 3
- 2. Background to the initiative 3
 - 2.1. Description of the initiative and its objectives 3
- 3. Evaluation Questions..... 5
- 4. Method 6
 - 4.1. Main phases of the mid-term review 6
 - 4.2. Methodological tools employed 7
 - 4.3 Limitations of the method used 8
- 5. Answer to the evaluation questions 9
- 6. Conclusion..... 13
- ANNEX 1 – Financial Database and Data Collection..... 17
- ANNEX 2 – Set of Conclusions..... 18

1. Introduction

1.1. Purpose of the evaluation

The purpose of this evaluation is to assess the application in the first years of Decision No 466/2014/EU ("the Decision") adopted on 16 April 2014 by the European Parliament and the Council granting an EU guarantee to the European Investment Bank ("EIB") against losses under financing operations supporting investment projects outside the Union over the period 2014-2020.

The Commission delivered a mid-term report evaluating the overall implementation of the External Lending Mandate ("ELM") and a Commission's proposal for amending the Decision.

The Commission's mid-term report is based on the outcomes of the independent external evaluation. The report assesses the application of the allocation policy, EIB reporting and the Result Measurement Framework ("REM"). It also evaluates the potential activation, and geographical distribution of the optional additional amount of EUR 3 billion.

The evaluation also contains conclusions and recommendations to improve the processes in the future.

The independent external evaluation has been executed by a contractor who works under direct monitoring and supervision of a Steering Committee consisting of representatives from relevant Commission's DGs, European External Action Service ("EEAS") and the EIB. The findings of the final evaluation report of the Contractor and contribution from EIB feed into the Commission's mid-term report.

2. Background to the initiative

2.1. Description of the initiative and its objectives

The Decision has the purpose of granting an EU guarantee to the EIB against losses under financing operations signed over the period 2014-2020 in support of investment projects in eligible countries outside the Union (Annex III to the Decision). Following the signature of the Guarantee Agreement by the Commission and the EIB on 25 July 2014, the current ELM entered into force. The EU guarantee is granted as a global guarantee in respect of payments which were due to the EIB but were not received by it. These payments must be in connection with loans, loan guarantees and debt capital market instruments granted for or issued for the benefit of EIB investment projects outside of the Union.

The EIB governing bodies are encouraged to take the necessary measures to adapt the EIB activity to contribute to the Union external policies in an effective manner, and to adequately meet the requirements set out in the Decision. The EU guarantee is granted only for EIB financing operations which, while complying with the requirements laid out in the Decision, have added value on the basis of the EIB's own assessment and support any of the following high-level objectives, defined in Article 3 of the Decision:

1. Development of the local private sector, in particular support to small and medium-sized enterprises ("SMEs");
2. Development of social and economic infrastructure, including transport, energy, environmental infrastructure, information and communication technology, health and education;
3. Climate change mitigation and adaptation.

In addition to those three high-level objectives, regional integration among countries is considered as an underlying objective, including in particular economic integration between Pre-accession countries, Neighbourhood countries and the Union.

The coverage of the EU guarantee allows the EIB to conduct operations outside the Union while limiting EIB's risk exposure and thus preserving its creditworthiness. In undertaking financing operations outside of the Union, the EIB indirectly contributes to the policy objectives of the Union, which include reducing poverty through inclusive growth and sustainable economy, environmental and social development and the prosperity of the Union in changing global economic circumstances. EIB financing operations must therefore be aligned with those objectives and general principles guiding Union external action and must contribute to the implementation of international environment agreements to which the Union is a party.

To that end, the Commission, the EEAS and the EIB cooperate and ensure alignment of EIB external actions and EU external policy objectives with a view to maximising synergies between EIB financing and Union budgetary resources, mainly through a regular and systematic dialogue and early consultation on policies, strategies and project pipelines (Memorandum of Understanding between the Commission and the EIB in consultation with the EEAS signed on 12 September 2013). In order to provide practical measures to link the general objectives of the EU guarantee with implementation by the EIB, updated Regional Technical Operational Guidelines were adopted by the Commission on 8 May 2015.

The EIB promotes local private sector development by supporting local investment in beneficiary countries and investment projects by SMEs from the Union. The EIB's activities focus on promoting access to finance by extending credit lines to local financial intermediaries (mainly banks) for on-lending to small and medium enterprises, participation in private equity funds and risk capital to high-growth potential companies, equity finance for microfinance providers and direct loans to larger companies.

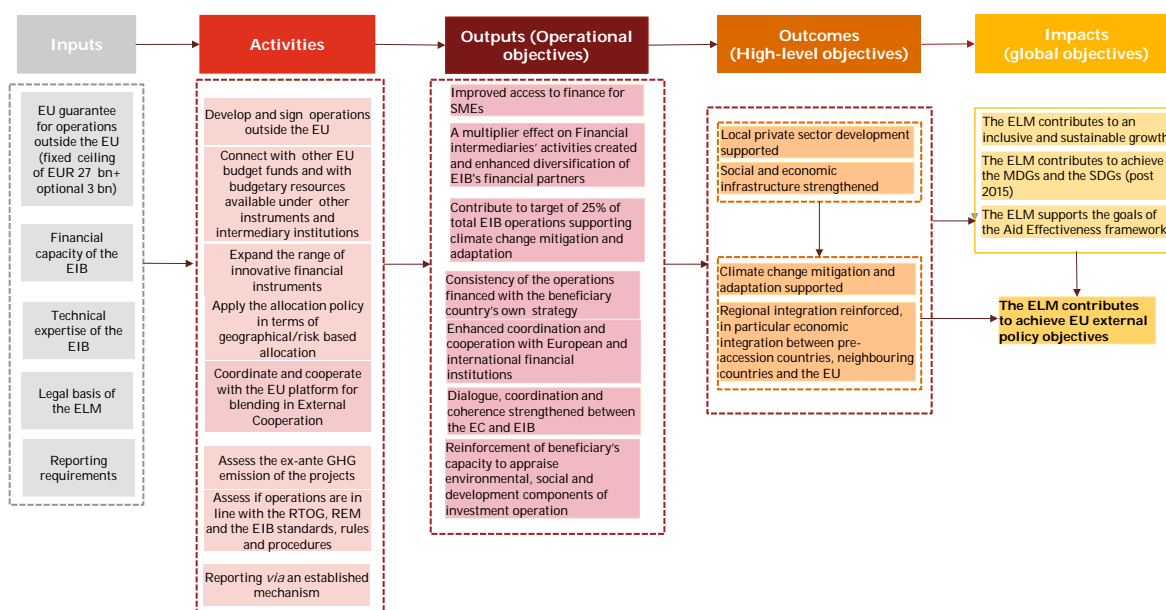
Regarding the development of social and economic infrastructure, the EIB supports infrastructure projects in its traditional sectors of intervention: energy, transport, urban development, and health and education, as well as environmental infrastructure such as water and sanitation and green infrastructure, telecommunications and broadband network infrastructure.

In the field of climate change mitigation and adaptation, the EIB supports the Union's aim of promoting low-carbon and climate-resilient growth globally and contributes to the overall objective of the United Nations Framework Convention on Climate Change, in particular by avoiding or reducing greenhouse gas emissions in the areas of renewable energy, energy efficiency and sustainable transport, or by increasing resilience to the adverse impacts of climate change on vulnerable countries, sectors and communities. The eligibility criteria for climate action projects are defined in the EIB Climate Change Strategy which has been updated. Over the period covered by the Decision, the volume of those operations must represent at least 25 % of total EIB financing operations.

EIB projects contribute to regional integration by facilitating the physical movement of goods and labour, but also by fostering international collaboration in the private sector, and supporting the convergence of neighbouring countries' economies towards the Union.

The interaction between the different components of the ELM in terms of inputs, activities, outputs outcomes and impacts are described in the intervention logic below.

Intervention logic



3. Evaluation Questions

The primary step consisted in identifying objectives, the design characteristics and the implementation logic of the ELM. On that basis, the evaluator detailed each question with judgement criteria and related indicators, aiming at making the final judgment explicit and at structuring the final answers to the evaluation questions.

EQ1: Are the **objectives** set out in Decision No 466/2014/EU still relevant considering the changes in the context, in particular with regard to geopolitics, emerging post-2015 development finance and climate framework, and the EU external policy agenda, including its external blending mechanism?

EQ2: Regarding the relevance of design, how does the **allocation policy** contribute to the effective use of the EU guarantee?

EQ3: Are the methods used by the EIB relevant to analyse the financial needs of the beneficiaries, their absorption capacity and the availability of other sources of private or public financing for the relevant investments?

EQ4: How does the EIB **reporting** towards the commission allow to assess the compliance of EIB financing operations with the Decision No 466/2014/EU and what are appropriate measures for improvement (if applicable)? Are the reporting requirements regarding greenhouse gas emissions related to EIB financing operations being fulfilled?

EQ5: What is the **relevance** of the set of indicators and criteria developed by the EIB, the **REM** for the evaluation of the Programme?

EQ6: How does the EIB monitoring system contribute to the identification of barriers to **effectiveness** and allow overcoming them and how does the **REM** framework contribute to the ex-ante assessment of expected project results and enhance the EIB's ability to report on actual results?

EQ7: Is the programme able to detect and take into account the unintended effects on stakeholders?

EQ8: Are there overlaps, realised or potential complementarities between the Programme and any other EU, MS and IFI actions in the relevant areas? Could the **coherence and synergies** of the Programme with other EU and/or MS interventions that are designed to contribute to the EU external policy objectives be further improved? What lessons can be learned from interaction between EIB under ELM and the blending facilities - also in terms of complementarity?

EQ9: To what extent are the desired effects achieved at a reasonable cost in comparison to other similar organisations/Programmes? What aspects of the Programme are the most **efficient** or inefficient, especially in terms of resources that are mobilised by final beneficiaries, the EIB and the Commission during the different phases of the project?

EQ10: What is the **added value** of the Programme for beneficiaries (ref. EIB performance indicators, incl. qualitative and quantitative effects) and in the selection of specific lending activities, how is the highest added value to beneficiaries ensured?

EQ11: What is the volume of **climate change** lending against the target of 25% and what is the result of the new system to ex-ante assess greenhouse gas emission of projects supported by the EU guarantee? How does the EIB reinforce the climate resilience for all relevant financing operations, and integrate carbon pricing in economic cost benefit analysis?

EQ12: What is the **effectiveness of communication** efforts of the EIB on the visibility of the EU, including at project level?

4. Method

4.1. Main phases of the mid-term review

The evaluation work has been articulated in five phases:

1. Inception phase (23/09/2015 – 14/01/2016). Tasks:
 - Literature review of relevant Commission documentation;
 - Construction of the intervention logic;
 - Analysis of the evaluation questions;
 - Elaboration of the detailed methodology work plan.

2. Data collection phase (04/12/2015 – 04/02/2016). Tasks:
 - Collection of the financial data, construction of the financial database;
 - Portfolio analysis;
 - Stakeholders mapping;
 - Workshop on ELM project life-cycle;
 - Preparation of the interviews and the case studies.

3. Diagnosis (04/02/2016 – 04/03/2016). Tasks:
 - Update of the portfolio analysis;
 - Stakeholder interviews;
 - Case studies;
 - Analytical summary.

4. Draft final report (04/03/2016 – 04/04/2016). Tasks:

- Cross-analysis of the findings of the study;
- Drawing conclusions and recommendations.

4.2. Methodological tools employed

Financial database creation

The task involved close cooperation between the evaluation team and the EIB staff to ensure that the evaluation team had possession of and understood all the data available relevant to the study.

The primary step was the constitution of the database of financial operations of the EIB under the ELM for the years 2014-2015, including, where possible, foreseeable upcoming operations, in particular those awaiting signature.

Since July 2014 (start of the mandate covering the period 2014-2020), 57 financing operations benefitting from the EU guarantee have been launched and contracts have been signed by the EIB. For each of the financing operations, the financial database comprises in particular:

- The project title and description (purpose, region, sector, country, etc.);
- Date of signature;
- Appraisal time (in months);
- The stakeholders under consideration (financial intermediaries and final beneficiaries);
- The financial characteristics of the project (project cost, percentage of the EIB contribution, volume of funds disbursed so far);
- The results of the risk assessment exercise;
- The climate change indicator (Climate Action Indicator% for tracking climate change mitigation and adaptation);
- Nature of the EU guarantee (Political risk vs. Comprehensive);
- For multi-beneficiary loans: number of final beneficiaries (specifying the financial characteristics of each of the loans provided by the financial intermediaries to the final beneficiaries);
- For the framework loans: number of sub-projects covered/in the pipeline (specifying the financial characteristics of each of the sub-projects).

Portfolio analysis

The EIB provided the evaluation team with the data for the 57 financing operations signed under the current ELM from July 2014 up to 31 December 2015. The data was extracted from the EIB database Serapis with detailed information on each financing operation.

From that database, the evaluation team performed a portfolio analysis of the 57 financing operations in the database. That analysis provides a descriptive and analytical overview of the ongoing status of the ELM operations, including:

- Regional distribution;
- Country distribution;
- Sector distribution;
- EIB financing type;
- Appraisal duration;
- Coverage of the EU guarantee;
- Project cost and EIB contribution per projects;
- Disbursement;
- Type of final beneficiaries;
- Climate change indicators.

That analysis made it possible to draw a global snapshot of the portfolio and outline some findings and build hypotheses, which were addressed more in depth during the case studies.

Workshop on ELM projects lifecycle

A workshop was organised with the EIB to present some of the key elements of the ELM: project lifecycle, project monitoring, the economic and financial assessment of project, the EU call for guarantee process, the REM framework and a specific case study of the financial operation conducted in Armenia.

Stakeholders mapping

The stakeholders mapping consisted in the identification of the various stakeholders involved directly and indirectly in the strategic orientation, the implementation, the reporting and the monitoring of the Programme as well as stakeholders from the beneficiaries side. Their role and interaction were defined to draw an overall picture of the stakeholders' interactions. The stakeholder mapping was necessary to prepare the stakeholder interviews, ensuring that the evaluation team identified all the relevant stakeholders.

Stakeholder interviews

Interviews were conducted with a set of relevant stakeholders identified in the stakeholders mapping. Stakeholders are the officials from the EIB and the Commission, country-level government officials, officials working in international financial institutions and development finance institutions, private and sovereign institutional investors, private sector financial intermediaries, private and public sector final beneficiaries and NGOs, in particular those relevant to the financial sector (including Eurodad, Counterbalance, and CEE Bankwatch).

The evaluation team used a semi-structured interview approach that provided a set of questions to be tackled during the interview while allowing the interviewer to ask follow-up questions. That approach enabled the evaluation team to obtain the largest possible volume of information during each interview.

Case studies

The evaluation team selected 20 financing operations on the basis of specific criteria. Case studies selected were representative in terms of geographical and sectorial coverage, type of financial instrument used, amount of funding provided, objective of the operation and type of guarantee applicable.

Case studies have been undertaken in several beneficiary States of the specific activities selected for an in-depth assessment of the results / impacts achieved so far, as well as the perception of stakeholders. The evaluation team conducted an in-depth analysis for 20 financing operations by studying the documentation related to those projects. That documentation set the background of the financing operation, the appraisal procedure, the contractual specificities and the modalities of the execution of the financing operation. That desk research was completed by interviews with relevant stakeholders.

4.3 Limitations of the method used

The framework of the evaluation of the External Lending Mandate ("the Programme") includes:

- a) an evaluation of the EIB's external financing activities under EU guarantee.
- b) an assessment of the wider impact of the EIB's external lending in Programme regions, including in the context of the emerging post 2015 development finance framework.

The overall approach for the study presents two main constraints:

First, considering the short operating timeframe of the Programme, a small number of operations have already been signed (57) and an even smaller number of operations have already been disbursed (9), which reduces the

explanatory power of the analysis. Any extrapolation to the whole population of operations (both running and upcoming under this ELM period), in particular, would be hazardous. Given that short timeframe, the evaluation approach is mainly qualitative, addressing the conditions for success. The judgment on the actual effectiveness, efficiency, coherence of the ELM is completed with an analysis of whether the conditions for the Programme to achieve its objectives are in place. The evaluation team applied that approach throughout the entire analysis of the ELM including the internal functioning of the ELM. It is all the more relevant as it helps to draw recommendations for the improvement of the Programme.

Data availability is another issue, in particular as regards data at the final beneficiaries' level. This is partly due to the short operating timeframe of certain operations or the way they are structured, in particular for multi-beneficiary loan. However, at the Programme level, all aggregated financial and non-financial data have been made available and allowed to produce the required analysis for this evaluation.

5. Answer to the evaluation questions

The operational approach for the ELM mid-term evaluation seeks to answer the evaluation questions by rephrasing and reordering them in a logical sequence that follows the intervention logic of the ELM operations.

The design of the ELM

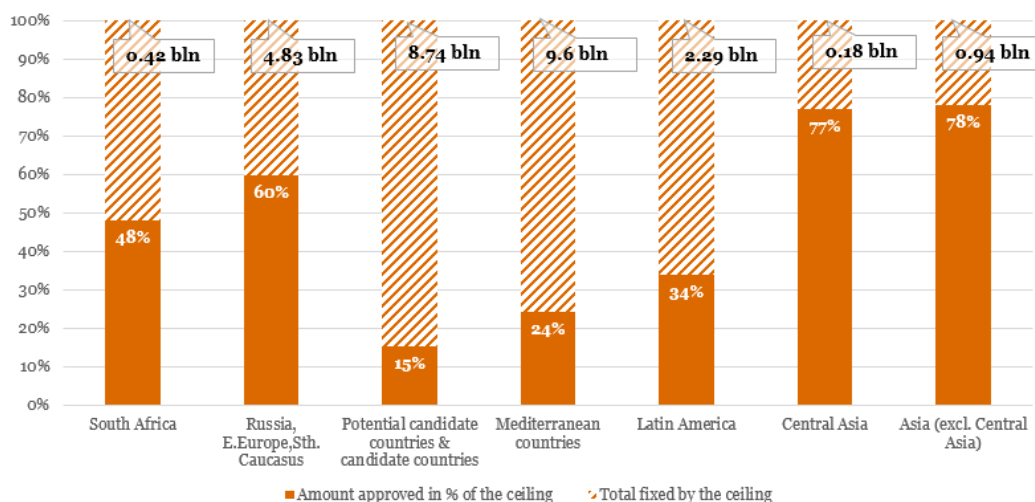
Answer to EQ 1, EQ 2, and EQ 3:

Regarding the alignment of the ELM with the EU external policy agenda, the analysis has been conducted on the reactivity to changes in EU external priorities, namely the Ukraine crisis, the "Arab spring", the support to the candidate and pre-candidate countries and the emerging issues.

- The ELM operations are aligned with the three objectives defined in the Decision. The climate change objective is still relevant in the present context where post-Paris agreement efforts towards climate change mitigation and adaptation objectives and pursuit of the Sustainable Development Goals ("SDGs") are contributing to a sustainable and inclusive growth;
- ELM objectives are broadly aligned with the SDGs and are expected to contribute directly to a number of the SDGs, such as Clean water and sanitation, Affordable and clean energy, Industry, innovation and infrastructure, Sustainable cities and communities, Climate action and Decent work and economic growth;
- The ELM has supported the Union's external policy agenda, showing sufficient flexibility and reactivity to upcoming challenges. This is exemplified through the case of Ukraine (the Ukrainian crisis), Egypt and Morocco ("Arab spring"), Syria and the ongoing discussion over the refugee crisis. This includes also alignment with climate objectives as they have been agreed in the Paris Agreement;
- The ELM, above all, has been a tool contributing to the economic stabilisation in the countries hit by a political crisis. Its agenda has been constrained by tough geopolitical challenges, which weigh on the regional ceilings and the future capacity of action under the ELM.

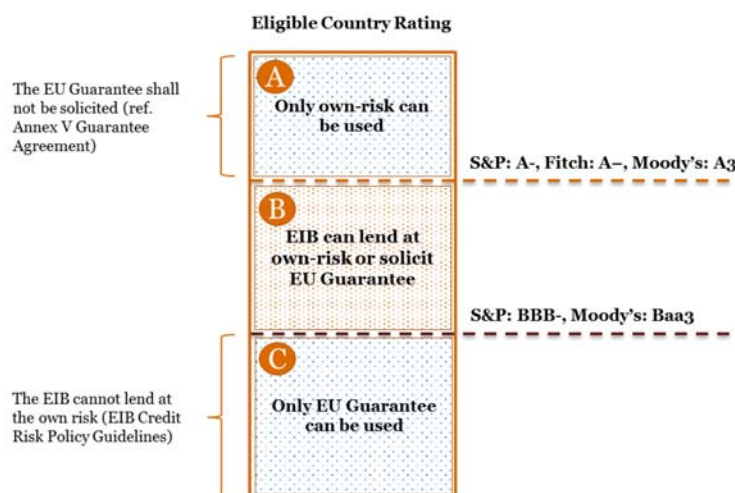
According to the relevance and added value of the geographical distribution and regional ceilings, the conclusion was that in some of the regions (Asia; South Africa; Central Asia; Russia, Eastern Europe, South Caucasus), the amount committed (approved) after 1.5 years into the Mandate approaches the regional ceiling, which constrains the future operations and significantly reduces the capacity of the ELM to respond to potential upcoming challenges or EU priorities in the future. EIB cooperation with Russia is restricted because of the restrictive measures introduced by the European Union in the context of the Ukraine conflict. In other regions (Mediterranean countries; Latin America, Potential candidate and candidate countries), the EIB delivers according to the regional ceilings.

Funds approved in each region as a % of the amount fixed by the ceiling for this region



Concerning the relevance of the allocation policy, specifically in the choice between own-risk financing and financing under the EU guarantee, the conclusion is that the financing operations were conducted in full compliance with the Allocation policy of the ELM. The own-risk lending and lending under the EU guarantee are largely non-rival: the ELM is used in most cases for financing operations in countries with a speculative grade. In the three countries with an investment grade (India, Brazil and South Africa) where the ELM operations have been conducted, the macroeconomic environment is characterized by high volatility and uncertainty, which justifies the use of the EU guarantee.

EIB solicitation possibilities of the EU Guarantee for lending outside the EU



The management of the ELM

Answer to questions EQ4, EQ 5, EQ 6, and EQ 7.

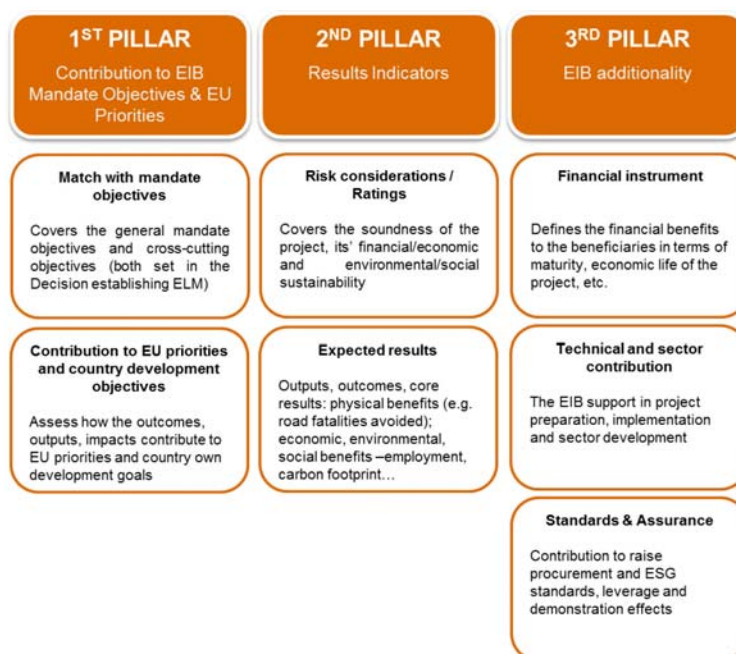
With regard to the ELM operations lifecycle, the analysis is lead through all the steps, namely project origination, project appraisal, monitoring of the operations, management cost and reporting.

- The project appraisal results in a comprehensive analysis of the project and provides the decision-maker with sufficient information for assessing the quality and the relevance of the latter. The project appraisal is compliant with the requirements of Article 9 of the Decision.
- The EIB or the local stakeholders perceive the management cost induced by the ELM among the least heavy compared to the other international financial institutions.

- The reporting from the EIB to the Commission is compliant with Article 11 of the Decision and covers effectively the main aspects of the ELM. However, some improvements in the procedure and coordination between the EIB and the Commission could further enhance the reporting system.

On the assessment of the needs and the results, the REM is analysed, being the structured tool on which the EIB relies for estimating the financial needs, monitoring and reporting on the ongoing projects and for evaluating the results.

Organisation of the Results Measurement Framework (REM)



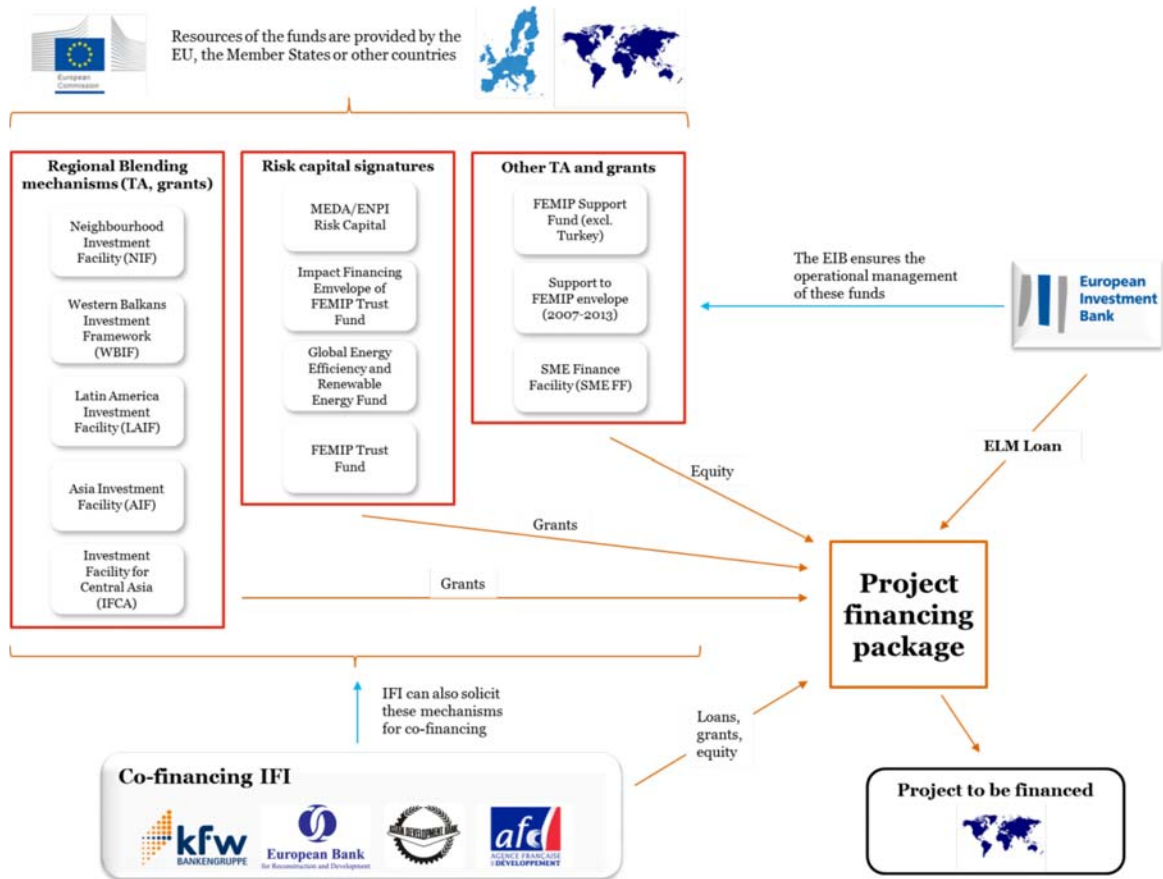
In conclusion, the REM indicators are considered to be well aligned with the operational objectives of the EIB in the framework of the ELM. The REM was developed based on an assessment of indicators and models existing among the IFIs. Therefore, it absorbed the existing best practices.

Answer to questions EQ 8 and EQ9.

Regarding the complementarity and coordination with other EU financing facilities and International Financial Institutions ('IFIs'), the conclusion are reached through the review of the blending ELM loans and grants with a particular concern on the pivotal role of the EU delegation and the coordination of the IFIs.

- Complementarity and coordination with other IFIs are strengthened through the co-financing of projects. Coordination occurs for the identification of project opportunities, the appraisal of those projects and the monitoring;
- Cooperation with other IFIs allows the EIB to leverage on their expertise of the local markets where EIB has a limited presence, and to structure its own operations;
- The role of the EU delegation has been crucial in several financing operations in sharing the knowledge of the local context, coordinating with other IFIs and ensuring a connection with the national governments of the beneficiary countries.

Blending mechanism ELM loans/grants



The added value of the ELM

Answer to question EQ 10.

Concerning the added value of the ELM, several conclusions are reached through the analysis of the financing operations:

- Without the ELM, the EIB would not have financed most of the projects under consideration (country profiles too risky for own-risk facilities).
- In several cases, the project could have been realized thanks to alternative sources of financing, mainly from the other IFIs, though not necessarily at the same extent. However, there is a probability that some of the projects would not have found financing in absence of the EIB as they face their own financial constraints.
- The added value of the ELM financing operations is substantial compared to the commercial loans both in terms of financial advantage (interest rate much lower, maturity much longer than on any regular commercial debt) and availability of funds.
- There is a clear evidence of non-financial benefits for the final beneficiaries generated by the EIB lending: technical assistance, promotion of good financial standards within the local banking sector, procurement standards. In addition to other IFIs, the EIB is supporting EU policies and promoting EU standards and principles.

On the exchange rate risk, the existence of the FX risk is considered to drag on the demand for the ELM loans (in USD or in EUR) and partially offsets the financial added value of the ELM.

Climate change mitigation and adaptation

Answer to question EQ 11.

ELM strategic framework as regards climate action has been analysed with the use of specific cases and according to the ELM contribution to greenhouse gas (GHG) emissions reduction.

The ELM largely contributes to the climate change-related objectives, especially in terms of mitigation. It largely exceeds the quantitative target of 25% and even the future target of 35%, as the climate change-related actions account for 39% of the total EIB contribution. The total emission savings of ELM projects over the second half of 2014 and 2015 is 1.35 Mt CO₂-eq/year.

The figure for the ELM covering the whole period July 2014-December 2015 is as follows:

Total absolute emissions	1.44 Mt/CO ₂ -eq/yr
Total relative emissions	-1.35 Mt/CO ₂ -eq/yr

The communication and the ELM contribution to the visibility of the EU

Answer to question EQ 12.

Communication efforts to date have ensured the borrower is informed of the Union support. However, it does not ensure that the visibility of the Union is sufficiently enhanced at the final beneficiary level. Communication and visibility objective should be further promoted and supported within the ELM.

6. Conclusion

The conclusions are defined across five main themes: the design of the ELM, its management, added value, role in terms of climate-change mitigation and adaptation and contribution to the visibility of the Union.

In addition, the conclusions on the Commission's better regulation criteria are as follows:

- On efficiency, the evaluation concluded that the external lending mandate provided sufficient flexibility to respond to crisis events thanks to sufficient margin in the regional and subregional ceilings in first years of implementation, though resulting in overusing the ceilings in some regions (Eastern Neighbourhood, Asia and Central Asia).
- On effectiveness, the evaluation concluded that the financing operations are well aligned with Union priorities and objectives and that they followed the rules of the allocation policy – though investment grade countries benefitting from the EU guarantee being more questionable.
- On relevance, the external evaluation wrote that the three overall objectives of the ELM as set in the Decision are still relevant in the present context. The climate change mitigation and adaptation objectives are ever more relevant after the post-Paris agreement. Private sector and infrastructure development objectives are drivers of the sustainable and inclusive growth and as such still relevant as key objectives of the ELM. Furthermore, while considering the criteria of the Allocation policy, the list of the eligible countries might be subject to revision – removing high investment grade and high-income countries from the list.
- On coherence, the role of the EU Delegations has been crucial in several financing operations in sharing the knowledge of the local context, coordinating with other IFIs and ensuring a connection with the national governments of the beneficiary countries. Furthermore, the blending frameworks enhanced complementarity and coordination with other IFIs, further strengthened through the co-financing of projects. Coordination occurs for the identification of project opportunities, the appraisal of those projects and the monitoring. Furthermore, cooperation with other IFIs allows the EIB to build on their expertise of the local markets.
- On added-value, please take note of below remarks in section '*The added value of the ELM*'.

The design of the ELM

All the operations launched under the ELM since its inception in July 2014 are fully aligned with the three objectives stated in the Decision. Those three objectives themselves are aligned with the Sustainable Development Goals as defined by the United Nations. Moreover, the ELM has supported the Union's external policy agenda, showing sufficient flexibility and reactivity to the geopolitical challenges as demonstrated through the cases of Syria, Ukraine (the Ukrainian crisis), Egypt and Morocco (“Arab spring”) and Jordan (the refugee crisis). The ELM has played a role in the economic and political stabilisation of these countries hit by a political crisis. As a result, in some of the regions (Asia; South Africa; Central Asia; Russia, Eastern Europe, South Caucasus), the volume of funds allocated so far represents up to 78% of the regional ceiling, which leaves limited leeway for responding to potential future challenges. EIB cooperation with Russia is restricted because of the restrictive measures introduced by the European Union in the context of the Ukraine conflict. Overall, the financing operations were conducted in full compliance with the Allocation policy of the ELM. Lending under the EIB own-risk and lending under the EU guarantee proved largely non-rival, as the EU guarantee has usually been solicited for operations in countries with a speculative grade. Even though, three countries (India, Brazil and South Africa) where the ELM operations have been conducted had an investment grade at the date of signature, their macroeconomic environment is highly unstable, which justifies the use of the EU guarantee.

The management of the ELM

The management of the ELM by the EIB has been compliant with the requirements of the Decision and contributed to the effective use of the EU guarantee. Indeed, the project appraisal results in a comprehensive analysis of the project and provides the decision-maker with sufficient information for assessing the quality and the relevance of the latter. Key part of the appraisal, the REM framework is well adapted to the operational objectives of the EIB in the framework of the ELM. The REM was developed based on an assessment of indicators and models existing among the IFIs. Therefore, it absorbed the existing best practices. The reporting from the EIB to the Commission is compliant with the requirements of the Decision and covers effectively the main aspects of the ELM. However, some improvements in the procedure and coordination between the EIB and the EU could further enhance the reporting system. Overall, the EIB or the local stakeholders do not perceive the management cost induced by the ELM higher than the management cost of other comparable operations.

Coordination and complementarity with other stakeholder such as the EU delegations, other IFIs or blending mechanisms has been crucial in several operations prospecting the beneficiaries, sharing the knowledge of the local context, coordinating and ensuring a connection with the national governments of the beneficiary countries. Some rationalisation of the blending process could be envisaged in order to address urgent needs (e.g. loans targeting refugee crisis-related issues).

The added value of the ELM

Without the EU guarantee, the EIB would not have financed most of the projects under consideration, as the country profiles of the recipient countries are too risky for the EIB to carry out the lending using the own-risk facilities. In several cases – with important exceptions –, the project could technically have been realized in the absence of the EIB involvement, as the borrower may potentially have found an alternative source of financing, mainly from the other IFIs. However, the other IFIs face their own budget constraints and seek to diversify risks: thus in absence of the ELM, they would not have been able to fill the gap entirely. The added value of the ELM financing operations is substantial compared to private sector both in terms of the interest rate – much lower than the local commercial interest rates – and longer maturity. Thus, it expands greatly the access to funds for the local SMEs and Midcaps. Moreover, there is a clear evidence of non-financial benefits for the final beneficiaries generated by the EIB lending: technical assistance, promotion of good financial standards within the local banking sector, procurement standards. However, the existence of the FX risk drags on the demand for the ELM loans (in USD or in EUR) and partially offsets the financial added value of the ELM.

Climate change mitigation and adaptation

The ELM has substantially contributed to the climate change-related objectives, especially in terms of mitigation. It exceeds the quantitative target of 25% and even the future target of 35% by 2020, as the climate change-related actions account for 40% of the total EIB contribution. In addition, the ELM operations have allowed saving an estimated 1.35 Mt CO₂-eq/year of GHG emissions through the operations signed between July 2014 and December 2015.

The communication and the ELM contribution to the visibility of the EU

The communication efforts allowed informing the borrower of the EU support. However, it does not ensure that the visibility of the EU is sufficiently enhanced at the final beneficiary level. Communication and visibility objective should be further promoted and supported within the ELM.

Criteria used to evaluate the need for an activation of the EUR 3 billion of the EU guarantee

The results of this Mid-Term review are meant to be used to define the criteria for the potential extension of the EU guarantee by EUR 3 billion. In line with the scope of the evaluation, those criteria could be summarized as follows:

- Is the design of the ELM relevant from the point of view of the EU external policy objectives, that is, would the additional funds address relevant needs? The conclusions of the Mid-Term review allow answering positively to that criterion;
- Is the current management of the ELM by the EIB sound, that is would the Bank be able to use the additional funds in a confident and efficient manner? The conclusions of the Mid-Term review point that, in spite of some minor inefficiencies, the overall management of the Mandate by the EIB is sound and in line with the existing best practices;
- To what extent do the ELM loans bring added value to the final beneficiaries, that is would additional funds be expected to generate significant benefits – financial and non-financial – to the local stakeholders? The Mid-Term review clearly points out that the ELM operations generate high added value for the final beneficiaries;
- Do the current regional ceilings and the overall envelope restrict the EIB activities in a way that could be detrimental to the fulfilment of its objectives? The answer from the Mid-Term review is contrasting depending on the specific regions: in some of them, the volume of lending committed is proportionally more significant, sometimes moving quite close to the actual regional ceiling defined in the Decision.

In light of the evaluation conclusions, the Commission considered the following changes in the mandate in order to achieve the specific policy and operational objectives:

- **Review of the eligible countries' list** specified in Decision 466/2014/EU according to the country risk profile.

High-income countries and country having a rating well above the criteria defined in the Allocation Policy should be dropped from the list of eligible countries: Brunei, Iceland, Israel, Singapore, Chile, South Korea, as well as China's Special Administrative Regions (SAR) Hong Kong and Macao.

- **Better target the External Lending Mandate on the EU priorities** in order to improve the response to external policy objectives:
 - A new horizontal high-level objective covering the response to the migration crisis should be introduced.

- A reference to the Paris agreement adopted under the UN Framework Convention on Climate Change should be introduced and the target for climate action projects should be increased to 35% of the total volume of EIB operations. A reinforcement of the EIB's mandate contribution to climate change adaptation should be required.
 - Reinforcement of the added value of EIB operations with a focus of the lending under the ELM on higher risk profiles. The operations under the ELM could be restricted to countries with the credit rating corresponding to the speculative grade (below BBB- (S&P and Fitch) and Baa3 (Moody's)). This could be done through a review of the allocation policy annexed to the Guarantee Agreement.
 - Activation of the optional additional amount of EUR 3 billion: This optional mandate will increase the regional ceilings pro rata, including the EUR 1.4 billion of the EIB Resilience initiative (EIB's Building Block 2) for operations involving public counterparts.
 - Increase of the overall ceiling by EUR 2.3 billion for EIB financing operations to private sector (EIB's Building Block 3) applicable to projects in support of refugees and/or host-communities. In this context, and for the said amount, the coverage of the EU guarantee for these operations should be extended to all payments due to the EIB, but not received by it ('Comprehensive Guarantee'), rather than only the political risk guarantee as per the current decision. The risk for the Union budget associated to EIB financing operations under the private sector lending mandate should be remunerated and revenues thereof paid to the Guarantee Fund for external actions.
 - Introduce more flexibility by allowing the EIB to increase the re-allocation of funds between regions and sub-regions in the course of the mandate. More flexibility is needed in order to enable addressing urgencies that might arise in one or another region within the mandate period. The ceiling for reallocation between the regions by the EIB in the course of the mandate should be increased from 10% to 20%. The flexibility scheme should apply only where it concerns the need to address urgencies and crisis situations that might arise within the mandate period, and for which are recognised as high EU external policy priorities. The private sector mandate of EUR 2.3 billion and the amount of EUR 1.4 billion for projects addressing the migration crisis cannot be reallocated.
 - Enhance EIB support to SMEs from the Union (internationalisation of EU businesses).
 - EIB mandate direct contribution to the achievement of some goals of the SDGs should be underlined, such as clean water and sanitation, affordable and clean energy, industry, innovation and infrastructure, sustainable cities and communities, climate action, decent work and economic growth.
- **Improvement of the communication strategy for all projects at country level to reinforce the impact of the ELM and Union visibility.**
Reinforcement of the cooperation between the EIB, the Commission and other entities of the EU working in a specific country. The cooperation could include, in particular, joint visits from Commission and EIB to the countries, joint communication strategies between the EU delegation and EIB local offices, joint press releases putting the accent on the Union involvement in the country.
 - **Update of the Regional Technical Operational Guidelines.**
The Regional Technical Operational Guidelines should reflect the evolutions of the Union's priorities and the EIB's alignment with them. The EEAS should continue to be closely associated to the elaboration of the Regional Technical Operational Guidelines.
 - **Improvement of the reporting between the EIB and the Commission and new reporting**
Some improvements in the procedure and coordination between the EIB and the Commission could further enhance the reporting system. An assessment of the contribution of EIB

financing operations in response to the migration crisis should be introduced in the context of the EC annual Report to the European Parliament and to the Council on EIB financing operations. The EIB should also implement and develop a set of indicators in its Results Measurement framework for projects in the public sector and in the private sector directed to refugees and host communities; in the context of the Commission's annual reporting to the European Parliament and to the Council on EIB financing operations.

ANNEX 1 – Financial Database and Data Collection

Financial Database

The preliminary data provided by the EIB have been stored in an excel spreadsheet as illustrated below:

Operation number	Contract number	Operation name	Approval (B)	EU Guarantee limited to Political Risk	Mandate / Facility	Funds	Region	Country	Sectors	First signature of the operation	Signature within current ELM period	Appraisal duration (months)	EB financing Type	Project cost EUR	Approved (operation+EB) EUR	Spent in EUR	Contract currency	Spent in contract currency	Climate Change indicator (%)	Climate Change in mitigation indicator	Climate Change adaptation indicator	Disbursed as % of total signed	Type of final beneficiaries	Co-financing with other instruments	TA / grant component
20140459	65234	NCARGUA HYDRO DEVELOPMENT AND TRANSMISSION	Fully Signed	No	ELMED 2014-2020	EB own resources	Latin America	Nicaragua	Energy	28/12/2015	28/12/2015	11	Investm. Loan	1,090,445,860	145,586,687	146,062,038	USD	160,000,000	85	100	0%	Sovereign entity	Yes		
20100613	82167	CAIRO METRO LINE 3 (PHASE 3)	Approv Bnd	No	ELMED 2014-2020	EB own resources	Mediterranean countries	Egypt	Transport	14/11/2012	28/12/2015	12	Investm. Loan	2,417,800,000	600,000,000	200,000,000	EUR	200,000,000	100	100	0%	Public sector entity	Yes	Yes	
20160476	85055	UKRAINE AGRIFOOD ATEX LOAN	Fully Signed	No	ELMED 2014-2020	EB own resources	Russia, Sh. Candidate countries	Ukraine	Craft lines	28/12/2015	28/12/2015	3	Multi-BI Loan	800,000,000	400,000,000	400,000,000	EUR	400,000,000	35	11	24	0%	SMEs / MidCaps		Yes
20160222	84434	AFFORESTATION AND BROSION CONTROL III	Fully Signed	No	ELMPre-Accession 2014-2020	EB own resources	Candidate countries	Turkey	Agriculture, fisheries	28/12/2015	28/12/2015	9	Investm. Loan	330,845,000	120,000,000	120,000,000	EUR	120,000,000	100	70	30	0%	Sovereign entity		
20160221	84433	TUBITAK RESEARCH PRODUCTION II	Fully Signed	No	ELMPre-Accession 2014-2020	EB own resources	Candidate countries	Turkey	Services	28/12/2015	28/12/2015	9	Investm. Loan	555,500,000	200,000,000	200,000,000	EUR	200,000,000	3	3	0%	Public sector entity			
20160308	84608	MODERNISATION ROUTIERE II	Fully Signed	No	ELMED 2014-2020	EB own resources	Mediterranean countries	Tunisia	Transport	18/12/2015	18/12/2015	1	Framework loan	342,800,000	150,000,000	150,000,000	EUR	150,000,000	2	2	0%	Sovereign entity		Yes	
20160234	84734	ISTANBUL UNDERGROUND RAIL NETWORK	Approv Bnd	No	ELMPre-Accession 2014-2020	EB own resources	Candidate countries	Turkey	Transport	18/12/2015	18/12/2015	4	Investm. Loan	1,440,000,000	350,000,000	295,000,000	EUR	295,000,000	100	100	0%	Regional or commercial authorities			
20140232	83634	ROUTE 10 RAIL REHABILITATION	Approv Bnd	No	ELMPre-Accession 2014-2020	EB own resources	Potential candidate countries	Kosovo	Transport	08/12/2015	08/12/2015	16	Investm. Loan	208,400,000	80,000,000	42,000,000	EUR	42,000,000	100	100	0%	Commercial company	Yes		
20140534	84689	DIAMANTHOUR COGT POWER PLANT	Fully Signed	No	ELMED 2014-2020	EB own resources	Mediterranean countries	Egypt	Energy	08/12/2015	08/12/2015	5	Investm. Loan	1,207,530,255	537,875,392	550,377,733	USD	600,000,000	2	2	0%	Public sector entity	Yes		
20120407	84644	NEPAL GRID DEVELOPMENT PROGRAMME	Fully Signed	No	ELMAsia 2014-2020	EB own resources	Asia (excl. Central Asia)	Nepal	Energy	03/12/2015	03/12/2015	8	Investm. Loan	65,159,212	30,000,000	30,000,000	EUR	30,000,000	84	84	0%	Regional or local	Yes	Yes	
20130587	83156	VIETNAME SUSTAINABLE URBAN TRANSPORT	Approv Bnd	No	ELMAsia 2014-2020	EB own resources	Asia (excl. Central Asia)	Las Peoples Democratic	Transport	30/11/2015	30/11/2015	14	Investm. Loan	87,760,000	20,000,000	18,805,279	USD	20,000,000	100	100	0%	Regional or local	Yes	Yes	

Data collected for the evaluation

The evaluation team collected project-specific documentation for each of the twenty case studies: PIN, appraisal report, contracts, REM reports, the financial data (interest rate of the loan, maturity, collateral, guarantee arrangement), reporting documents, documents on methods used by the EIB to ex-ante assess projects.

The evaluation team also collected and analysed the following documents:

- Legal framework (the Decision, the Guidelines, allocation policy, the Guarantee Agreement and the Recovery Agreement);
- Strategic documentation (ELM Climate change strategy, various EU strategies as regards climate change, migration or external policies, etc.);
- Past evaluation report on the ELM;
- Project cycle guidelines from the EIB and presentation on REM framework, economic and financial analysis and monitoring;
- Financial data on each of the 57 financing operations.

ANNEX 2 – Set of Conclusions

- Conclusion 1: the ELM operations are aligned with the three objectives defined in the Decision. The latter are still relevant in the present context where post-Paris agreement efforts towards climate change mitigation and adaptation objectives and pursuit of the SDGs are contributing to a sustainable and inclusive growth.
- Conclusion 2: ELM objectives are broadly aligned with the SDGs and are expected to contribute directly to a number of the SDGs.
- Conclusion 3: the ELM has supported the EU external policy agenda, showing sufficient flexibility and reactivity to upcoming challenges. This is exemplified through the case of Ukraine (the Ukrainian crisis), Egypt and Morocco (“Arab spring”), Syria and the ongoing discussion over the refugee crisis. This includes also alignment with climate objectives as they have been agreed in the Paris Agreement.
- Conclusion 4: the ELM, above all, has been a tool contributing to the economic stabilisation in the countries hit by a political crisis. Its agenda has been constrained by tough geopolitical challenges, which weigh on the regional ceilings and the future capacity of action under the ELM.
- Conclusion 5: in some of the regions (Asia; South Africa; Central Asia; Russia, Eastern Europe, South Caucasus), the amount committed (approved) after 1.5 years into the Mandate approaches the regional ceiling, which constrains the future operations and significantly reduces the capacity of the ELM to respond to potential upcoming challenges or EU priorities in the future.
- Conclusion 6: in other regions (Mediterranean countries; Latin America, Potential candidate and candidate countries), the EIB delivers according to the regional ceilings.
- Conclusion 7: the financing operations were conducted in full compliance with the Allocation policy of the ELM.
- Conclusion 8: the own-risk lending and lending under the EU guarantee are largely non-rival: the ELM is used in most cases for financing operations in countries with a speculative grade.
- Conclusion 9: in the three countries with an investment grade (India, Brazil and South Africa) where the ELM operations have been conducted, the macroeconomic environment is characterized by high volatility and uncertainty, which justifies the use of the EU guarantee.
- Conclusion 10: the project appraisal results in a comprehensive analysis of the project and provides the decision-maker with sufficient information for assessing the quality and the relevance of the latter. The project appraisal is compliant with the requirements of Article 9 of the Decision.
- Conclusion 11: the EIB or the local stakeholders perceive the management cost induced by the ELM among the least heavy compared to the other international financial institutions’.
- Conclusion 12: the reporting from the EIB to the Commission is compliant with Article 11 of the Decision and covers effectively the main aspects of the ELM. However, some improvements in the procedure and coordination between the EIB and the Commission could further enhance the reporting system.
- Conclusion 13: the REM indicators are well aligned with the operational objectives of the EIB in the framework of the ELM.
- Conclusion 14: the REM was developed based on an assessment of indicators and models existing among the IFIs. Therefore, it absorbed the existing best practices.
- Conclusion 15: complementarity and coordination with other IFI are strengthened through the co-financing of projects. Coordination occurs for the identification of project opportunities, the appraisal of those projects and the monitoring.
- Conclusion 16: cooperation with other IFIs allows the EIB to leverage on their expertise of the local markets where EIB has a limited presence, and to structure its own operations.
- Conclusion 17: the role of the EU delegation has been crucial in several financing operations in sharing the knowledge of the local context, coordinating with other IFIs and ensuring a connection with the national governments of the beneficiary countries.

- Conclusion 18: without the ELM, the EIB would not have financed most of the projects under consideration (country profiles too risky for own-risk facilities).
- Conclusion 19: in several cases, the project could have been realized thanks to alternative sources of financing, mainly from the other IFIs, though not necessarily at the same extent. However, there is a probability that some of the projects would not have found financing in absence of the EIB (it is unlikely that the other IFI would have covered the entirety of the corresponding EUR 27 billion gap) as they face their own financial constraints.
- Conclusion 20: the added value of the ELM financing operations is substantial compared to the commercial loans both in terms of financial advantage (interest rate much lower, maturity much longer than on any regular commercial debt) and availability of funds.
- Conclusion 21: there is a clear evidence of non-financial benefits for the final beneficiaries generated by the EIB lending: technical assistance, promotion of good financial standards within the local banking sector, procurement standards. In addition to other IFIs, the EIB is acting as the EU bank, applying EU policies and promoting EU standards and principles.
- Conclusion 22: the existence of the FX risk drags on the demand for the ELM loans (in USD or in EUR) and partially offsets the financial added value of the ELM.
- Conclusion 23: the ELM largely contributes to the climate change-related objectives, especially in terms of mitigation. It largely exceeds the quantitative target of 25% and even the future target of 35%, as the climate change-related actions account for 39% of the total EIB contribution . The total emission savings of ELM projects over the second half of 2014 and 2015 is 1.35 Mt CO₂-eq/year.
- Conclusion 24: Communication efforts to date have ensured the borrower is informed of the Union support. However, it does not ensure that the visibility of the Union is sufficiently enhanced at the final beneficiary level. Communication and visibility objective should be further promoted and supported within the ELM.