2015 Discharge to the EDF

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WRITTEN QUESTIONS / WRITTEN ANSWERS

TO EIB DIRECTOR-GENERAL

LUCA LAZZAROLI

Hearing of 8 November 2016

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1. ***Could the EIB provide the Parliament with more details concerning operations signed in 2015 with OCT regions? Could EIB provide data on the assessments on previous projects launched in OCTs and either terminated or still ongoing? Which progresses have been made to improve OCTs' access to EIB in 2015? On which improvements for OCTs the EIB intend to work for the future?***

EIB answer:

The EIB acknowledges the importance of the special relationship between the Union and the OCTs, based on mutual objectives, principles and values, and operates currently in the framework of the Overseas Association Decision 2014-2020[1]. The EIB focuses in particular on the following objectives: enhancement of OCTs' competitiveness and strengthening of their resilience and reduction of their vulnerability, through support to public infrastructure and development of the private sector.

One operation was signed in 2015 in the OCTs: **Sint Maarten fibre to the home** for an amount of EUR 8m. The project concerns the **roll-out of an optical fibre access network** on the island of Sint Maarten (Dutch part of the island) in order to provide high speed fixed broadband telecom services to residential and business users. Based on this network the promoter will be able to provide triple play (voice, internet, TV) services to around 14 500 homes. The project will be implemented between 2016 and 2021.

Regarding the assessment on previous projects launched in OCTs, please refer to the report of the European Court of auditors that covered investment deals signed between 2011 and

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[1] **For information: Financial Resources under the 11th EDF-OCT**

The 11th EDF-OCT resources available to the OCTs split into the following allocations, based on Annex 2 of the Overseas Association Decision:

- EUR 229.5 million for the territorial (bilateral) allocations;
- EUR 100 million for regional cooperation and integration;
- EUR 21.5 million to finance humanitarian and emergency assistance, or assistance for fluctuations in export earnings;
- EUR 5 million to finance interest subsidies and technical assistance through the EIB's OCT Investment Facility;
- EUR 8.5 million for studies and technical assistance in accordance with Article 81 of the OAD.

2014, which covered broadly IF/ORs' operations in ACPs/OCTs, and which conclusions apply to the whole portfolio.

A pipeline of operations has been built for the OCTs that fully commit the limited resources available under the IF (EUR 48.5m under OAD I to III) plus the expected reflows. Under OR, out of the EUR 100m that were made available under OAD I to III, taking into account the existing pipeline of operations, only EUR 20m remain to be committed.

In its report to the Council on the OAD (22.02.2016), the Commission also envisages further financing (up to EUR 100 million) by the EIB from its own resources[2], but no decision has been made so far in that area.

2. In comparison to the 5 past years: how many OCTs' projects have been financed in 2015? Which total amount has been invested in OCTs' projects in 2015? Which types of OCTs' project has been signed in 2015?

EIB answer:

- In 2010, two environmental lines of credit (Investment Facility (IF)) were signed in the OCTs for a total amount of EUR 15m. One of them was subsequently cancelled and the other fully disbursed (EUR 5m).
- In 2011 no projects were signed in the OCTs.
- In 2012, one operation of EUR 7.5m was signed in Tahiti (EIB's own resources (ORs)) for a hospital but no disbursement was made.
- In 2013 two operations were signed in the financial sector (IF) for a total amount of EUR 40.5m out of which EUR 10.5m were disbursed.
- In 2014 two operations were signed, one in the financial sector (IF) for an amount of EUR 14m in Tahiti and the other for EUR 20m (ORs) for a hospital in New Caledonia (Medipole).
- In 2015, one operation was signed: Sint Maarten fibre (IF) to the home for an amount of EUR 8m.

3. Does EIB has a regional approach when it finances projects in ACP and OCT, by including ACP, OCT but also ORs from the same regional area into account before launching a project? Could the EIB provide the Parliament with data and indicators concerning the progress made towards UE and global development objectives in the OCTs?

EIB answer:

One of the key priorities of EIB under the Cotonou Mandate (ACP-EU Partnership) is regional integration. This means that we pay great attention to projects having a

[2] Annex III of the OAD

regional dimension, in various sectors (transport, energy, private sector development), even if the promoter is, in most cases for public sector operations, a national body. Regional facilities and credit lines to regional development banks also allow the EIB to have a regional approach in support to the financial sector and the development of the private sector. During the project's due diligence the Bank is in contact with the EU delegation in the country and the local authorities concerned by the investment. Before a project can be approved by the Bank's board, the ACP State in which the proposed investment will take place is duly informed for private sector operations the National Authority has to provide a non-objection.

For each operation financed by the Bank (including those in the OCTs), there is an ex-ante assessment of expected results performed at the time of the due diligence of the project to ensure that the operation is in line with the development objectives of the EU in the region. The indicators identified for the project are then monitored to verify to what extent the expected results are actually achieved Since the adoption of the Sustainable Development Goals (SDGs) the Bank examines also the contribution of every project to those. Given the very limited amounts made available under the different OADs, the Bank is however unlikely to contribute substantially towards these objectives in the OCTS.

4. The 2015 annual report on Investment Facility states that 438 million have been designated to nine large infrastructure projects (one under the Investment Facility, the other eight from EIB own resources). Could the EIB provide data on the ex-ante assessments on those projects? What environmental impact assessment has been done?

EIB answer:

The Bank carries its standard due diligence before submitting such investments for approval. The due diligence process examines the sustainability of the project from the technical, economical, financial, social and environmental points of view. Regarding the environmental impact of the projects that it finances, the Bank follows the EIA Directive (Directive 2011/92/EU). All projects in the ACP and the OCTs, for which a formal Environmental and Social Impact Assessment (ESIA) is required, the ESIA process and content must be consistent with the requirements of the EU EIA Directive. The ESIA, which includes public consultation and stakeholder engagement, is the responsibility of the promoter and the competent authorities. The full ESIA process must be completed and its findings and recommendations must satisfy the requirements of the EIB prior to Board approval. In line with the Aarhus Convention, the Bank publically discloses the environmental and social documentation associated with the projects it finances.

5. The EIB collaborates with financial intermediaries such as microfinance institutions, local banks and credit unions that do not qualify for traditional IF financing. What are the parameters to select those partnerships?

EIB answer:

The underlying principle for operations under the so-called Impact Financing Envelope (IFE) is to accept a higher level of project risks to achieve a higher development impact. For interventions under instrument 2 (intermediated lending) and 3 (risk sharing instruments) various types of operations are developed, such as first/second-loss guarantees, intermediated loans for SME lending, risk-sharing on portfolios in key sectors such as agri-businesses and productive sectors, and lending to microfinance institutions, either directly or through facilities, on a sectoral basis (energy, agriculture, education…). These two instruments are used on general terms to fund institutions outside the traditional outreach. Instrument 3 (risk-sharing operations) is used also to further invest in innovative schemes and mechanisms (bonds and guarantees) to maximize impact, in the riskier segments of the markets.

We have recently worked with intermediaries for risk-sharing via a guarantee product; the intermediaries were in fact selected by the International Finance Corporation (Worldbank Group), with whom EIB is working in partnership, and the selection was based on the reach of the intermediaries within one country or across the region, and their ambition to lend into new sectors, in particular financing small and/or new private enterprises.

Regarding microfinance institutions (MFI), the EIB selects its intermediaries based on various parameters: Financial long term sustainability, Target group commitment, Micro and Small Enterprises' outreach (geographically and in terms of products and services, i.e., product range), Intermediary`s capacity to provide credit to specific target groups (e.g., credit risk analysis, credit methodology), and Environmental, Social and Corporate Governance practises (including client protection principles, social performance, environmental and social standards in relation to agriculture).

Two significant examples:

- Under the Caribbean and Pacific Impact Facility, Banco Fondesa in the Dominican Republic was selected as financial intermediary due to its willingness to expand its services towards **rural and marginalized areas of the Haitian border**. The developmental impact of the EIB loan in terms of poverty alleviation and economic impact for the poorest segments of population was thus very high.

- Under the ACP Smallholder Financing Facility, National Microfinance Bank in Tanzania was chosen as partner because of its readiness to increase its outreach among **smallholder farmers.** EIB loan aims at financing 139,378 Final Beneficiaries (of which 70% smallholders and 30% agrifood businesses) in 16 different value chains in Tanzania.

6. ***Although the EIB has decided to strategically increase its support for private equity funds in developing countries, it remains unclear whether the use of private equity funds can achieve the goal to promote access to credit for SMEs, which are supposed to be the ultimate beneficiaries of this type of EIB lending and contribute to employment creation, economic growth and consequently to poverty reduction. What kind of indicators are the EIB using to monitor the performance of such support?***

EIB answer:

Outside the EU, EIB uses the Results Measurement (ReM) Framework to track project results and the contribution to EU and country objectives. Under the ReM, for every private equity operation, EIB tracks a set list of indicators designed to monitor the fund's performance. These indicators have been standardized across private equity operations so that they can be compared and aggregated. They include indicators pertaining to the proportion of investee companies that qualify as SMEs as well as to outcomes such as sales, employment and employment creation of the investee companies. The 2015 ReM Report is available on EIB website.

Results for private equity operations are reported separately. Based on aggregated expected results for four new private equity operations signed in 2015 (EUR 92m in funds expected to reach EUR 695m in size), **these companies will invest in 46 companies**. The net creation of employment over the duration of the investments for two of the funds where a reliable ex ante estimate was possible is estimated at **around 10 500 jobs**. There is also a case study of one of the funds, the health sector focused IFHA 2, which could be of interest to get a more in depth look at the sort of support that EIB is providing.

7. Also about the EIB's investments via private equity funds, there is a unclear point: even though the EIB grants its lending under support from the EU budget (via European Development Funds for its Investment Facility in ACP countries), the bank provides next to no information on where the money ends up. While for most of the funds the disclosed information was often limited, for a part of them it is impossible to find any information whatsoever about their final beneficiaries. Could the EIB provide a clear overview on its transparency policy?

EIB answer:

All projects funded by the EIB, including those funded through financial intermediaries, are **published on the Bank's website and are subject to the highest accountability standards.** They are examined by the Bank's services and are **subject to the Bank's due diligence** with this respect both before approval and following signature through the Bank's monitoring process.

Further to the Bank's own internal safeguards, the deployment of public funds from the EU or the European Development Fund managed by the Bank under mandate is also **subject to control by the European Court of Auditors.**

In the case of investment funds, the Bank **promotes transparency and encourages intermediaries to disclose information about the fund activities and final beneficiaries.**

Of the 16 SME Funds analysed by NGO Counter Balance in a recent report, some 70% of funds in fact do list the final beneficiaries on their respective websites. In the case of the 13 Infrastructure and Climate funds some 61% do the same. The allegations that there is no transparency and that the Bank provides next to no information on the where the money ends up thus seem grossly exaggerated. The Bank could also commit to look further into this and, if there is no legal aspect that would prevent the Bank from doing so, making it an obligation for fund managers benefitting from EIB funding to disclose all final beneficiaries on their website. However, the EIB does have confidentiality clauses applying to the disclosure of information/data on private sector operators, as other IFIs.

8. ***In the 2015 report "Towards a Responsible Taxation Policy for the EIB", Counter Balance pointed out the loopholes connected to the EIB's approach for fighting tax evasion and tax dodging. The outcomes of its latest research confirm the previous assessment:***
   - ***From 2011 to 2015, the EIB invested EUR 470 million in investment funds located in secrecy jurisdictions.***
   - ***In 2015 67% of the volume of EIB lending to investment funds went to clients located in Top 30 secrecy jurisdictions.***
   - ***The country in which the largest number of EIB supported investment funds are domiciled is Mauritius.***

   Could the EIB provide an explanation of this situation? What are the amount of fund given to companies domiciled in Mauritius? What kind of procedure for fighting tax elusion and evasion the EIB is asking to the beneficiaries?

EIB answer:

The NGO report contains a number of inaccuracies and misleading statements. As the NGO's definition of "secrecy jurisdiction" is not on based internationally agreed criteria, it is not possible to verify the figures.

General background:

- EIB Group has **zero tolerance for tax fraud and evasion** and supports the EC stance on aggressive tax avoidance structures. The EIB welcomes the adoption of the Anti-Tax Avoidance Directive and the revised Administrative Cooperation Directive of the Anti-Tax Avoidance Package (ATAP). Taxation and in particular avoidance of links of operations with tax evasion, tax avoidance and harmful tax practices remains an important priority for the EIB. In view of recent regulatory developments in the area of taxation at European level, the Bank has taken measures to enhance its tax due diligence taking into account tax transparency and good governance aspects raised by the European Commission in the ATAP.

- The EIB welcomes the EC initiative to create a common EU list of third countries for tax purposes based on clear, objective and internationally justifiable criteria, a robust screening process and an open dialogue with the third countries in question.
- In line with its policies the EIB is committed to complying with the EU Framework. Therefore, the EU list, once adopted by the Council (adoption foreseen by the end of 2017), will be automatically incorporated into the EIB policy framework and will prevail over other Lead Organisations' lists in case of conflict. In the meantime the EIB has decided to take proactive measures and to classify countries under screening, although not yet NCJ Policy relevant, as "Tax Sensitive Jurisdictions" ("TSJ") and perform increased due diligence measures in case of links of EIB projects to such jurisdictions.
- The EIB due diligence process performed on operations the EIB finances includes, inter alia, identification of beneficial owners, integrity assessments to identify any sanctioned individuals or entities, presence of Politically Exposed Persons and potential conflict of interests.
- Furthermore, the Bank performs **enhanced due diligence and enhanced monitoring** in case of operations linked to non- compliant jurisdictions (NCJs) and high-risk cross-border operations, even in the absence of any NCJ link. This enhanced due diligence implies specific tax disclosure requirements whereby the EIB counterparties-to-be are required to **disclose the economic rationale of the structure and how / where taxes are paid.** The existence of tax information exchange agreements and agreements on the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income between relevant jurisdictions involved in a project will be also verified.
- All projects funded by the EIB, including those funded through financial intermediaries, are **published on the Bank's website** and are subject to the highest accountability standards. They are examined by the Bank's services and are subject to the Bank's due diligence with this respect both before approval and following signature through the Bank's monitoring process.
- Further to the Bank's own internal safeguards, the deployment of public funds from the EU or the European Development Fund managed by the Bank under mandate is also subject to control by the **European Court of Auditors**.
- In general, the EIB has **clear rules which set out how the Bank should be represented in the funds and investee companies in which it invests**.

<u>On the special case of **Mauritius** that is mentioned in the question:</u>

- The EIB operates in Africa under the ACP-EU Partnership Agreement (the Cotonou agreement). Under the agreement, the Bank funds investment projects that deliver sustainable economic, social and environmental benefits, whilst ensuring strict accountability for public funds. Working with African financial institutions allows the EIB to pass on specific sector understanding, banking best practice and ensures more effective lending and cheaper financial support for local companies.
- In 2015 the EIB made no investment in funds in Mauritius.
- Mauritius can accommodate a broad spectrum of investors and it is a common jurisdiction in which to establish private equity funds, particularly for those focused on investing in Africa. As a jurisdiction for the establishment of Funds, Mauritius:

- Is widely recognized by international investors;
- Provides a regulated environment for collective investment vehicles regulated by the Financial Services Commission (FSC). The FSC's primary objective is to regulate and supervise financial sector services in Mauritius, to ensure stability in the financial system;
- Has a large pool of experienced and professional service providers including experienced lawyers, bankers and consultants offering legal, accounting administrative services;
- Has a stable political situation and an established legal framework that is familiar to investors;
- Unlike other jurisdictions, Mauritius has focused the development of its international financial centre on the use of its growing network of double taxation treaties;

- Mauritius underwent both Phase 1 and 2 reviews by Global Forum for Tax Transparency and Exchange of Information for Tax Purposes (Global Forum) and has been rated as “Largely Compliant”[3].
- Mauritius is an ACP State and a signatory of the Cotonou Partnership Agreement and it is a white listed jurisdiction.
- EIB loans to projects in Africa may pass through intermediaries based in Mauritius. These are verified along with checks made in the country where the final beneficiary is located – and where the taxes are paid for these projects.

9. Could the EIB please provide Parliament with a list of the administrative costs for the year 2015 for each of the EIB projects carried out in Africa?

EIB answer:

As per the Financial Regulations[4], the Bank is remunerated on **a full indemnity basis for the management of the IF operations. Accordingly, the Bank is paid a management fee for the IF,** through which it is able to recover the **actual costs incurred on managing the IF (overheads, consultants, trainings, missions, events and staff costs related to the management of the IF)** without making a profit. A cap is calculated each year for this fee based on a formula defined in the Cotonou Agreement[5]. Until now, the actual fee billed by the Bank always remained well below the cap[6], to the entire satisfaction of the Member

[3] The Global Forum peer review process evaluates jurisdictions’ compliance with the international standard of transparency and exchange of information on request. After completion of both Phases of the review process, each jurisdiction receives an overall rating. In accordance with the peer review Methodology, reviews take place in **two phases:** Phase 1 reviews examine the legal and regulatory framework; Phase 2 reviews look into the implementation of this framework in practice. Certain jurisdictions have undergone combined reviews, which evaluate together the Phase 1 and Phase 2 aspects.

[4] Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the 11th EDF.

[5] Annex II Article 3(1a)

[6] In 2015: Total portfolio invested = 4.1bn, Cap= EUR 76m, Management fee= EUR 43m (56.58% of cap, 1% of total portfolio invested)

States. It is unfortunately not possible to detail the administrative costs for each project as these vary for each operation.

10. Blending Facilities: Could the EIB please provide the Parliament with an overview of the administrative costs for the EU blending facilities where the EIB is involved in?

EIB answer:

EIB is **not responsible for the administration of EU blending facilities**, which are managed by the European Commission. The EIB receives lead financier fees, as an eligible financing institution, for those projects where EIB is lead FI, and in line with the fees agreed in the context of the EU Platform for Blending in External Cooperation. The only exception in the ACP regions is the EU-Africa Infrastructure Trust Fund (ITF), as the Secretariat is hosted by the EIB. Under the ITF, the EIB receives a flat 4% management fee to cover the administrative costs.

11. In 2014, 10.3% of EIB investments were allocated outside the EU. Could you inform us on the percentages in 2015?

EIB answer:

In 2015, EIB operations inside the EU amounted to EUR 69.7bn, outside the EU to EUR 7.8bn **(i.e a share of 11.2% for operations outside the EU, in line with EIB willingness to progressively increase the share of operations outside the EU).**

12. Do you measure with concrete indicators the progress of the Cotonou objectives- poverty reduction and sustainable development with the Investment Facility (EIF) after 2013 and the last 500 million contribution from MS for even riskier projects (Impact Financing Envelope)?

EIB answer:

Outside the EU, **EIB uses the Results Measurement (ReM) Framework to track project results and the contribution to EU and country objectives.**

The first pillar of the ReM lays out the expected outputs, outcomes and impacts of the operation and assesses how those are expected to contribute to EU and country objectives. It is here that the expected contribution to the objectives of Cotonou is assessed. This qualitative assessment is linked to pillar 2, where concrete, quantitative results indicators capturing outputs and outcomes are tracked. Because EIB works at the project rather than the country level, and attribution of any changes in poverty rates to an EIB project would be methodologically difficult or impossible to establish, impact-level indicators such as poverty reduction are generally not tracked quantitatively within the ReM. Rather, in line with many other IFIs, the approach is to measure concrete project outputs and outcomes, where the EIB contribution is clear, and which in turn contribute to the higher level objectives of poverty reduction and sustainable development.

Examples of such indicators include the number of jobs created or sustained (depending on project type) and the numbers of people benefitting from improved infrastructure or services (customized by sector). Information on results achieved to date can be seen in the annual report on EIB outside the EU, available on our website.

To capture the specificities of the higher risk projects aiming for higher development impact under the IFE, and to respond to the request of stakeholders for more information, the EIB has developed an enhanced results measurement framework, the REM+. This expanded framework goes further down the beneficiary line to assess impacts on final beneficiaries. It also goes deeper in terms of the profile of the final beneficiaries, estimating, wherever feasible, the share of bottom-of-the-pyramid beneficiaries as well as covering gender and youth dimensions. For these IFE projects the EIB is going even further and plans to carry out in depth studies, in order to gain more detailed information about the impact on the beneficiaries on the ground. These studies are expected to provide new insights and lessons learned about these projects, and to provide an opportunity to delve deeper into complex or sensitive issues such as poverty and gender.

Due to their specificity, IFE operations are subject to an annual result report to the IF Committee. **In 2015, the first edition shows that the 12 IFE operations approved to date are expected to reach roughly 6.4m direct beneficiaries and roughly the same number of indirect beneficiaries – in most cases these are the employees or household members of direct beneficiaries.** Around 59 percent of direct beneficiaries are expected to belong to the BoP, and more than half are expected to be women. However, both the definition of direct and indirect beneficiaries and the nature of the EIB contribution to those beneficiaries vary substantially across the four IFE instruments. As such, the results of the IFE projects need to be considered by instrument, rather than aggregating across the IFE portfolio.

Globally, the Development of REM/REM+ has enabled:

- An enhanced assessment, reporting and monitoring of development impact
- The harmonization, where possible, with Impact and Reporting and Investment Standards (IRIS) metrics developed by the Global Impact Investing Network (GIIN)
- A more explicit links with MDGs/SDGs, specificities of fragile states and vulnerable populations.

Additionally, the EIB uses the following criteria to determine eligibility under Impact Financing Criteria:

- The operation will generate a superior development impact with the overreaching objective of poverty alleviation
- Targets sectors with higher impact compared to regular IF activities
- Targets financial intermediaries in ACP countries where the IF has limited outreach (due to high sovereign risk/ high currency volatility)
- Does not qualify for the current IF activity due to high risk/high losses profile
- Targets private sector in compliance with the EU "Agenda for Change" and the 11th EDF

13. *Could you guarantee that all the money is invested in economically viable projects with added value? How successful are the ACP-IF investments in the agricultural sector?*

EIB answer:

An economic analysis is performed for each investment under the ACP-IF presented for approval to the Board. In addition, to ensure added value, a results measurement is performed at the time of the due diligence of the project with ex-ante results, then monitored and finally checked against expected results at project completion and project completion + 3 years that are again compared against actual results after project completion.

Agriculture and value-chains have been set as a priority in the ACP/OCT business plan since 2014. Since then a number of projects have been approved and signed in this sector but have not yet reached completion. Accordingly it is not yet possible to measure actual results against forecasts which seem encouraging.

14. *Taking into account that in some cases investments in 3rd countries are higher than in some MS, how do you account if the money is properly spent? Do you dispose with detailed data on this?*

EIB answer:

The EIB verifies that the money is properly spent at all stages of the project: through the ex-ante assessment (appraisal phase, with verification of sound technical/financial basis), at launch (signature of contract clauses and disbursement), during implementation (monitoring) and final stage (closure and results check).

During the Due Diligence process, the EIB verifies that the project is economically, technically and financially viable, but also verifies the compliance of the promoter/project with its own compliance rules. During the implementation, a close monitoring, both technical and financial, is ensured, so to verify the compliance of the project with technical and financial clauses, as well as

Moreover, projects are/can be evaluated both internally and externally (all contracts do foresee the possibility for the European Court of Auditors to carry-out reviews, including on site), and projects may be investigated in cases of alleged frauds/misuse of funds. The EIB also aligns with EU positions (in case in particular of activation of art.96/97 of the ACP-EU agreement in cases where one of the parties feels that the agreement's *essential* and *fundamental elements* are not being respected).

15. The European budget provides a guarantee to the EIB covering external measures. Can the Commission provide data on its use in 2015? What funding has required the use of such a guarantee? For which third countries? To what amount?

EIB contribution to EC answer:

In 2015, EUR 4.8bn was signed under the External Lending Mandate guarantee. The ELM covers a list of eligible countries in Pre-accession, Neighbourhood, Asia and Latin America, central Asia and South Africa. This guarantee is covered by a guarantee fund, financed by EU budget. The budgetary needs are evaluated at 9% of the outstanding.