

2018 Discharge to the EDF

WRITTEN QUESTIONS

TO EIB DIRECTOR-GENERAL

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Hearing of 28 November 2019

1. Does the EIB undertake efforts to support best-practice exchange between the regions receiving support from the ACP Investment Facility?

The EIB supports the exchange of best practice between the ACP regions which are benefitting from EIB financing. In particular, the Bank uses its engagement and presence at regional ACP events organised by the countries themselves, by the ACP Secretariat, the African Development Bank, as well as business or sector to further the exchange of best practices. This helps to raise awareness of successful business models, products and approaches that help to meet the needs of our clients across regions. The Bank also actively contributes to the EU Delegations' regional events and roadshows. EIB regional offices are also key facilitators for exchanges within and across regions. The EIB's own annual ACP Ambassadors' meeting, as well as the annual Africa Day, are relevant platforms for us to promote knowledge sharing between the regions.

2. Does the EIB regularly evaluate, and if need be, update the Results Measurement Framework?

The EIB's results measurement framework (ReM) has been in place since 2012. During that time, the functioning of the ReM has been evaluated from several perspectives. Some examples are listed below. The EIB has strengthened the ReM in various ways in order to respond to the findings of these assessments and to lessons learned internally during implementation of the ReM. Some examples of these adjustments are also provided.

The functioning of the ReM framework has been assessed, as an integral aspect of the EIB's operational setup, under various independent evaluations. These include evaluations by the EIB's Independent Evaluation Department. For example, the 2017 evaluation of intermediated lending in Africa, Caribbean and the Pacific made a number of recommendations about how the EIB could adapt tools and processes to improve monitoring and reporting of policy objectives. A number of evaluations commissioned by external stakeholders, including the ELM and ACP

evaluations commissioned by the European Commission, have considered the functioning of the ReM.

The ReM has also benefitted from assessments carried out together with other institutions. In 2018 the EIB conducted a detailed joint stocktaking of the ReM and the results frameworks of six other major Multilateral Development Banks (MDBs). It showed that the EIB ReM framework is in line with best practices in major MDBs. More broadly, as part of the working group on Managing for Development Results, the EIB is in regular dialogue with the MDBs to compare and harmonise approaches. The EIB also participates in the HIPSO initiative, which works towards harmonization of indicators for private sector operations.¹

The ReM has evolved since 2012, addressing the findings of the evaluations listed or internal learnings, This includes, amongst others:

-) Since 2015, the EIB has been implementing the ReM+, which employs metrics designed specifically to gauge the impacts on the ground brought by investments financed under the IF-ACP Impact Financing Envelope (IFE). By testing and piloting more granular metrics on beneficiaries, this enhanced Results Framework is informing further refinements of the ReM.
 -) Ongoing efforts include better integration of gender aspects into the ReM, closer alignment with the European Fund for Sustainable Development (EFSD), enhanced guidance on resilience, better harmonization with IFIs (as part of the HIPSO initiative).
 -) To complement the Results Framework and as part of the efforts of the Bank towards development effectiveness, the Bank launched in 2016 a Partnership with the Global Development Network (GDN) to perform impact studies on selected projects under the IFE. The studies are performed by talented local researchers from Africa and the Caribbean, who are supervised by a pool of recognized global experts in the field of impact evaluation. The studies completed under the first cycle are expected to be published by the end of 2019.
3. In “The European Investment Bank in Africa, the Caribbean and the Pacific Business Strategy 2016-2018”, the bank states that it wants to increase “efforts to operate in more fragile states”. How does the EIB ensure that the risks involved are not too high?

The EIB works to ensure the overall financial sustainability of the ACP Investment Facility that it has been entrusted with. This means that whilst pursuing a clear development policy objective, the Investment Facility is geared to support bankable, predominantly private sector projects on near-commercial terms with loans, quasi-equity, equity and guarantees, and – in its nature as a revolving fund – to earn a positive real return in the long run. Therefore, the ACP Investment Facility supports the sound and prudent financing of private sector projects with an acceptable return, while at the same time achieving a relevant development impact and contributing to EU Development Policy goals and strategies. Naturally, this requires trade-offs between the need to ensure operational and financial performance and at the same time strengthening strategic coordination and development impacts.

¹ <https://indicators.ifipartnership.org/about/>

The EIB's activities in ACP countries are intended to contribute to the achievement of the EU's foreign policy goals, including in fragile and conflict-affected regions. The Bank has a long-standing record of investing in countries affected to various extent by conflict and fragility. Over the last five years, the EIB has been active in 24 out of the 44 Least Developed Countries (UN: List of Least Developed Countries) and fragile states (World Bank: Harmonized list of fragile situations) in the ACP regions. Between 2014-2018, 40% of the volume signed in the ACPs targeted LDCs and fragile states

As fragile and conflict-affected countries are an increasingly common operating environment and a high priority for the EU, applying a conflict sensitive approach in EIB operations has become ever more important for the Bank. As a core institution of the EU, EIB has taken a number of proactive steps to demonstrate institutional commitment to making its investments conflict sensitive. In 2015, EIB developed a conflict sensitive approach that is applied in relevant operation in environments affected by conflict and fragility, based on the following principles:

- 1) Risk-based: Placing a greater emphasis on analysis of institutional risks to EIB and specific operational risks to EIB investments in targeted conflict affected situations.
- 2) Do no harm: EIB, being aligned with EU policies and practices, seeks to avoid aggravating the conflict when operating in conflict-prone and affected environments.
- 3) Do good: Whenever possible and depending on context, EIB seeks to indirectly contribute to conflict prevention, recovery and peacebuilding efforts through its project investments.

In practice, the conflict sensitive approach is applied in relevant EIB operations in fragile environments. This implies that operations in conflict-affected environments are screened for conflict and fragility dimensions; the appropriate levels of additional conflict analysis, risk management and/or adjusted project design measures are decided upon accordingly; and in-house awareness raising and capacity building on Conflict Sensitivity is provided to relevant EIB teams). A Conflict Sensitivity Helpdesk is also provided to help EIB staff translate the principles of conflict sensitivity into action.

4. In "The European Investment Bank in Africa, the Caribbean and the Pacific Business Strategy 2016-2018", the bank states that it is "developing indicators to measure SDG impact". Have these indicators been developed? If yes, could you explain the methodology how you measure SDG impact ?

The EIB has reported its contribution towards achieving the SDGs since 2016. The methodology applied by the EIB for the last three years has been based on mapping our internal project output/outcome indicators against the SDG targets. The contribution to the SDGs was expressed only in aggregated physical results, e.g., number of people benefiting from safe drinking water, length of roads built, households powered with clean energy, etc. The results of these analyses are made available on an annual basis through the EIB Report on operations inside the EU and the Report on operations outside the EU (see https://www.eib.org/attachments/country/eib_rem_annual_report_2018_en.pdf).

The EIB is currently working to further enhance its methodology and go beyond its existing reporting in order to fully reflect our contribution to the SDGs. This would allow to better capture impacts, especially vis-a-vis the crosscutting SDGs like No Poverty, Reduced Inequalities, Climate Action and Gender Equality. The new methodology takes a two-step approach including automatic mapping of EIB projects to the SDGs based on a wide range of data sources and business rules like economic sectors, policy objectives, geographical location and output/outcome indicators, as well as on human expert judgment and validation of the results.

5. The share of D- and below loans, representing high risk, in the Facility's loan portfolio have proportionally decreased in 2018 compared to 2017. Was this a voluntary strategy or linked to credit demand? Could the EIB give us the proportion of D- and below loans within the facility's loan portfolio for the furthest year in time possible?

Indeed, there has been a small decrease in the share of D- and below loans in 2018 (49.6%), compared to 2017 (53.7%). This reflects the evolution of the entire portfolio, capturing all outstanding loans. Given that the risk profile of each outstanding operation may change over time, loan gradings for outstanding operations are reviewed on a continuous basis. Therefore, the change in portfolio profile between 2017 and 2018 does not necessarily mean that new operations signed in 2018 were less risky, but instead reflects the development of the entire loan portfolio that has resulted in a slight de-risking overall. In fact, when only considering new business, the share of D- and below operations in 2018 is higher than 2017, at 54.6% and 43.4% respectively. In general, operations reflect market demand that matches with the goals of our ACP Mandate and fits with eligibility criteria.

The Impact Financing Envelope (IFE) is a revolving window under the Investment Facility, with a total authorised outstanding amount of up to EUR 800m. In place since 2014, the IFE allows the Bank to assume a higher level of risk than it could assume under its own risk guidelines in order to achieve superior developmental impact. The selected IFE operations would not otherwise qualify for IF investment due to the elevated risk profiles with upfront expectation of losses that are difficult to mitigate. The level of risk is assessed as part of the due diligence process for each project.

Therefore, with the establishment of the IFE in 2014, the credit quality of the IF portfolio *per se* has improved over the last years, with higher-risk operations being committed under the new dedicated envelope. By comparison, in 2010, the share of D- and below loans was 74.7% of the total signed exposure, dropping to 49.6% in 2018.

The IFE has enabled the Bank to expand its outreach to under-served markets and private sector projects with both higher development impact and a higher risk profile than those normally acceptable for the Bank. This means that the projects and people supported through the IFE are different from ordinary IF operations, but in return it offers high impact opportunities that the Bank supports through a well-designed range of instruments, including intermediated loans, direct financing, investment in social impact funds and risk sharing facilitating mechanisms.

6. How are EIB instruments advertised in third countries?

In addition to the Bank's nine local and regional representations, EIB staff participates in many ACP business events, such as the African Investment Forum, Africa CEO Forum and the Africa Energy Forum amongst others, as well as meetings and roadshow events organised by the EU Delegations. The EIB also regularly organises an 'Africa Day' event to raise awareness on what we are doing together with our partners. ACP Ambassadors are invited to the EIB's headquarters once a year, which offers a relevant platform for knowledge sharing and exchange of best practices.

In addition, the EIB reaches out to stakeholders and potential clients in ACP countries through our communication channels (e.g. press releases, websites, video, social media, and print publications). These are key to informing stakeholders and potential clients of our offering and showcasing the kinds of projects that EIB finances in ACP countries. For more information on EIB project stories, videos, reports, and key impact figures, please see the website at <https://www.eib.org/en/projects/regions/acp/index.htm>. News on projects and events can also be followed via the official EIB social media accounts (on LinkedIn, Twitter, Facebook, and Instagram).

7. Concerning the classification by industry sector of the borrower of the facility's loan portfolio, would you say those sectors would rank similarly if they were to be ordered by level of risk and/or profitability ?

The sectors would rank differently if they were to be ordered by level of risk and/or profitability. Such ranking would only provide a descriptive analysis of the current portfolio and therefore conclusions on the riskiness of the sector cannot be directly drawn from it. For a complete analysis, the underlying risk of the operations in each sector should consider other characteristics such as geographic location, product type, counterparty type, etc.

8. Considering Tertiary and "other" is the first industry sector of the Facility's loan portfolio, could you specify what "other" includes ?

Operations under the category 'Tertiary and other' include mainly financial and other services. This mainly takes the shape of support to financial intermediaries, such as banks, venture capital funds and insurance providers, with the aim of improving access to finance for a wide range of private companies, ranging from midcaps, and small and medium-sized enterprises to start-ups and microbusinesses. Smaller businesses are key drivers of economic growth and job creation in the ACP region and considered the backbone of national economies.

9. The bank recently opened new offices in Yaoundé, Cameroon and Abidjan, Cote d'Ivoire. What are the plans of the bank for the future in this regard, do you intend to open further offices? Is there a certain strategy behind the choice of the location? - When were each of the 6 EIB regional offices set up? How many staff members work in them respectively?

| Office location | Year established | Type of Office | Total Staff |
|-----------------|------------------|-------------------------|-------------|
| Abidjan | 2016 | Regional Representation | 6 |
| Addis Ababa | 2016 | Representation | 3 |
| Barbados | 2016 | Desk Office | 1 |
| Dakar | 2016 | Desk Office | 1 |
| Nairobi | 2005 | Regional Representation | 9 |
| Pretoria | 2005 | Regional Representation | 8 |
| Santo Domingo | 2013 | Regional Representation | 2 |
| Sydney | 2007 | Regional Representation | 1 |
| Yaoundé | 2016 | Regional Representation | 3 |
| Total: | | | 34 |

The EIB has a total of nine representations covering our activities in the ACP regions, with a total of 34 staff. These offices are located in Abidjan, Addis Ababa, Barbados, Dakar, Nairobi, Pretoria, Santo Domingo, Sydney and Yaoundé. This local presence is key to helping EIB originate new and monitor existing operations, as well as reaching out to local and regional stakeholders to raise the profile of the EIB. Staff working in these external offices fulfil representative and operational functions, and include technical and sector engineer profiles in addition to financial analysts, whilst making use of local expertise.

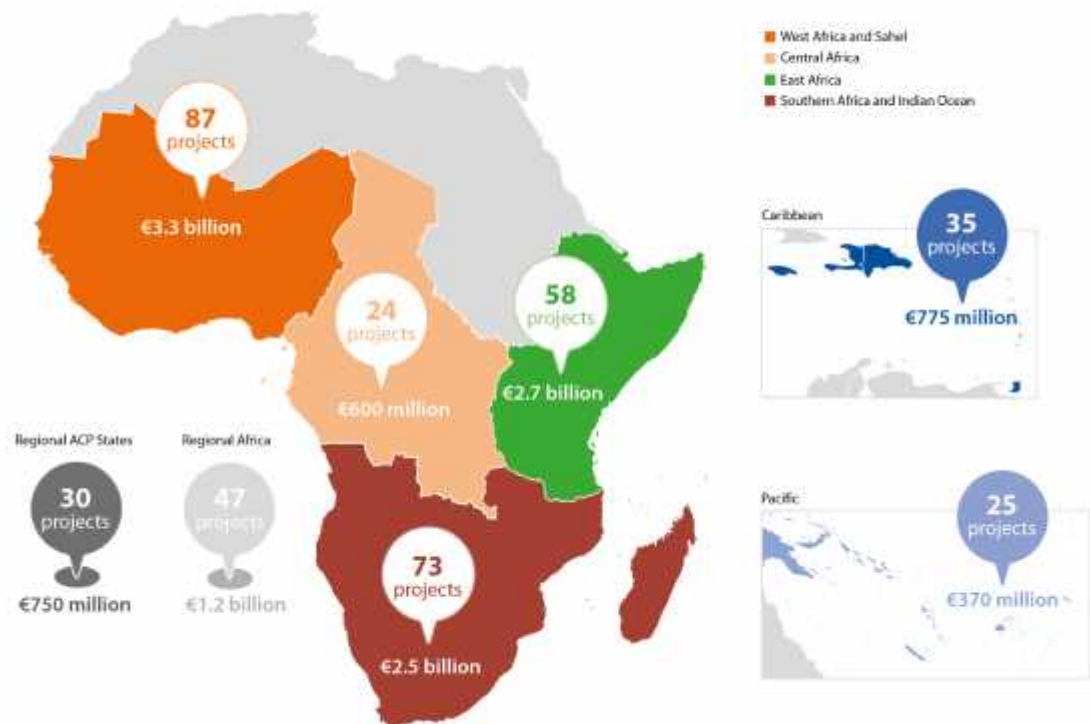
The IF evaluation (2019) recommended to “adapt the operating model to the strategic approach to be pursued by IF in the future” and suggested two scenarios (increasing EIB development footprint and local presence, assuming an increased IF management fees paid to EIB to cover the operational costs or maintaining the status quo) on which IF mandators (Member States) are requested to position. The EIB proposes to strengthen EIB’s representation in EU delegations through cooperation with EEAS and reprioritisation with the aim to support the closer involvement in EU programming agreed under NDICI.

10. In 2018, the EIB had only two projects in Central Africa, while there were 11, 7 and 6 respectively in West Africa and Sahel, East Africa and Southern Africa and Indian Ocean. Why is this the case?

The EIB strives to build a portfolio that is balanced across ACP regions over a longer period, not on an annual basis. Since the signing of the Cotonou Agreement in 2003, the EIB has supported 379 projects in 57 countries and 10 regional groupings. This includes 87 projects in West Africa and Sahel, 24 projects in Central Africa, 58 in East Africa, 73 projects in Southern Africa and the

Indian Ocean, 35 projects in the Caribbean and 25 projects in the Pacific, as well as 30 regional ACP and 47 regional African projects.

The below graph shows the share of investment by region since 2003 (figures as of end-2018).



11. Does the EIB strive to reach a geographical balance in its funding, and is specific attention given to countries with lower demand?

As explained in the answer to question 10, the EIB strives to build a portfolio, driven by EU policies and priorities, that is balanced across ACP regions over a longer time period, not on an annual basis. The aim of achieving this regional balance, however, depends on relevant demand that we can accommodate. Our financing is project-driven and therefore depends strongly on local demand.

On projects in LIC and fragile countries, for which social infrastructure projects are prioritized, the Bank allocates larger envelopes of Technical Assistance (TA) for local capacity building measures.

The EIB uses TA in the private sector to undertake upstream or sector studies or review regulatory frameworks, in order to improve the investment climate in beneficiary countries. Similarly, sector-specific TA, for instance for developing agri-business value chains, might not develop new projects in the very short term but would considerably strengthen the chances of increased food production, leading to increased level of exports which could then be supported by dedicated EIB funding in the longer term.

The EIB relies on TA to support more thematic lines proposed by the EIB which are aligned to EU priorities, such as Migration, Gender Equality, Climate action, Clean Oceans and energy outreach (to be approved in 2019-2020) which often have cross-dimensional benefits particularly in contributing to the attainment of multiple SDGs.

Technical Assistance (TA) has a positive impact on the disbursement of funds and the implementation of projects. The benefits accrued in terms of additionality often extend beyond the project's time frame and often lead to direct spill over effects into wider groups of local beneficiaries. Technical Assistance, investment grants and financial instruments are essential to meet the requirements of often more complex operations to mitigate the higher degree of project and performance risk and to achieve the increased development impact proposed by the current evaluation report.

12. About 4% of the resources of the 11th EDF – 1.1 Million – is devoted to the Investment Facility, administered by the EIB:

-) The EIB has a wide range of financial instruments intended for the financing of high-risk operations under the Investment Facility. Can you provide us information about what type of high-risk operation is the EIB financing from the 11th EDF?

The amount allocated to the EIB – EUR 1.1 billion – under the 11th EDF comprises an additional contribution of EUR 500 million to the resources of the Investment Facility, which was used to set up the Impact Financing Envelope (IFE), and EUR 634 million, in the form of grants to finance interest-rate subsidies and project-related technical assistance.

The IFE is used for private sector operations that go beyond the levels of risk usually associated with traditional operations, but which will also have a large developmental impact for as many people as possible, with the overarching objective of poverty reduction. IFE operations address the social and environmental challenges faced by ACP: employment, sustainability of SMEs, notably the smaller ones and those in rural areas, climate change mitigation, food security, access to basic resources, and the economic and social integration of women and young people. They can target sectors with an expected higher impact compared to regular IF activities (an expected impact significantly above average is among the key justifications for eligibility under this new envelope). They can also target financial intermediaries in fragile ACP countries where the IF has limited reach.

The financing capacity of the IFE was further increased by more than 50% by also making it partially revolving in 2016, with a fair proportion of allocations destined to support projects with a migration focus.

The flexibility of the IFE allows the Bank to respond to highly varied market opportunities and investment gaps, including those that are difficult to address with other instruments. This flexibility has enabled the EIB to go even further in addressing EU strategic priorities: the IFE has helped the EIB to increase outreach to under-served markets and to address a large number of the 17 SDGs. The IFE portfolio is diversified geographically and across four instruments: social impact equity funds, loans to financial intermediaries, risk sharing

facilitating instruments and direct debt and equity financing. It also covers a range of sectors – from agri-business and hydropower to microfinance and off-grid power. Diversifying risk across the IFE portfolio enhances its financial sustainability.

Here below other examples of operations signed under the IFE.

Channelling credit to the underserved: Using IFE resources, the EIB works in partnership with financial intermediaries to address the range of market gaps that prevent under-served population groups from accessing finance. The EIB has signed, under three facilities (ACP Smallholder Financing Facility EUR 25m; Caribbean and Pacific Impact Finance Facility EUR 35m; and West Africa Microfinance Facility EUR 27m), 10 investments in microfinance institutions (MFIs) targeting under-served groups, plus 3 investments in funds working with smaller financial institutions to channel funding to MSMEs.

Direct investments: The IFE is enabling the EIB to make direct investments into companies and projects that have a potential for high development impact, with the goal of attracting commercial investors by providing a stamp of approval. The direct investments approved to date are expected to positively impact the lives of some 58 million individuals. For example, the EIB supported the M-BIRR mobile money platform with an equity contribution. The project promoter expects that over 12 million people will adopt its technology, benefiting 50 million family members – more than half of the Ethiopian population. So far the company has almost 8,000 points of presence across the country and reports 485,000 core customers – who use the platform to transfer money to and from microfinance accounts with six of the country's largest MFIs – and also transfers payments for Ethiopia's social transfer system, the Productive Safety Net Program (PSNP).

Through an investment in d.light, a company providing off-grid solar systems, the Bank will finance working capital requirements sufficient to produce almost 7 million devices that have the potential to bring free, clean power to over 30 million people, or around 7% of the population of the five targeted countries (Ethiopia, Kenya, Nigeria, Tanzania, and Uganda). The two direct investments approved in 2018 – a rollout of optical fibre cable for Kenya, the Democratic Republic of Congo, Rwanda, Zambia and Uganda, and a hydropower project in Cameroon – have the capacity to benefit 9 and 6 million individuals, respectively.

The EIB and the EBRD often finance the same projects. In 2011, the EBRD has expanded its intervention area to the North African countries. What is the distribution of tasks between these two structures in case of joint projects?

EIB and EBRD co-finance projects in North Africa, as is the case 1) in other regions (in particular in the Eastern Partnership countries) 2) with other IFIs, in particular Agence Française de Développement (AFD) and Kreditanstalt für Wiederaufbau (KfW) in North Africa. In practise, as EIB can finance only up to 50% of project costs, EBRD complements and completes the financing package in some projects (depending on the choice of co-financing institutions made by the authorities). In co-financed projects, EIB can share with the EBRD, on a case-by-case basis, technical assistance tasks, and sometimes rely on each other

procurement rules. Also, in case of Neighbourhood Investment Platform (EC-NIP) grant request, one IFI (EIB or EBRD) takes the lead for the project, therefore endorsing the reporting role to the EC.

) In the context of ongoing process changing the EIB financing and lending policies (EIB as a Climate Bank, Development Bank), how do you see the future of the development focused investments operated by the EIB?

EIB is committed to helping ACP countries to achieve the Sustainable Development Goals (SDGs), addressing climate change and delivering on EU policies. The EIB will strive to promote sustainable economic transformation and inclusive growth through the development of the private sector in the ACP countries as well as basic infrastructure development, which is a prerequisite for private sector development.

The EIB welcomes the Wise Persons Group report and agrees that the EIB has been a strong EU development bank for 50 years, but it is not enough. The EIB needs to strengthen the EU development finance architecture to meet the challenges of today. The EIB proposes to move ahead swiftly on the short-term recommendations of the Wise Persons Group, with six measures. Additional resources to be deployed for strengthening EU development banking make most sense as part of the EIB group (option 3). The EIB looks forward to contributing to the foreseen feasibility studies to be decided by the Council.