

Special Report

The ACP Investment Facility: does it provide added value?



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Special Report**The ACP Investment
Facility: does it provide
added value?**

(pursuant to Article 287(4), second subparagraph, TFEU)

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was produced by Audit Chamber III — headed by ECA Member Karel Pinxten — which specialises in external actions spending areas. The audit was led by ECA Member Klaus-Heiner Lehne, supported by the head of his office, Michael Weiss; Sabine Hiernaux-Fritsch, head of unit; Lars Markström, team leader; Polina Cherneva and Athanasios Tsamis, auditors.



From left to right: S. Hiernaux-Fritsch, M. Weiss, K.-H. Lehne, A. Tsamis, L. Markström.

Paragraph

Glossary and abbreviations

I–VII **Executive summary**

1–10 **Introduction**

1–9 **The establishment of the Investment Facility**

10 **The value added by the Investment Facility**

11–13 **Audit scope and approach**

14–37 **Observations**

14–27 **Overall, the Investment Facility's operations are coherent with other EU development cooperation measures**

16–18 **Project prospection and selection**

19–27 **Funding arrangements**

28–37 **The Investment Facility provides access to long-term financing, loans in local currency and generates a catalytic effect**

29–30 **Long-term financing**

31–33 **Financing in local currency**

34–37 **Catalytic effect**

38–42 **Conclusions and recommendations**

Annex I — Yearly and cumulative operations approved, contracts signed and disbursements made for the Investment Facility in ACP countries

Annex II — Breakdown by financial instrument

Annex III — List of projects reviewed by the Court

Replies of the European Investment Bank

ACP: The African, Caribbean and Pacific Group of States

EDFs: European Development Funds

The EDFs are the main instrument for providing European Union aid for development cooperation to the African, Caribbean and Pacific States and to overseas countries and territories. The partnership agreement signed in Cotonou on 23 June 2000 for a period of 20 years ('the Cotonou Agreement') is the current framework for the European Union's relations with these countries and territories. Its focus is on reducing and eventually eradicating poverty.

EIB: European Investment Bank

Under Article 309 of the Treaty on the Functioning of the European Union the EIB's task is to contribute to the development of the internal market. In addition, under the Cotonou Agreement, the Bank administers the ACP Investment Facility.

EU delegation: The EU is represented by 139 EU delegations and offices around the world. The EU delegations are part of the European Commission and serve the EU's interests as a whole.

OCT: Overseas countries and territories

SMEs: Small and medium-sized enterprises

I

The ACP Investment Facility was set up under the Cotonou Agreement and began operation in 2003 for a period of 20 years. The Facility's objective is to support investments by private and commercially run public entities in all economic sectors. It provides medium- to long-term financing through various financial instruments and thereby aims at delivering sustainable economic, social and environmental benefits.

II

The Investment Facility, which receives its capital from the 9th, 10th and 11th European Development Funds, is a risk-bearing revolving fund which is intended to be financially sustainable. Its total endowment is 3 685 million euro. Capital contributions by the Member States are paid directly to the European Investment Bank (EIB), which manages the Facility.

III

For our audit, we used operations signed between 2011 and 2014 as a basis for assessing whether the Investment Facility added value to EU development cooperation with African, Caribbean and Pacific (ACP) countries. We assessed whether the Investment Facility's operations were coherent with other EU development aid provided to ACP countries and evaluated how successful the Facility was in providing access to long-term financing as well as loans in local currencies. Lastly, we assessed whether the Facility's operations had a catalytic effect.

IV

We concluded that the Investment Facility indeed adds value to EU development cooperation with ACP countries.

V

The Investment Facility's operations are overall coherent with the EU's development cooperation with ACP countries. Projects have been launched under the Impact Financing Envelope. The contractual obligation to inform the end beneficiaries about EIB/Investment Facility funding is not always followed and technical assistance does not always target small and medium-sized enterprises (SMEs).

VI

The Investment Facility provides long-term loans and financing in local currency. It also demonstrates a positive catalytic effect.

VII

At the end of this report, we make two recommendations designed to increase the added value provided by the Investment Facility.

The establishment of the Investment Facility

01

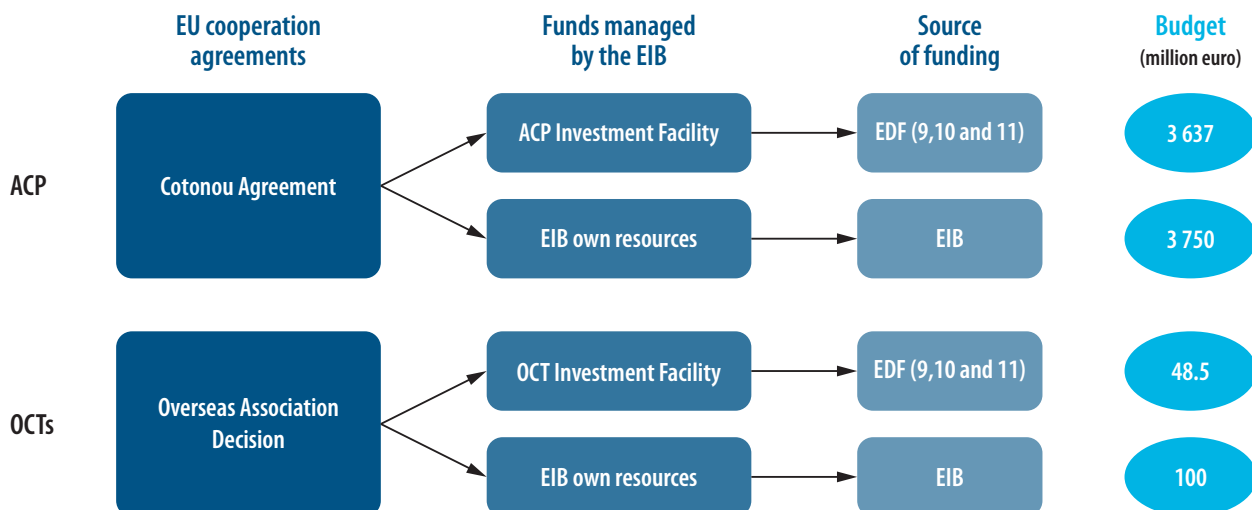
Created under the Cotonou Agreement¹ and the Overseas Association Decision² the Investment Facility was launched in 2003 for a period of 20 years. Its objective is to support investments by private and commercially run public entities in all economic sectors (services, energy, telecommunications, transport, etc.). It provides medium- to long-term financing through various financial instruments and thereby aims at delivering sustainable economic, social and environmental benefits.

02

The European Investment Bank (EIB) complements the Facility's funding with its own resources. An overview of the main components of funding provided by the Investment Facility and the EIB from its own resources in the African, Caribbean and Pacific Group of States (ACP) and Overseas Countries and Territories (OCTs) is shown in **Figure 1** below.

- 1 ACP-EC Partnership (Cotonou) Agreement (OJ L 317, 15.12.2000, p. 3).
- 2 Council Decision 2001/822/EC of 27 November 2001 on the association of the overseas countries and territories with the European Community (OJ L 314, 30.11.2001, p. 1).

Figure 1 Overview of funding provided by the Investment Facility and EIB from own resources in ACP countries and OCTs



Source: ECA with data from EIB.

Introduction

03

Contributions to the Investment Facility are paid by the Member States directly to the EIB. These funds are allocated under the 9th, 10th and 11th European Development Fund (EDF). The Investment Facility is managed by the EIB, acting on behalf and at the risk of the EU³ and, in the same way as the EDFs, outside the framework of the EU general budget. The Investment Facility does not fall within the scope of the Court's annual Statement of Assurance audit, and is not subject to discharge by the European Parliament⁴.

04

The Investment Facility is a revolving fund, i.e. its income and repayments are used to finance its continuing operations in order to make it financially sustainable. Under the 9th, 10th and 11th EDF, the Facility was provided with total budget of 3 685.5 million euro. By the end of 2014, 2 057 million euro had been paid in by Member States. Further details on the Investment Facility's portfolio in ACP countries are provided in **Annex I**.

05

Under the 11th EDF, a replenishment of 500 million euro was allocated to the Investment Facility endowment to be used as dedicated funding, the 'Impact Financing Envelope' (IFE) for funding operations with higher development impact.

06

The Investment Facility is an off-balance sheet item in the EIB's accounts. The Investment Facility portfolio grew from 2.8 billion euro at the end of 2010 to 4.5 billion euro by the end of 2014. The income for this period is presented in **Box 1**.

07

The Cotonou Agreement states that the Investment Facility must operate on market-related terms without creating distortions in local markets or displacing private sources of finance. The Facility must also seek to have a catalytic effect by encouraging the mobilisation of long-term local resources and attracting private investors and lenders⁵.

- 3 Article 51 of Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the 11th European Development Fund (Financial Regulation) (OJ L 58, 3.3.2015, p. 17).
- 4 Nevertheless, the Parliament formulated several recommendations concerning the Investment Facility in its resolution of 29 April 2015 on Discharge 2013: EU general budget - 8th, 9th and 10th EDFs, P8_TA-PROV(2015)0120, paragraphs 53 to 63.
- 5 See for details Article 3(1)(a) and (b) of Annex II to the Cotonou Agreement.

Box 1

Investment Facility portfolio and income over the years 2011–2014 (million euro)

	2011	2012	2013	2014
Signed contracts (cumulative)	3 009.1	3 364.1	3 835.6	4 488.2
Total income for the year	78.4	45.7	10.3	31.2

Source: EIB.

08

Regarding the terms and conditions of financing, the essential difference between financing from the Investment Facility and loans from EIB's own resources is the level of credit risk. While the EIB's own resources are limited to loans secured by solid guarantees and other security arrangements, funding provided from the Investment Facility can accept a higher risk level. Loans from EIB own resources are mainly used for public sector projects.

09

The Investment Facility mainly provides credit lines to financial intermediaries, risk capital via equity investments and financing of infrastructure projects (see **Annex II**).

The value added by the Investment Facility

10

The EIB highlights three particular ways in which the Investment Facility can add value⁶:

- (a) by providing beneficiaries in the ACP countries with access to long-term financing;
- (b) by providing financing in local currency; and
- (c) by increasing the credibility of beneficiaries and by mobilising other financial resources, to generate a catalytic effect.

6 2014 Annual report on EIB activity in Africa, the Caribbean and Pacific, and the overseas territories, p. 17 (<http://www.eib.org/infocentre/publications/all/investment-facility-annual-report-2014.htm?lang=en>).

11

We assessed whether the Investment Facility added value to the EU's development cooperation with ACP countries. In doing so, we focused on the following two questions:

- (a) Are the Investment Facility's operations coherent with other EU development cooperation measures benefitting ACP countries?
- (b) Does the Investment Facility provide access to long-term financing and loans in local currency, and does it generate a catalytic effect?

12

This was a short and focused audit — the first audit conducted by the Court in this particular area — carried out between January and May 2015. It covered Investment Facility operations in the ACP countries which were signed between 2011 and 2014. Operations financed from the EIB's own resources were not included because they fall outside the Court's remit. Funding provided to OCTs was not included either as the amounts involved were very small. The audit did not include an assessment of results and outcomes and does therefore not conclude on the effectiveness of the ACP Investment Facility.

13

Our audit work consisted of an analytical review, interviews with EIB and Commission staff and detailed examination of a sample of operations. One audit visit was conducted — to Kenya and Uganda. The sample, which covered a range of financing instruments and sectors, consisted of 20 operations that received financing from the Investment Facility (see **Annex III**). The sample represented 35 % of the total number of Investment Facility contracts signed with beneficiaries in ACP countries between 2011 and 2014.

Overall, the Investment Facility's operations are coherent with other EU development cooperation measures

14

We examined whether Investment Facility operations were coherent with other EU development cooperation measures benefitting ACP countries. This meant examining selection procedures and funding arrangements. Our opinion, for the 20 operations reviewed, is that they were coherent with the EU's development policy as broadly described in the Cotonou Agreement.

15

The Impact Financing Envelope (IFE) allows the Investment Facility to support higher-risk projects whilst also promising a higher development impact. The IFE has enormous potential to further increase coherence with other EU development cooperation measures by focusing on projects which generate a strong development impact with the overarching objective of poverty reduction. Following a decision in April 2014 on the financial instruments to be used, two projects were approved before the end of 2014.

Project prospection and selection

16

The EIB coordinates project prospection and selection from its headquarters in Luxembourg. It makes use of its representatives in the ACP countries, in consultation with the in-country EU delegations. A recent policy decision to increase the EIB's presence in the ACP countries, and to house the EIB's local offices in EU delegation premises, should further contribute to better coordination between the EIB and the Commission.

17

Financing proposals are prepared by the EIB and include a description of the project and its coherence with the relevant EU country or regional support strategy. When a financing proposal is presented to the Investment Facility Committee⁷, the Commission is asked to provide an opinion on the proposal's consistency with the EU's development policy. Once the proposal has been accepted by the Investment Facility Committee, it is submitted to the EIB's Board of Directors, which takes the final financing decision.

18

The Commission had expressed a favourable opinion in respect of all 20 of the operations which we reviewed. In cases where the Commission had comments, these had been dealt with at the relevant Investment Facility Committee meeting.

7 The Investment Facility Committee was set up by Article 13 of Council Regulation (EC) No 617/2007 of 14 May 2007 on the implementation of the 10th European Development Fund under the ACP-EC Partnership Agreement (OJ L 152, 13.6.2007, p. 1). The Committee consists of representatives of the Member States and the Commission as non-voting member.

Funding arrangements

Credit lines

19

Credit lines to financial intermediaries are the main instrument employed by the Investment Facility to support the financing needs of small and medium-sized enterprises (SMEs) in ACP countries. Using financial intermediaries to 'on-lend' the funds to SMEs potentially allows many more SMEs to be reached, in a cost-effective manner, than would be possible via direct EIB lending. Co-operation with financial intermediaries gives the Investment Facility access to information on vital economic developments in the private sector.

20

The EIB works with financial intermediaries selected after careful due diligence checks on their past performance, future strategy and their focus on lending to a wide range of SMEs. The benefits of the Investment Facility's use of financial intermediaries are twofold: (a) the facility provides the financial intermediaries with secure long-term financing, thereby developing the local financial sector, and (b) the facility stimulates the financial intermediaries' on-lending to SMEs.

21

As part of its eligibility checks of the correct use of credit lines, the EIB has established an 'allocation procedure' whereby the EIB endorses the end beneficiaries before disbursement of a credit line to the financial intermediary⁸. Under this procedure the financial intermediary is required to identify the EIB/Investment Facility in the on-lending loan agreement with each end beneficiary, and to report to the EIB on the use of the credit line.

22

The allocation procedure is useful for checking the eligibility of end beneficiaries, and is not used by many other development finance institutions. We found that the allocation procedure worked as intended in the projects sampled in Uganda but not in Kenya concerning the obligation to identify the EIB/Investment Facility (see **Box 2**).

8 The 'allocation procedure' does not apply to microfinance for which the financial intermediaries provide the EIB a global allocation list.

Box 2

Financial intermediaries' use of Investment Facility financing

None of the three banks visited in Kenya had identified the Investment Facility financing in their on-lending loan agreements with SMEs. In this respect, the financial intermediaries did not meet their contractual obligations, and the end beneficiaries were not informed that the Investment Facility was the source of the funding.

Observations

23

Many credit lines to financial intermediaries are supplemented by various types of technical assistance⁹. While it was intended that end beneficiaries should also benefit from technical assistance in the form of management training and project development, we found that, for the audited credit lines, the financial intermediaries had not informed the SMEs about the possibility of receiving such technical assistance.

Equity investments

24

The Cotonou Agreement allows for the provision of risk capital in the form of equity participation and shall normally be for non-controlling minority holdings¹⁰. Equity participation provides growth capital to SMEs to foster financial inclusion, job creation and entrepreneurship. For equity investments, the EIB has an exposure limit of 20 % of the capital endowment. At the end of 2014, the equity share of the Investment Facility was 13 % of the capital endowment.

25

The Investment Facility makes equity investments both directly — by acquiring shares in a company — and indirectly through a private equity fund (see example in **Box 3**). Compared with loans, equity investments require more active management from the EIB. Typically, the EIB is represented on fund advisory committees, where it can ensure consistency with chosen strategies and alignment with EU development policy. Private equity funds also pursue social impact objectives (see example in **Box 8 — Microfinance fund**).

9 For example risk assessments, due diligence, management training, project development.

10 Article 2 of Annex II to the Cotonou Agreement.

Box 3

Example of investment through a private equity fund

The Investment Facility has agreed to invest 10 million euro in a private equity fund established to make investments in medium-sized enterprises located in East African countries. The EIB is represented on the fund's advisory committee. The investment strategy is to take strategic minority stakes in medium-sized enterprises with strong growth prospects. The intention is to make investments with a holding period of 4 to 6 years in up to 14 different companies. The focus is on consumer goods, retail, financial services, telecom and manufacturing.

The fund's first investment was a participation in a buy-out of Tanzania's leading producer of personal care products. The buy-out was carried out in a consortium with a large international bank and another private equity house.

Observations

Direct investment in infrastructure projects

26

In many ACP countries there is a real shortage of basic infrastructure. The Investment Facility supports infrastructure projects in electricity supply and generation, telecommunications, water and sewerage, as well as transport, health and education. A specific focus has been on renewable energy and climate-change projects. Infrastructure projects can generate sustainable growth, create jobs and improve regional integration.

27

All audited infrastructure projects were found to be coherent with other EU development cooperation measures (see example in **Box 4**).

The Investment Facility provides access to long-term financing, and loans in local currency and generates a catalytic effect

28

We examined whether Investment Facility operations provided the expected added value. Although today the market situation is different, in the first years of the Investment Facility the EIB was one of the few actors on the market offering long-term financing in local currencies to the private sector. The facility also had a catalytic effect in that it attracted additional funding.

Box 4

Example of an infrastructure project

The Investment Facility invested 30 million euro in the Kribi gas-fired power plant, a 216 MW natural gas-fired thermal power plant in Cameroon. The plant, with a total project cost of 253 million euro, is the first of its kind in the country and will provide electricity for more than 160 000 households, local industry and small businesses. The aim of the project is to meet the growing domestic demand for electricity, benefit trade, job creation and economic growth.

Observations

Long-term financing

29

In all sectors investments are normally more sustainable if they involve long-term financing. When provided in the form of credit lines to financial intermediaries, long-term financing gives banks the opportunity of additional secure funding. This is useful for banks' on-lending to SMEs in need of financing. In the audited sample, the average length of loans to financial intermediaries was 9 years.

30

The EIB is not alone in this regard, as most other development financing institutions also provide long-term financing. However, the Investment Facility has increased its lending for credit lines significantly in recent years. At the end of 2014 credit lines represented 28 % of the Investment Facility portfolio compared with 14 % at the end of 2010. The increased share reflects the ongoing importance in the long-term financing offered by the Investment Facility (see **Box 5**).

Box 5

Investment Facility credit lines 2011–2014 (million euro)

Country/Region	2011	2012	2013	2014	Total
Botswana				20.00	20.00
Dominican Republic	15.50		1.00		16.50
Ghana	8.00		20.00	20.00	48.00
Haiti	8.00				8.00
Kenya	13.50	76.50		50.00	140.00
Malawi			15.00		15.00
Mozambique				5.00	5.00
Nigeria		100.17	120.00	50.00	270.17
Regional - Africa				80.11	80.11
Regional - Caribbean	50.00				50.00
Regional - East Africa	4.00	60.00	114.00	152.00	330.00
Regional - Southern Africa				25.50	25.50
Regional - West Africa	10.00				10.00
Rwanda	8.00				8.00
Seychelles		5.00			5.00
Zambia				25.00	25.00
Total	177.00	241.67	270.00	427.61	1 056.28

Source: EIB.

Financing in local currency

31

Where feasible and appropriate, the EIB is encouraged to provide loans in local currency to avoid an exchange risk for the end beneficiary¹¹. The EIB’s internal credit-risk policy limits lending in local currency to 20 % of the total Investment Facility endowment. Financing in local currency was higher during the 2011–2014 period, both in terms of annual volume and of the proportion of the total Investment Facility portfolio, than at any time previously. At the end of 2014, the amount lent in local currency was 18.1 % of the total Investment Facility endowment.

32

Providing loans in local currency is a worthwhile means of increasing the development impact of the Investment Facility. It is an initiative which has been welcomed by many financial intermediaries in ACP countries (see example in **Box 6**).

33

Financing in local currency is also provided by other development finance institutions, and some financial intermediaries are in a position to manage the exchange risk themselves. Nevertheless there is still a great demand for loans in local currency, and the EIB plays an important role in meeting this demand.

11 Article 5(c) of Annex II to the Cotonou Agreement.

Box 6

Microfinancing in Haiti

A credit line was opened to a microfinance institution in Haiti to enable it to grow its portfolio in the context of post-earthquake reconstruction. The target beneficiaries are individual entrepreneurs and very small companies in urban areas, engaging mainly in trade activities, crafts and services. The amount provided by the Investment Facility, the equivalent of 3 million euro, was disbursed in local currency (Haitian gourdes). The exchange risk is fully borne by the Investment Facility. The initiative offers small local businesses access to funding.

Catalytic effect

34

The Cotonou Agreement states that the Investment Facility’s operations should have a catalytic effect by encouraging the mobilisation of long-term local resources and attracting foreign private investors and lenders to projects in the ACP States¹².

35

A simple method for indicating the catalytic effect is to calculate leverage ratios by dividing the total amount of investments in projects by the total provided by the Investment Facility. Supported by information obtained from interviews with financial intermediaries and end beneficiaries, the audited sample of 20 Investment Facility projects has the following leverage ratios (see **Box 7**).

12 Article 3(1)(b) of Annex II to the Cotonou Agreement.

Box 7

Leverage ratio

Financial instrument	Leverage	Comments
Infrastructure projects and direct loans	4.6	Total project cost divided by Investment Facility committed amount
Credit lines	3.2	Investment Facility finance up to 50 % of total project cost
Equity	7.1	Total equity fund amount divided by Investment Facility committed amount

Source: ECA.

36

The Investment Facility's effect in leveraging additional funds is sometimes difficult to assess. The measurement depends on whether the Investment Facility is deemed to have 'joined in' (the EIB was asked by another development finance institution to participate in a project) or 'been an initiator' (the project was initiated by the EIB).

37

Catalytic effect is, however, considered to be a wider concept than leverage alone. The added value of the Investment Facility lies also in the increase in credibility brought about by the EIB's involvement. Higher credibility gives confidence to other lenders and donors and attracts them to participate in specific projects (see examples in **Box 8**).

Box 8

Projects with a strong catalytic effect

Lake Turkana Wind Farm

The Investment Facility is participating in the financing of the 623 million euro Lake Turkana Wind Power Plant project, which is one of the largest single private investments ever made in Kenya and the largest wind farm in sub-Saharan Africa. The financing from the Investment Facility is 150 million euro. This is a project in which the Investment Facility has shown a strong catalytic effect: the EIB's involvement has been instrumental in encouraging other investors to participate.

Microfinance fund

The Investment Facility invested 5 million euro in a microfinance fund targeting microfinance institutions and small producers active in fair trade throughout Africa. The total raised capital was 22 million euro. The fund was originally initiated by three non-governmental organisations. Without support from the Investment Facility, this project would most probably not have taken place.

38

On the basis of the audit work carried out we conclude that the Investment Facility adds value to the EU's development cooperation with ACP countries. The facility is coherent with the EU's development cooperation with ACP countries, provides access to long-term financing and loans in local currency, and generates a catalytic effect.

39

The Investment Facility's coherence with other areas of EU development cooperation with ACP countries has been further enhanced since the EIB started taking on higher-risk projects through the Impact Financing Envelope (see paragraph 15).

40

In Kenya we found that financial intermediaries did not fully comply with the visibility requirement of disclosing the Investment Facility in their on-lending agreements with SMEs (see paragraphs 21 to 22).

Recommendation 1 Systematic disclosure of the Investment Facility in on-lending agreements

The EIB should make sure that financial intermediaries include a reference to the Investment Facility in their on-lending contracts so that end beneficiaries are informed about the source of the funding.

41

Technical assistance provided to supplement credit lines did not sufficiently target the end beneficiaries (see paragraph 23).

Recommendation 2 Proposing technical assistance to supplement credit lines

In order to enhance the development impact at the level of SMEs the EIB together with the financial intermediaries should ensure that the end beneficiaries are fully able to benefit from technical assistance.

42

The Investment Facility plays an important role in providing access to long-term financing and loans in local currency. It has also demonstrated a positive catalytic effect (see paragraphs 28 to 37).

This report was adopted by Chamber III, headed by Mr Karel PINXTEN, Member of the Court of Auditors, in Luxembourg at its meeting of 22 September 2015.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

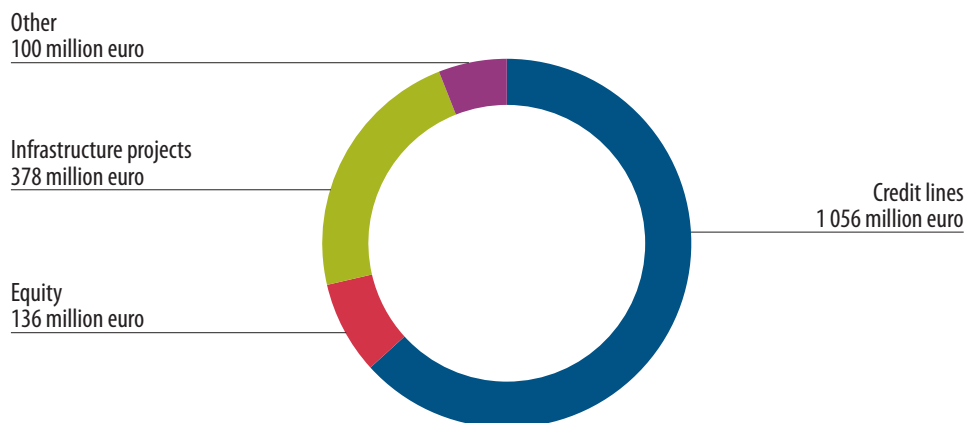
Yearly and cumulative operations approved, contracts signed and disbursements made for the Investment Facility in ACP countries*(million euro)*

	2003–2010	2011	2012	2013	2014	Total
Approvals	3 396.3	429.6	617.0	818.0	443.6	5 704.6
Signatures	2 816.1	193.0	355.0	471.5	652.6	4 488.2
Disbursements	1 401.4	305.5	315.1	277.2	290.5	2 589.7

Source: EIB.

Annex II

**Breakdown by financial instrument
Signed amounts between 2011 and 2014**



Source: EIB.

List of projects reviewed by the Court (million euro)

No	Country	Contract name	Investment Facility signed amount	Total project amount ¹	Year of signature	Sector/instrument
1	Cameroon	Kribi gas-fired power plant	29.5	260	2012	INFRA (Energy)
2	Haiti	ACME Haiti local currency loan	3.0	6	2011	Credit line
3	Kenya	Lake Turkana Wind Power	150.0	623	2014	INFRA (Energy)
4	Kenya	Family Bank PEFF	10.0	20	2013	Credit line
5	Kenya	Housing finance	20.0	50	2012	Credit line
6	Kenya	Family Bank microfinance facility	10.0	20	2013	Credit line
7	Kenya	Shelter Afrique	15.0	38	2013	Urban Dev
8	Malawi	Malawi credit line	15.0	30	2013	Credit line
9	Mauritius	Mauritius Airport Hotel	8.0	21	2012	Tourism
10	Nigeria	Access Bank	50.0	125	2012	Credit line
11	Regional–Africa	ADENA Fund	12.0	100	2011	Equity
12(a)	Regional–Africa	EDFI/EFP-Proparco	Part of 100 million euro commitment to EDFI–EFP	75	2013	Loan
12(b)	Kenya	EDFI/EFP-FMO		45		Credit line
13	Regional–Africa	Catalyst Fund	8.93	125	2011	Equity
14	Regional–Africa	Convergence ICT Fund	19.25	145	2012	Equity
15	Regional–ACP	FEFISOL	5.0	22	2011	Equity
16	Regional–Africa	PTA Bank	80.0	160	2014	Credit line
17	Tanzania	NMB – PEFF	50.0	107	2013	Credit line
18	Tanzania	NMB – Microfinance	20.0	88	2013	Credit line
19	Uganda	Crane Bank	28.0	56	2014	Credit line
20	Uganda	EADB	25.0	50	2012	Credit line

1 Amounts committed at the time of audit.

Executive summary

The European Investment Bank welcomes the final report of the European Court of Auditors 'The ACP Investment Facility (ACP IF): does it provide added value?' The exercise made it possible to evaluate the consistency and relevance of a representative sample of projects financed by the Investment Facility in terms of the EU development objectives set out in the Cotonou Agreement. All of the conclusions and recommendations adopted by Chamber III are acceptable from our point of view.

Observations

Funding arrangements

26

The Investment Facility does finance basic infrastructure projects *stricto sensu* (especially private) in the energy, transport, telecommunications and water sectors. Operations in the health and education sectors are for the time being carried out in the framework of intermediated financing (credit lines or equity participations in investment funds), particularly via the impact financing envelope introduced in 2014. The aim is to increase access to health care and education, particularly for the most vulnerable population groups, especially by helping private companies to expand their offer. We nevertheless envisage getting more directly involved in financing basic infrastructure in these two sectors, particularly via blending operations.

Conclusions and recommendations

Recommendation 1

The systematic reference to the source of financing in the loan contracts between the financial intermediaries and the final beneficiaries is already the subject of a clause in all our financial intermediation contracts. We are endeavouring to step up our efforts to ensure that this clause is properly implemented. Following the audit, we have already asked our Kenyan partners¹ to actively fulfil this contractual obligation, and in future we will pay particular attention to this crucial aspect of ensuring the visibility of the European Union's action under the Cotonou Agreement.

Recommendation 2

While it is true that a substantial portion of technical assistance is designed to build the capacities of local financial institutions (especially commercial banks and microfinance institutions), with the aim of comprehensively modernising the financial sector in the ACP countries, technical assistance programmes are also directed to a lesser degree towards final beneficiaries, entrepreneurs, to help make more SME investment projects bankable. Our more recent technical assistance operations have already begun to directly target businesses as well. It should be noted, moreover, that under the 11th EDF the EIB intends to deepen its cooperation with the European Commission, particularly on private sector development operations financed under the 'blending' heading. This will make it possible to increase the amount and broaden the type of technical assistance provided to the final beneficiaries of Investment Facility funds. Talks on a number of concrete approaches are currently under way.

1 SHELTER-AFRIQUE COMMUNITY DEVELOPMENT project.

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The ACP Investment Facility, managed by EIB, is a risk-bearing revolving fund supporting investments by private and commercially run public entities in the African, Caribbean and Pacific Group of States. It provides medium- to long-term financing through various financial instruments and thereby aims at delivering sustainable economic, social and environmental benefits. The Court concludes that the Investment Facility adds value and its operations are overall coherent with the EU development cooperation with ACP countries. The contractual obligation to inform the end beneficiaries about EIB/Investment Facility funding is however not always followed and technical assistance does not always target small and medium-sized enterprises.



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