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on ECA Special Report N° 14/2015 (2014 Discharge) on "The ACP Investment Facility: does it provide added-value?"

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Introduction

The African, Caribbean and Pacific (ACP) Investment Facility was set up under the Cotonou Agreement and began operation in 2003 for a period of 20 years. The Facility's overarching 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.

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 with a total endowment of 3 685 million euro. Capital contributions by the Member States are paid directly to the European Investment Bank (EIB), which manages the Facility, acting on behalf of the EU and outside the EU budget as the EDFs.

The European Investment Bank complements the Facility's funding with its own resources.

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

According to the Cotonou Agreement provisions and to generate value added, the Investment Facility has to operate on the local markets without creating market distortion to the detriment of private sources of financing, help the mobilisation of long-term local resources as well as attracting private investors and lenders.

Audit Scope and Objectives

The Court examined whether the Investment Facility's added value to the EU's development cooperation with ACP countries. The audit focused on the two following questions:

- Are the Investment Facility's operations coherent with other EU development aid provided to ACP countries?
- Does the Investment Facility provide access to long-term financing as well as loans in local currencies, and does it generate a catalytic effect?

For this audit, the Court used operations signed by the Investment Facility under EDFs funding between 2011 and 2014 as a basis for assessing whether the Investment Facility added value to EU development cooperation with ACP countries.

Operations financed with EIB's own resources were not included in the Court's audit scope as they fall outside the Court's remit, nor the very small funding provided to Overseas Countries and Territories (OCT). The assessment of the effectiveness of the ACP investment facility was not also included within the Court's audit objectives.

The Court's audit work consisted of an analytical review, interviews with EIB and Commission staff, a sample of 20 operations funded by the Investment Facility and an audit visit in Kenya and Uganda.

Court's Findings and Observations

- Are the Investment Facility’s operations coherent with other EU development aid provided to ACP countries?

The Court examination of the 20 operations selected showed that they were coherent with the EU’s development policy as broadly described in the Cotonou Agreement. The Court also observed that the Impact Financing Envelope (IFE) allowed the Investment Facility to support higher-risk projects which generate a strong development impact with the overarching objective of poverty reduction. The Court reviewed in particular the functioning of the project identification and selection and the funding arrangements.

Project identification and selection

With regard to the project prospection done by the EIB headquarters and its representatives in the ACP countries with the consultation of the EU delegations, the Court noted that the Commission had expressed favourable opinions in respect of all 20 operations under review by the Court.

Funding arrangements

Concerning the funding arrangements used under the ACP Investment Facility, the Court analysed the three instruments currently used i.e. credit lines to financial intermediaries, equity investments and direct investment in infrastructure projects.

The Court observed that for the credit lines the EIB was working with financial intermediaries selected after due diligence checks assessing their past performance, future strategy and ability to lend to a wide range of SMEs as well as through an allocation procedure for checking the eligibility of end beneficiaries. The Court found however in Kenya that the contractual obligation to inform the end beneficiaries about EIB/Investment Facility funding was not always followed and that the financial intermediaries had not informed small and medium sized enterprises (SMEs) on the possibility to receiving various types of technical assistance in addition to the credit lines granted.

For the management of equity investments which are used to foster financial inclusion, job creation and entrepreneurship, the Court found that the EIB was represented within fund advisory committees thereby allowing the EIB to ensure consistency with chosen strategies and alignment with EU development policy.

As regards the third modality proposed by the EIB i.e. direct investment in infrastructure projects, the Court's review showed that all audited infrastructure projects were found to be coherent with other EU development cooperation measures.

- Does the Investment Facility provide access to long-term financing as well as loans in local currencies, and does it generate a catalytic effect?

The Court examined whether Investment Facility operations were providing added value through long-term financing provided to the private sector in local currencies and were having a catalytic effect by attracting complementary funding.

Long term financing

The Court observed that the ACP Investment Facility has increased its lending volume recently with credit lines representing end 2014 28% of the Investment Facility portfolio compared to 14% at the end of 2010, this trend demonstrating the importance given to this type of financing on the market offering. The audit work also revealed that the average length of loans to financial intermediaries was nine years, this being a good basis for more sustainable investments.

Financing in local currency

The Court noted that loans in local currency were higher during 2011-2014 both in volume and proportion of the total Investment Facility portfolio. End 2014, the amount lent in local currency represented 18.1% of the Investment Facility endowment. The initiative was welcomed by financial intermediaries in ACP countries both for avoiding the exchange risk for the final beneficiary and for its potential in terms of development impact.

Catalytic effect

From the audit work carried out on the 20 operations selected and information obtained from financial intermediaries and beneficiaries, the Court finally observed positive leverages ratios for the three financial instruments proposed under the ACP investment Facility, respectively 4.6 for infrastructure projects, 3.2 for credit lines and 7.1 for equity. More generally, the ACP Investment Facility demonstrated a positive catalytic effect by successfully mobilising long-term resources and attracting foreign private investors and other lenders to projects in the ACP countries.

Court's recommendations

The Court makes two recommendations designed to increase the added value provided by the ACP Investment Facility:

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;

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;

Rapporteur’s recommendations for possible inclusion in the Commissions’ annual discharge report

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3. Welcomes the special report dedicated to the added value of the ACP Investment Facility as a concrete and positive example of follow-up by the Court of the 2012 and 2013

discharge procedure wherein Parliament asked for drawing up a Special Report on the performance and alignment with Union development policies and objectives of EIB external lending activities before the mid-term review of the EIB's external mandate and the mid-term review of the Investment Facility;

4. Considers the inclusion in the Court of Auditors' work plan of such an audit on the ACP investment facility as a good practice in terms of cooperation and collaborative scrutiny between Parliament and the Court;

5. Believes that this audit report is a stepping stone as it is the first audit carried out by the Court in this specific area; deplores that the investment facility does not fall within the scope of the Court's annual statement of assurance audit;

6. Notes the positive conclusions regarding the coherence of the ACP investment facility with the EU development policy objectives and its catalytic effect; welcomes the good cooperation between the EIB and the Commission in particular in the project prospection and selection;

7. Regrets however that the Court could not identify more precisely the added value delivered by the ACP investment Facility; invites therefore the Court, in future special reports, to give more concrete examples and to single out some projects to better illustrate its conclusions and recommendations; invites the Court to benefit from this first experience to further refining the means to assess leveraging, catalytic effect and additionality of such facilities; invites also the Court to consider the added value not be through the classic Tryptic (Economy, Efficiency, Effectiveness) but in a broader sense including a second Tryptic (Ecology, Equality and Ethics);

8. Agrees with the Courts recommendations; calls therefore on the Commission to take into account the Court's recommendations in its future legislative proposals and negotiations such as to the revision of the EIB's external mandate or the post-Cotonou agreement;

9. Recommends therefore an swift adaptation of the Investment Facility and EIB's policy according to the outcome of the COP21 and the possible post-2015 MDG as a matter of political consistency from the Union; believes that the fight against the climate change, and all its direct and indirect consequences, especially in the world's poorest countries, should be even more prioritized;

10. Believes that it is crucial for the EIB to continuously invest time in due diligence policy combined with results assessment tools in order to get a better knowledge of the profile of financial intermediaries and beneficiaries and to also better evaluate impact of projects on final beneficiaries; calls on the EIB to seriously take the Court's recommendations into account and to improve the current practices in order to strengthen the added value of the ACP investment facility;

11. Believes that there should be no Union tax payers money not subject to Parliament's discharge; therefore reiterates and strongly believe that the Investment Facility managed by the European Investment Bank (EIB) on behalf of the Union should be subject to Parliament's discharge procedure as the investment facility is financed by Union tax payers' money;

12. Notes that the Tripartite Agreement mentioned in Article 287 (3) of the Treaty on the Functioning of the European Union governing cooperation between the EIB, the Commission and the Court of Auditors with respect to the modes for controls exercised by the Court on the EIB's activity in managing Union funds and Member States' funds is up for renewal in 2015; reiterates Parliament stance to update the remit of the European Court of Auditors in this respect by including any new EIB financial instruments involving public funds from the Union or the EDF.