European Investment Bank

The EU bank

Report on results of EIB operations **outside the EU**

2012

Contents

Message
from the President

Whether inside or outside the EU, the EIB's role differs from that of a commercial bank: indeed, while it must, like any other bank, provide loans to projects that are financially viable, it is part of the Bank's mission and "raison d'être" to ensure that its lending supports projects with a significant positive impact. Both inside and outside the EU, the Bank applies the highest standards in its project appraisal to ensure that the investments it supports are also economically and technically sound and comply with its high environmental and social standards.

In other words, the EIB cares above all about the "quality" of the projects it finances. But projects are not an end in themselves: projects are about the economic activity they support and, ultimately about the improvement they bring to people's lives. This is highly relevant in advanced economies, as the current crisis in Europe reminds us every day. It is of course also vital outside Europe, where development challenges remain important.

Therefore, an institution such as the EIB needs to focus more than ever on the results and ultimately the impact achieved through the projects it supports. A significant step in this direction is the Bank's recent establishment of the Results Measurement (ReM) framework, to assess and measure the concrete results of the projects it supports outside the EU. In so doing, the Bank also seeks to comply with the recommendations made following the mid-term review of the External Mandate and the revised joint Decision by the European Council and the European Parliament in October 2011, granting the EU budgetary guarantee for the EIB's activity outside the Union.

The ReM framework further strengthens the Bank's ex ante assessment of projects, as well as the monitoring of their expected results, and will ultimately be used as a basis for ex post evaluation. As an instrument that affects the EIB's investment decisions, the ReM also has an influence on the Bank's investment portfolio. It strengthens considerations

The EIB, the EU bank, is probably best known for the lending it provides in support of high-quality investment projects that contribute to economic growth and social cohesion within the EU. However, this year the Bank will also celebrate 50 years of financing outside the EU, both under the so-called "External Mandates" and at the Bank's own risk.

of relevance, expected impact and additionality on top of the more traditional banking considerations.

This new framework will further strengthen the monitoring of actual results achieved during and after project implementation. Concrete results of the first projects to which the ReM is being applied, starting in 2012, will be available a few years from now.

This first Report on the Results of EIB Operations reflects the fact that the framework is still in a pilot phase. It provides a preview of what the ReM framework will be able to deliver for future reports, by looking at expected results of the projects approved in 2012 and by reviewing at completion stage a number of projects that were approved in earlier years. I am satisfied that both the actual achievements of the older projects and the ex ante assessment of new projects confirm that the projects we finance are highly relevant and in line with expectations of our stakeholders both in the EU and the partner countries, that they have led or are expected to lead to very significant results on the ground, and that the Bank provides real added value with the instruments at its disposal.

Having said that, there is no room for complacency, particularly given the economic, social and environmental challenges faced by our partner countries. I therefore expect the ReM to become a powerful tool for learning from experience and to leverage the lessons we will learn to continuously improve our ways.

Werner Hoyer

Executive summary

The EIB engages in investment projects in support of EU external policies, including development and cooperation, in some 160 non-EU countries throughout the world.

The Bank's operations are mainly based on an External Mandate agreed by the EU Member States and implemented under EU guarantee (in pre-accession countries, Southern and Eastern neighbours and partnership countries in Asia, Latin America and South Africa), the Cotonou Agreement involving funds or guarantees from EU Member States (in African, Caribbean and Pacific countries and Overseas Countries and Territories), and dedicated "Facilities" for lending at the EIB's own risk (across regions).

In all these regions, the Bank provides finance and technical assistance for local private sector development, social and economic infrastructure and climate action projects, as well as regional integration. The EIB, as the EU bank, is the natural partner of the European Commission and the European External Action Service to fund projects

supporting EU policy objectives outside the Union. The EIB is uniquely placed to support the European development effort by transferring knowledge and experience from its European operations to partner countries.

In January 2012, the EIB launched the Results Measurement (ReM) framework, which further improves the ex ante assessment of expected project results and enhances the Bank's ability to monitor and report on actual results achieved. The ReM framework provides an assessment of results throughout the project cycle. At appraisal, results indicators with baselines and targets are defined and these are monitored at project completion and three years after project completion. Projects are rated according to three "pillars":

Pillar 1	Expected contribution to lending objectives
Pillar 2	Quality and soundness of the operation, based on expected results
Pillar 3	Expected financial and non-financial additionality

2012 operations approved received largely good or excellent ratings.

- **Pillar 1:** All operations should make an excellent (56%) or good (44%) contribution to local private sector development, social and economic infrastructure and climate action, as well as regional integration, indicating that the Bank has selected highly relevant projects.
- **Pillar 2:** Operations were deemed economically, environmentally and socially sound (98% good or excellent).
- **Pillar 3:** In the majority of operations (84%), EIB support makes a difference in delivering financing and technical assistance that would otherwise not be provided by the market. The Bank's additionality is deemed to be significant, especially when it comes to long maturities, taking a lead role in project preparation and implementation support and raising standards.

Since it will take several years for actual results to be produced by operations approved under the new ReM framework, this year's report covers the *expected* results of operations approved in 2012 and uses eight case studies to report on actual results achieved by projects under implementation or completed.

In 2012, the EIB approved 90 operations totalling EUR 8.1 billion outside the EU. The majority (81%) were in infrastructure (mainly energy and transport) and in support of smaller businesses (micro, small and medium-sized enterprises). EIB activities outside the EU focus on pre-accession (EUR 3 billion) and neighbouring countries to the south (EUR 1.8 billion) and east (EUR 1.1 billion). Approvals in the African, Caribbean and Pacific countries amounted to EUR 1.1 billion. Approvals in Asia and Latin America together also amounted to EUR 1.1 billion.

Through the projects it finances, the EIB contributes to creating a large number of both permanent and temporary jobs. Through the application of environmental and social standards, the Bank also promotes the creation of good quality – or "decent" - jobs, which respect the ILO's (International Organization of Labour) core labour standards and are associated with better living standards. Of the 90 operations approved in 2012, 27 are expected to create 9,000 new permanent jobs and 45 are expected to create some 300,000 new temporary jobs during construction. Moreover, the 34 intermediated operations are expected to contribute to sustaining roughly 3.3 million existing jobs in MSMEs, of which approximately 1.5 million micro-enterprises through Access Microfinance Holding alone.

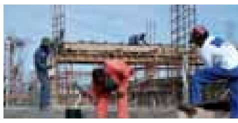
The Bank not only requires that all projects it finances are acceptable in environmental and social terms through the application of high standards,

Moreover, 2012 approvals are expected to yield significant concrete results that will contribute to the improvement of people's living standards:

- **Energy** projects will increase production capacity, mainly from renewable resources, extend transmission networks and connect over 300,000 additional households to the networks.
- **Transport** projects will extend networks of roads, railways and urban transport, benefiting nearly 3.4 million people.
- Improved **water, sewerage and waste** systems will connect 148,000 households to water supplies, 25,000 to sewer systems and 200,000 to other improved sanitation facilities.
- **Health** projects will enable the treatment of an additional 700,000 patients.
- **Flood prevention** projects are expected to reduce the risk of flooding, affecting some 97,000 people.
- **Urban development** projects will provide access to new and improved urban infrastructure services for some 4.4 million people and to 7,500 new or refurbished social housing units.
- **Intermediated finance for micro, small and medium-sized enterprises (MSMEs)** is expected to provide more than 36,000 loans to micro, smaller businesses through banks totalling more than EUR 6 billion. Approximately 70,000 loans worth EUR 180 million will be provided through 13 microfinance institutions to micro-enterprises in Africa and the Mediterranean regions and a capital increase in Access Microfinance Holding will support the extension of as many as 500,000 loans worth EUR 1.2 billion, mainly in Africa. Private equity funds approved this year are expected to invest in 78 companies for a total of almost EUR 0.7 billion.

but it also finances projects that contribute directly to environmental sustainability. Expected energy efficiency gains are calculated as the difference in energy consumption before and after the project or as reduction of energy consumption per unit of output. A "carbon footprint" estimate is made, whenever feasible and applicable, for projects approved by the Bank. It measures expected GHG (Greenhouse Gases) emissions in terms of kilotonnes (kt) of CO_2 equivalent per year.

The EIB brings financial and non-financial additionality relative to market alternatives, enabling the realization of projects which the market alone would find difficult to finance. Providing long-term funding to finance sustainable development projects is one of the most significant elements of additionality that the EIB brings outside Europe. Indeed, on average, this year's approvals extend the typical tenor available in the market to projects by 11.2 years for infrastructure projects. Long-term funding is also necessary to local banks that typically face a maturity mismatch between their assets and liabilities and the EIB loan tenor is more than two and a half times the maturity of other available resources for projects approved this year. The EIB participation also reduces the gap between asset life and the loan term. On average, the tenor of EIB loans matches 90% of the life of financed assets.



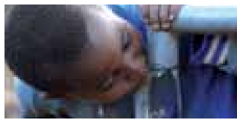
In almost a quarter of projects approved this year, the Bank partially or totally absorbed the foreign exchange risk by providing access to long-term financing in local currency. Non-financial additionality, through technical contribution, helping clients to prepare and implement projects more efficiently and effectively, as well as technical assistance (TA) will be provided for roughly 48% of operations approved this year, mainly in the ACP and to some extent Mediterranean regions. Finally, projects approved this year will leverage 2.7 times the EIB's contribution. EIB projects mobilized EUR 6 billion from private and EUR 7.5 billion from public sector sources. In 38 of the operations approved this year the Bank participated jointly with other IFIs.

Eight case studies of projects having reached or reaching completion in 2012 show how EIB finance and technical assistance help countries expand their social and economic infrastructure (road networks, public healthcare systems), promote private sector development (SMEs, microfinance), mitigate and adapt to climate change (wind power, improved water, sewerage and waste services) and strengthen regional integration (road networks). Many of the objectives were met through the achievement of concrete results and additionality was found to be substantial, with the provision of long-term funding as the most prominent factor.

As the projects approved in 2012, under the new ReM framework, are implemented, concrete measurable results will start to become available and will form the basis for future reports. The experience of this first pilot year of implementation will serve to learn lessons so as to improve and further refine the framework and its indicators.

Introduction

The EIB's activities around the world underpin the EU's external policy goals. Through the projects it finances, the Bank contributes to growth and jobs beyond the Union's borders. The EIB seeks to bring more than just financial backing. It offers a wide range of financial and non-financial instruments to support projects outside the EU. The new Results Measurement framework further strengthens assessment, measurement and reporting on project results and impacts. In doing so, the Bank aims to ensure the projects financed ultimately make an improvement to people's lives.



As the EU bank, the EIB contributes to the realization of investment projects that further the objectives of the EU's economic and political cooperation in some 160 non-EU countries throughout the world. The EIB undertakes operations outside the EU in support of EU external policies, mainly on the basis of multi-annual mandates entrusted to it by the EU Member States and implemented either under the Banks own resources, with the coverage of a fall-back guarantee by the EU budget or the EU Member States themselves (Cotonou Agreement), or with third party resources such as the ACP Investment Facility funded out of the European Development Fund. These are complemented by dedicated lending facilities, at the Bank's own risk.

Traditionally, lending outside the EU has made up around 10% of the Bank's total lending activities and has focused mainly on the Pre-Accession and the Eastern and Southern Neighbourhood regions. The ceiling of the current External Mandate (2007-2013) is EUR 29 billion, including the EUR 2 billion for Climate Change financing for all regions, which was activated in October 2011. The regional ceilings of the Mandate are roughly EUR 9 billion each for the Pre-Accession and Mediterranean countries, EUR 4 billion each for the Eastern Neighbourhood and Asian and Latin American countries and EUR 1 billion for the Republic of South Africa.

EIB operations in the Africa, Caribbean and Pacific regions (ACP), and Overseas Countries and Territories (OCTs) are carried out under the Cotonou Agreement (2000-2020), and the Overseas Association Decision (2000-2013), the frameworks for EU relations with these regions. Financing under these frameworks is provided from EIB own resources (EUR 2 billion for the period 2008-2013), which the Bank manages on a broadly self-financing basis by borrowing on the capital markets alongside EU Member States' budgets (the European Development Fund). The EIB is entrusted with the management of the Investment Facility, a revolving fund which meets the financing needs of investment projects in the regions with a broad range of flexible risk-bearing instruments (EUR 3.2 billion for the period 2003-2020). To support the preparation and implementation of the projects it finances, and address debt sustainability constraints of partner countries, the EIB also provides grants in the form of interest rate subsidies and technical assistance to its borrowers and final beneficiaries (EUR 400 million for the period 2008-2013).

The EIB offers a wide range of financial and non-financial instruments to support the projects it finances outside the EU, including loans, risk capital, equity, guarantees, project bonds, structured finance and trust funds. Moreover, it offers attractive financing packages through the provision of long maturities, big transaction sizes and favourable interest rates. The Bank finances both direct operations and intermediated lending with both public and private sector partners. A unique feature of the Bank is its specific in-house technical expertise, particularly in the infrastructure sectors. EIB technical experts work both within and outside the EU, thereby contributing to a critical transfer of knowledge from the EU to other countries. The EIB applies the same standards and scrutiny to the projects it finances outside the EU as inside the EU. It has common internal procedures and the same systems and internal control mechanisms, including in terms of environmental and social standards, are applied both within and outside the EU.

Introducing the ReM framework

To further strengthen its assessment, measurement and reporting on the results and impacts of its operations outside the European Union, the EIB launched a new framework to replace the existing Economic and Social Impact Assessment Framework (ESIAF) in 2011. The Results Measurement (ReM) framework, which was introduced as a pilot in 2012, improves the ex ante assessment of expected project results and enhances the Bank's ability to monitor and report on actual results achieved.

The ReM is a framework to rate projects ex ante, at the time of Board approval, and to monitor and collect data on actual results achieved. Projects are rated according to three "Pillars":

1. Pillar 1 rates the expected contribution to the EIB's high level lending objectives, as well as the countries' and EU priorities[1].

[1] High level objectives cover those relevant under the External Mandate, the Cotonou Agreement and the own-risk facilities.

2. Pillar 2 rates the quality and soundness of the operation, based on the expected results.
3. Pillar 3 rates expected EIB financial and non-financial additionality.

No overall project rating is provided.

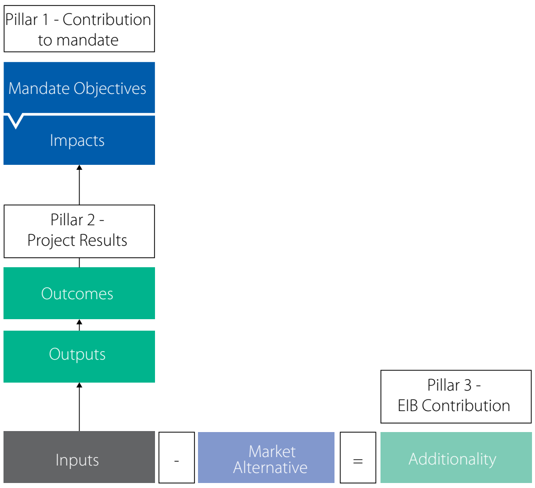
The three Pillars of the ReM framework are based on a logical framework approach (see figure 1), which serves to show how EIB inputs (e.g. loan), generate outputs (e.g. an electricity transmission line, a training programme), which enable outcomes (e.g. improved access to energy, improved institutional capacity) and, over time, lead to impacts (development of economic infrastructure, regional integration) which are in line with the Bank's mandate objectives, national and EU strategies. Therefore Pillar 1 looks at how expected impacts contribute to the EIB's high level objectives, EU and national priorities, Pillar 2 quantifies expected and actual results (outputs and outcomes) and Pillar 3 measures the inputs that are needed by the project, which cannot be provided by a market alternative.

Pillar ratings are based on a four-point scale (4-excellent, 3-good, 2-acceptable, 1-marginal)[2]. Ratings are based on a series of objectively measurable indicators and guidelines, while a process of quality control ensures that all ratings are checked for consistency across operations.

The ReM framework provides an assessment of project results throughout the lifecycle. At the outset, clear, standardized and monitorable indicators are identified, with baselines and targets that capture expected economic, social, environmental, and governance outcomes of the operation. Achievement against these specified performance benchmarks will be monitored throughout the project life and will be reported at two milestones: at project completion and three years after project completion ("post completion") for direct operations, and at the end of the investment (or allocation) period and end of life of the fund for intermediated operations. ReM indicators will also be used for ex post evaluation.

Figure 1

ReM conceptual framework



Work is underway to harmonize – to the extent possible – ReM indicators with those of other International Financial Institutions and EU development agencies to simplify client reporting requirements for co-financed operations. The Bank is engaged in a number of working groups that bring together International Financial Institutions, European Development Finance Institutions and EU development agencies aiming to improve coordination and harmonization of results indicators.

As of January 2012, all operations outside the EU that were submitted to the Board for approval were accompanied by ReM sheets. As projects approved this year begin to be completed, actual results achieved will be compared with expected results recorded at the time of approval. However, since it will take several years for actual results to be produced by operations approved under the new ReM framework, this year's annual report uses eight case studies to report on actual results achieved by projects under implementation, which were approved before the ReM framework was in place. It also reports on the expected results of operations

[2] Pillar 3 ratings for additionality are slightly different: 4-high, 3-significant, 2-moderate, 1-low.

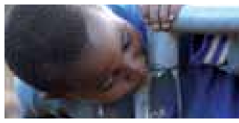
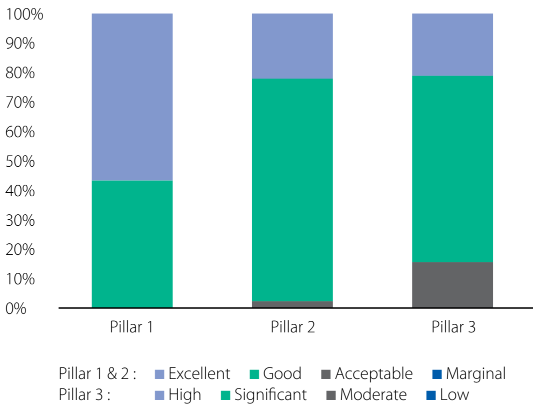


Figure 2

ReM ratings by pillar

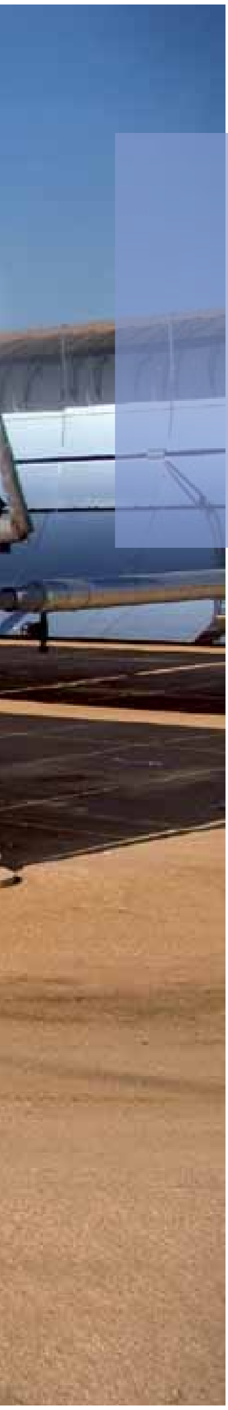


approved this year, as only a few of the operations approved under the new ReM framework have been signed already this year. As of 2013, the report will be based on signatures and not approvals, in order to better align with other Bank reporting requirements.

EIB operations approved this year are expected to yield good or excellent results. As the distribution of Pillar 1 ratings shows, in Figure 2, more than half of the operations approved are expected to make an exceptionally high contribution to mandate objectives, meaning that they are not only fully in line with the objectives for that region, but they are also at the core of the countries' development objectives as well as the EU priorities for the country and/or region. The rest of the projects will make a "good" contribution, in line with mandate objectives but at a lower level in terms of the country's own development objectives and those of the EU.

As regards the expected results, the quality and soundness of projects financed (Pillar 2), just over one fifth of operations approved received an excellent rating, indicating that results, either in terms of net economic gains to society – as captured by the Economic Rate of Return (ERR) for direct operations – or in terms of results of intermediated operations, are expected to be excellent (e.g. ERR greater than 15%). Moreover, the capacity of the promoter to deliver results is assessed as excellent and deviations in cost or time are expected to be marginal (maximum 15%). Environmental and social effects are acceptable with positive or neutral residual impacts and minimal or no adverse impacts. Three quarters of operations are expected to be "good", with slightly higher deviations in cost and time expected (15 to 30%) and an ERR of 10 to 15%. Only 2% of operations approved received an "acceptable" rating, and in all cases expected results were good, but the quality of the operating environment was weak, thereby reducing the probability that results would be achieved and hence reducing the Pillar 2 rating.

Finally, in terms of the EIB's additionality, or the inputs that the EIB brings as a multilateral lender over and above what the market can offer, figure 2 shows that in 21% of operations approved this year, the EIB's involvement is expected to generate high additionality: typically extending the longest maturity of debt available to the borrower from the market by more than 100%, matching the economic life of the assets to be financed by at least 80% (financial additionality), and sometimes taking a lead role in project preparation and or implementation support (technical and sector contribution) as well as in the structuring of the project. Another 63% are considered good, providing significant additionality: typically combining significant financial additionality with a high technical and sector contribution. Finally, 16% of approved operations were rated as presenting only moderate additionality. These were typically standard products with little contribution to project design, structuring or implementation.



Expected contribution to EIB's objectives and EU priorities

In 2012, the EIB approved 90 operations totalling EUR 8.1 billion outside the EU. The majority (81%) were in infrastructure (mainly energy and transport) and in support of smaller businesses (micro, small and medium-sized enterprises). EIB activities outside the EU focus on pre-accession (EUR 3 billion) and neighbouring countries to the south (EUR 1.8 billion) and east (EUR 1.1 billion). Approvals in the African, Caribbean and Pacific countries amounted to EUR 1.1 billion. Approvals in Asia and Latin America together also amounted to EUR 1.1 billion.

In all these regions, the Bank supports projects that contribute to local private sector development, social and economic infrastructure and climate action, as well as regional integration. All operations approved will make an excellent or good contribution to the sustainable growth and development of partner countries.

Profile of EIB approvals **outside the EU in 2012**

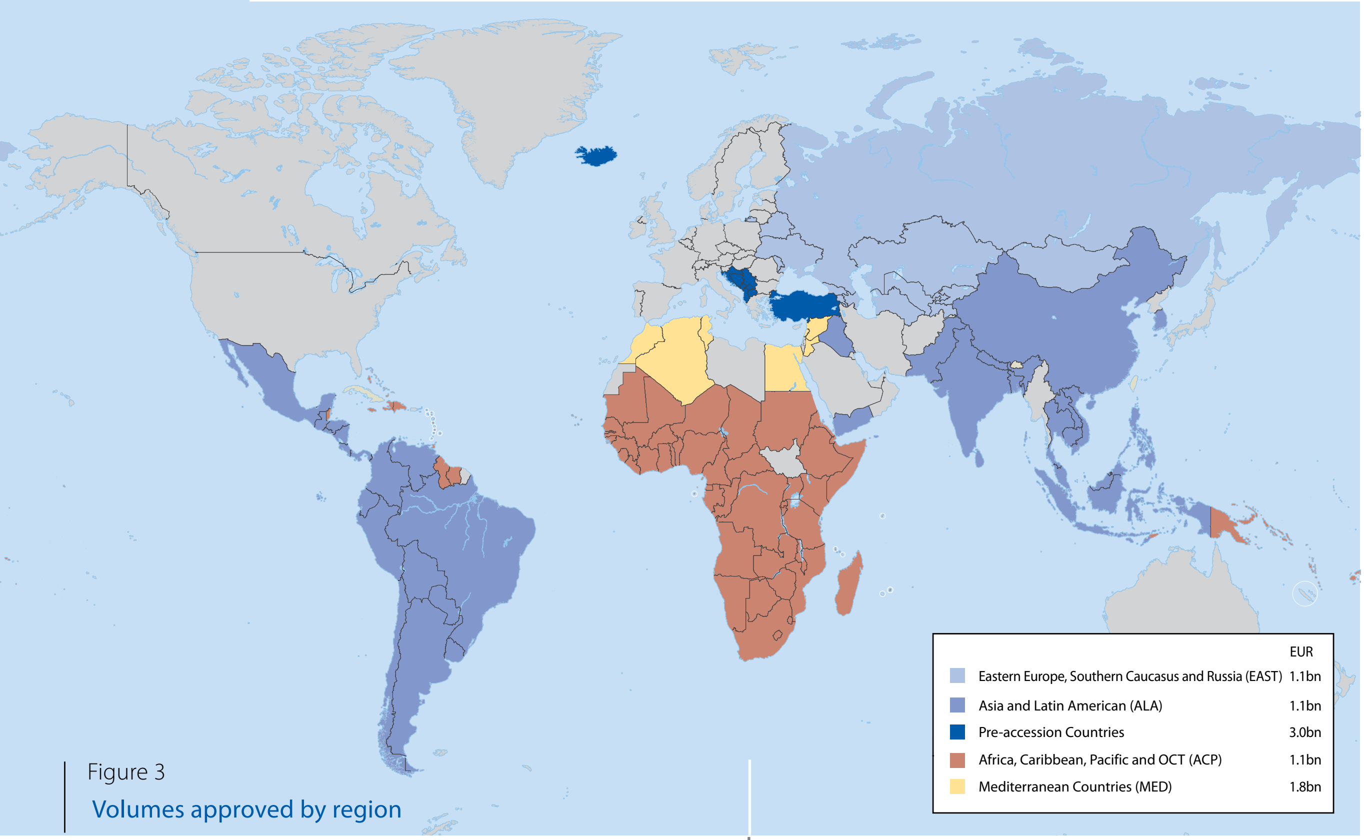


Figure 3
Volumes approved by region

In 2012, the EIB approved 90 operations totalling EUR 8.1 billion outside the EU. This includes projects approved under all envelopes (mandates guaranteed by the EU or by Member States, EIB own-risk facilities and third party resources).

As shown in figure 4, the vast majority of projects approved (78%) were in the infrastructure and SME sectors, reflecting the EIB's traditional distribution of financing activities. Figure 5 shows that the vast majority of the infrastructure operations were either energy or transport projects: 19 were energy projects, largely electricity production (11) and power transmission and distribution (7). Another 14 were transport projects: a mixture of roads, railways, air transport and urban transport.

Credit lines to financial intermediaries for SMEs accounted for just over one third of approved operations in 2012. EIB SME lending includes support for a broad range of enterprises from micro-enterprises to mid-caps. The average size of sub-loan expected from this year's approvals ranges from roughly EUR 15 000 to over EUR 1 million.

Figure 4

Approvals by sector (amounts and number)

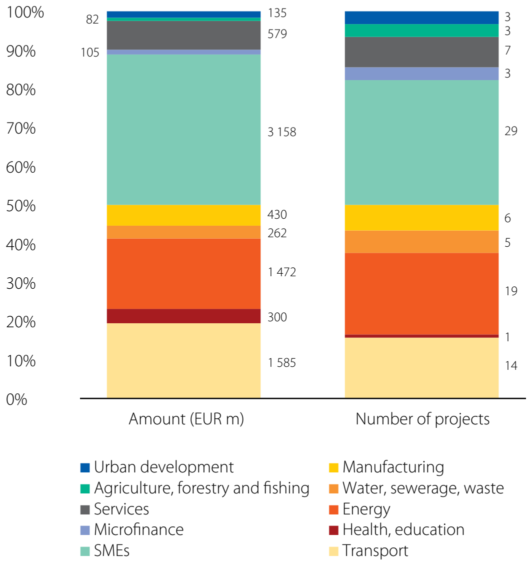
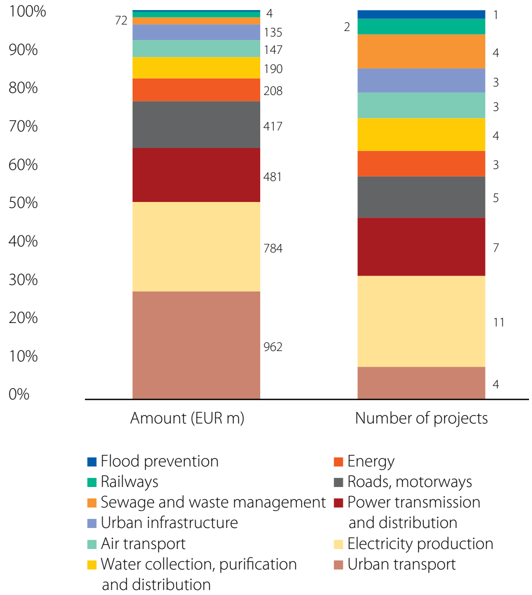


Figure 5

Infrastructure projects by sub-sector (amounts and number)



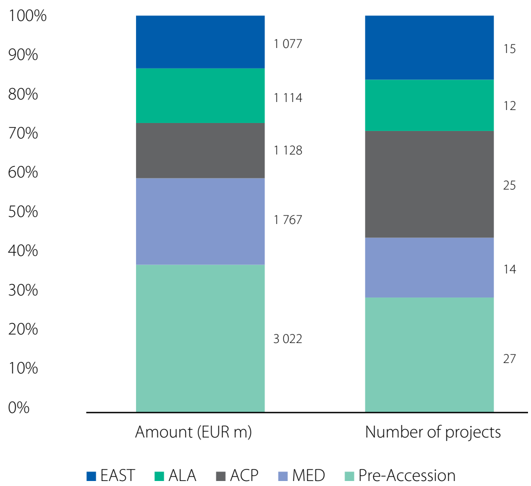
Note: Some operations are multi-sector/sub-sector or multi-region/country. As a result, the sum of the number of projects by sector, sub-sector, region or country may not be equal to the total number of projects

In terms of volumes, the largest share of this year's approvals was in urban transport, with EUR 962 million approved for just four operations. The financing of Cairo Metro and Metro de Quito accounted for 10% (EUR 600 million and EUR 200 million respectively) of the total approved. Energy and transport made up 38% of total volumes, with EUR 1,472 million and EUR 1,585 million approved this year respectively.

As seen in figure 6, the most significant volumes approved were for lending in the EU bordering countries, particularly the Pre-Accession region, but also in the MED region. However, the ACP region accounted for more than one quarter of the total number of projects approved this year, as did the Pre-Accession countries, while EAST (Eastern Neighbourhood and Russia), MED and ALA (Asia and Latin America) accounted for approximately 15% each of projects approved. The difference between volumes and number of projects largely reflects the nature of the projects concerned (e.g. large infrastructure vs SME lending) as well as the

Figure 6

Approvals by region (amounts and number)



Note: Some operations are multi-sector/sub-sector or multi-region/country. As a result, the sum of the number of projects by sector, sub-sector, region or country may not be equal to the total number of projects

partner countries' absorption capacity. In fact, this year the EIB approved 25 operations worth EUR 1.1 billion in ACP and 27 operations totalling EUR 3 billion in the Pre-Accession region.

There were significant sectorial differences between regions, which largely reflect the specificities of the EIB mandates or available instruments in each region. For instance, as shown in figures 7a and 7b, operations with microfinance institutions and microfinance investment vehicles were exclusively in ACP (EUR 90 million) and MED (EUR 15 million) as these operations require financial resources with a higher risk tolerance than the EIB's standard operations and which are not available in other regions. Of the 12 ALA operations approved this year, seven were in the energy sector (65% of approved lending to the region), reflecting the EIB's mandate to support energy efficiency and climate change mitigation and adaptation in this region. Similarly, in the Pre-Accession region, credit lines to financial intermediaries for on-lending to SMEs accounted for more than 50% of both the number and volume of approvals this year, reflecting the importance of supporting the private sector for economic growth and convergence with the EU.

Finally, this year's approvals clearly reflected the traditional sectors of EIB lending, with transport, energy and SME operations approved in all regions.

There was a great geographical diversification in the 2012 approvals. As seen in figure 8a, this year's approvals covered 40 different countries. There is a high concentration of the approved portfolio in Turkey, which alone accounted for 25% of the volume and 16% of the number of approvals this year. This reflects the relative size of Turkey in terms of population and GDP (Gross Domestic Product) among Pre-Accession countries. Over the last five years (2007-2011), the EIB achieved total signatures worth some EUR 10 billion in Turkey. Other important countries in terms of approvals included Egypt (EUR 650 million), Ukraine (EUR 640 million), Croatia (EUR 560 million) and Morocco (EUR 460 million).

However as a share of GDP, EIB approvals in Turkey and Egypt represent only 0.3% of these countries' GDPs, whereas the impact is much greater in smaller economies such as Liberia, Sierra Leone and Montenegro for instance, where EIB approvals this year represent 3.6, 2.5 and 2% of GDP respectively.

Figure 7a

Sectors by region
(EUR m)

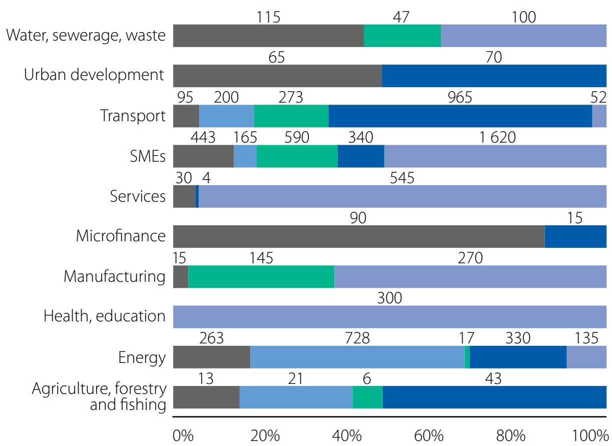
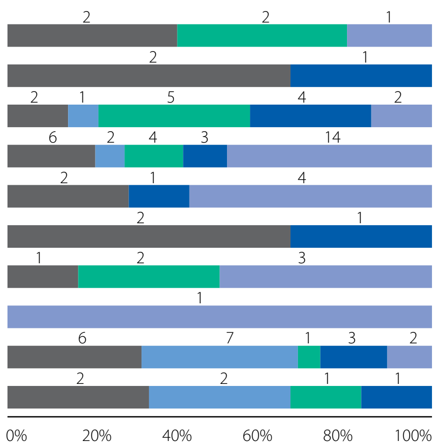


Figure 7b

Sectors by region
(number of operations)



Note: Some operations are multi-sector/sub-sector or multi-region/country. As a result, the sum of the number of projects by sector, sub-sector, region or country may not be equal to the total number of projects

Figure 8a

Approvals by country (EUR m)

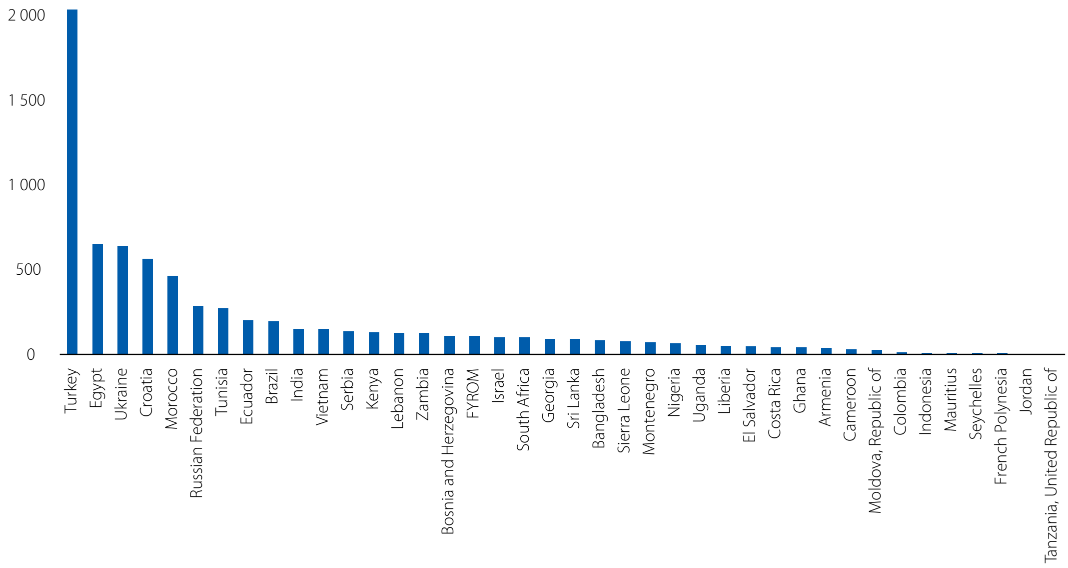
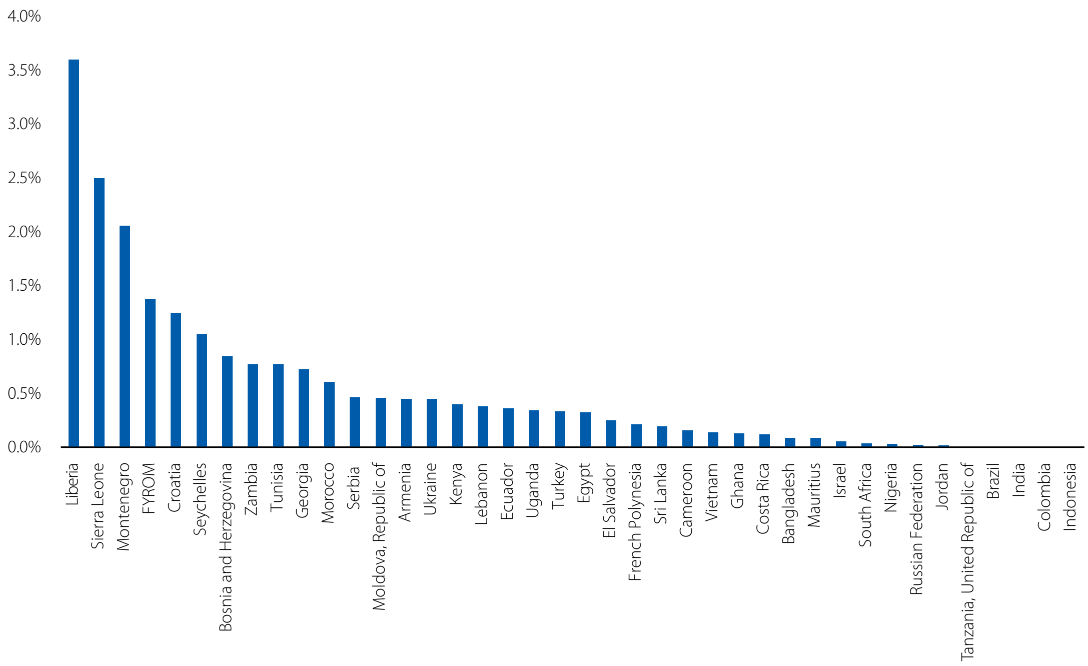


Figure 8b

Approvals by country (% of GDP)



The EIB's strategic objectives **outside the EU**

The EIB undertakes operations outside the EU in support of EU external policies. As the EU bank, the EIB serves the common objectives of all EU Member States. The EIB is uniquely placed to support these European development efforts by transferring knowledge and expertise from its European operations to partner countries.

The Bank's strategic objectives for all operations outside the EU, including the regions covered by its "External Mandate" and those covered by the Cotonou Mandate, are aligned with the following three high-level objectives and one cross-cutting objective of the revised External Mandate[3]:

High level objectives for all regions

1. **Local private sector development**, in particular support for MSMEs;

2. **Development of social and economic infrastructure**, including transport, energy, environmental infrastructure[4] and information and communication technology; and

3. **Climate change mitigation and adaptation**[5], in particular avoiding or reducing greenhouse gas emissions in the areas of renewable energy, energy efficiency and sustainable transport, or increasing resilience to the adverse impacts of climate change.

[3] The mid-term review of the External Mandate of the EIB (2011) resulted in a revised Decision granting an EU budgetary guarantee for the EIB's activity outside the Union. This Decision introduced harmonized high-level objectives for financing across all regions covered by the External Mandate, building on the comparative strengths of the EIB in areas where it has a well-proven track record. Moreover, the Decision establishes a general mandate with an overall ceiling of EUR 27.484 billion for all EU guaranteed loans and loan guarantees in favour of eligible countries and provides for the release of an optional mandate of EUR 2 billion for climate change operations.

[4] Including water and sanitation.

[5] Note that the first two objectives may also contain climate projects. For instance, energy efficiency loans to SMEs or development of a wind park or adaptation measures in infrastructure.

Cross-cutting objective

Regional integration among partner countries, including economic integration between Pre-Accession countries, Neighbourhood countries and the Union.

No country can grow at its full potential without well-developed infrastructure, be that economic infrastructure such as roads and power plants or social infrastructure such as access to health, education and housing. EIB long-term financing and infrastructure expertise is key to not only supporting national infrastructure but also connecting regional and intra-regional infrastructure.

Developing a dynamic private sector is of critical importance for achieving more inclusive growth in neighbouring and partner countries. However, success in doing so crucially depends on the ability of entrepreneurs to obtain financing to implement sound business plans. Promoting access to finance for micro and smaller businesses forms an integral part of the EIB's effort to support growth and job creation in neighbouring and partner countries.

For economic growth to be sustainable, adverse impacts on our environment or climate must be limited. By investing in environmentally sustainable technologies both within and outside the EU, the EIB helps preserve our common environment to the benefit of the EU and partner countries. Carbon dioxide emissions are equally harmful to our climate regardless of where they originate – and close to 90% of emissions are made outside the European Union.

The Bank's External Mandate covers 68 countries and/or territories in four regions: (i) Pre-Accession; (ii) EU Southern and Eastern Neighbourhood and Russia; (iii) Asia and Latin America (including Central Asia); (iv) the Republic of South Africa.

The Cotonou Partnership Agreement covers operations in the 74 ACP States[6]. The over-arching objective of the Cotonou Agreement is to reduce and eventually eradicate poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the global economy.

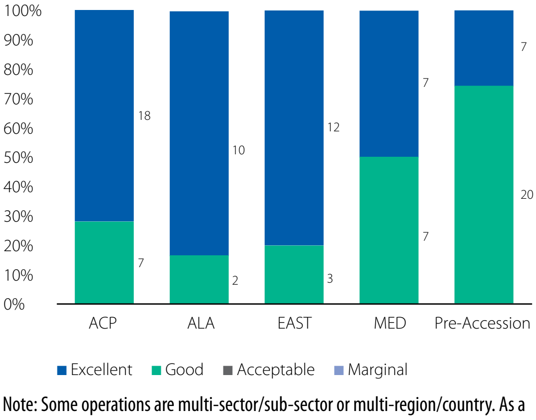
[6] The 20 OCT States are not covered by the Cotonou Partnership Agreement.

Contribution of 2012 approvals **to the EIB's strategic objectives**

All projects approved this year are expected to make an excellent or good contribution to EIB strategic objectives.

As shown in figure 9, operations in the ALA, EAST and ACP regions are more likely to be rated excellent, indicating that they are expected to make a significant contribution not only to the EIB high-level lending objectives but also to the EU priorities for those countries as well as the countries' own strategic priorities.

Figure 9
Pillar 1 ratings by region



Note: Some operations are multi-sector/sub-sector or multi-region/country. As a result, the sum of the number of projects by sector, sub-sector, region or country may not be equal to the total number of projects

The projects approved in 2012 are expected to contribute directly to all mandate objectives. As in previous years, this year's approvals are more likely to contribute to private sector development and to the development of social and economic infrastructure than to climate change or regional integration. As seen in figure 10, up to 72% and 58% of operations approved this year are expected to contribute directly to private sector development and the development of social and economic infrastructure respectively, relative to 37% and 34% for climate change and regional integration[7]. However, there has been a notable increase in the share of projects contributing to climate change mitigation and adaptation in the past two years, particularly since the revision of the External Mandate in 2011, which made an additional EUR 2 billion available for climate change operations. Most projects (64%) contribute directly to more than one mandate objective.

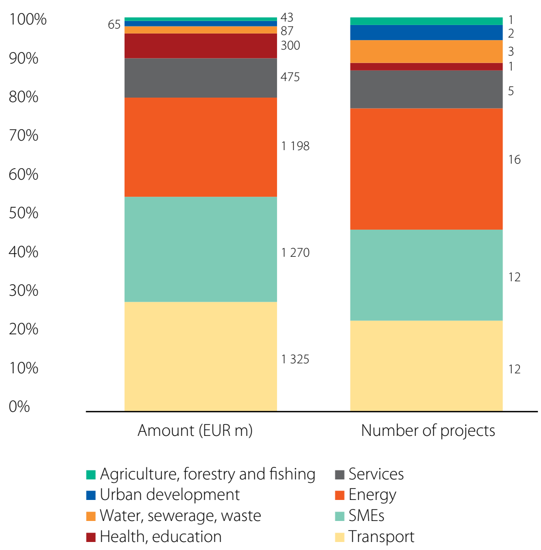
However, in addition to its direct contribution, the EIB also contributes indirectly to the achievement of mandate objectives. For example, the ONEE Reseaux Electriques III project, aimed at extending the electricity transmission infrastructure of Morocco through the connection of new generating units, including solar and wind, as well as the reinforcement of the transmission networks, will contribute directly to the development of economic infrastructure as well as climate change mitigation. It will also indirectly contribute to private sector development by alleviating what has been identified by the World Bank (WB) as one of the main obstacles to private sector development, namely relatively poor access to reliable power supplies. Similarly, the credit line to Georgia's TBC Bank for on-lending to SMEs will contribute directly to private sector development in Georgia, but it will also contribute indirectly to infrastructure development and climate change mitigation as up to 30% of the funds may be used for financing projects that improve energy efficiency.

When indirect contributions are also considered, the share of projects expected to contribute to infrastructure development and climate change mitigation increases to 67% and 45% respectively (see figure 10).

Figure 11 shows that the number of operations contributing to the **development of social and economic infrastructure** are largely energy (31%) and transport projects (23%).

Figure 11

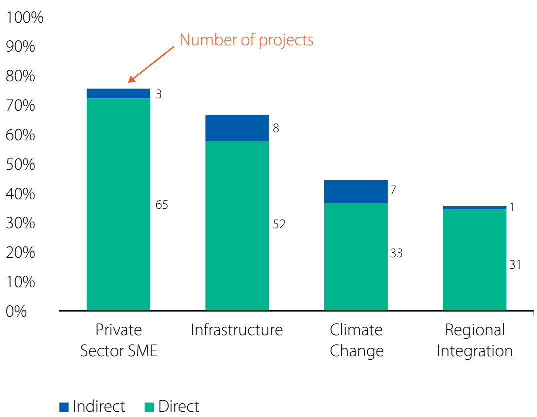
Projects contributing to infrastructure mandate by sector



Note: Some operations are multi-sector/sub-sector or multi-region/country. As a result, the sum of the number of projects by sector, sub-sector, region or country may not be equal to the total number of projects

Figure 10

Contribution to mandate objective direct and indirect



[7] Each operation may contribute to one or more mandate objectives.

Figure 12

Projects contributing to private sector development mandate by type of operation

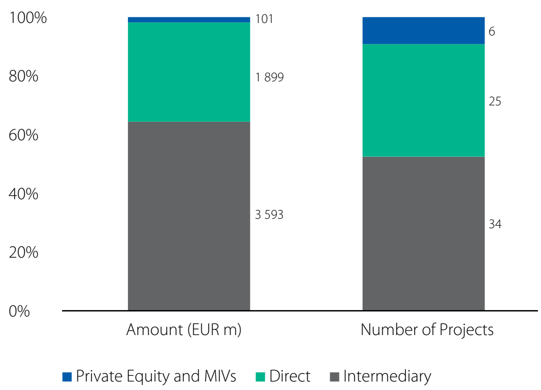
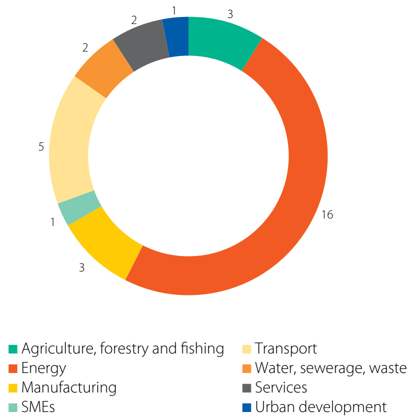


Figure 13

Climate action by sector



Local private sector development is supported in a number of ways. As illustrated by figure 12, credit lines to financial intermediaries for on-lending to SMEs accounted for 64% (EUR 3.6 billion) of the total private sector development mandate. However, another 34% (EUR 1.9 billion) was provided through direct lending operations, either to larger private enterprises such as Turk Telecom for Research & Development, or through contracts to local suppliers such as the Ghana Sawistra programme for the improvement of water and sanitation, which will include local contracts for low-cost yard connections and standpipes managed by vendors. Another 2% (EUR 101 million) was provided through investments in private equity funds that target SMEs. The Fund for the Mediterranean Region supports the development of the private sector in Algeria, Tunisia and Morocco by addressing a major gap in the availability of growth capital for local SMEs.

As shown in figure 13, almost half the operations contributing to **climate action** were in the energy sector. These include projects such as the Bangladesh power energy efficiency project, the Lom Pangar Barrage Reservoir in Cameroon, the CLSG (Côte d'Ivoire, Liberia, Sierra Leone and Guinea) interconnection project, involving the implementation of a regional high voltage electricity transmission backbone between Côte d'Ivoire, Liberia, Sierra Leone and Guinea and facilitating the transmission of renewable energy generated in the region, and two hydropower projects in Costa Rica and El Salvador. They also include a number of intermediated loans to support investments that contribute to the mitigation of climate change through projects in the renewable energy and energy efficiency sectors such as the Vietnam Climate Change Global Loan, the Rabobank Global Climate Change Framework Loan, Lebanon Energy Efficiency Global Loan and the Exim Bank of India Climate Change Framework Loan.

This year's approvals are expected to contribute to all mandate objectives in all regions. Figure 14 presents the distribution of mandate objectives by region. Pre-Accession countries account for the largest share of lending in support of private sector development (47% of total) and development of social and economic infrastructure (40% of total). This reflects the larger overall share of operations in Pre-Accession countries, which by contrast accounted for only 14% of the funds dedicated to climate change.

Operations supporting regional integration are largely in ACP and Pre-Accession countries, albeit of a different nature. In the ACP region, regional integration projects are largely infrastructure operations which support integration amongst ACP

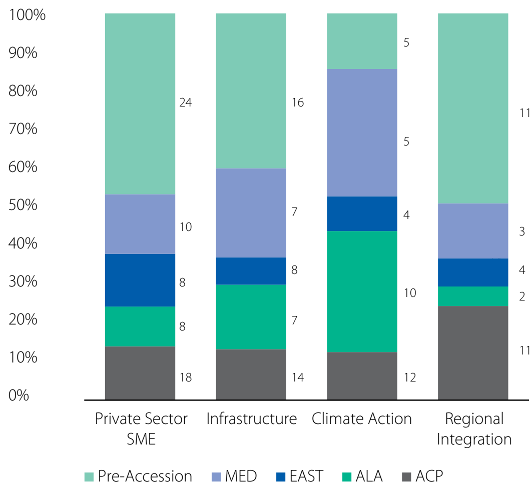
countries; the upgrading of ASECNA (Agence pour la Sécurité Aérienne en Afrique et Madagascar) air traffic control facilities in West and Central Africa as well as Madagascar aims at achieving international standards, thereby enhancing safety and supporting the development of continental air transport in Africa. Almost half of the ACP projects contributing to regional integration are in the energy sector, such as the construction of the Itezhi-Tezhi Hydropower plant and transmission infrastructure to transport the generated electricity to the grid, which will enhance the capacity of Zambia to export energy to neighbouring countries through the Southern Africa Power Pool.

By contrast, in the Pre-Accession region, which accounted for another 49% of the regional integration objective, these are typically operations promoting integration between Pre-Accession countries and the EU. Almost half are manufacturing, such as the Agrokor processing and biogas programme in Croatia, which will improve the utilization of local biomass-based renewable energy. They will contribute to integrating Croatia, as a new EU country, into the single commodity and consumer goods markets, by increasing the hygiene of Croatian agricultural and food production to the standards required by the EU.

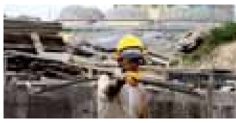
The climate action objective is mainly served by projects in the ALA and ACP regions, which each account for a third of total volumes approved this year for this mandate. Of 12 ALA operations approved this year, ten contributed to climate change adaptation or mitigation while only two contributed to regional integration and seven and eight contributed to infrastructure and private sector development respectively. This reflects the significance of climate action for the ALA region, which benefits from up to 30% of the EUR 2 billion Climate Change Mandate.

Figure 14

Mandate objectives by region (volumes)



Note: Distribution of volumes (EUR) by Mandate Objective and Region (Number of projects also indicated)



Expected results of operations approved in 2012

This chapter analyses, by sector, the expected results of projects approved by the Bank in 2012 in terms of the inputs approved, expected outputs and outcomes, as captured by the ReM standard sector indicators. Potential longer-term impacts are also noted, including where appropriate, how the projects contribute to achievement of the Millennium Development Goals (MDGs), directly and/or indirectly. The chapter reviews both direct project loans and intermediated operations. Direct project loans are typically for infrastructure development (energy, transport, water, sewerage and waste, health and education and urban development and housing) as well as manufacturing, agriculture, forestry and fisheries, and services (including R&D). Operations intermediated by financial institutions are typically credit lines to banks for on-lending to SMEs or in support of specific sectors such as energy efficiency. They also include equity participations in private equity funds and microfinance investment vehicles for investments in SMEs or lending to micro-enterprises. The expected values are those changes attributed to the overall project – not just to the EIB financing.

This chapter shows that:

Operations approved in 2012 are expected to yield significant concrete results that will contribute to the improvement of people's living standards:

- **Energy** projects will increase production capacity, mainly from renewable resources, extend transmission networks and connect an estimated 300,000 additional households to the networks.
- **Transport** projects will extend networks of roads, railways and urban transport systems (metros), benefiting more than 3.4 million people.
- Improved **water, sewerage and waste** systems will connect more households to water supplies (148,000), sewer systems (25,000) or other improved sanitation facilities (200,000).
- **Health** projects will enable improved treatment for additional 740,000 patients per year.
- **Flood prevention** projects are expected to reduce the risk of flooding, affecting some 97,000 people.
- **Urban development** projects will provide access to new and improved urban infrastructure services for some 4.4 million people and 7,500 new or refurbished social housing units.

Approved operations will also increase production and handling capacity and thus are **expected to produce significant increases in goods and services annually**, underpinning economic development and wellbeing.

- **Energy generation** projects will add almost 4,667 Gwh/year to national grids.
- **Water and sewage treatment facilities** will purify more than 79,000 M^3/year for use by households, commerce and industry, or safe disposal.
- **Transport projects will increase freight services** by 1,300,000 tonnes/year.

Operations approved in 2012 are expected to generate approximately EUR 400 million in government revenues, contributing to strengthening governments' budgets and their capacity to invest in the economy and social services.

Nearly half of resources (EUR 3.1 billion) have been approved for projects intermediated by financial institutions – banks and microfinance institutions – for on-lending to support micro, small and medium enterprises (MSMEs) or investment through private equity funds. Promoting the establishment and growth of sustainable MSMEs is seen as a vital contribution to private sector development and poverty reduction. This year's approvals are expected to provide more than 36,000 loans to MSMEs through Banks totalling more than EUR 6 billion. Approximately 70,000 loans worth EUR 180 million will be provided through 13 microfinance institutions to microenterprises in Africa and the Mediterranean regions and a capital increase in Access Microfinance Holding will support the extension of as many as 500,000 loans worth EUR 1.2 billion, mainly in Africa. Private equity funds approved this year are expected to invest in 78 companies for a total of almost EUR 0.7 billion.

Through the projects it finances, the EIB contributes to creating a large number of both permanent and temporary jobs. Through the application of environmental and social standards, the Bank also promotes the creation of good quality – or "decent" – jobs, which are associated with better living standards. Of the 90 operations approved in 2012, 27 are expected to create some 9,000 new, permanent jobs and 45 are expected to create some 300,000 new temporary jobs during construction. Moreover, 34 of the intermediated operations are expected to contribute to sustaining roughly 3.3 million existing jobs in MSMEs, of which approximately 1.7 million will be in micro-enterprises (1.5 million through Access Holding alone).

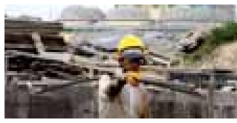


Table 1

Expected development reach of EIB operations approved in 2012

EXPECTED RESULTS	
Employment - during operation (#Full Time Equivalent)	9 224
Employment - during construction (Person-years)	303 701
Jobs sustained through intermediaries (No.)	3 308 803
PRIVATE SECTOR DEVELOPMENT	
SMEs (Loans to final beneficiaries; EUR million)	6 051
SMEs (Loans to final beneficiaries; No.)	36 149
Microfinance (Loans to final beneficiaries; EUR million)	1 393
Microfinance (Loans to final beneficiaries; No.)	572 693
Private Equity Funds (Fund size; EUR million)	668
Private Equity Funds (Number of investee firms)	78
CUSTOMERS REACHED WITH IMPROVED SERVICES (DIRECT)	
Additional households connected to electricity (households)	308 000
Additional households connected to water services (households)	148 000
Additional households connected to sewers (households)	25 401
Urban – households in new/refurbished units (households)	7 500
POPULATION WITH ACCESS TO IMPROVED SERVICES (INDIRECT)	
Improved urban transport services (No.)	3 413 000
Health – patients treated (No./yr)	740 500
Reduced risk of flooding (No.)	97 000
Urban development – new infra service coverage (No.)	4 410 000
ADDITIONAL PRODUCTION CAPACITY DELIVERED (ANNUAL)	
Energy produced (Gwh/yr)	4 667
Energy transported (Gwh/yr)	11 230
Water and sewage treated, distributed or collected (m^3/yr)	79 000
Transport - Increase in passengers served (No./yr)	30 000
Transport - Increase in freight services provided etc (Tonnes/yr)	1 300 080
ADDITIONAL GOVERNMENT REVENUES	
Contribution to government revenues or savings (EUR million)	382

Note: These figures are estimates made with information available at project appraisal.

Energy sector

In 2012, the EIB approved 19 loans in the energy sector, comprising 14 direct operations and five global loans, with a total value of EUR 1.5 billion, supporting projects with a total cost of EUR 4.4 billion. These address different aspects of energy production, transmission and distribution:

- Five projects specifically expand electricity production (predominately renewable sources – hydropower, plus one solar) and three other projects address both expansion of production as well as extension of transmission;
- Five projects focus on extending energy transmission and distribution;
- Another project will specifically reduce electricity consumption (energy efficiency), although this is also a contributing factor in several other projects;
- Five projects are global loans to intermediaries that will support energy-related projects, typically small energy efficiency schemes.

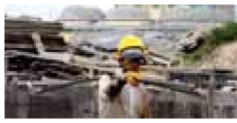
Energy Project Outputs: Significant system expansion both in terms of generation capacity, energy transmission and distribution, as well as provision of additional connections.

The five purely electricity production projects are located in Bangladesh, Costa Rica, El Salvador, Israel

Table 2

Expected aggregated outputs of Energy projects

OUTPUT INDICATORS	UNIT	EXPECTED VALUE
SUB-SECTOR – ELECTRICITY PRODUCTION OUTPUTS		
Energy capacity of the projects	MW	920
PRIVATE SECTOR DEVELOPMENT		
Power lines constructed and operational	Km	8 715
Direct beneficiary households connected	No. of connections	201 950



BOX 1

KHI SOLAR ONE TOWER PROJECT

Innovation and exploitation of renewable energy sources

The project is a 50 MW concentrated solar power project estimated to generate 199 GWh/year of power contributing to South Africa's target for renewable energy generation of 15% by 2030, where the majority of power generation is based on coal, thus avoiding further CO_2 emissions. The project will improve the overall quality of electricity supply to some 37,000 households during peak consumption hours.

BOX 2

BARRAGE RESERVOIR DE LOM PANGAR, CAMEROON

Energy production, access to clean energy and climate action

The project consists of the construction of a 46 metre-high dam and reservoir, a 30 MW hydropower plant and a 105 km-long, 90 kV transmission line. It also includes a rural electrification component with connections for an additional 2,400 households. The project will provide additional renewable electrical energy where there is a severe generation deficit, which has resulted in power shedding and constraints to the economy. It will help avoid additional thermal generation and the associated emissions, and improve hydrological management in the Sanaga River basin, thus contributing to climate change mitigation (by having lower emissions than thermal generation) and adaptation (by providing storage).

and South Africa, while the three that expand both production and distribution are located in Sub-Saharan Africa, in Cameroon, Liberia and Zambia. Five of these projects rehabilitate and expand existing hydropower plants, notably those in Sub-Saharan Africa and Latin America, one is an innovative concentrated solar power (CSP) project in South Africa, and two employ combined-cycle gas generation with associated efficiency gains. For example, the Bangladesh Power Energy Efficiency project comprises the conversion of two natural gas-fired plants from open cycle to combined cycle resulting in energy efficiency gains, as well as 50% capacity gains, without additional fuel consumption. The project will thus support Bangladesh in expanding its grossly under-capacity generation and help close the 1,875 MW demand/supply gap and reduce power outages, which are typically 5-10 hours/day.

Overall these generation projects will significantly increase the electricity generating capacity of their countries, by some 920 MW. Several other projects will also deliver multiple outputs and outcomes, such as the Barrage Reservoir de Lom Pangar as illustrated in the textbox below.

The energy transmission and distribution projects will contribute to expanding the electricity networks in Bosnia and Herzegovina, Brazil, Moldova, Morocco and across West Africa (a regional project linking Côte d'Ivoire, Gabon, Liberia and Sierra Leone), and together with the three that both expand production and extend distribution (in Cameroon, Liberia and Zambia), they will provide an additional 8,715 km of power lines, together with 187 new or upgraded sub-stations. They will directly benefit more than 300,000 households and bring more reliable supplies to many more. The São Paulo Power Distribution project accounts for more than a third of the additional households.

Energy Project Outcomes: More reliable energy produced and delivered to more consumers. The eight production projects will feed an estimated 4,667 Gigawatt hours per year into the country grids. This additional production and the extension of transmission and distribution lines will reduce power outages and deliver significant energy savings through loss reductions, and increase access and reliability not only for households, but also for commerce, industry and institutions such as schools and hospitals. In the longer-term, access to electricity may also enable the development of higher value added industries, thus diversifying the export base and reducing countries' economic vulnerability.

The five energy-focused global loans to intermediaries, with a value of EUR 567 million, will support smaller projects of SMEs with a total cost of EUR 1.25 billion, which will contribute to the EIB

Table 3
Expected outcomes of Energy projects

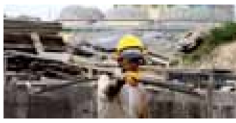
ENERGY OUTCOME INDICATORS	UNIT	EXPECTED VALUE/CHANGE
Energy produced by the projects	GWh/year	4 667
Quantity of energy transported	GWh/year	11 230
National savings made from import reduction/export gains	EUR m	799
Service reliability (outages reduction)	Hours/year	174
Access-change in electrification	No. of households	308 000

BOX 3

CLSG INTERCONNECTION

Regional integration promoted via transmission and additional access

The project concerns the implementation of a regional 1,300 km-high voltage electricity transmission backbone between Côte d'Ivoire, Liberia, Sierra Leone and Guinea. The Bank will finance a portion of the project in Sierra Leone including part of the line and five substations. The project is one of the priority investments of the West African Power Pool, and targets regional interconnection and the substitution of fossil fuels with renewable hydro, and is expected to provide substantial economic benefits to the four countries. A grant component (EU Africa Infrastructure Trust Fund) will provide connections to an additional 60,000 rural/peri-urban households in Sierra Leone, complementing inputs from the African Development Bank to expand distribution and connections in the other countries connected.



BOX 4

LEBANON ENERGY EFFICIENCY GLOBAL LOAN

Supporting SMEs to deliver energy efficiency

The proposed operation will support implementation of small-scale investments in energy efficiency and renewable energy in Lebanon. By reducing consumption of conventionally generated electricity and heat, the project will contribute to the reduction of GHG emissions and improve the diversification of supply. The operation will thus enhance energy security and support private sector SMEs to promote renewable energy sources and energy efficiency.

mandate objective of reducing and mitigating the effects of climate change. These loans are earmarked for on-lending to SMEs for projects in energy efficiency and new, renewable energy sources – solar, wind, and small hydropower. By reducing the use of fossil fuels, these projects will decrease the production of greenhouse gases (GHG).

Energy projects contribute to wider economic, social and environmental impacts: Secure and reliable sources of energy, particularly electric power, represent an essential element of economic and social infrastructure. The increased access to electricity for households and industry promotes economic growth and employment and thus contributes to poverty alleviation. The development of least cost regional sources of generation and regional transmission also strengthens regional integration, and by promoting the use of renewable energy sources, especially the replacement of fossil fuels, and energy efficiency, the EIB supports climate action and environmental sustainability. Intermediated energy lending will also strengthen the ability of local banks and promoters to expand operations in these areas for smaller projects. Energy savings can also strengthen social service provision.

BOX 5

SEA WATER AIR CONDITIONING (SWAC) AND ENERGY SAVINGS FOR A HOSPITAL IN TAHITI

The project "Tahiti Centre Hospitalier SWAC" will provide an investment loan to the Government of the Overseas Territory of French Polynesia for the implementation of a new seawater air-conditioning system (SWAC). The project will convert the conventional air-conditioning system to a SWAC, which uses cold deep seawater to replace the energy-intensive central refrigeration system, passing the seawater through a heat exchanger before returning it to the ocean.

The environmental benefits of the SWAC system include a drastic reduction in electricity consumption, which reduces air pollution, greenhouse gas production and dependence on fossil fuels. Given the size of hospital's energy requirements – 50% of its electricity is used for operating its air-conditioning system – the project will contribute to realizing French Polynesia's objectives of increasing the share of renewable energy to 50% in 2020 and 100% in 2030. The project thus contributes not only to MDG 7, Environmental Sustainability, but also indirectly to the health-related MDGs (4-Reduce child mortality, 5-Improve maternal health and 6-Combat HIV/AIDS, malaria and other diseases), through safeguarding the provision of sustainable health and hospital services due to the considerable reduction of electricity operating costs.

Transport sector

In 2012, EIB approved 14 investment loans totalling EUR 1.6 billion, which will support projects with a total value of EUR 5.4 billion in the sub-sectors – roads, railways, air and urban transport.

These are broken down as follows:

- Five projects extending and upgrading roads, motorways and border crossings for total of EUR 417 million;
- Two railway projects for EUR 55 million: one in the Russian Federation involving the purchase of new freight cars and one in Croatia comprising the improvement of tracks, stations and signalling;
- Three air transport projects (improving air traffic management and navigation) for EUR 147 million in Egypt, Ukraine and a group of African countries (ASECNA);
- Four urban transport projects, comprising two large metro extensions (Cairo EUR 600 million and Dnipropetrovsk, Ukraine EUR 152 million), and a new metro line for Quito in Ecuador (EUR 200 million), as well as a project in the city of Chisinau, Moldova, for the upgrading of roads, lighting and drainage (EUR 10 million);
- In addition, a flood prevention and relief project was approved which consists of the reinstatement of damaged roads in Montenegro following severe floods in 2010 (EUR 20 million).

Transport Sector Outputs: Upgraded networks and more efficient sustainable public transport services. The indicators for transport projects essentially include two types of output (lengths or items of infrastructure constructed and upgraded, and the purchase or rehabilitation of equipment) relevant to the different sub-sectors as shown below:

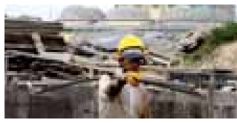


Table 4

Expected outputs of Transport projects

OUTPUT INDICATOR	UNITS	EXPECTED VALUES/CHANGE
Sub-sector – Roads , Motorways		
Length of roads built or upgraded (km)	Km	218
Sub-sector – Railways		
Length of track built or upgraded	Km	34
Rolling stock purchased or rehabilitated	No.	715
Sub-sector – Air Transport		
Air Traffic Management Modernization – items of equipment provided	No.	300
Air Traffic Management Modernization – compliance with international standards	Yes/No	Yes
Sub-sector – Urban Transport		
Length of bus and tram lines, metro tracks constructed	Km.	44
Length of urban streets built or upgraded	Km.	32
Stations or stops built or upgraded	No.	18
Vehicles or rolling stock purchased or rehabilitated	No.	33

The upgrading of critical lengths of road corridors and border crossings can reduce transport costs and in turn promote trade and regional integration.

BOX 6

EASTERN AFRICA TRANSPORT CORRIDOR PROJECT

Savings in travel costs, travel times and accidents

The project consists of improvements to three selected sections (58 km) of the Northern Corridor Road (NCR) including two bypasses for the cities of Kampala and Mbarara in south western Uganda. The NCR is a principal – 2000 km-long – transport corridor connecting the major regional sea port of Mombasa to the entire East African Community (EAC) and providing a direct link between four EAC States and connecting its periphery. It carries practically all Uganda's passenger and freight traffic and respectively 60% and 30% of Rwanda's and Burundi's international traffic, alongside its fundamental role for transport in Kenya. The project serves as part of a wider programme to reduce the transportation constraints along the NCR for both national and regional road traffic. The modernization of such key transport infrastructure is critical for trade expansion, investment and economic growth, which are key to national development and regional economic integration.

Railway projects can help reduce transport costs and promote the switch from road to rail transport, with positive environmental impacts, energy savings and reduction in emissions. The project in the Russian Federation, "Nurminen Logistics Project", will enable the Russian company to purchase 700 new freight cars, which are more fuel efficient and reduce the overall energy requirements per tonne-kilometre, while the project in Croatia "Railway Rehabilitation Vinkovci Border" will rehabilitate and improve the infrastructure (upgrade railway tracks, repair overhead contact lines, renovate intermediate stations, upgrade level crossings, restore telecommunication systems and upgrade the signalling system). The resulting more reliable, safe and fast rail transport services will provide an impulse to the railway sector and attract international traffic.

The three air transport projects aim at improving air traffic management, offering more efficient services and increasing air traffic safety through the purchase of modern equipment and upgrading of operations and surveillance systems.

The large metro projects (the EIB loan of EUR 600 million for the metro line in Cairo is the largest direct operation approved in 2012; total project cost will be EUR 2.4 billion) provide for the extension of lines and construction of new lines, providing more capacity, safety and efficiency, and encouraging modal shift from cars and buses.

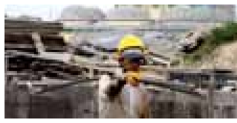
Transport Project Outcomes: Increased capacity with reductions in traffic congestion, fuel consumption and air pollution, as well as time savings for passengers and freight. The road improvement projects will remove bottlenecks, relieve road congestion and facilitate the flow of traffic, resulting in time savings, savings in maintenance, and reduced emissions from slow moving traffic. Some of these outcomes are common to different modes of transport, including time savings and vehicle operating cost savings and maintenance savings and can be aggregated. Some indicators such as improved safety are not applicable for all types of transport projects.

Improved public transport can also encourage beneficial modal shifts, as well as realizing efficiencies from the replacement of obsolete equipment. The increase in passengers and goods benefiting from the improved infrastructure services can be estimated

Table 5

Expected outputs of Transport projects

TRANSPORT OUTCOME INDICATORS	UNITS	EXPECTED VALUES/CHANGE
Roads		
Improved access – traffic flows served	Vehs per day (vpd)	61 786
Vehicle operating cost savings	EUR m/yr	276
Time savings (hrs)	(million hours/yr)	151
Improved safety	No. of lives saved/yr	43
Reduced maintenance (recurrent) costs	EUR m/yr	19
Rail		
Increase in passengers served (public-rail)	No./yr	30 000
Increase in freight services provided (public-rail)	Tonnes/yr	1 300 080
Air		
Increase in air traffic movements	No. of ATM/yr	477 676
Public transport		
Population in catchment benefiting from improved infrastructure (urban public transport)	No. of inhabitants	3 413 000



BOX 7

EXPANDING METRO SERVICES IN GREATER CAIRO

Delivering economic and environmental benefits of scale

Greater Cairo, the largest urban area in Africa, has a rapidly growing population spread over a vast area. Improving urban transport is crucial for the economic and social development of the city. Participation in economic life depends on access to transport, as many inhabitants of the city must travel far every day to reach employment. This project, part of the Greater Cairo Transport Master Plan, will extend Line 3 of the Cairo Metro by 17 km in order to expand the service, with strongly positive long-term socio-economic impacts. For people living in the new metro line corridor, most of whom are low income, it will offer a reliable mode of transport and improve their access to employment possibilities and services such as health and education.

By promoting greater use of public transport, the project will alleviate congestion and contribute to environmental sustainability and energy use optimization. It is estimated that the shift from less energy efficient transport – private cars, taxis and buses – will reduce CO_2 emissions by nearly 120,000 tonnes per year, contributing to climate change mitigation, fully in line with the Bank's policy on sustainable transport.

for a project. For urban transport schemes the population served and potentially benefiting can also be estimated, based on catchment populations.

Transport Projects and their wider impacts: Improving transport networks plays a key role in regional integration at local, national and regional levels, thus supporting trade, employment opportunities and social cohesion.

Three projects will promote regional integration and trade:

- "Border Crossing and Infrastructure" will improve three border crossing points between Armenia and Georgia and includes the construction of a major new bridge;
- "Lebanese Highways II" will connect Beirut with northern parts of the country and also strengthen a key transport link in the region;
- "Eastern Africa Transport Corridor" in Uganda will improve the highway that connects four countries of the East African Community – Rwanda, Burundi, Kenya and Uganda.

In addition, the air navigation improvement projects improve aviation links regionally and internationally.

At a more local level, other projects are stimulating local and national economic activity and improving safety and security:

- "Chisinau Urban Roads" with upgrades to road surfaces, lighting and drainage in the capital and commercial centre of Moldova;
- "ADM IX" in Morocco with 141 km of motorway, extending the national road network and connecting two ports with the commercial centre, Casablanca;
- "Urgent Flood Relief and Prevention" in Montenegro, providing repairs to flood damaged roads, is classed as a transport project, although it also improves drainage and flood forecasting.

Water, sewerage and waste sector

In 2012 the EIB approved five loans in the "Water, Sewerage and Waste" sector, with a value of EUR 262 million, contributing to projects with a total value of EUR 550 million. Four of the projects, in Armenia, Georgia, Ghana and Zambia, will provide access to clean water and improved sanitation to population groups that previously did not have such access. The fifth project, in Turkey, helps to protect people and their land from the potentially disastrous effects of floods.

Expected Outputs: extension of networks, provision of water and sewage treatment plants and improved sanitation, as well as environmental protection. Two projects – "Water Infrastructure Modernization II", in Georgia and "Armenia Water Sector Project" –involve rehabilitating existing systems and improving the quality of services. In Georgia the project will increase access to water supply and sanitation services in 49 municipalities in the less developed regions of the country by rehabilitating water supply systems and sewerage networks. The Armenia project includes the rehabilitation of water supply services in 16 small towns, the upgrading of water treatment plants and the provision of sewage collectors in two towns and wastewater treatment plants. It represents an important first step towards reducing the current high levels of pollution in water resources due to a lack of proper treatment.

The other two water and sanitation projects target poor, unserved populations. The "Zambia Water and Sanitation Project" will provide an additional 25,000 households with access to potable water and sewer connections. It will ensure that drinking water meets WHO (World Health Organization) and Zambian standards, as well as the treatment of an additional 79,000 m^3 of wastewater, thus reducing pollution significantly. The Ghana "Sawistra Programme" also targets small towns, as well as rural areas, providing water, sanitation and hygiene services, and also includes facilities at community centres – see box for more details.

The "Flood Prevention and Protection" project in Turkey will provide more than 500 flood protection

and prevention structures in various locations, resulting in the protection of about 100,000 hectares of land and a population of around 97,000.

The sector output indicators below seek to capture this range and diversity in expected project outputs.

Expected Outcomes: Additional households provided with safe water and sanitation services, and water resources protected and managed. The key outcome indicators for the water and sewerage projects are an increased number of households served with better quality and more reliable services, accompanied by efficiency improvements such as reductions in unaccounted-for water. The projects are also tailored to the populations served to ensure affordability and complementary behaviour change. Two projects are expected to increase the number of households served with potable water by 123,000, whereas improvements in quality of service and reductions in water losses are more prominent in the other two water projects. The flood protection project will reduce environmental vulnerability and enhance economic potential by increasing confidence and promoting investments.

Wider sector Impacts: Improvements in health and quality of life. One of the targets under MDG 7, "Ensure Environmental Sustainability", aims at increasing access to safe drinking water and basic sanitation. These water and sanitation projects contribute directly to this target and thereby assist in reducing health risks and improving the quality of life, as well as having a significant impact on local economic and social development. The Ghana "Sawistra Programme" illustrates just how an integrated approach can deliver these benefits to poor, currently unserved communities.

Table 6

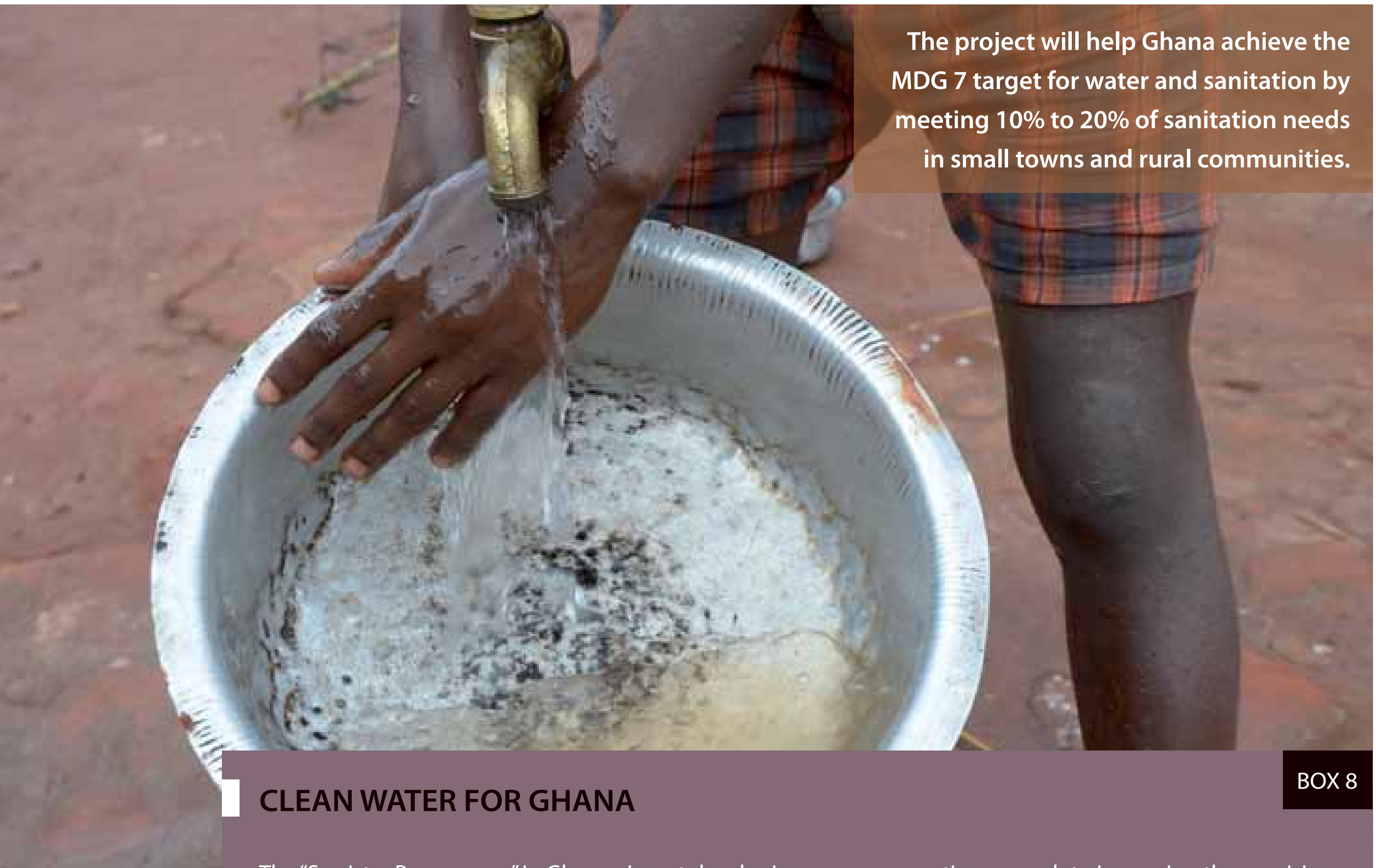
Expected outputs of Water, Sewerage and Waste projects

OUTPUT INDICATOR	UNITS	EXPECTED VALUES/CHANGE
Sub-sector – Water collection, purification and distribution		
Length of water supply pipes installed or upgraded	Km	245, plus 50 small town networks
New boreholes with hand-pumps	No.	400
Capacity of water treatment plant constructed/rehabilitated	m^3	74 500, plus 65 small town plants
Sub-sector – Basic sanitation and wastewater management		
Length of sewer pipes built or upgraded	Km	304
Capacity of sewage treatment plant constructed/rehabilitated	m^3	79 000
New improved household latrines built	No.	200 000
Sub-sector – Water resources management; flood and drought protection		
Flood prevention and protection structures built	No.	508

Table 7

Expected outcomes of Water projects

WATER, SEWERAGE AND WASTE OUTCOME INDICATORS	UNITS	EXPECTED VALUES/CHANGE
Additional households served with water connections	No. (hh)	148 000
Water distributed with acceptable standards	M^3 p.a.	42.1 m
Reduction in water losses (unaccounted for water)	% average	20% (where given)
Additional households served (sewer connections)	No. (hh)	25 400
Population with reduced risk of flooding	No.	97 000



The project will help Ghana achieve the MDG 7 target for water and sanitation by meeting 10% to 20% of sanitation needs in small towns and rural communities.

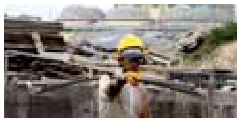
BOX 8

CLEAN WATER FOR GHANA

The "Sawistra Programme" in Ghana aims at developing a programmatic approach to increasing the provision of water, sanitation and hygiene services in small towns and rural areas in Western, Eastern, Volta and Central Regions. It will meet water and sanitation needs in towns and villages that currently lack access, providing improved water for the first time to at least 95% of the 615,000 people covered. The environmental and social benefits include reduced health risks, improved hygiene-related behaviour, improved water services from upgraded supply schemes, and reduced use of non-protected and often contaminated water sources.

The programme will increase access to Water Supply, Sanitation and Hygiene (WASH) facilities in institutions such as schools and health centres. It will target the neediest communities and include capacity building at all levels to ensure sustainability. The programme will also promote private sector development – setting up low-cost yard connections with standpipes managed by vendors and providing technical and marketing training for latrine-making to artisans, which will encourage the development of sanitation as a business. The vulnerability of groundwater sources to climate change will be also assessed and funding provided to help communities reduce climate-related risks. The EIB is cooperating in this programme with the Agence Française de Développement (AFD), which will be the lead institution during implementation.

The project will help Ghana achieve the **MDG 7 target for water and sanitation** by meeting 10% to 20% of sanitation needs in small towns and rural communities. By helping to develop critical basic infrastructure, with the goal of ensuring access to clean water at affordable prices, the project will reduce mortality and morbidity caused by water-borne diseases and thus contribute to **MDG 4 - reducing child mortality, MDG 5 - improving maternal health, and MDG 6 - combating diseases**.



Urban development and housing sector

The three EIB urban development loans approved during 2012, totalling EUR 135 million for projects worth EUR 451 million in Tunisia, South Africa and the Africa region characterize how the Bank is increasingly involved in projects addressing low-cost housing constraints and urban infrastructure backlogs at the more local level, thus helping municipalities meet the difficult challenges in providing adequate housing at affordable cost in sustainable developments:

- "Rehabilitation Urbaine Tunisie" (EIB loan of EUR 70 million) will support 119 schemes to upgrade the local street infrastructure and environment (wastewater, drainage and lighting) as well constructing and equipping buildings for cultural, recreational and communal activities. These sub-projects will benefit a total population of nearly 700,000, and help develop local SMEs and create jobs in construction, services and related sectors. Technical assistance will enhance the job creation possibilities.

- The project "eThekwini Municipal Infrastructure" in South Africa (EIB loan of EUR 50 million) will support 31 sub-projects upgrading urban infrastructure. The investment programme will address major deficits in eThekwini Metropolitan Municipality, which includes the city of Durban, and has a population of 3.5 million, growing to 3.8 million. By promoting urban development, the project will help to attract private investment and support the economic development of the metropolitan area, while contributing to reducing the municipality's carbon footprint by 24% by 2020, and providing 1,300 person-years of employment during construction.

Table 8

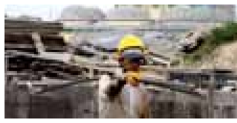
Expected outputs and outcomes of Urban Development projects

INDICATORS	UNIT	EXPECTED VALUE/CHANGE
New or renovated housing units created	No.	7 500
Schools constructed (primary and secondary)	No.	(2 + 1)
Urban road infrastructure schemes	No.	47
New playgrounds, multi-purpose centres, services)	No.	72 various schemes/facilities
Population accommodated in new housing	No.	30 000
Households in new dwellings (% low income)	Hh	7 500 (30%)
Additional pupils in schools (primary and secondary)	No.	(1 000 + 500)
Urban population benefiting from improved services	No.	4 410 000 (directly/indirectly)

- "Shelter Afrique Community Development" (EIB loan of EUR 15 million) in contrast directly addresses housing needs and community facilities by increasing the number of houses available for low-income households, providing schools and commercial and green spaces. A significant number of jobs will be created (6000 person-years), in addition to supporting SMEs engaged in housing and related sectors. Shelter Afrique is a regional housing institution owned by 42 African countries, which provides a wide range of housing finance products and services. By working through Shelter Afrique, the project will increase its liquidity for housing finance, and develop its regional role.

Urban Development Outputs and Outcomes: Provision of low cost (social and affordable) housing and the upgrading and extension of municipal infrastructure facilities. The indicators capture these direct benefits and the wider improved services made available.

In addition to providing additional housing units, more balanced community development and improved municipal services, these urban projects have the potential to create significant numbers of jobs during construction, and scope for promoting related SME activities. These projects can act as a demonstration for housing finance initiatives and balanced community development and municipal regeneration, thus promoting more viable and sustainable urban areas, which attract private sector investment and support economic growth.



Health and education sectors

The EIB loans support not only economic infrastructure (i.e. roads, power) but also social infrastructure (i.e. health and education facilities) although only one direct operation in these sectors was approved in 2012. The project, although called "Istanbul Earthquake Risk Mitigation II", with an EIB loan of EUR 300 million and a total project cost of EUR 660 million, targets vulnerable

Table 9

Expected outputs and outcomes of Health and Education projects

INDICATORS	UNIT	EXPECTED VALUE/CHANGE
Hospital projects – construction of beds	No.	517 additional (1 325 improved)
Hospital projects – construction floor area	m^2	357 000
Schools - floor area improved/new	m^2	250 000/294 000
Number of patients treated (inpatient/day/outpatient)	No.	35 000/5 500/700 000 = total 740 500
Reductions in surgical interventions/theatre	No./yr	-30% and -18%
Places available in improved/new schools	No.	66 000/92 000

health and education buildings and improves their resilience and sustainability and so contributes to results for these sectors. For more details see the project box 9.

Health and Education Projects – Outputs and Outcomes: Improved infrastructure providing durable essential services: EIB seeks to contribute to projects in these sectors where there is a financing gap, and it can bring additionality and assist in supporting improved services and the wider social and economic impacts that they can bring. While the "Istanbul Earthquake Risk Mitigation II" project may not be typical, the standard sector indicators can still apply as they relate to improved services.

A more typical example of a project in these sectors is the completed project "SantéTunisie I", which is written up as a case study in Chapter 4. Furthermore, although they were not primarily aimed at developing the social infrastructure, many of the loans to SMEs made through intermediaries are used to construct and expand buildings for schools, hospitals, student housing, and other projects that serve to expand the social infrastructure of the countries where they are located. Examples are seen in the case study "Uganda – Private Enterprise Finance Facility (PEFF II)", also in Chapter 4.

BOX 9

BUILDING EARTHQUAKE-PROOF HEALTH AND EDUCATION FACILITIES IN ISTANBUL

With "Istanbul Earthquake Risk Mitigation II" the EIB will provide a EUR 300 million loan to support a project with a total cost of EUR 660 million. This project forms the second phase of the Turkish Government's initiative to mitigate earthquake risks in Istanbul, and hence severe impacts on the economic activity of the country. The World Bank and the Council of Europe Development Bank (CEB) are among the other financiers of this project.

Of the total cost of projects, 95% goes to strengthening and modernizing earthquake-prone public health and education buildings or replacing them with earthquake resistant facilities. Specifically, the project will reconstruct three hospitals; strengthen or reconstruct approximately ten health centres; and strengthen or reconstruct approximately 80 schools and 20 other public buildings. In addition, the project contributes to enhancing emergency preparedness, covering the purchase of goods and materials required in the event of such a disaster, supporting the construction of disaster centres and campaigns to raise public awareness, etc.

The project provides an opportunity to adapt the capacity and design of health and education facilities to the needs of a growing and developing population. The modern and renovated facilities, while safer, should also consume less energy, producing a positive environmental impact. The estimated employment creation is 7,700 person-years during construction and at least 200 additional jobs in the two largest hospitals that will be renovated and expanded.

Manufacturing sector

Manufacturing industries, which employ a large share of the labour force, are crucial for economic growth and a modernizing economy.

The six projects contributing to manufacturing production approved by the EIB in 2012 will promote innovation and the introduction of new technologies. These loans, totalling EUR 430 million, will support projects costing EUR 1.25 billion in the Pre-Accession countries of Croatia and Turkey, the European neighbours of the Russian Federation and Ukraine, and in the ACP country of Nigeria. Three of them are for agro-processing, two are for automotive industries, while the other is for glass manufacturing. There are also manufacturing research and development projects, but these are described under the Services section, as they use the results indicators for R&D operations.

The three agro-processing projects make use of locally sourced agricultural raw materials, in line with EU objectives of promoting the economic development of the Pre-Accession countries and European neighbours, in particular focusing on rural development. The Croatia project combines the manufacture of food products with biogas generation of electricity (see text box 10). The "MHP Agri-food" project in Ukraine will support the construction of two grain storage structures with a total volume of 400,000 m^3, a feed processing plant with a capacity of 7,200,000 tonnes per year and a sunflower seed crushing plant with a capacity of 500,000 tonnes per year.

In the automotive industry, "Continental Tyre Plant Kaluga" will introduce more advanced and lower environmental impact technologies into the tyre manufacturing industry in the Russian Federation. This will establish a higher value added industrial

Table 10

Expected outputs and outcomes of Manufacturing projects

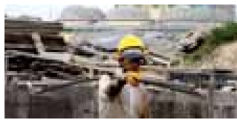
INDICATORS	UNIT	EXPECTED VALUE/CHANGE
Production capacity increased of various products	Tonnes/yr	25 000 (confectionery and hazelnut spread); 49 000 (cattle slaughtering); 180 000 (flour)
New production capacity (tyres)	No./yr	4 000 000
New production capacity (glass)	Tonnes/yr	75 000
New production capacity (fodder; sunflower oil)	Tonnes/yr	720 000; 500 000
Production achieved of various products	Tonnes/yr	17 000 (confectionery and hazelnut spread); 49 000 (cattle slaughtering); 156 000 (flour)
Additional production achieved (tyres)	No./yr	4 000 000
Additional production achieved (glass)	Tonnes/yr	59 000
Additional production achieved (fodder; sunflower oil)	Tonnes/yr	444 000; 550 000
Import substitution	Tonnes/yr	6 300
Increase in local content	%	+4%
Export revenue generated	EUR m/yr	2 250

activity, with the full production chain from raw materials to finished tyres. The project will have a significant employment generation effect – at least 900 person-years during construction, approximately 636 direct permanent jobs at the plant and an estimated 200 indirect jobs in related services and local SMEs in the field of engineering.

The glass manufacturing project, "Beta Glass PLC Nigeria" will support a five-year investment plan to refurbish and replace existing glass furnaces and equipment with accompanying efficiency and environmental improvements, reducing the consumption of raw materials in the manufacturing process and CO_2 emissions. The project will contribute to the development of higher value-added manufacturing and a more diversified export base. By improving the competitiveness of the firm, the project will safeguard some 1,000 direct jobs.

Manufacturing Projects: Expected Outputs and Outcomes: As described above, the expected outputs of these projects are increased production capacity installed, measured typically in metric tonnes/yr or in the number of additional units/yr. Given the different products covered and also the varying scales of manufacturing, aggregating these outputs is not meaningful, but a qualitative description can be applied to the indicators to convey the range and scope of interventions. The same applies to the actual production outcomes expected per year. Other indicators can be used to capture added value, such as energy production from waste, increased local content, and export and import benefits, as well of course as jobs created and environmental efficiencies.

The wider impacts are the stimulus to related local industries, economic diversification and modernization.



BOX 10

COMBINING AGRO-PROCESSING AND BIOGAS PRODUCTION IN CROATIA

The "Agrokor Agro-processing and Biogas Programme" in Croatia will add value and provide a marketing channel for local agricultural raw materials while improving the utilization of local biomass to produce renewable energy. It will thus contribute to integrating Croatia, soon to become a member of the EU, into the single commodity and consumer goods market and also help it to comply with EU environmental policy. The project will ensure the application of EU hygiene standards for agricultural and food production and produce high value-added consumer goods that have access to modern food supply chains in the EU.

The EIB loan of EUR 30 million will support a project costing EUR 68 million, which comprises the construction, commissioning and operation of a biogas plant, flour mill and meat processing plant. It will increase milling capacity from the current 105,000 tonnes per year to 180,000 tonnes and supply 50,000 tonnes per year of meat to the market. The new flour mill will increase the capacity to mill wheat domestically and increase the range of flours and bakery pre-mixes available. The meat plant will improve animal welfare conditions and increase the proportion of EU compliant slaughterhouse capacity in the country. The increasing demand for local raw materials will improve and enhance business opportunities for rural SMEs.

The biogas plant will provide an environmentally sound means of organic waste disposal and increase the proportion of electrical energy being produced from renewable sources. Renewable energy represents one of Croatia's strategic priorities, with the objectives of decreasing the country's dependence on imported fuel (currently 50% of primary energy is imported), increasing energy security and reducing the environmental impact of electricity generation.

The National Energy Strategy supports the production and utilization of biogas and promotion of distributed energy sources – using agricultural waste for local energy production and reducing GHG emissions. Currently the total biogas capacity in Croatia is less than 10 MW. The strategy sets a goal of 1535 MW of renewable energy by 2020, of which 140 MW should be produced from biomass and 40 MW should be biogas.

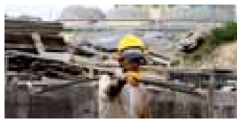
Services
(including research and development)

This sector includes facilities such as hotels and restaurants (one project), research and development (three projects), and two services funds approved in 2012.

The "Mauritius Airport Hotel" will have 139 rooms and provide business accommodation close to the airport. The EIB loan is EUR 8.0 million and the total project cost is EUR 21 million. The hotel will constitute the first stage in creating a business, light industry and residential hub around the airport in the south of Mauritius to complement the new airport terminal, which is nearing completion. It will alleviate overcrowded transport infrastructure in and around the capital and increase Mauritius's appeal as a centre for regional business and financial activities, thus promoting economic diversification.

Table 11
Expected outputs and outcomes of Services (Hotels) projects

INDICATORS	UNIT	EXPECTED VALUE/CHANGE
New rooms built or refurbished under the project	No.	139
Occupancy rate of rooms	%	50% (70% by year 6)
Operational – purchases from local suppliers	EUR/yr	610,000



Services: Expected Outputs and Outcomes: Increased accommodation, job opportunities and demand for local services, and in the longer term a stimulus for local economic activity and diversification.

"Services" also includes research and development projects, which are key to helping countries modernize their industries and services, promote innovation and employ clean technologies. Three R&D projects were approved in the year, which are fairly typical of the objectives in this sector. All three projects are in Turkey (EIB loans totalling EUR 345 million, for projects with a total cost of EUR 774 million). The financing of R&D activities is in line with the priorities of the Instrument for Pre-Accession Assistance (IPA) for Turkey. Furthermore, through cross-border cooperation, the project results will contribute to the creation of a Euro-Mediterranean Innovation Space (EMIS).

- "Arcelik R&D" will finance the company's expenditures in research and development to develop more energy efficient home appliances based on advanced materials and innovative technologies.

- "Tubitak Research Promotion" will support the Tubitak Industrial R&D Programme.

- The third project, "Turk Telecom R&D" will fund research and development for the expanding telecommunications network in Turkey. Investment in the network is an important instrument for convergence.

Expected Outputs and Outcomes of R&D operations: Innovation promoted through increases in the number of patents applied for and granted, and the applications developed. The outcomes of these projects will include new knowledge, improved products and services. Typical indicators that can be applied include numbers of patents and publications, which can be monitored, although given the nature of these operations, expected targets are difficult to estimate ex ante. These outcomes, in turn, should help the economy diversify, improve productivity and enhance long-term growth prospects.

As noted above, telecommunications is a crucial component in developing economic and modern infrastructure services and plays a key role in regional integration. In addition to the ICT (Information and Communications Technology) related R&D project mentioned (Turk Telecom), this sector has also been supported indirectly via two projects with private equity funds. "Badia Impact Fund" will provide equity finance for ICT start-ups (Jordan), and "Convergence Partners Communications Infrastructure ICT Fund" for regional Africa will fund predominantly private sector early-stage projects. It is anticipated that this project will support new fibre-optic backbone cables and equipment installations.

Agriculture, forestry and fishing sector

Three EIB projects in the sector "Agriculture, Forestry and Fishing", with a value of EUR 82 million, were approved in 2012 (total project costs are EUR 382 million). Two of the projects are for private equity funds.

- The "Althelia Climate Fund", for Africa, Asia and Latin America, will develop communities' incomes in two ways: investing in forest carbon and other socially and environmentally-oriented tradable carbon assets, generating an income stream from standing forests; and increasing the volume and quality of a range of sustainably produced, certified agricultural commodities to generate side-revenues.

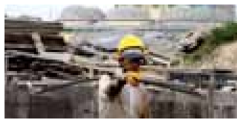
- The "Dasos Timberland Fund II", also for Africa, Asia and Latin America, will promote private sector development of sustainable forestry plantations and managed contributions to renewable energy. It will invest in both new plantations and mature forests.

- The third project, "Plan Maroc Vert" in Morocco, is part of the broad national programme for water economy and irrigation "PNEEI" (Programme National d'Economie d'Eau en Irrigation), which is also financed by other IFIs, including the African Development Bank and the World Bank. It will convert existing large irrigated areas to drip irrigation, which will increase agricultural yields and reduce water consumption.

Expected Outputs and Outcomes: In terms of sector indicators, a number have been employed to complement the financial (private equity) ones, to capture the expected results specific to this sector activity. The wider impacts of these projects include sustainable livelihoods, climate mitigation, biodiversity conservation and improved and more efficient natural resource management, as well as promotion of private involvement and investments.

Table 12
Expected outputs and outcomes of Agriculture, Forestry and Fishing projects

INDICATORS	UNIT	EXPECTED VALUE/CHANGE
New forest planted	Ha.	9 457
Mature forest under management	Ha.	19 043
Conversion of existing irrigation networks	Ha.	21 605
Irrigation pipework (large and small diameters)	Km	78
Small farmers benefiting	No.	21 605
Crop yield increases (sugar cane)	Tonnes/ha	60
Productivity of water irrigation	EUR/m^3	0.66
Gross operating surplus of output	EUR/ha	1 236



Support for SMEs and mid-caps

One of the key barriers to the growth of SMEs is limited access to finance. Surveys of enterprise activity in developing countries consistently list access to finance as one of the main constraints on economic activity. Typically, the smaller the firm, the more likely it is to be financed with own capital, with relatively little access to external finance. This results in significant obstacles to private sector development and to economic growth and job creation. Whilst there are important exceptions, countries where firms have better access to finance generally have higher levels of economic development. To help mitigate the risk aversion of local financial intermediaries towards SMEs, the EIB provides a number of financial instruments to those institutions, ranging from credit lines targeting investment projects of local SMEs to credit guarantees of SME portfolios. Additionally, the EIB can also participate in equity funds targeting SME investments.

Inputs: In 2012 the EIB approved 26 loans with a total value of EUR 2.9 billion to banks for on-lending to SMEs and mid-caps, accounting for 36% of

Table 13
EIB support for SMEs

Project type	Number of projects (#)	EIB amount approved 2012 (EUR m)	Total project cost (EUR m)
Credit lines for SMEs and mid-caps	26	2 938	6 051
Risk-sharing facilities for SMEs	2	200	720
Private equity funds for SMEs	1	20	120
TOTAL:	29	3 158	6 891

Table 14

Credit lines for SMEs: expected outcomes by region

	Number of projects (#)	EIB credit lines approved 2012 (EUR m)	Loans to SMEs (EUR m)	Loans to - SMEs (#)
ACP	5	363	726	9 906
ALA	2	165	505	6 383
EAST	4	590	1 180	2 555
MED	1	200	400	322
Pre-Accession	14	1 620	3 240	16 982
TOTAL:	26	2 938	6 051	36 149

total approvals. In addition, the Bank approved 2 loans to risk-sharing facilities for SMEs for a total value of EUR 200 million and one EUR 20 million equity participation in an SME private equity fund. The EIB requires that its credit lines be used to fund up to 50% of any given sub-loan. As shown in table 13, the EUR 2.9 billion loans to banks are expected to leverage an additional EUR 3.1 billion from client banks, increasing resources available for on lending to SMEs and mid-caps by EUR 6 billion.

Outputs and Outcomes: EIB loans are expected to have a significant impact on increasing access to finance. Table 14 shows that the EUR 2.9 billion of credit lines to financial intermediaries for on-lending to SMEs is expected to generate about 36,000 loans for a total amount of EUR 6 billion. Of these, roughly 17,000 loans (EUR 3.2 billion) will be in Pre-Accession countries, 10,000 (EUR 700 million) in the ACP countries, 2,500 (EUR 1.2 billion) in the EAST region, 6,400 (EUR 500 million) in ALA countries and 300 (EUR 400 million) in MED countries. The number of loans reflects among other factors the quality of intermediaries and the availability of risk-bearing resources, while the average size of loans is related to the size of the target economies. Loans to SMEs in ACP countries average EUR 73,000, while in MED countries the average SME loan exceeded EUR 1 million.

The Bank also approved two guarantee instruments, one for EUR 120 million for the MED region and one for EUR 80 million for ACP countries.

These mechanisms are risk-sharing facilities, which provide the intermediary banks with a partial risk guarantee covering up to 50% of the principal losses incurred under their portfolios of eligible SME loans. The facilities will contribute to the development of the financial sector in those regions through an increase in banks' involvement in SMEs. In particular in the ACP region, the risk-sharing operations will have a term of two to seven years and allow the banks to extend the maturity of their loans beyond typical market terms. The facility will be used mainly to guarantee local currency loans extended by local banks to their clients.

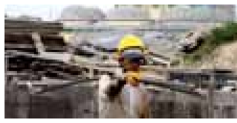
The "Fund for the Mediterranean Region II" (EUR 20 million) will also support the SME sector through much needed growth capital in the MED

Table 15

Size of enterprise definitions for SME credit lines

Size of enterprise – based on average loan size	
micro	< 2.5 * GNI/cap
small	2.5* - 10* GNI/cap
medium	10* - 50* GNI/cap
large	> 50* GNI/cap

Source: "Harmonization of SME Finance Indicators and Reporting Practices for Development Finance Institutions" (IFC; 2013). GNI/cap stands for Gross National Income per capita.



region. The Fund is expected to invest in 10 to 12 mid-sized private companies in the Maghreb and will transfer know-how and good industry standards in terms of transparency, accounting, administration, etc. to the investee companies.

While SME loans and guarantees primarily target private sector development in partner countries, they also contribute to the strengthening of local financial sectors in a variety of ways. Financial instruments typically extend the funding maturities of financial intermediaries and as such they help close pre-existing maturity gaps in those institutions' balance sheets. But the contribution to financial sector development is particularly relevant in economies with low banking penetration. The EIB's intermediated loans to SMEs approved in 2012 will be extended in markets such as East Africa (Kenya, Rwanda, Tanzania and Uganda), Georgia, Nigeria and the Seychelles where credit to the private sector does not exceed 40% of GDP. The contribution to financial sector development in countries with relatively less developed sectors also comes by promoting healthy competition in those markets. This is achieved by developing partnerships with second tier institutions and as such contributing to the emergence of new market players that expand SMEs' and household's access to finance. This is the case in, for example, Kenya and the Ukraine.

But even in countries with considerably larger financial depth EIB loans can help shore up their financial sectors. Of the projects approved in 2012, this is the case in Tunisia where the EIB SME loan to a local bank will also contribute to smooth liquidity management against the background of heightened uncertainty surrounding economic developments in the country. Furthermore, in a number of cases EIB loans can be extended in the currencies of the recipient country, eliminating currency risk for final beneficiaries and/or concomitantly commercial risk for financial intermediaries. The EIB carries treasuries in currencies such as the Turkish lira and the South African rand, and through risk capital facilities it can hedge risks in eligible ACP currencies.

The EIB SME portfolio includes a wide range of enterprises, from micro-enterprises to large corporates. For the purpose of this report, loan size is used as a proxy metric for enterprise size with an adjustment incorporating elements of national/regional

BOX 11

SUPPORTING THE PRIVATE SECTOR IN BRAZIL'S NORTHEAST

In Brazil, SMEs account for 20% of GDP and 31% of employment. It is estimated that 98% of the 5.1 million Brazilian businesses are micro, small, and medium-sized firms. The bottlenecks that prevent small businesses in Brazil from obtaining needed credit include high interest rates, short tenors, bureaucracy and strict guarantee requirements from banks. The North and Northeast, which are the poorest regions of the country, are particularly disadvantaged in the availability of credit. "Northeast Brazil GL Private Sector Support" (EUR 75 million) is part of a project with a total cost of EUR 325 million, financed in cooperation with other IFIs, including IFC (International Finance Corporation) and the Development Bank of Japan (DBJ), which makes long-term funding available to the Banco Itaú BBA S.A. (IBBA) for on-lending to SMEs and mid-caps. Private sector investors are also participating in the project with a share of approximately EUR 170 million. The project will provide approximately 400 loans to final beneficiaries, with an average loan size of EUR 800,000 and tenors of up to 10 years, focusing on manufacturing, industry, services, tourism and health and social services. The support for private sector development will enable entrepreneurs to provide better products and service to communities located in secondary cities and rural areas.

Table 16

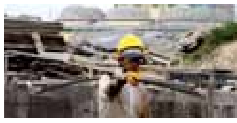
Credit lines for SMEs: expected outcomes by enterprise size

	Loans to final beneficiaries (#)	Loans to final beneficiaries (EUR M)	Average loan size (EUR)	Jobs sustained through intermediaries (#)	Average tenor of loans weighted by loan size (Years)
Micro	10 516	166	15 785	31 548	6
Small	11 383	930	81 701	136 595	6
Medium	11 011	1 088	98 809	660 667	6
Large	3 239	3 867	1 193 990	647 744	4
TOTAL:	36 149	6 051	167 391	1 476 555	5

economic conditions. This builds on an IFC/MIX market study[8], which recommends defining small and medium thresholds for each market using a single formula based on a standardized multiple of GNI per capita as outlined in table 15.

Table 16 shows that according to this metric about 60% of loans go to micro and small enterprises. As expected, however, average loan size increases in line with firm size, ranging from an average of EUR 16,000 for micro-enterprises to over EUR 1 million for large enterprises. This year's approvals of credit lines to SMEs are expected to sustain jobs mainly in large enterprises (44%) and medium-sized enterprises (45%). Approximately 9% and 2% will be in small and micro-enterprises respectively.

[8] "Harmonization of SME Finance Indicators and Reporting Practices for Development Finance Institutions" (IFC; 2013)



Microfinance institutions

An estimated 2.5 billion working-age adults globally – more than half the total adult population – have no access to formal financial services and rely on informal mechanisms for saving and protecting themselves against risk (World Bank – 2012)[9]. The Bank's microfinance strategy focuses on job creation and improving access to financial services for the poorest and underserved. This is achieved through investments in microfinance holding companies and funds investing in regulated microfinance institutions as well as non-intermediated direct lending, especially in local currency, to microfinance institutions and small commercial banks targeting micro and small enterprises. Moreover, the EIB can provide local currency funding, reinforcing the stability and financial standing of the MFIs (microfinance institutions) with positive effects on the financial systems as a whole.

In 2012, the EIB continued its support for MFIs with three project approvals, two for the ACP region and one for MED. One of the approvals was for a capital increase for Access Microfinance Holding (see text box). The holding is expected to create up to 14 microfinance banks by 2015, mainly in Africa, and thereby provide loans to approximately 500,000 micro-entrepreneurs (approximately 60% female) worth EUR 1.2 billion. The average loan size is expected to be around EUR 2,400. The second approval for the ACP region was the "EAC Microfinance Facility II", the second of three regional microfinance facilities that are being launched by EIB in Sub-Saharan Africa, which will increase available financing by EUR 75 million for approximately

Table 17
Microfinance: expected outcomes

	EIB Amount	Total cost*	MFIs	Loans to final beneficiaries			Avg. loan size
	(EUR m)	(EUR m)	(#)	(EUR m)	(#)	(women %)	(EUR)
ACCESS MICROFINANCE HOLDING III	15	130	14	1 213	505 193	60	2 400
EAC MICROFINANCE FACILITY II	75	150	7	150	30 000	54	5 000
MEDITERRANEAN MICROFINANCE FACILITY II	15	50	6	30	37 500	50	800
TOTAL:	105	330	27	1 393	572 693	59	2 432

* Total cost refers to total fund size for funds

[9] "Demirguc-Kunt, A. and Klapper, L. (2012)."Measuring Financial Inclusion: The Global Findex Database". World Bank WPS 6025.

seven banks and MFIs for on-lending to micro and small enterprises. It is expected to provide 30,000 loans with an average loan size of EUR 5,000, of which about 54% will go to women.

The "Mediterranean Microfinance Facility II", which was approved for EUR 15 million, will increase the availability of local currency funding for MFIs, including new ones. Microfinance is still underdeveloped in the Mediterranean partner countries, and this facility addresses a market gap by supporting the development of sustainable MFIs in the region. Furthermore, it will ensure the transfer of know-how and good industry standards to these institutions. The facility will provide financing to four to six MFIs, which are expected to provide 35,000 to 40,000 loans, with an average loan size of EUR 800.

BOX 12

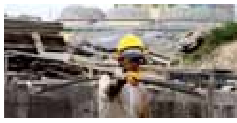
LEVERAGING FUNDING FOR MICROFINANCE

The EIB is a shareholder in Access Microfinance Holding, and in 2012 it approved its EUR 15 million share of a capital increase supported by all the current shareholders, which will provide financing of EUR 130 million for investment in both existing and new commercial microfinance banks. To date Access Microfinance Holding has supported the establishment of seven commercial microfinance banks in five countries in Sub-Saharan Africa – Liberia, Madagascar, Nigeria, Tanzania and Zambia – as well as Azerbaijan and Tajikistan. With this capital increase Access plans to support the creation of new banks in seven more countries.

The commercial microfinance banks in which Access invests provide a full range of banking services aimed at the micro-enterprise sector. Currently the average size of loan to micro-enterprises is approximately EUR 1,750, which is expected to increase to EUR 2,400 in the coming years. As they are commercial banks, these institutions continue to serve the enterprises when they graduate from the micro scale to become SMEs.

The Access model has proven to be very successful. The seven banks created to date have provided 164,000 loans to final beneficiaries totalling EUR 287 million. It is projected that in the coming years the total number of loans to MSMEs will reach 500,000, and the total amount lent will be more than EUR 1.2 billion.

The leverage impact of this microfinance investment vehicle is increased by several factors. The EIB investment of EUR 15 million in the holding company, Access, is part of the EUR 130 million capital increase, with which Access plans to help establish seven new commercial microfinance banks. The banks, which also have other sources of equity and debt financing, in turn lend to micro-entrepreneurs, many of which are starting up new businesses. As the companies grow over time many of them develop into SMEs and maintain a close relationship with the microfinance banks. As the firms grow, so does the portfolio of the microfinance banks, and many of the entrepreneurs also reinvest their savings with the banks, creating a virtuous cycle. Thus, there is a multiplier effect working at three levels of the investment chain to reach the expected 500,000 final beneficiaries.



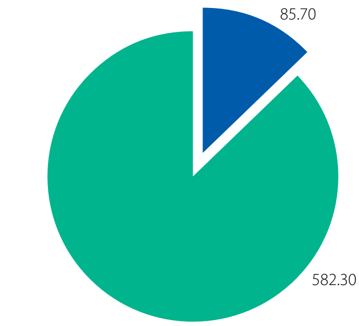
Private equity funds

During 2012, the EIB approved five private equity funds for EUR 85.7 million. These equity funds target the Agriculture, Forestry and Fishing ("Dasos Timberland Fund II", "Althelia Climate Fund"), ICT ("Badia Impact Fund", "Convergence ICT Fund") and SME ("Fund for the Mediterranean Region") sectors. The expected sector results are covered in the corresponding sector sections. These five funds are expected to reach 78 investee companies with an average investment size of EUR 6.3 million, and generate about 6,000 jobs.

As figure 15 shows, the expected impact of the investments is significant in terms of the leverage of the EIB contribution (7.8x) vis-à-vis the total project cost, and the catalytic effect of private sector equity mobilization.

Figure 15

EIB participation in private equity vs total committed capital



The "Dasos Timberland Fund", one of the two forestry funds in which the EIB will invest (the other – Althelia - is described in more detail in the text box below), has a target size of EUR 300 million. Approximately half (EUR 147 million) of the investments of the Fund will be in countries outside the EU. The Fund will focus on sustainable forestry and biomass projects, investing both in mature forests and new plantations. The expected outcomes include improved management and use of forests, contributing to climate change mitigation through the production of biomass. The "Convergence Partners Communications Infrastructure Fund" will invest in new international and intra-regional telecommunications networks and other ICT services, providing important stimulus for trade, promote regional integration and create employment. The "Badia Impact Fund" is a first-time venture capital fund which will increase the equity finance available to ICT start-ups in Jordan. It will also contribute to the development of a private equity industry in Jordan and provide an important signalling effect for the creation of other funds of a similar kind. The "Fund for the Mediterranean Region II" (EUR 20 million), which is discussed in more detail in the SME section, will contribute to strengthening the SME sector in the Maghreb region.

Table 18
Private equity funds

Equity Funds	Sector	Region	EIB Approved Amounts (EUR M)	Fund Size (EUR M)	Leverage (X)	IRR (%)	Investee Firms (No.)	Average Investment (EUR M)	Jobs in investees* (FTE)
Althelia Climate Fund	Agriculture	ALA, ACP	25.0	150.0	6.0	11	20	0.4	1 200
Dasos Timberland Fund II	Agriculture	ACP,ALA, EAST	14.7	147.0	10.0	12	5	30.0	294
Badia Impact Fund	Services (ICT)	MED	4.0	20.0	5.0	20	20	1.1	1 200
Convergence ICT Fund	Services (ICT)	ACP	22.0	231.0	10.5	35	23	9.3	1 380
Fund for the Mediterranean	SMEs	MED	20.0	120.0	6.0	21	10	10.0	2 000
Total:			85.7	668.0	7.8	20	78	6.3	6 074

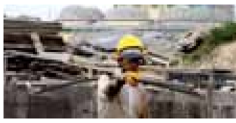
* New and existing jobs in investees as estimated at appraisal.

BOX 13

HALTING THE PACE OF DEFORESTATION

The "Althelia Climate Fund" (Private Equity) will focus on investments that address the drivers of deforestation while at the same time generating economic, environmental and social returns. The EIB investment (EUR 25 million) will mobilize EUR 150 million in total private equity investments in Africa, Asia and Latin America. By developing private sector investments in forest protection, biodiversity conservation and sustainable agriculture, the Fund will contribute to climate change objectives under the 2007–2013 External Mandate and the Cotonou Agreement.

Reducing Emissions from Deforestation and Forest Degradation (REDD+) is a mechanism which creates a financial value for the carbon stored in untouched standing forests, offering incentives for developing countries to protect forests, address drivers of deforestation and invest in a low-carbon path to sustainable development. REDD+ promotes biodiversity conservation, water regulation, community timber production, soil erosion control and the supply of non-timber forest products. At least 1.2 million hectares of pristine forest will be protected. The Fund's carbon investments are expected to deliver 10 million tonnes of CO_2 emissions avoided per annum (average 560,000 tonnes of CO_2e per project).



Jobs

Jobs boost living standards and foster social cohesion. At the aggregate level, jobs promote productivity gains and overall economic growth by reallocating resources to productive uses and providing new opportunities for the exchange of goods and ideas and contributing to common goods and services.[10] Moreover, jobs are the principal way out of poverty as they provide the main source of income, thus determining living standards and consumption possibilities at the individual level. It is not just having a job that is correlated with higher living standards, the quality of jobs also matters. Vulnerable employment, which is associated with poor productivity, fewer rights and less protection for workers, does not have the same development impact as well-paid and formal employment. Jobs that do not meet environmental and social standards might have a negative developmental impact.

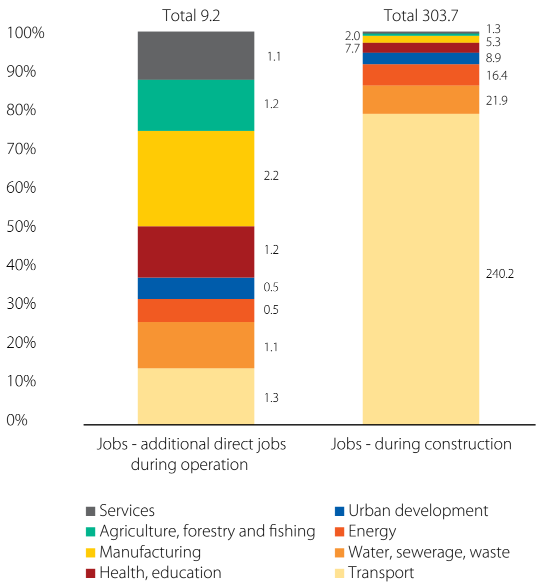
By financing projects, the EIB contributes to creating a large number of both temporary and permanent jobs. Through the application of its environmental and social standards, the Bank also promotes the creation of good quality – or so-called "decent" – jobs, which respect ILO core labour standards. However, the impact of the EIB on job creation goes far beyond the jobs created directly by projects financed. By supporting a large number of micro, small, medium and large enterprises via financial intermediaries, the EIB also contributes to sustaining a significant number of existing jobs. The 2013 World Development Report finds that the private sector accounts for 90% of jobs in developing countries and that SMEs account for more than two thirds of all permanent, full-time employment. Given that employment is the main source of income in partner countries, by creating new jobs and supporting existing jobs in micro, small, medium and large enterprises, EIB financing contributes directly to improved living standards and social inclusion.

Of the 90 operations approved in 2012, 27 are direct operations for which jobs data exists. They are expected to create approximately 9,000 new permanent full-time jobs. In addition, 45 operations are expected to create roughly 300,000 person-years of

[10] see World Bank (2013), "Jobs", World Development Report.

Figure 16

Jobs - during operation and construction by sector (% and '000)



new temporary jobs during construction, equal to roughly 300,000 new jobs[11]. Moreover, 34 are intermediated operations expected to contribute to sustaining roughly 2.8 million existing jobs in MSMEs.

Figure 16 shows that, unsurprisingly, transport projects are expected to create almost 80% of jobs during the construction phase (240,000) followed by water and energy projects (roughly 20,000 and 16,000 new jobs respectively). Two large transport projects account for two thirds of the new jobs expected to be created during construction; Cairo Metro and Metro de Quito, which are expected to create 140,000 and 53,000 jobs respectively. However, figure 16 shows that in terms of permanent, full-time employment during project implementation, the sectorial distribution is more balanced. All sectors are expected to benefit, more or less equally, from new additional jobs, with a slightly higher share in manufacturing (more than 2,000 permanent full-time jobs are expected to be created).

The EIB supports MSMEs mainly through dedicated credit lines to financial intermediaries for on-lending to SMEs, but also through private equity funds that invest in SMEs. In addition, it supports micro-enterprises both through direct financing of microfinance institutions and by equity participations in microfinance investment vehicles which invest in microfinance institutions, and thereby help to sustain millions of jobs in micro-enterprises worldwide.

Intermediated operations approved in 2012 are expected to help support some 3.3 million existing jobs. Table 19 shows that the vast majority will be through microfinance institutions, which are expected to create roughly 100,000 new direct jobs in microfinance institutions. Through their loans, the EIB-financed MFIs are expected to sustain roughly 1.7 million existing jobs world-wide, but mainly in the ACP region. In fact, Access Microfinance Holding III, which will invest EUR 130 million in roughly 14 microfinance institutions across Africa, Central Asia, the Caucasus and Latin America, accounts for 86% of these jobs, expecting to support approximately 1.5 million jobs in more than 500,000 micro-enterprises.

EIB-supported private equity funds are expected to sustain some 9,000 existing and new jobs, mainly in the ACP (5,000) but also ALA (2,000) and MED (1,000) regions.

As regards support for SMEs with dedicated credit lines through financial intermediaries, for the purpose of this study, enterprises are classified by average loan size using the IFC/Mix market definition discussed in the SME section, which adjusts for GNI per capita. The average number of employees by enterprise is estimated using the World Bank Group's Enterprise Surveys[12].

Table 19 shows that the 26 SME credit lines through financial intermediaries approved this year are expected to support some 1.5 million existing jobs world-wide. These will be enterprises of all sizes, ranging from micro-enterprises with fewer than four employees (roughly 30,000 jobs – almost

[11] A standard assumption amongst IFIs reporting on job creation in developing countries is to consider contracts for one year or longer as permanent jobs.
[12] World Bank Group (2013). Enterprise Surveys. http://www.enterprisesurveys.org

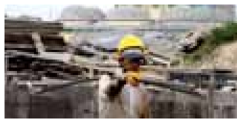


Table 19

Contribution to sustaining jobs in MSMEs through intermediaries by region

Enterprise size	ACP	ALA	EAST	MED	Pre accession	TOTAL:
SMEs: EXISTING JOBS SUSTAINED (Projects 26 of 26)						
Micro	1 548				30 000	31 548
Small		71 993	23 156		41 446	136 595
Medium	507 915		18 000		134 752	660 667
Large	185 000	76 731	65 067	64 400	256 547	647 744
Total	694 463	148 724	106 223	64 400	462 745	1 476 555
PRIVATE EQUITY FUNDS: DIRECT EMPLOYMENT IN INVESTEES (Projects 5 of 5)						
Medium	22	53	48	1 138		1 261
Large	5 440	2 160				7 600
Total	5 462	2 213	48	1 138		8 861
MICROFINANCE: DIRECT EMPLOYMENT IN MFIs (Projects 2 of 3)						
Total	105 309					105 309
MICROFINANCE: EXISTING JOBS SUSTAINED THROUGH MFIs (Projects 3 of 3)						
Micro	1 605 579			112 500		1 718 079
Total	1 605 579			112 500		1 718 079
GRAND TOTAL: (Projects 34 of 34)						
GRAND TOTAL	2 410 813	150 937	106 270	178 038	462 745	3 308 803

Table 20

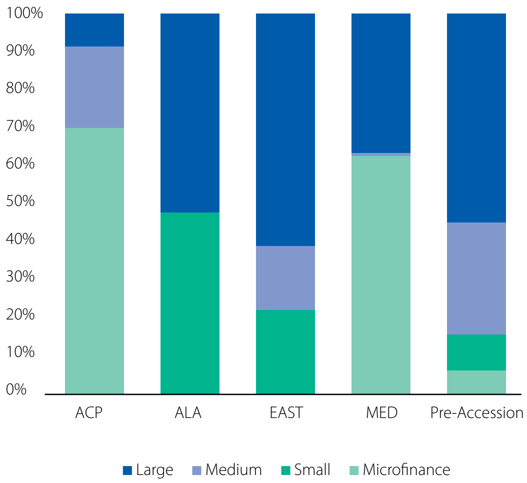
Micro, small and medium enterprises (MSME) classification

Firm Size	World Bank enterprise surveys definition: number of employees	IFC/MIX market Definition* based on average loan size	Average number of employees used to estimate jobs sustained by EIB
Micro	0 - 4	< 2.5 * GNI/cap	3
Small	5 - 19	2.5* - 10* GNI/cap	12
Medium	20 - 99	10* - 50* GNI/cap	60
Large	>=100	> 50* GNI/cap	200

* "Harmonization of SME Finance Indicators and Reporting Practices for Development Finance Institutions" (IFC; 2013)

Figure 17

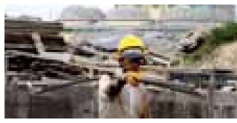
Contribution to sustaining jobs in MSMEs by region



all of them in Pre-Accession countries) to small enterprises (136,000 jobs in ALA, EAST and Pre-Accession regions), medium enterprises (roughly 660,000 jobs – mainly in ACP and Pre-Accession, but also EAST) and large enterprises with over 100 employees (roughly 650,000 jobs in all regions).

As shown in Figure 17, the majority of jobs to be sustained in the ACP region will be through micro-enterprises (roughly 70%) and medium enterprises with 20 to 99 employees (roughly 20%). In the MED region, existing jobs are expected to be sustained in both micro (63%) and large (37%) enterprises respectively. In Asia, Latin America, the Bank's support to SMEs is expected to sustain jobs in both small and large enterprises, while in the Eastern neighbourhood, jobs sustained will be in large enterprises (roughly 60%), medium enterprises (roughly 20%) and small enterprises (roughly 20%). In the Pre-Accession region, projects approved this year are expected to support jobs in a wide range of firms including micro (about 5%), small (10%), medium (30%) and large (55%) enterprises.

Finally, the overall impact on employment goes beyond direct and indirect job creation. It includes jobs that are generated through the Bank's investment, as a result of the benefits resulting from improved access to infrastructure, such as for example new or improved access to power, which allows enterprises to produce more and more efficiently. It also includes jobs that are induced as a result of direct and indirect employees spending more and increasing consumption. It includes the effects on wages and salaries through increased productivity and finally, it includes job losses associated with increased productivity and competition. However, the net effects on employment are complicated to measure and cannot be attributed only to the EIB intervention and are therefore not reported here.

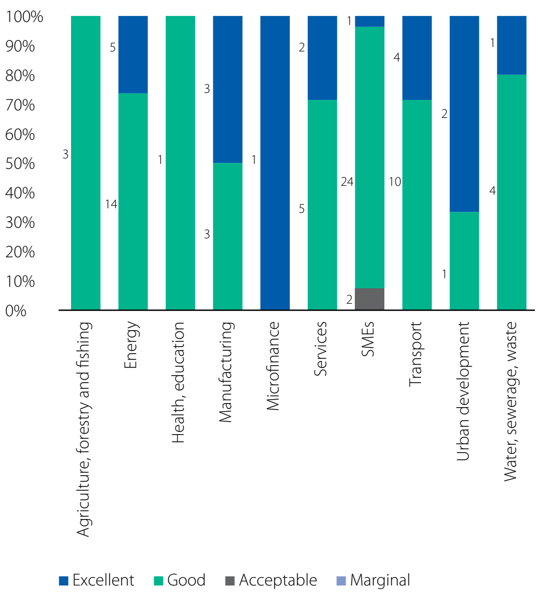


Results – ratings

Pillar 2 of the ReM framework provides an ex ante assessment of the quality and soundness of operations and their ability to achieve expected results. For direct operations, the Pillar 2 rating is based on the soundness of the project, the financial and economic sustainability and the environmental and social sustainability. For indirect projects, the rating is based on the expected results, weighted by risk considerations as measured by the soundness of the intermediary and the quality of the operating environment.

Figure 18

Pillar 2 ratings by sector



As Figure 18 shows, the quality of the vast majority of projects approved this year was rated good or excellent. There were some sectorial differences, although given the limited number of projects per sector, it is not possible to establish general trends at this stage, except that the social sectors (water, health and education) typically have lower returns than economic infrastructure (energy, transport and manufacturing). Credit lines for SMEs were less likely to receive an excellent rating as they were either in developed financial markets and were therefore not expected to have a significant impact on increasing access to finance or developing the financial sector (e.g. in Pre-Accession countries) or they were in riskier operating environments (e.g. in ACP and MED countries).

Figure 19

Spread from average rating by rating component and sector - direct operations

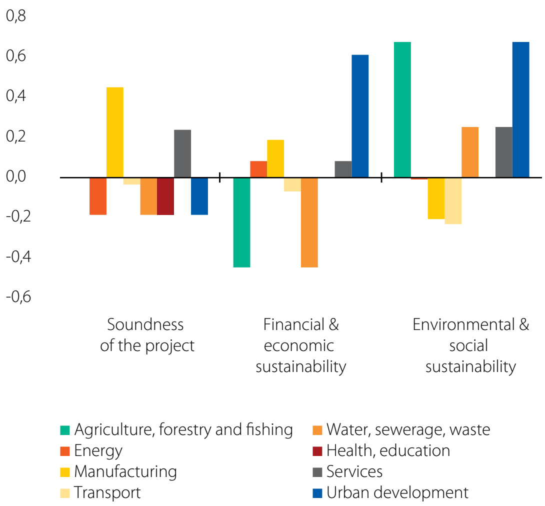


Figure 20

Spread from average rating by rating component - intermediated operations

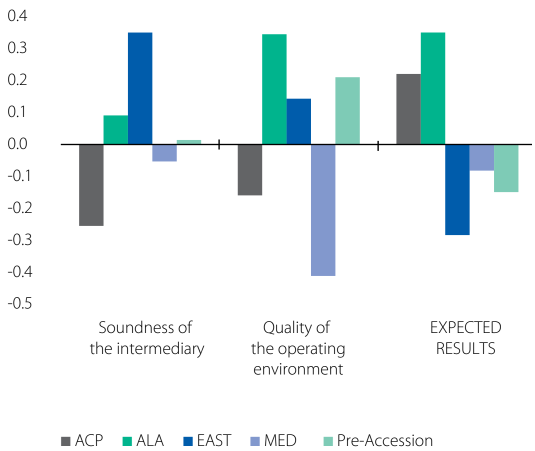
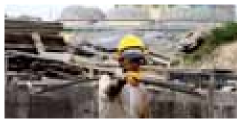


Figure 19 breaks down the Pillar 2 ratings for direct operations by rating component and presents the spread from the average rating by sector. It is worth noting that there is a considerable sectorial difference in the ratings for economic and financial sustainability and – to some extent – also for environmental and social sustainability. The sector differences in the economic sustainability reflect the fact that social sectors typically have lower ERRs. However, considering the low number of projects per sector, the fact that for some sectors the Pillar 2 rating has been higher than in others is due to the specific rating of the individual projects approved (without the possibility of establishing general trends at this stage).

Figure 20 presents a breakdown of Pillar 2 ratings for intermediated operations. It presents the spread from the average rating for each of the rating components by region. It clearly shows that ACP and MED regions present a riskier environment, with weaker financial intermediaries and a weaker economic environment than the EAST, ALA and Pre-Accession regions. On the other hand, expected development results are significantly above average for ACP and also ALA, while they are lower in EAST and Pre-Accession countries, reflecting their more developed financial markets.



Environmental and social sustainability

The EIB requires that all the projects it finances are acceptable in environmental and social terms by applying appropriate safeguards to all its operations. The Bank also finances projects that contribute directly to environmental sustainability and social well-being in support of sustainable development in the global framework of the Millennium Development Goals.

The EIB applies a set of environmental and social standards and requirements throughout the project cycle to help ensure the sustainability of all the projects that it finances. Promoters have the main responsibility for preparing, implementing and operating projects financed by the Bank; they are also responsible for the application of and compliance with EIB environmental and social principles, standards and requirements. The Bank will assist the promoter, where required, to fulfil these responsibilities by providing technical assistance and support.

The environmental and social assessment is an integral part of the EIB's appraisal and monitoring and therefore assessed and reviewed throughout the project cycle. The "EIB Environmental and Social Practices Handbook" operationalizes the EIB Statement on Environmental and Social Principles and Standards. It details the procedures to follow throughout the project cycle from pre-appraisal to monitoring.

Environmental and social safeguards

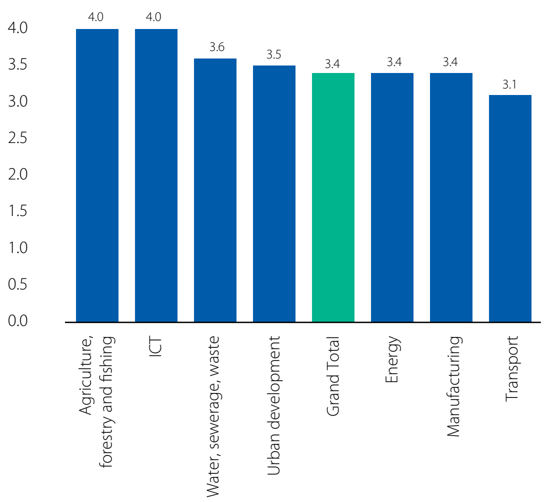
The "overall environmental and social assessment" summarizes the main findings and conclusions of the EIB environmental and social due diligence – with reference to the residual impacts (after mitigation) and remaining potential project risks as well as the various other issues examined (legal compliance, environmental and social assessment carried out, mitigation measures, environmental and social management, biodiversity, capacity of the promoter to manage E&S issues, etc.) – in terms of the environmental and social "acceptability" of the project for EIB financing.

As an EU body, the EIB is legally bound by the provisions of the Charter of Fundamental Rights of the European Union, including the commitment to uphold human rights. The EIB's understanding of sustainable development is guided by a human rights-based approach, and this is reflected in its aim to have a transparent, responsible attitude to its project financing. Human rights considerations are already an integral feature of the EIB Social Performance Standards: at a more general level, the EIB "restricts its financing to projects that respect human rights"[13] and this is partly achieved by specific types of projects or activities failing to do so being expressly excluded from EIB lending[14]. More particularly, at project appraisal level a number of human rights considerations, including economic environmental and social rights, have been integrated into the five existing "Social Assessment Guidelines" appended to the "Environmental and Social Practices Handbook"[15].

The ratings (Environmental "E-rating" and Social "S-rating") used in the methodology measure the residual impacts related to projects on a scale from 1 (not acceptable – major negative residual impacts) to 4 (positive or neutral residual impacts).

Figure 21

E&S safeguards per sector (average rating)



The E&S ratings by sector for projects outside the EU, can be found in figure 21.

As can be seen, the average ratings for all sectors are either satisfactory or excellent.

According to the current rating system, the E&S acceptability rating takes into account the positive impacts on the environment and social well-being and more specifically on the protection of project-affected people, biodiversity and ecosystem services as well as climate change mitigation and adaptation. However, due to some ambiguity in the definitions, their interpretation may not be entirely consistent across projects and sectors. In particular, projects characterized by both significant negative residual impacts and positive overall impacts have proven difficult to rate consistently. Further work will be undertaken to clarify definitions and guidance on the basis of this first year of experience.

As regards operations intermediated by financial institutions, all operations approved this year were through intermediaries that had an environmental and social management system in place.

Energy efficiency gains

For every project approved, expected energy efficiency gains are calculated either as the difference between general energy consumption before and after the project or as a reduction of energy consumption per unit of output.

There are 15 projects (out of the 90 approvals) which will deliver energy efficiency gains as a result of the project during the lifetime of their investment.

[13] EIB (2009). "Statement of Environmental and Social Principles and Standards", p.17, § 45.

[14] Link to list of excluded activities: http://www.eib.org/attachments/documents/excluded_activities_2012_en.pdf.

[15] The five Social Assessment Guidelines are: 1) Involuntary Resettlement; 2) Rights and Interests of Vulnerable Groups; 3) Labour Standards; 4) Occupational and Communal Health and Safety; and 5) Public Consultation and Participation.

Energy efficiency gains are produced for different types of projects. In the electricity sector, these efficiencies are obtained thanks to the improvement in the networks (transmission and distribution), which reduce technical losses, or thanks to the modernization or replacement of production equipment/plant by new equipment/plant which is more efficient. Further efficiency gains are achieved through the insulation of buildings.

For example in the case of technical losses, the electricity distribution project in Bosnia Herzegovina (EUR 125 million with EIB contribution of EUR 60 million) will lead to efficiency gains of 185,400 MWh per year thanks to new lines and substations which will reduce technical losses. Another example, the Bangladesh Power Energy Efficiency project, comprises the conversion of three natural gas-fired plants from open cycle to combined cycle resulting in a 50% capacity gain. The project will thus produce additional electricity of 981,000 MWh per year without additional fuel consumption.

Other relevant source of energy efficiencies will be in the transport sector. The replacement of individual transport systems (mainly cars) to public transport systems will lead to relevant energy efficiencies. Such is the case with the "Metro de Quito" project, which will lead to energy efficiencies of 164,500 MWh/year energy savings for users of the existing public services and for users diverted from car to public transport. Other road users will benefit from less congestion and will therefore also reduce energy consumption.

Energy gains are important for the Bank as they allow the classification of projects as "climate action" projects whenever there is a substantial reduction in energy consumption (above 20%) or when more than 50% of the cost of the project is justified by the project's greenhouse gas emission reductions.

Carbon footprint

As per alignment with the EIB Carbon Footprint Methodologies, the carbon footprint (the project's greenhouse gas (GHG) emissions measured in terms of tonnes (t) of CO_2 equivalent emissions per year) is calculated for those projects exceeding the absolute (gross) or relative (net) emissions thresholds (100,000 or 20,000 tonnes CO_2eq/year respectively). Absolute emissions refer to the emissions of the project itself. For transport projects, the emissions from vehicles using the transport infrastructure are included. Relative emissions are the absolute emissions minus the estimated emissions of the "without project" scenario (e.g. different sources of energy or transport modes).

For 64% of all projects, GHG emissions do not exceed the thresholds and have therefore not been calculated in detail. In the case of the other 36% of projects, GHG emissions are relevant and have been calculated individually.

Relative emissions savings are mainly due to the replacement of generation from fossil fuels by renewable energy sources, as is the case with the "Itezhi-Tezhi hydro project" in Zambia, which will produce savings of 485 ktonnes of CO_2 per year, thanks to reducing energy imports from fuel-based sources.

Similarly, transport projects such as "Metro de Quito" in Ecuador, which bring relative emissions savings thanks to less energy consumption, especially stemming from fossil fuel traction vehicles, will result in a net reduction of emissions.

Expected additionality of EIB operations

The EIB seeks to make a difference by offering financing conditions that cannot be provided by the market alone, as well as by supporting project preparation and implementation. The difference between the EIB contribution and market alternatives is defined as additionality. Lending is by far the EIB's principal activity, but the Bank sees its role as going beyond lending to include blending, for example blending EIB loans with EU grants, and advising. EIB loans extend the typical tenor available to projects and reduce the gap between asset life and loan maturity. The Bank can help clients mitigate the foreign exchange risk by providing financing in local currency. Moreover, EIB-supported projects often have a clear demonstration effect and contribute to effectively raising standards in partner countries. The Bank also helps to attract other investors to the projects it backs. By cooperating closely with other lenders and development institutions, projects can often be accelerated and achieve better outcomes.

The three main areas in which the EIB contribution is examined in comparison to market alternatives are the following:

- **Long-term resources adapted to project needs:** In assessing the additionality of EIB loans, five indicators are used: extension of typical maturity, match with asset life, local currency funding, grant element and innovative products. The overall rating assigned based on these indicators hence reflects the extent to which the client would have been able to obtain sufficient financing from commercial sources on appropriate terms.

- **Technical contribution:** The EIB not only provides financing but also often contributes to improving the project characteristics in business, developmental, social, environmental or corporate governance terms. The rating of this component reflects the extent to which the EIB advised on or mobilized technical assistance for the preparation, implementation and operation of the project or broadly the relevant sector.

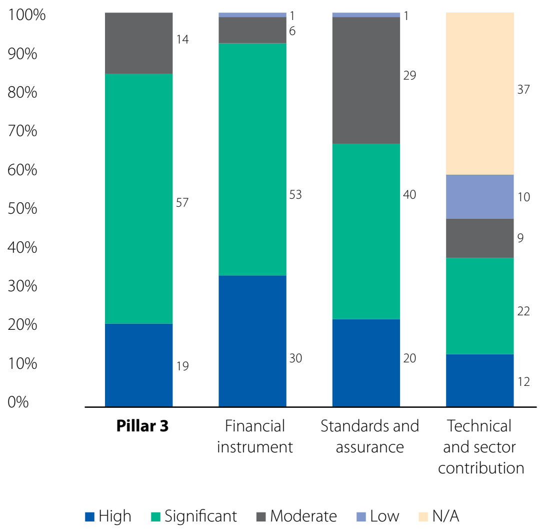
- **Standards and resource mobilization:** Beyond the factors mentioned above, does the EIB's presence in the transaction add value by providing demonstration effects, raising standards, or mobilizing other financial resources? The rating of this third component is based on an assessment by project teams of four indicators: demonstration effect, structuring, institutional cooperation and contribution to raising standards.

The overall EIB additionality (Pillar 3) is rated on a scale of 1-Low to 4-High taking into consideration the three areas mentioned above.

Of the operations approved in 2012, 76 (84%) were expected to provide high or significant additionality (Figure 22) while 14 (15%) were rated moderate. The ability to offer a range of financial instruments adapted to the projects' needs is considered the most prominent source of additionality with high or significant ratings in 92% of all operations. The technical contribution is the most variable, in part because a number of sophisticated project promoters do not need a specific technical contribution from the Bank beyond regular appraisal work.

Figure 22

Pillar 3 assessment overview



Providing long-term resources **adapted to project needs**

In terms of financial instrument – provision of long-term resources, local currency funding, grant element and innovative products, EIB financing is considered highly additional. In 92% of the projects approved in 2012, the financial instrument was rated as having either a high or significant impact on projects.

EIB provides long-term funding

The Bank's ability to offer long-term resources, local currency funding, grant funding and innovative products is one of the most significant elements of additionality that the EIB brings outside

Table 21
EIB financial additionality: average financing terms

	Number of projects	EIB Tenor (years)	Typical tenor (years)	Extension factor
Infrastructure	38	19.1	7.9	2.4
Intermediated loans	32	11.3	4.5	2.5
Manufacturing	8	8.5	4.5	1.9
Other	2	16	8.2	1.9

Europe. This contribution to the financial viability of projects is seen as critical to enhancing the probability of achieving mandate objectives. In order to measure this factor, ReM compares the tenor of EIB loans[16] to the estimated typical tenor available in the market on a purely commercial basis, as well as to the economic life of financed assets.

EIB loans extend the typical tenor available to projects: Infrastructure projects, which typically have a long asset life, benefit from the longest financing with the average tenor exceeding 19 years. This exceeds by 11.2 years the average typical tenor available in the relevant markets for investment loans (7.9 years).

Long-term funding is also necessary to local banks that typically face a maturity mismatch between their assets and liabilities. The average loan tenor made available to financial intermediaries in 2012 was 11.3 years. A number of clients in the financial sector actually depend essentially on short-term deposits and lines of credit from IFIs to finance their lending portfolio. As a consequence, in 20 operations (62.5% of all relevant operations) it was estimated that the EIB loan tenor is more than three times the maturity of other available resources. On average, the EIB loan exceeds alternative funding resources by at least 6.8 years. In the example of loans for SMEs in Turkey, the characteristics of the input provided by the Bank directly translate into results in terms of access to finance as the average maturity of loans made available to SMEs is expected to increase in comparison to the existing portfolio taken as a baseline.

In the case of manufacturing projects, the life of assets is shorter – limiting the need for very long tenors. Additionally, risk considerations often limit possible tenors, bringing the average maturity of the eight relevant project loans to 8.5 years. This still exceeds by 4 years terms otherwise available.

The EIB participation reduces the gap between asset life and loan maturity. If projects were to be financed on the average typical maturity, the asset-funding gap would exceed 10 years. This compares with an actual gap of just 1.7 years on average for the period under consideration, meaning that on average the tenor of EIB loans matches 90% of the life of financed assets.

While the asset-funding match for loans to the financial sector is 98% on average, it is a bit lower in manufacturing at 86.3% and the infrastructure sectors at 82.6%. Risk considerations mainly explain these differences.

Local currency funding

Providing financing in local currency helps a client mitigate the potential currency mismatch between assets and liabilities, typically when revenues are collected in local currency. The value of this feature is reflected in the number of projects where EIB financing was made partially or totally available in local currency. In almost a quarter of the projects approved (21 projects), the Bank partially or totally absorbed the foreign exchange risk by providing access to long-term financing in local currency. Just over half (11) of EIB local currency financing concerned lines of credit supporting SMEs.

Blending long-term loans and grants

The additionality of the EIB's financial contribution can also be assessed by the preferential terms and conditions of the financing – through investment grants and interest rate subsidies that lower the cost of funding to certain projects, in particular to address debt sustainability constraints.

The EIB contribution in this area is significant: 16 projects (18%), equivalent to close to EUR 1.4 billion of EIB financing, received grants or interest rate subsidies with a value of EUR 207 million. The weighted average of the subsidy mobilized by the EIB for these projects is about 15% of its financing.

[16] Although the assessment focuses here on loans (80 operations), which are the main financial instrument of the Bank, the EIB is also involved in private equity through investment funds. This is another important way to provide long-term funding without exposing the beneficiary to foreign exchange risk.

Technical contribution

The role of the EIB is not limited to financing. The Bank also plays an important role as an advisor. This role is either fulfilled by the EIB teams in their regular contacts with clients throughout the project lifecycle, or partially outsourced to consultants using mobilized technical assistance grants. In the ReM framework, the technical contribution rating is based on self-assessment of the support provided in project preparation and structuring of funds, project implementation, and broader support for project operations and/or the sector in general.

EIB accompanies projects throughout their lifecycle

The EIB's technical contribution to projects was rated high or significant in 34 cases (37% of the reviewed portfolio).

The EIB's technical support is intended to help clients prepare and implement projects more efficiently and effectively. This is particularly relevant in ACP and MED countries, where 72% and 50% respectively of projects received high or significant levels of technical contribution. In these regions, adding value through early involvement in project appraisal and technical assistance is indeed of high relevance when local capacity is more limited.

The EIB's technical contribution is also valuable in the financial sector, for instance through representation on funds' supervisory boards and board committees, thus effectively contributing to the strategic guidance of the corresponding operations.

Figure 23

Operations supported by TA by region

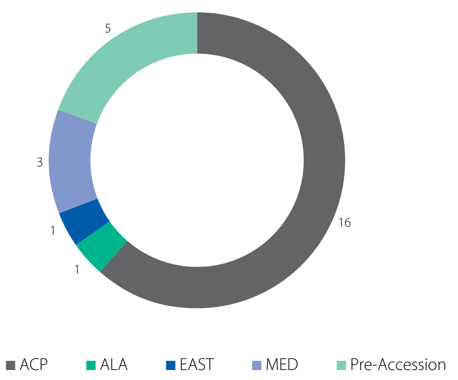
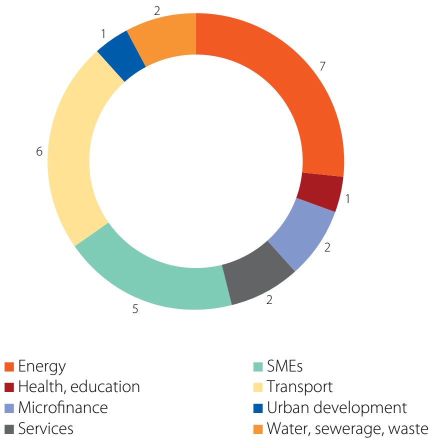


Figure 24

Operations supported by TA by sector



EIB mobilizes grants for Technical Assistance

Technical assistance (TA) grants are mobilized by the EIB for 26 of the 90 projects. As shown in Figure 23, the biggest beneficiary is the ACP region with 16 projects receiving TA. The breakdown by sector is shown in Figure 24 – the sectors utilizing TA most frequently are energy (7 projects), followed by transport (6), and SMEs (5).

EIB mobilizes grants to support projects and mitigate risks: TA is usually grant funded and the EIB's positioning is often instrumental in helping unlock financing from different sources, particularly the EU budget. These resources are then blended with the EIB's (and other financial institutions') loans to form the full financing package offered to the beneficiary. In 2012, EUR 14.1 million overall was contracted under the Neighbourhood TA envelopes, and EUR 6.54 million under the ACP TA envelopes.

A typical form of technical assistance targets financial intermediaries who receive assistance in terms of applying eligibility criteria, product design and raising compliance standards. Additionally, TA is often offered in support for microfinance operations. As an example, "Access Microfinance Holding III", a regional ACP project will receive EUR 2 million in TA, supporting intermediaries in Madagascar, Tanzania, Nigeria and Zambia. "EAC Microfinance Facility II", a regional East Africa facility, includes a TA package of EUR 2 million for both intermediaries and final beneficiaries.

Technical assistance for infrastructure projects is concentrated mainly in the transport and energy sectors. As an example, the "East Africa Transport Corridor", in Uganda, will receive EUR 1 million of TA to support the preparation and implementation of investment projects along the Corridor. In other cases, the EIB played a key role in project preparation over several years before project approval. The "CLSG Interconnection" energy project in West Africa benefited from several TA components that were key for project preparation, all provided by the EU Africa Infrastructure Trust Fund. The EIB's role was critical in advancing the preparation of this complex regional project over the past five years, be it for the feasibility study, the line route planning, environmental and social impact assessment or the preparation of bidding documents.

Funds play an important role in support of lenders coordination. As an example, the "Cairo Metro" will receive TA in the amount of EUR 10 million, through AFD and the EIB, who jointly received TA approval from the EU Neighbourhood Investment Facility (NIF). In addition, the EU will support the metro operator through a twinning arrangement with a European metro company.

Standards and resource mobilization

The third component of Pillar 3, named 'Standards and Assurance', gathers indicators measuring the extent to which EIB operations are expected to provide a demonstration effect, contributed to raising standards, mainly ESG (environmental, social and governance) and procurement standards, and achieved leverage on its resources. Two thirds of the projects reviewed were rated high or significant on these aspects, while one third was considered to have moderate effects. Some selected individual indicators composing this rating are described further below.

Demonstration effects

Of the total projects approved in 2012, 28 (31%) are expected to have a high demonstration effect. The high ratings were given in particular to projects which had climate change mitigation components, reflecting the catalytic role played by the EIB in this area. The EIB is one of the biggest providers of finance in this area of all international financial institutions, with 30% of its overall lending targeting climate action.

The EIB's investment in first-time funds also provide strong demonstration effects: it highlights the confidence placed in the new manager and effectively offers a 'stamp of approval' that can play an important catalytic role in attracting other investors, as in the case of the "Badia Impact Fund", a venture capital fund in Jordan.

Contribution to raising standards

In 59 projects, the EIB was considered to be a high or significant contributor to raising environmental, social and corporate governance standards (ESG). The EIB systematically benchmarks projects against EU standards in terms of environmental and social impact. It hence plays an important role in raising standards in a number of projects, an effort often reinforced through technical assistance for capacity building.

In the "Barrage Reservoir De Lom Pangar" energy project in Cameroon, comprehensive TA, funded mainly by the WB (World Bank) and AFD, is provided to strengthen the promoter's capacity. The EIB will provide complementary TA to the Ministry of Forestry for the management of the Deng Deng National Park (environmental and social measures). An extensive environmental and social impact assessment has been undertaken to address and mitigate the environmental and social impacts of the construction area, reservoir and downstream areas, in compliance with the lenders' safeguard policy.

The participation of the EIB in the Lebanese Highways project in the MED region will significantly contribute to raising standards through TA, and also by focusing on the preparation of a road safety audit. Special attention will be paid to the expropriation procedure, a particularly relevant issue for infrastructure projects.

The EIB is also associated with the Corporate Governance Development Framework, which aims at better integrating corporate governance issues into the investment process in view of the strong links between good corporate governance and sustainable economic development.

Resource mobilization

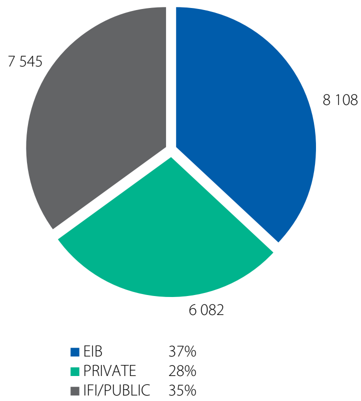
The total project cost of the operations that were approved by the EIB in 2012 outside the EU was EUR 21.7 billion, supported by EIB contributions of EUR 8.1 billion. This represents a total resource mobilization of EUR 13.6 billion from all other sources, with a leverage of 2.7 times the EIB's contribution. Figure 25 illustrates this resource mobilization broken down by private sector and public sector. EIB-financed projects mobilized EUR 6 billion from private sector sources and EUR 7.5 billion from public sector sources. In terms of collaboration with other international financial institutions (IFIs), the EIB participated jointly with other IFIs in 38 projects in 2012.

While the leverage of EIB financing for intermediated projects was 2.3 times, the leverage was much greater for direct project financing – 3.0 times. The higher leveraging impact of EIB funding through direct project finance is partly due to the normal exposure limits of the EIB of up to approximately 50% of project cost, and also due to the capital structure of direct projects, with the participation of larger numbers of public and private stakeholders.

The EIB's contribution through private equity projects in 2012 had a strong multiplier effect. Committed capital of EUR 582.3 million was mobilized by EIB approvals of EUR 85.7 million, for a total fund size of EUR 668 million, representing a leverage effect of 7.8 times the original EIB contribution.

Figure 25

EIB resource mobilization, 2012 approvals (EUR m)



Actual results

Eight case studies are presented here to provide examples of implemented projects and the actual results achieved, according to the ReM framework. As the projects were approved before the introduction of the ReM framework, no ReM assessments were carried out at the approval stage, but from 2012 onwards these assessments are being done following the ReM methodology. Results of the Bank's risk capital and microfinance operations in the med region are also discussed.

The projects under review cover a broad range of sectors: health, roads, microfinance, SME finance (2), water and sanitation (2), windpower. In all eight cases, the projects were found to be fully in line with objectives and priorities, often actually supporting multiple objectives (e.g. private sector development and climate change mitigation). Many of the project objectives were met through the achievement of significant concrete results. Relevant examples include: access to improved water and sanitation; access to finance for micro-enterprises and SMEs, including a significant percentage of first-time borrowers, women borrowers or rural borrowers; reduced travel time, road fatalities and CO_2 emissions; expansion and modernization (including introduction of state-of-the-art equipment) of hospitals, leading to an increase in technology-intensive care and health expenditure. Significant creation of direct jobs is a common feature of many of the projects. Finally, EIB additionality was found to be substantial, with the provision of long-term funding the most prominent factor. In a number of cases, the provision of technical assistance and/or local currency funding were important considerations, whereas complementarity with other IFIs, the EIB's leadership role and the presence of a demonstration effect were also mentioned in other cases.

Contributions to mandate objectives

As the table below shows, most of the eight projects contributed directly or indirectly to more than one mandate objective.

Table 22

Contribution of case study projects to mandate objectives

Projects	Climate Change	Infrastructure	Priv. Sector – SMEs	Reg. Integration
Santé Tunisie		D	I	
Voiries Prioritaires		D	I	I
EAC Microfinance			D	
PEFF II Uganda		I	D	
Dar es Salaam Water	I	D	I	
Mobiasbanca-Soc. Gen.	D		D	
Wind Power Cape Verde	D	D	I	
Manila Water Company	I	D	I	

D – Direct contribution to mandate objectives

I – Indirect contribution to mandate objectives

Project additionality

The contribution of the eight case study projects in terms of additionality (Pillar 3) is summarized in the table below. EIB funding extended loan terms by at least two times the available maturities, also improving the asset matching profile of investments. A local currency option was made available to MSMEs in the three intermediated loans. An element of grant or rate blending was included in two infrastructure projects in Tanzania and Cape Verde. Compared with the total project cost, leverage was 2.0 to 2.5 times the EIB's contribution. Resource mobilization was significant in Manila Water, Wind Power, and the three financial intermediaries, MBSG (bank, EAST region), PEFF (bank, ACP region) and EAC (microfinance, ACP region) with successful private funding participation. Public funding matched EIB resources in three infrastructure projects, two in Tunisia (roads, health) and one in Tanzania (water). The EIB played a lead role and provided technical expertise in four cases, and in six cases there was cooperation with other IFIs.

EIB outputs, outcomes and impacts

The eight case studies illustrate the connections between the inputs provided by the Bank, project outputs, the resulting outcomes and the impacts that can be observed later. An example of social infrastructure development is seen in the project Santé Tunisie, where the EUR 110 million provided by the Bank was used to purchase medical equipment and upgrade hospitals, resulting in improved patient care, both for diagnosis, Computed Tomography scans (CT scans) and treatment (haemodialysis). The impact was seen in the improved health of the population. An example of economic infrastructure development and climate change mitigation is the project Cape Verde Wind Power. The EUR 30 million provided by the EIB and the EUR 15 million from the AfDB, together with private funding, financed a PPP (Public-Private Partnership) that constructed 30 wind turbines. This resulted in more reliable and less expensive electric power supplies, savings in foreign exchange expenditures for fuel oil and reduction in GHG emissions. The impact will be seen in the reduced environmental impact. An example of an intermediated loan is the one to Mobiasbanca – Société Générale in Moldova, resulting in 117 loans to MSMEs with longer tenors and lower interest rates than available in the market. The expected impact is economic growth.

Table 23

EIB additionality in case study projects

	Maturity Extension	Asset Match Improved	Grant/Rate Blending	Local Currency	Leverage	Private Funding	Technical Assistance Lead Role	IFI Cooperation
Santé Tunisie	2.0x	√			2.0x			IBRD
Voiries Prioritaires	2.5x	√			2.0x		√	AfDB
EAC Microfinance	4.0x	√		√	2.0x	√	√	
PEFF II	3.0x	√		√	2.0x	√	√	
Dar es Salaam Water	2.5x	√	√		2.0x			IBRD
Mobiasbanca	2.0x	√		√	2.0x	√		EBRD
Wind Power	5.0x	√	√		1.0x	√	√	AfDB
Manila Water Company	2.0x	√			2.5x	√		IFC

Tunisia Health I (Santé Tunisie I)

Project description

During the period 2003-2006, the EIB project supported the investment programme of the Ministry of Health (MoH) for publicly provided care. Cardiovascular and degenerative disorders and other health problems typical of an industrial society's lifestyle and population structure are increasing in Tunisia. Furthermore, a priority of the MoH is the reduction of infant and maternal mortality. These factors lead to a greater reliance on hospital-based, specialized services, as evidenced by hospital infrastructure growth in the most recent five-year MoH investment and strategic plans. Therefore, this project focused on modernizing the hospital infrastructure and equipment for diagnosis and treatment in 30 public healthcare facilities located throughout Tunisia. The project comprised a EUR 110 million loan to the MoH and the Ministry of Equipment in Tunisia. Investment in equipment accounted for EUR 80 million and the remaining EUR 30 million was used for hospital buildings. The total project cost was EUR 224.5 million. The government contributed EUR 114.5 million or 51%.

Project results

The most important results of the project were the following:

- The project contributed significantly to the expansion and modernization of the country's medical infrastructure, addressing critical healthcare needs in Tunisia.

Table 24

Actual project results – Tunisia Health I

Outputs	Outcomes	Impacts
30 hospitals in Tunisia expanded and modernized		
State-of-the-art equipment installed in public hospitals	Approx. 4 500 scans per year performed with each machine	Through coordinated actions with MoH, contributed to: • Improved healthcare standards; • Improved health of population; • Decreased maternal and infant mortality.
230 haemodialysis machines available per million inhabitants (2011)	Public health expenditure increased	
12.4 CT scanners available per million inhabitants	Adolescent health services improved	
59 specialists available per 100 000 inhabitants	4 000 new jobs created in health sector	
373 paramedics per 100 000 inhabitants		

- 30 public hospitals in Tunis and other parts of the country were expanded and upgraded.

- Critical, state-of-the-art medical equipment was purchased and installed in public hospitals.

- Hospital personnel were trained in modern diagnostic and treatment methods using the equipment.

- The range and quality of health services available at public hospitals were improved significantly, leading to better treatment and shorter waiting times.

- The project thus contributed to improvements in public healthcare, resulting in the improved health of the population, which can be seen both in increased expenditures on public health services and the decreasing rates of infant and maternal mortality.

The project has contributed to the overall steady and impressive improvements that have been achieved through a number of coordinated and coherent measures together with the MoH. Two of the main objectives stated at approval of the EIB project – increased spending on healthcare and reduction in maternal and infant mortality – have been met. More resources are being devoted to healthcare, as measured as a proportion of gross national product, increasing from 5.6% in 2003 to 6.2% as of 2011, according to the MoH. The investment in maternal and infant care through new and rehabilitated hospital buildings and specialized medical equipment is contributing to the measurable improvement in mortality rates. Infant mortality continues a downward trend, from 22.8 per 1,000 live births at approval in 2003, to 16.8 per 1,000 live births in 2012.

Additionality of EIB participation

In terms of additionality, the Bank provided the project with the required long-term financing, which was not available in the market. The EIB's long-term maturity and grace period contribution allowed Tunisia to carry out the investments, and the population to gain the benefits, years earlier than would have been possible using only the MoH budget. The long-term financing for the equipment and hospital infrastructure was suited to the long-term nature of the fixed asset investments. The availability of the Bank's resources complemented the Ministry of Equipment's budget allocation and the technical support provided under EU procurement guidelines contributed to the project's success. World Bank technical cooperation with MoH also complemented the EIB's participation.

This is the second health project for the EIB in a Mediterranean Partnership country, and the project could be replicated in other countries in the region. The next social infrastructure project (Tunisia Health II) is in an advanced state of preparation with the MoH already considering the use of technical assistance available under the MED Trust Fund.

Providing technical support for project preparation and design should enhance the execution capabilities of the MoH while substantially reducing the project implementation time. By strengthening the counterpart, the capacity to meet the healthcare needs of the population will be enhanced and the EIB's impact will be also increased.

Examples of project results

Anaesthesiology and Reanimation Department of Charles Nicolle Hospital

The EIB's investments in state-of-the-art equipment, together with technical support, are making a measurable difference to the scope and quality of medical services. New monitoring equipment in the Anaesthesiology and Reanimation wing of Charles Nicolle Hospital is already in full operation.

Maternity Hospital in Monastir

Modern laboratory and monitoring equipment was installed in the new maternity hospital in Monastir, significantly upgrading the obstetrics and neonatology services available in the city.

Scanning equipment at the Traumatology Hospital in Sousse

State-of-the-art computerized tomography and scanning equipment has recently been installed in the Traumatology Hospital in Sousse. The doctor in charge of the imaging department explained that about 20 scans are performed per day, which is over 4,500 patients scanned per year. Owing to the regional scope of this hospital, this equipment has an impact beyond the immediate area.

Voiries Prioritaires IV

Project description

The project objective was to improve the urban road infrastructure in Tunisia. The project consisted of five sub-projects in Greater Tunis and three sub-projects on roads in the vicinity of other major cities. The interchanges, new and upgraded roads in Greater Tunis entailed improvements to key roads that are prone to very heavy traffic and increasingly long traffic jams. The other five sub-projects involved the construction of urban bypasses at Sahline, Ksar Hellal-Moknine and Médenine.

Integrated and efficient transport networks are a necessary condition for the sustainable development of Tunisia. This project complies with the Euro-Mediterranean Partnership policy objectives formulated in the Barcelona Joint Declaration of November 1995 to undertake investments which make a vital contribution to the country's economic development.

The project represented a continuation of six investment projects previously financed by the Bank. It made a significant contribution to the national plan for road construction, comprising the "Voiries du Grand Tunis" programme, designed to provide the capital with a network of roads, minimizing congestion while separating local and long distance traffic, and the "Voiries Structurantes" programme, designed to improve Tunisia's road transport network in the vicinity of its main cities.

The continuous growth in traffic volumes in Tunisia has increased congestion and exacerbated the attendant noise, environmental pollution and road safety problems in the country's main towns and cities. The regional transit traffic, beginning at the Algerian border in the northwest and continuing to the Libyan border in the southeast, passes through Tunis and other major cities, which creates congestion and seriously hinders transit traffic. By reducing congestion and facilitating traffic flows, the project has created considerable economic, social and environmental benefits for the country.

The importance of the project has been confirmed by two national traffic surveys that have been undertaken since the project was appraised in 2004 – in 2007 and 2012. The forecasts for the road sections in Tunis have all been exceeded by some 25 to 30%. The growth rate for traffic in the Tunis area had been forecast at appraisal at 5% per year up to 2006 and then at 3% per year up to 2012. The actual traffic increases have been about 6% per year overall during the period 2004-2012.

Project results

The project has had the following positive results for the country:

- Increased road capacity to accommodate current and expected future growth in and around the capital city, Tunis, in which 30% of the total number of vehicles in Tunisia are located.
- Reduced congestion, resulting in time savings in and around the capital.
- Vehicle and pedestrian overpasses and improved lighting, which have contributed to improving road safety, resulting in fewer accidents and fewer fatalities.
- The link to the main port in Tunis facilitates intermodal transportation, making international trade more efficient and increasing the attractiveness of Tunisia as a commercial destination.
- The urban bypasses improved the link with the two neighbouring countries, Algeria and Libya, promoting trade and fulfilling the EU mandate of supporting regional integration.
- Positive environmental impacts were achieved by reduced air pollution through smoother traffic flows and reduced congestion. Negative impacts have been mitigated by measures such as the creation of green areas near interchanges and between lanes.

Table 25

Actual project results – Voiries Prioritaires

Outputs	Outcomes	Impacts
13 km of roads constructed in Greater Tunis	Travel time savings estimated at a value of EUR 454 m p.a.	Improved traffic conditions and reduced congestion
13.5 km of interchanges and bridges reconstructed	Travel time savings for working commuters estimated at average 1 hour/day	Improved traffic flows and connectivity between four Tunis districts
21.9 km of roads upgraded, with improved lighting and drainage.	Vehicle operating cost savings estimated at EUR 93 m p.a.	Improved business environment and higher GDP growth
24.5 km of bypasses constructed around Sahline, Ksar Hellal-Moknine and Medenine	Lower CO_2 emissions according to EIA	Improved living conditions for the population of Greater Tunis
	Road fatalities saved estimated at 18 p.a.	Regional integration: improved links with neighbouring Algeria and Libya
	ERR 16% (sub-projects range 13% to 28%)	
	2 100 man/years created during construction; 50 permanent jobs after completion	

- The road drainage system was improved in areas prone to flooding.

- Positive economic and environmental impacts of the project were valued at EUR 547 million (about 13.7 times the EIB loan), representing aggregate efficiency gains from lower operating costs per vehicle of EUR 93 million and time savings valued at EUR 454 million from reduced traffic congestion.

- Environmental assessments were made in accordance with well-defined Tunisian standards for all components of the project and mitigation measures were prescribed in each of the environmental studies implemented during construction.

- Economic rates of return (ERRs) achieved for the Greater Tunis projects are between 26% and 38%. The increased costs for these projects were offset by higher benefits due to higher than expected traffic volumes. For the urban bypass projects, the ERRs are between 13% and 23%.

Additionality of EIB participation

EIB participation has been critical in supporting the development of essential urban infrastructure in Tunisia. Through the EIB's lead role and participation in a series of road projects, beginning 15 years ago, the government was encouraged to improve basic urban infrastructure on a match-funded basis. According to the Head of the General Directorate for Roads and Bridges (DGPC), without the EIB contribution, many road construction projects would have been postponed for years. The EIB provided the project with the required long-term financing, which was unavailable locally and which matched the life of the investment. The financing in euros provided greater certainty to the cost calculations.

The Bank also provided non-financial additionality by enhancing environmental and social standards (road safety, flood prevention). Because of EIB participation, a thorough public consultation process was followed. As a result, inputs from citizen associations, NGOs (non-governmental organizations) and other stakeholders were incorporated in the project preparation, and relocations and disputes were minimized. An important lesson learned was that the provision of adequate technical assistance for project preparation and execution could have helped reduce delays in implementation. MED Trust Fund resources for such technical assistance are expected to be included in future road projects. The upgrading of the urban road network helped to reduce congestion and improve traffic circulation for both private and commercial transport.

Overpasses increase safety of both pedestrians and motorists and help reduce the number of accidents and traffic fatalities. Modern lighting on roads in Tunis helps to improve traffic safety.

Microfinance Global Authorization

Project description

The East African Community (EAC) Microfinance Global Authorization is a lending framework aimed at banks and other financial intermediaries that provide loans and other financial services to micro-entrepreneurs and small enterprises in rural and urban regions in countries of the EAC – Kenya and Uganda in the first stage and Rwanda and Tanzania in the second stage. Through this facility, the EIB provides longer-term local currency loans that increase the capacity of financial intermediaries to address the financing needs of micro and small enterprises (MSEs).

Supporting micro and small enterprises is seen as a strategy that can bring faster development through employment creation and economic growth, so the countries of the EAC place strong emphasis on microfinance as a sustainable tool for poverty alleviation. Until recently, micro and small enterprises in the EAC countries had been served only by microfinance institutions providing a limited range of financial products, e.g. short-term loans. The ability of financial intermediaries to provide medium to long-term local currency loans to the MSEs is still inadequate, primarily due to the short-term funding sources available. Typically, loans are limited to tenors of up to two years, so the provision of medium to long-term local currency debt to financial intermediaries in support of micro and small enterprises is crucial to foster MSE development.

The EAC Facility, approved in 2011, is the first of three regional microfinance facilities that are being launched by the EIB in Sub-Saharan Africa; the second one was approved in 2012. In addition to supporting the overall microfinance strategy, the EAC Microfinance Facility fits with and complements other financial sector operations in the region, such as the Uganda Private Enterprise Finance Facility (PEFF), which is described in another case study. The PEFF and the EAC Microfinance Facility together cover the full range of micro, small and medium-sized enterprises in EAC countries.

Table 26

Actual project results – Faulu Kenya

Outputs	Outcomes	Impacts
Long-term funding of Faulu Kenya increased by EUR 4 m	15 000 loans totalling EUR 8 m with tenors up to 3 years provided to final beneficiaries.	MSEs strengthened and expanded
	Of these, 6 740 loans to women	
	Average loan size EUR 530	
	Approximately 30 000 jobs created	

Project results

The most significant results by the end of the project, which was signed in 2011, are the following:

- The EIB financing provided increased funding totalling EUR 50 million to financial intermediaries in Kenya and Uganda, enabling them to better serve MSEs in these countries.
- Loans are provided to an estimated 50,000 micro and small entrepreneurs in EAC countries.
- Average loan size to MSEs is EUR 5,000.
- Average loan size to micro-enterprises is EUR 500.
- Loans provided with EIB funding are aimed at income-generating activities and productive sectors such as trade, retail, agro-industries, fishing, food processing, manufacturing, industry, construction industry, transport, tourism, and services related to these sectors.

One of the financial intermediaries that received EIB financing under the EAC Facility was the Faulu Kenya Deposit Taking Microfinance Company, which received a loan of EUR 4 million. Faulu Kenya, which is registered in Kenya and regulated by the central bank, aims at providing banking services to those parts of the population who previously had no access to them, through a variety of savings, credit, micro insurance and mobile banking solutions. It has over 90 service outlets which include 27 banking branches in seven of Kenya's eight provinces. As of November 2012, it had approximately 86,000 borrowers and a loan portfolio of KES 4.6 billion (Kenyan shillings) or EUR 40 million.

Many microfinance intermediaries, such as Faulu Kenya, use group methodology to deliver micro-credit. Micro-entrepreneurs who apply for first-time loans are required to join or form a group to provide mutual security. Loans are granted to individuals, but the entire group must sign the application to guarantee jointly that the loan will be repaid. The examples of two Faulu members who are members of borrower groups are given below.

Additionality of EIB participation

EIB loans are provided with longer maturities than those that are typically available in the market. The funding is provided in local currency wherever feasible, and the foreign exchange risk is assumed by the EIB. By establishing a track record of lending to MSEs in the region, the EIB loans are expected to have a demonstration effect for other lenders.

Technical assistance (TA) was provided to Faulu under a Memorandum of Understanding between the Grand Duchy of Luxembourg and the Bank in connection with the EAC Microfinance Facility. Training funded by the TA was provided to final beneficiaries in order to support them in preparing business plans and improving the management and efficiency of their operations. Part of the TA funding was used to train staff of financial intermediaries in the areas of credit risk management and product development. Combining financial and TA services has improved the creditworthiness of the final beneficiaries and thus increased the number of qualifying projects.

Micro-enterprises supported through the EAC Microfinance Global Authorization

Dollar Auto Spares

Mr Peter Kuria, the owner of Dollar Auto Spares in Nairobi, has been a member of Faulu since 2000. The loans that he has received from Faulu have enabled him to enlarge his inventory and expand his business so as to run it more profitably. The most recent loan, provided from EIB resources, was EUR 2,600, with a term of two years. With the money he borrowed he was able to purchase spare parts directly from suppliers in other countries, thus obtaining better prices than from national suppliers and increasing his competitiveness in the market.

With the original loan, Mr Kuria moved his shop to a more secure and larger location in the market. Now, in his expanded shop he has two full-time employees, young entrants to the labour market for whom it is their first formal employment. Mr Kuria uses the increased profits from his business activities to provide education for his children and support for his extended family.

Mr Peter Kuria, the owner of Dollar Auto Spares in Nairobi is a member of Faulu Kenya and a successful beneficiary of the EIB project. The loan provided by Faulu Kenya using EIB resources enabled him to move his shop to a larger and more secure location in the market.

The Jojwain Beauty Shop

Mrs Mary Wambui is the owner of the Jojwain Beauty Shop, which sells cosmetics and beauty supplies in the market in Nairobi. Similarly to Mr Kuria, she used the loans from Faulu to expand her inventory and added a second shop to her business. The EIB project thus helps create jobs – Mrs Wambui now has four employees working for her. Together with her husband, George Wamuti, they have expanded the business and now have distributorships for two Kenyan companies that produce hair extensions, a commodity for which there is a large and growing demand. Their enterprise is the sole representative in Nairobi and the Kenyan counties for these products, selling both wholesale and retail. Mrs Wambui became a member of Faulu in 2000, and as required from new loan applicants, she joined a borrowers group and attends the weekly meetings with her fellow micro-entrepreneurs. The members of the group provide formal and informal support to each other and ensure that the loans are repaid.

Mrs Mary Wambui, the owner of the Jojwain Beauty Shop, is another successful micro-entrepreneur who benefited from the EIB project, the EAC Microfinance Facility.

Uganda
Private Enterprise Finance Facility (PEFF II)

Project description

The Private Enterprise Finance Facility II (PEFF II) is a line of credit that provides long-term funds in euros, US dollars and Ugandan shillings to selected intermediary banks in Uganda for financing investment projects that are aimed at developing private enterprises, in particular small and medium-sized enterprises (SMEs). These enterprises include not only important economic sectors such as manufacturing, agro-processing, transport and tourism, but also social sectors such as education and health, which are important for the country's development.

In light of global and domestic uncertainties, banks have generally tightened their lending standards, making it more difficult for SMEs to obtain credit. Uganda has a history of interest rate volatility – rates reached as high as 30% in 2011 – and banks do not usually provide loans with tenors that extend beyond three years. With the EIB facility, however, Ugandan banks can supply long-term financing, with tenors of up to ten years. As the EIB assumes the foreign exchange risk, the loans can be denominated in Ugandan shillings and still carry affordable interest rates, meaning that SMEs can have access to credit on terms that enable them to make longer-term investments.

Project results

The most significant results of the PEFF II project are the following:

- The EIB Facility provides financing to six banks in Uganda: the Bank of Africa – Uganda Ltd., the Bank of Baroda, the Centenary Rural Development Bank Ltd., the Crane Bank Ltd., the DFCU Bank Ltd. and the Housing Finance Bank Ltd.
- Long-term EIB loans totalling EUR 40 million to six banks increase funding to beneficiary businesses by EUR 80 million, thus helping to develop the Ugandan financial sector, which is still relatively small.
- By enabling Ugandan banks to provide long-term financing in both local and foreign currency, the EIB facility promotes the development of the private sector, especially SMEs.
- By supporting SMEs in sectors such as manufacturing, agro-processing, tourism and transport, the project promotes economic growth and creates employment.
- Supporting social sector projects such as private schools and hospitals helps expand and strengthen the social infrastructure, while also creating jobs and promoting economic growth.

This case study reports on the Housing Finance Bank (HFB) as an example and on loans provided by HFB and the Centenary Bank to construction projects of SMEs. At the current high interest rates in Uganda (the prime rate was 22% in December 2012), the Housing Finance Bank (HFB) provides fewer than 2,000 mortgages per year. Other than mortgages, HFB primarily makes commercial loans. With the EIB facility, whereby the EIB assumes the foreign exchange risk in the case of financing in Ugandan shillings, HFB is able to make higher risk loans to finance SMEs on terms that they can afford, as well as projects such as schools and student housing, which it would otherwise not be able to consider.

Table 27

Actual project results – Housing Finance Bank

Outputs	Outcomes	Impacts
Long-term funding (term up to 10 years) of Housing Finance Bank increased by EUR 4m.	54 loans provided to SMEs, including for social infrastructure construction projects	SMEs and social infrastructure strengthened and expanded.
	Average loan size EUR 73 500. Approx. 750 jobs created	Schools can accept more pupils Hospitals can treat more patients
	Of these, 70% to first-time borrowers; 13% to women borrowers and 33% to rural borrowers	SMEs owned by a broader range of entrepreneurs strengthened and employment created.
	Of these 24% loans to projects with energy efficiency components Reduced CO_2 emissions.	SMEs encouraged to use energy efficient construction methods and install energy efficient equipment

BOX 14

EXPANDING EDUCATIONAL FACILITIES IN EAST AFRICA

Problems such as inadequate facilities and severe overcrowding in government schools have created a strong demand for private educational institutions at the primary, secondary and tertiary levels in Uganda. The Kampala Academy is a private elementary school serving children not only from Uganda, but also from other countries – Kenya, Rwanda, Sudan and Tanzania. The school was started by three families in 1996 with 40 pupils in three classes. Now the school has 620 pupils, of whom 210 are boarders and 410 day pupils, approximately 60% boys and 40% girls.

The growing number of applications for places at the Kampala Academy led to serious overcrowding in its classrooms, making it essential for the Academy to expand its facilities. However, it was unable to do so using only its own resources and school fees, and it could not afford to take out a loan on the commercial terms currently available in Uganda. Under the EIB facility, the Housing Finance Bank (HFB) was able to provide the Academy with a loan of 420 million Ugandan shillings (approximately EUR 120,000) with a ten-year maturity. This made it possible for the Academy to build a new, four-storey classroom building, which will be completed in 2013 with a total construction time of ten months, rather than the estimated ten years that it would have taken to build it using only its own resources and without the HFB financing. With the new building the Academy will be able to reduce the size of its classes, providing better learning conditions for the pupils and enabling it to maintain its high educational standards.

The new classroom building will allow the Kampala Academy to reduce the size of its classes and contribute to maintaining its high academic standards, which attract pupils from five countries.

BOX 15

INCREASED REVENUE FROM TOURISM

Mr J. Bitarabe, who is building the Bitarabe Guest House on the shores of Lake Victoria, borrowed USD 300,000 from HFB at 8% interest, with a ten-year maturity and a one-year grace period. The rising cost of building materials and the intention to open the guest house as soon as possible make it important for him to complete his building project quickly, so he required full financing up front. Through the EIB facility, which is provided in euros, HFB can offer this loan denominated in US dollars. Mr Bitarabe receives payments in dollars from his guests, and the dollar loan carries a more favourable interest rate than one denominated in local currency.

Tourism is one of the sectors financed under the EIB facility. A major driver of economic development in many developing countries, tourism not only brings foreign exchange – in Uganda it is second only to coffee as a foreign exchange earner – but also creates employment, both for women and men, and especially for young people entering the job market. This is tremendously important in a country with an estimated 70% of its working age population, un- or underemployed. During the construction phase, as many as 20 people are working at any one time, and once the Bitarabe Guest House opens for business, it will employ approximately 50 people.

The Bitarabe Guest House is being built on the shores of Lake Victoria, near the international airport at Entebbe, Uganda. 20 people are employed during the construction phase; 50 new jobs will be created when the Guest House opens for business in 2013.

Additionality of EIB participation

The maximum tenor available in the market is three years. The availability of local currency loans with a ten-year tenor, for which EIB assumes the foreign exchange risk, makes a significant contribution to the possibilities of the private sector to grow and develop.

Through the training provided with technical assistance (TA) resources, the final beneficiaries improve the quality of their projects and the associated business plans. Training is also being provided under TA to the staff of participating banks to enhance their capacity in credit analysis.

Leasing is a relatively new area for Uganda banks. EIB funds may be used to finance up to 100% of such loans because the leases are fully secured by the asset that is leased. Leasing is proving particularly popular in the construction sector (large construction machinery) and the transport sector (trucks) both of which are important for developing the country's economic infrastructure.

Examples of loans to SMES

The examples in boxes 14, 15, 16 and 17 describe four construction projects carried out by SMEs financed by loans from Ugandan banks under the EIB facility.

BOX 16

EXPANDING AND UPGRADING HEALTHCARE FACILITIES

The Kisubi Hospital, the only private hospital in the Entebbe region outside Kampala, is a non-profit hospital with a bed capacity of one hundred. It aims to promote access to healthcare for less privileged and vulnerable social groups. It is becoming a multi-specialty hospital, particularly in the areas of obstetrics/gynaecology and surgery – as many as 3,000 operations are performed there every year. Since it is a referral facility, maternity cases that cannot be adequately treated elsewhere are sent to Kisubi Hospital, and 800 Caesarean sections are performed per year.

While the hospital is non-profit, it must earn an income to continue operating. Patients do not cover all costs, and the hospital must rely on donors to make up the difference. As donor funds have been decreasing in recent years, the hospital must expand its range of services in order to increase its income. One area in which it can expand is surgery; however, the current single operating theatre is already insufficient, and the hospital administration has decided to build a new building with additional operating theatres. As the hospital cannot finance the new building from only its current income and donor funds, it has taken a loan from Centenary Bank with a ten-year maturity. The maximum period for which the Bank can normally provide credit is five years, but the EIB facility makes it possible to offer the loan with a ten-year tenor. Construction began in June 2012 and is expected to be completed in February 2013. The new building will house three operating theatres when it is completed, enabling the hospital to perform more operations and earn more income.

Kisubi Hospital's newest building will house three state-of-the-art operating theatres, enabling the hospital to offer more services and ensure its sustainability as an institution dedicated to providing healthcare for all.

BOX 17

EXTENDING BUSINESS AND TECHNICAL EDUCATION OPPORTUNITIES IN UGANDA

In Uganda there are not enough students who graduate in technical and business fields to fulfil the country's manpower needs. Now this type of education is being promoted by the government, and there is a growing demand for it in the country. The Buganda Royal Institute of Business and Technical Education, which was started in 1999 with a grant from the King of Buganda, offers one and two-year courses in a wide range of business and technical subjects. The current enrolment (November 2012) is 2,500 students.

The Institute keeps its fees low – tuition is currently USD 150 per semester – so as to enable students with limited financial means to study, and it also provides scholarships for talented students who cannot afford the fees. The focus on vocational education produces graduates who are able to contribute to the country's economic development, as entrepreneurs and employees, and there is a great demand for people with their skills.

The growing number of students has led to overcrowding and the Institute needs additional lecture halls. Under the EIB facility, Centenary Bank has granted the Institute a loan of 850 million Ugandan shillings (EUR 240,000) with a six-year tenor, enabling the Institute to construct a new building and continue to expand its student body.

The new building will house additional lecture halls, enabling the Buganda Royal Institute to continue to expand its student body and provide much needed business and technical education to more Ugandan students, whatever their financial means.

Dar es Salaam

Water Supply and Sanitation

Project description

The Dar es Salaam Water and Sewerage Authority (DAWASA) was established in 1997 with the responsibility for developing, operating and maintaining all water supply and sewerage services in Dar es Salaam and the adjacent townships of Bagamoyo and Kibaha. In 2002, the area served by DAWASA had an estimated population of 2.8 million, which was expected to double over the next 20 years. The water and sanitation services were poor owing to aged infrastructure, low investment and a high demand/supply gap from existing surface sources. Lack of adequate and reliable water supply and sewerage services represented a major constraint for the local economy. Also, due to lack of adequate and functioning sanitation services, there were repeated outbreaks of cholera.

Large areas of the city had no water supply network. Fewer than 15% of households had a water supply connection, and more than 50% of those with a connection often received water only once or twice per week. This meant that people were faced with the options of using unsafe water sources or paying high prices to commercial water vendors. More than 50% of the water produced was lost through leakage and unpaid consumption. The billing and collection system was highly inefficient. Supply to the city was periodically cut off due to key transmission mains bursting; water was only partially treated because the filters at the main facility were out of operation. None of the 15 sewage pumping stations were operational and the sea outfall, which conveys wastewater from the city centre to the sea, had collapsed, leading to significant pollution along the coastline.

The Dar es Salaam Water Supply and Sanitation Project (DWSSP) was designed to address the urgent needs. The project objective was to provide a reliable, affordable and sustainable water supply and to improve the sewerage and sanitation service of the area served by DAWASA. The project had the following components: institutional restructuring,

physical rehabilitation and upgrading of the facilities and equipment, expanding the water supply and sanitation services, in particular to low-income areas, improving water quality, using water resources more efficiently, and sustainably managing water resources within river basins. It started operation in July 2004 and was completed in June 2010. The total cost of the project at approval was EUR 138 million, with EUR 35 million from the EIB, EUR 32 million from the African Development Fund (ADF), EUR 50 million from the International Development Association (IDA), and EUR 21 million from the government and private operator equity.

Table 28

Actual project results – Dar es Salaam Water Supply

<table>
<tr><th>Outputs</th><th>Outcomes</th><th>Impacts</th></tr>
<tr><td>All 3 water treatment plants renovated</td><td>99% of water samples meet water quality standards</td><td rowspan="10">Improved hygiene in city
Improved hygiene in city
Improved health of population
Better quality of life
Reduced disease outbreaks
Greater share of household budget available for other uses</td></tr>
<tr><td>110 km. of transmission mains rehabilitated</td><td>83% of population (2.8 m people) with access to improved water</td></tr>
<tr><td>1 572 km. of distribution pipes installed</td><td>30% of customers with 24 hour water supply service with adequate pressure</td></tr>
<tr><td>114 329 new and rehabilitated connections</td><td>Greatly reduced leakage; non-revenue water (NRW) decreased to 57%</td></tr>
<tr><td>50 community water supply schemes built and fully operational at end of project</td><td rowspan="3">275 000 people served by Community Water Supply and Sanitation Programme (CWSSP)
Greatly reduced cost of water</td></tr>
<tr><td>294 new water kiosks built</td></tr>
<tr><td>10 community sanitation schemes built and fully operational at end of project</td></tr>
<tr><td>107 km. of sewers extended/cleaned/rehabilitated</td><td rowspan="3">38 000 m^3/day sewage (100%) is treated to specified standards before discharge
14% of population (476 000 people) with improved sanitation</td></tr>
<tr><td>15 pumping stations and 9 stabilization pond facilities rehabilitated</td></tr>
<tr><td>500 new sewer connections.</td></tr>
<tr><td>114 329 meters installed</td><td>83% of connections metered</td><td>74% of bills based on meter readings and 79% of the amount billed is collected</td></tr>
</table>

Project results

The Dar es Salaam Water Supply and Sanitation Project (DWSSP) faced many difficulties during implementation. Although not all the project objectives were fully met, the project activities contributed significantly to meeting the Millennium Development Goal number 7 target of providing access to safe drinking water and basic sanitation in the following ways:

- All three water treatment plants were refurbished, water production has increased to 96% of installed production capacity and the supply is stable.
- Water quality was improved so that now 99% of samples meet quality standards.
- All wastewater systems were rehabilitated, and 100% of the collected sewage is treated.
- 114,000 customer connections are new or rehabilitated and metered.
- 80% of connected households receive water more than six hours per day.
- Non-revenue water has been reduced to 57% by repairing leaks and reducing the number of unmetered connections.
- More than 406,000 low-income families have better access to water supply and sanitation through the Community Water Supply and Sanitation Programme (CWSSP), eliminating the need to purchase water at a much higher cost from vendors.
- The sea outfall was replaced and extended, thus reducing the pollution of the coast.
- Public health has improved and outbreaks of cholera have decreased.
- Strategic master plans for new water sources development and expansion of the water supply and sewerage systems were developed, and a medium-term works programme was established.

Additionality of EIB participation

The EIB provided the loan of EUR 35 million to the Government of Tanzania at 1% with a term of up to 25 years, which matched the useful life of the investment assets and which could not be obtained in the market. The availability of funds with favourable conditions was instrumental for the realization of the project. The cooperation of the Bank with other international financial institutions was vital for the project to be viable. Furthermore, at the time of approval the intended support to a public utility moving towards privatisation was seen as valuable assistance to the government in its efforts to achieve larger private sector participation in the economy.

DAWASA obtains water from two points on the Ruvu River to supply Dar es Salaam and adjacent townships. The water is treated at the two facilities before being transmitted over 100 km.

Refurbishing three water treatment plants improved water quality so that now 99% of samples meet quality standards.

Mobiasbanca – **Groupe Société Générale (MBSG) in Moldova**

Project description

The project objective is to promote private sector development by supporting micro, small and medium enterprises (MSMEs) in Moldova through a EUR 20 million global loan to Mobiasbanca – Société Générale (MBSG). The project was designed for a total of EUR 55 million, including EUR 35 million for the Société Générale subsidiary Republic Bank in Georgia, but that component was delayed due to the global economic crisis and internal organizational changes in Republic Bank.

Mobiasbanca, founded in 1990, was acquired in 2009 by Groupe Société Générale. At the time of appraisal, it was the sixth largest bank in Moldova. The bank was selected because of Société Générale's well-established relationship with EIB, its soundness and its consistent expansion in Eastern Europe. Lending in Moldova's banking market was heavily concentrated on the large corporate and public sectors, while MSMEs remained underserved, and the availability of long-term financing for SMEs was scarce. This project therefore aimed at supporting MSMEs by extending the maturity of the bank's funding base and thus providing a source of longer-term funding.

The EIB loan was a flagship operation under the framework of the Joint IFI Action Plan (approved in 2009) in support of banking systems and lending to the real economy in Central and Eastern Europe. This was the EIB's first operation to support the MSME sector in Moldova. The loan is fully in line with the extension of the EIB's Eastern Mandate to MSMEs in all sectors in the Eastern Partnership Countries.

Project results

- The EIB financing provided increased liquidity of EUR 20 million to MBSG for on-lending to MSMEs.

- By strengthening the bank's funding base, the EIB's investment enabled MBSG to strengthen its position in the MSME market. This addressed a capital market gap in Moldova between the short-term deposit base of local banks and the long-term financing needs of MSMEs.

- MBSG achieved the goal of placing essentially all the available funding in about 24 months, within target objectives, under challenging macroeconomic conditions.

- Loans were provided to 117 companies, with a total cumulative amount of EUR 17 million by the end of 2012. Average size of the loan to SMEs was EUR 138,000.

- EIB resources helped SMEs finance permanent working capital needs as well as long-term fixed asset investments, making Moldovan companies more competitive.
- As MSMEs play a key role in the supply chain and are vital to job creation, financing MSMEs has a positive effect on generating employment. As of November 2012, the number of new jobs created or to be created in the near future by the MSMEs financed was 491, exceeding the target of 200 projected in 2010.

Table 29

Actual project results – Mobiasbanca–Société Générale

Outputs	Outcomes	Impacts
	117 loans to MSMEs (of which 6 micro, 111 SMEs)	
	5 start-up companies financed	
	Average loan size EUR 138 000	Strengthened financial performance and improved competitiveness of MSMEs
	Total disbursed EUR 20m; last disbursement on October 2012.	
Longer-term funding of MBSG increased by EUR 20 m	Average loan tenor weighted by loan size: 51 months	Capital markets better developed
	Cost savings to MSMEs - 204 bps*	Increased access to financing for MSMEs, leading to higher GDP growth
	MBSG improved reporting and accountability	
	Financial performance of MBSG improved (ROE** from 0.9% in 2009 to 7.9% in 2012; Capital Adequacy Ratio from 37.1% to 44.5%)	
	491 jobs created	

* Basis points

** Return on Equity

- When compared with the indicators at the time of appraisal (2009), MBSG improved in terms of profitability, capitalization, liquidity, asset quality and capital adequacy. It is also better performing than its peers.

- Although only a few climate change projects were financed, environmental practices are already pointing to higher standards.

Additionality of EIB participation

EIB provided MBSG with the required long-term financing, which was lacking in the local market and which was suited to the long-term nature of fixed asset investments as well as the permanent working capital needs of the SMEs. The term was extended by almost two years from an average weighted maturity of 32 months at appraisal, to 51 months for EIB-funded loans. The average maturity profile of the EIB loans reflects permanent working capital financing of up to 36 months and long-term fixed asset investments for up to ten years. The matching of asset investment life with funding liabilities increased from 38% at the time of appraisal to more than 60% in 2012. MBSG largely exceeded the threshold of 25 basis points (bps) of financial value added to the final beneficiaries in the loan agreement; the average financial value added of the 117 operations was 204 bps. The EIB contribution was complementary to that of other IFIs. The EBRD (European Bank for Reconstruction and Development) provided short-term working capital in euros, while the EIB provided long-term financing for investments and permanent working capital in both euros and US dollars.

Examples of loans to MSMEs

Salva Horeca

A restaurant and wine bar with three locations in the capital. The EIB loan was used to finance facility reconstruction, equipment, and increased permanent working capital. According to the entrepreneur, the loan's lower cost and longer maturity were critical in his decision to take the investment risk.

Oltavim

An enterprising couple owns four adjacent businesses including a food retail and supermarket, a café, a natural gas filling station for trucks, buses and taxis, and a new corner building that is currently leased to MBSG as a branch location. The EIB loan was used to finance the reconstruction of a commercial building for the fast-food restaurant and partly for renting.

Mall Dova

This state-of-the-art shopping mall is in a central location where it is clearly visible. The mall concept is entirely new to the country and has a significant upside potential for the bank's SME clients without the downside risks of large investments.

Universul Restaurantelor

This is a home grown Moldovan success story. The EIB financed reconstruction and equipment purchase, decoration works and a permanent working capital increase for cafés under the local brand Tucano. EIB funding amounted to EUR 488,000, with the longer maturity of up to four years, instead of the three years offered by other local banks.

Cape Verde Wind Power PPP Project

"The Cape Verde Wind Power project is truly groundbreaking", says Fabio Borba, Vice-President of InfraCo, which is managing the development of the wind farm. "Its novel public-private partnership structure will set an example for the whole region. The EIB is covering nearly half of the project financing. Without its support, commitment and foresight the project would have not come to fruition."

Project description

The project objective was to construct and operate four onshore wind farms and the associated transmission infrastructure to provide electric power on four islands of Cape Verde. The project was developed under a public-private partnership (PPP) with the Government of Cape Verde and the local utility company Electra, the first PPP project in Cape Verde. The total cost was EUR 60.2 million, of which 75% was debt financing and 25% was financed through equity. The EIB was lead financier, together with the African Development Bank (AfDB), providing EUR 30 million and EUR 15 million respectively.

The project is one of the largest wind farms developed in Sub-Saharan Africa and the first to be financed as a full-risk project finance transaction. The environmental and economic benefits of the project, through the substitution of renewable and abundant wind power resources for expensive imported fuel, demonstrate that economic efficiency is compatible with environmental protection. In 2011, the project received the Africa Energy Award for being the first commercial scale PPP wind farm in Sub-Saharan Africa.

Cape Verde's 500,000 inhabitants have been suffering more and more from electricity shortages. In order to meet rising energy demand, the national authorities have launched an ambitious plan to boost electricity production. The project was designed to exploit the country's abundant wind resources, introducing modern wind power technology so that wind energy will become the primary alternative to fuel oil generation in Cape Verde. The aim is to

Table 30

Actual project results – Cape Verde Wind Farm

Outputs	Outcomes	Impacts
30 turbines constructed on 4 islands and installed capacity increased by 26 MW: • Santiago 11 turbines, 9 MW • São Vicente 7 turbines, 6 MW • Sal 9 turbines, 8 MW • Boa Vista 3 turbines 3 MW	Increased energy availability and reliability benefiting 370 000 people	Reduced environmental impact Improved quality of life
	Proportion of renewable energy sources increased from 2% to 25%	Growth in tourism and associated revenues
	Cost of energy produced decreased by EUR 1.6 m per year or 16%	Economic growth and employment creation
	Reduced GHG emissions – estimated at 67 400 t CO_2eq/ year	More of household budget available for other expenditures
	Savings in foreign exchange expenditures of EUR 10 m per year	Trade deficit reduced from 11.5% in 2012 to 7.4% in 2017 (IMF projection)

increase the energy supply by 40% by 2012 and to double the share of wind energy production by 2020 from 25% to 50%. The project diversifies the sources of energy production and increases the provision of electricity across the islands.

It is estimated that through this project, expenditures on energy imports will decrease by 30%. Expensive, imported, fuel-based, unreliable sources of energy will be gradually replaced by cheaper, sustainable, renewable and clean wind power, which will also increase the security of the energy supply. Supporting projects aimed at the security of the energy supply has immediate economic gains in economic efficiency and long-term economic growth impacts by changing the structure of energy production. It is projected that the increased power supply will boost economic growth and allow an increase in tourism.

Project results

The project was completed in 2012, having constructed 30 of the originally planned 32 Vestas turbines on four islands – Santiago, São Vicente, Sal and Boa Vista. The results achieved include the following:

- The project added 26 MW to the country's electricity generation capacity.
- The wind farms increased the proportion of renewable sources in the country from 2% to 25%.
- Approximately 70% of the population, or 370,000 people, benefit from the electricity supplied by the project.
- The reduction of 13,550 tonnes of fuel oil imports per year results in savings of EUR 10 million in foreign exchange expenditures and reduces the country's vulnerability to fuel price fluctuations.
- The cost of electricity generation has been reduced by EUR 1.6 million per year or 16%.
- Greenhouse gas (GHG) emissions were reduced by 58,800 tonnes CO_2 equivalent in 2012, and will be reduced by 67,400 tonnes per year when the wind farm is generating at full capacity.

Additionality of EIB participation

The project planning and design took more than 10 years prior to EIB involvement. Finally, after the EIB entered in 2008/2009, the project was implemented. The EIB has an excellent track record with the government of Cape Verde – the 70% debt component of the capital structure and the political guarantees from the EU were decisive factors for the economic viability of the project. The lead role played by the EIB in providing long-term financing with a significant participation in the capital structure enhanced the economic viability of the project. By supporting the financial soundness of the project, the EIB was also able to attract private sector equity contributions and support from other IFIs, which resulted in the first successful PPP project in Sub-Saharan Africa.

The longer maturity of EIB funding matches the requirements for this type of infrastructure investment. The terms of the Bank's funding will improve the debt service profile of the project and increase the overall sustainability of the wind farm operation. Through its experience and expertise in project finance in the renewables sector, the EIB is well placed to assume the risks associated with such a project. Part of the loan package was a subsidy of EUR 6 million, which, it is expected, will be used for a project together with the World Bank to install metering systems in order to improve the efficiency of the distribution systems.

Sal is one of the four islands of Cape Verde where a wind farm has been constructed to substitute a renewable energy resource for electricity produced with imported fuel oil.

Manila Water Company INC

Project description

The Manila Water Company (MWC) provides water and wastewater services to over 6 million people in the East Zone of Manila, the capital of the Philippines. The growing population and the increasing number of households connected to the water system in Metropolitan Manila are leading to rising demand for water supply services. Population groups who do not have access to direct connections with the city water system have to purchase bottled water and water from commercial vendors at a much higher cost than municipal water or use water from contaminated sources. The objective of the project was to continue MWC's improvements to the water supply service in eastern Manila and bring clean water and sanitation to population groups not yet served. The EIB loan of EUR 60 million over 10 years helped finance a capital investment programme with a total cost of EUR 157 million.

Project results

The Manila Water Company project contributed to achieving the Millennium Development Goals (MDGs) of reducing poverty, improving health, and increasing access to safe drinking water and basic sanitation in the following ways:

- The treatment plants, pumping stations and distribution network were rehabilitated and upgraded, increasing the reliability and efficiency of the water supply service.

- The increased efficiency of the distribution system and reduction in water losses decreased non-revenue water (NRW) levels from 34% to 11%, a saving of 340 million litres per day (MLD) allowing the company to deliver water to more customers without an additional water supply.

Table 31

Actual project results – Manila Water Company

Outputs	Outcomes	Impacts
All water treatment plants were renovated	100% compliance with water quality standards	Improved health
223 km of pipeline replaced	1 120 m litres clean water delivered per day (increase of 233 MLD)	Decrease in outbreaks of diseases
3 850 km of pipeline expanded and rehabilitated	1.1 m additional people with access to clean water at an affordable cost	Better quality of life
710 000 service pipes replaced	Of these, 900 000 people in low-income households.	Greater proportion of household budget available for other uses
249 000 additional connections installed	99% of households with water available 24 hrs/day	Positive environmental impact of more efficient water use
	Non-revenue water decreased from 34% to 11%	

- The number of households connected was increased by nearly 30%, from 909,000 in 2006 to 1.16 million in 2010.

- The number of people served by the network increased from 5 million to 6.1 million.

- The number of low-income people with direct access to clean water was more than doubled, from 740,000 to 1.7 million. This results in significant savings as they no longer need to purchase water at a much higher cost from private vendors.

- Water availability was improved so that 99% of households on the network have water 24 hours a day.

- The water quality was raised and consistently meets the national standards for drinking water, reducing the incidence of water-borne diseases.

- The employment created was approximately 5,000 jobs during construction (four years) and 225 permanent jobs after completion of the project.

- A low initial rate of USD 0.22 for the first 10 m^3 was set for residential customers to ensure affordability for low-income households.

Additionality of EIB participation

The Bank provided financing to MWC with a maturity of 10 years, at attractive interest rates, which was difficult to obtain in the local financial markets. The long-term financing has contributed to containing the level of tariff increases despite the accelerated investment programme. An important feature of the EIB loan was the assumption of political risk, which was rated as high in the Philippines at that time. MWC benefited from the EIB's status as a preferred creditor; EIB participation helped mobilize additional resources. Other IFIs also participated, such as the IFC, which financed a major investment programme for wastewater management. During this period, MWC was able to invest a total of approximately EUR 422 million, financed by a combination of its own resources, Philippine banks and IFIs. All of these investments enabled the company to significantly increase the services it provides to the population of Manila over a relatively short period of time.

EIB Risk Capital and Microfinance Operations
in the Med Region

Catalysing private sector support

Risk Capital Operations

Since 1996, the EIB has been entrusted with the management and implementation of risk capital operations in the Mediterranean partner countries. EIB-MED's risk capital operations aim at strengthening the private sector in the Mediterranean region, in particular by reinforcing the capital base of productive companies, strengthening the local capital infrastructure (e.g. the so-called private equity industry, i.e. equity and quasi-equity financing of non-publicly quoted companies), and promoting inclusive finance though microfinance institutions.

The Bank uses a range of investment instruments to ensure that risk capital resources are deployed where these are most needed: a) direct investments in promising unquoted companies, or direct investment and/or lending to microfinance institutions, b) private equity funds (seed, growth or infrastructure type funds); and c) co-investments with pre-selected local intermediaries.

Support for private equity funds is key not only to providing long-term equity and quasi-equity funding to the real economy but also to providing long-term strategic and operational value added to investee companies. To achieve this, the EIB has helped new local teams and new funds get started by advising them and then endorsing them to the investors' community in order to help them achieve first closings of their funds. This commitment to nurturing local investment expertise and infrastructure is illustrated by the fact that the bulk of its active funds are either managed by first-time teams or are first-in-kind funds, two features that often deter investors.

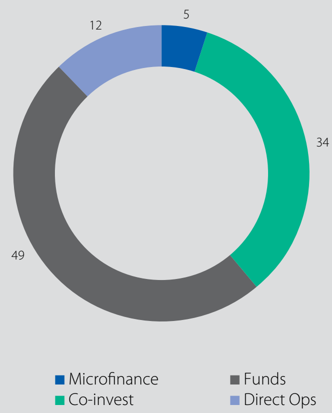
One of the main EIB-MED aims remains the mobilization of third party capital investments in MED private equity industry markets, by demonstrating successful investment to other capital providers. Since 1998, third party funds mobilized alongside the EIB's capital invested have exceeded EUR 1 billion. This represents an aggregate mobilization ratio of over 500%. In other words, on average, for every EUR 1 invested in a fund by the EIB, a further EUR 5 was invested alongside it.

Results

As of end 2012, some EUR 415 million were disbursed out of EC funds either through funds (c. 50%), co-investments (c. 33%), direct operations and microfinance (c. 17%). In terms of geographic outreach, the portfolio reflected the relative weight of the largest economies of the region, namely Morocco (23%) and Egypt (20%), followed by Tunisia with 14%. Around 23% of the portfolio is invested in regional funds, which underlines private equity industry players' belief, as front runners in terms of policy objectives, in the need to consolidate markets across MED and build investment strategy around the creation of "regional champions".

Figure 26

Net signed amount per type of operation (%)



At the end of 2012, EIB-MED had EU capital resources at work in some 187 active companies across Mediterranean member countries with a focus on SMEs. As well as creating and preserving jobs (c. 42,000 direct jobs[17] of which 21% of female employment), these promising businesses make a crucial contribution to their local economies: they

[17] Estimates based on data collected for part of the portfolio of companies as of end 2011.

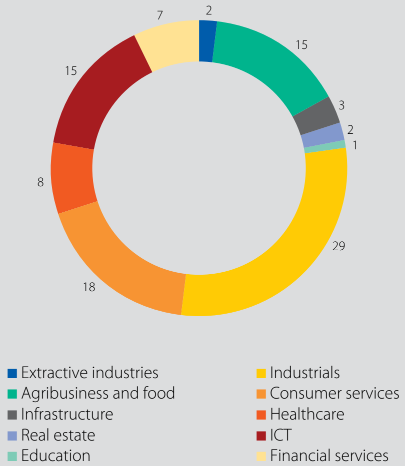
BOX 18

generate export revenues (c. EUR 500 million), pay taxes (c. EUR 160 million) that allow governments to finance public services and infrastructure, train their staff and invest in research and development. Thanks to the local fund managers, the EIB is helping its underlying investee businesses to grow and flourish, not only by providing capital, but also by helping them on the ground to improve their business practices. The resulting growth in turnover and profitability is vital for these companies to attract further investments, grow, employ and train more people, and generate profits and taxes.

In order to foster balanced and sustainable economic development in the MPCs, the EIB has worked to build a diversified sectorial portfolio of final beneficiaries as illustrated by the chart below (as of end 2012):

Figure 27

Funds' final beneficiaries by sector (%)



Microfinance Operations

In 2003, the EIB pioneered financing to the microfinance industry in the Mediterranean region and is one of the few financial institutions providing unsecured local currency funding in the region, thanks to the MEDA risk capital resources. Since then, the Bank has been playing an important role in reinforcing the self-sustainability and financial standing of microfinance institutions (MFIs), thanks to its local currency funding (on sustainable commercial terms) and technical assistance programmes out of MEDA and ENPI (European Neighbourhood and Partnership Instrument) resources.
EIB-MED has succeeded in catalysing local commercial funding to complement the standard operations carried out by the mainstream international donor community (e.g. subsidies and subsidised loans), and helped MFIs manage their integration into the local financial markets.

With a total portfolio of signed loans amounting to EUR 22.3 million, the EIB has played a strong catalytic role for other borrowers and investors, who recognise its high investment standards. EIB-MED-backed MFIs witnessed double digit growth rates for both their active loan portfolio and the number of their active borrowers. This substantial growth was made possible thanks to the additional third party funding sources, and internally generated profits due to strengthened self-sustainability. As such, it is estimated that as of end 2012 (on average):

- for every EUR 1 lent by MFIs out of EC funds, a further EUR 38 was lent to micro borrowers (p.a),
- every EUR 1 out of EC funds was lent 6.6 times to micro borrowers over the life of an EIB loan.

As of end-2012, EIB-MED-backed MFIs have:

- totalled a c. EUR 360 million outstanding portfolio of microloans,
- reached over 830,000 active micro-borrowers of whom 53% are women,
- disbursed c. 740,000 loans for a total amount of EUR 414 million,
- remained active in the bottom of the pyramid segment with an average loan of around EUR 600, and
- employed c. 5,400 persons, including 2,500 women.

Conclusions and actions going forward

This report, the first of its kind issued by the EIB, provides an overview of the pilot year of implementation of the Bank's new Results Measurement (ReM) framework.

Given the early stage of implementation, the report focuses on the expected results of new projects approved in 2012, including their expected contribution to mandate objectives as well as the EIB's additionality. Concrete measurable actual results will start to be available as the projects are implemented and their effects begin to deliver practical results. This will require the Bank to carry out the appropriate monitoring efforts in years to come.

To provide a preview of the measurement of actual results, this report also looks at eight projects approved in previous years and for which concrete results can already be assessed. Although the ReM was not applied ex ante at the time of their appraisal, results have been evaluated, to the extent possible, on the basis of the new ReM framework.

Looking at the projects approved in 2012, the ex ante assessment indicates that the Bank has selected highly relevant projects with a strong expected contribution to mandate objectives and EU as well as country priorities (all ratings are 3 or 4, on a

scale of 1 to 4, with 56.7% of the projects receiving the highest rating). Similarly, the expected quality and soundness of the projects, as measured by the rating for Pillar 2, is consistently high, with ratings of 22% Excellent and 76% Good. Finally, the Bank's additionality is deemed to be significant (rated 3) or high (rated 4) in 84% of the cases, the main factors of additionality being the financial instrument as well as the provision of standards and assurance.

The actual results achieved by older projects examined as part of this exercise, as they reached their completion stage in 2012, is equally encouraging. In this case the value of the assessment is only indicative, given that the ex ante assessment had not been based on the ReM, which prevented a fully fledged comparison between ex ante expectations and actual results.

Initial results show that, through the financing of sound investment projects, the EIB effectively supports common EU external policy as it helps candidate and potential candidate countries move closer to EU standards and membership. It strengthens relations with neighbours and partner countries through the promotion of projects that deliver inclusive growth, help build the private sector as well as important infrastructure, and increase regional integration, while ensuring low carbon and climate resilient growth.

The EIB's external activities really connect the European Union to its bordering regions and beyond and the investments supported are mutually beneficial to both the EU and its partner countries. The transfer of knowledge and experience gained in financing projects within the EU is much valued by partner countries and project promoters.

Furthermore, the Bank's financing activities help to project EU values, including raising environmental and social standards, and overall support the EU's strategic partnership-building and development cooperation.

This year having been a pilot year, the challenge will now be not only to take stock of the experience of this first year of implementation but also to take a number of actions forward.

These actions include to:

- Facilitate and embed in the Bank's operations the collection and reporting of actual results of operations (including the necessary IT systems);

- Revise the ReM framework, integrating lessons learned from the first pilot year and taking into account feedback from internal and external stakeholders, while keeping the indicators and results framework aligned with other international financing institutions;

- Issue the ReM report on an annual basis.

In order to ensure development effectiveness, it is important to streamline the reporting burden on project promoters by virtue of all international financing institutions (IFIs) using – to the extent possible – the same indicators and definitions. Also, in relation to the EU Blending Platform for Economic Cooperation, through which the European Commission offers grant support to leverage lending by eligible IFIs, it will be important to ensure a reasonable degree of convergence of results reporting among participating institutions. The ReM framework already reflects these harmonization efforts and will continue to do so with a view to improving streamlining and reducing the burden on our clients and partners.

Beyond the technicalities of the framework and the choice and precise definition of specific indicators, the challenge for the Bank will be to make use of the framework to further improve the relevance and quality of its portfolio whenever feasible and, to the extent possible, to seek ways of further enhancing its contribution and additionality. In pursuing such improvements over time, the Bank's objective will be to best contribute to European external and development policy and serve the needs of the partner countries in which it operates.

Annexes

1. Operations Approved in 2012

ID	Name	Country	Region	Sector	EIB Amount EUR M	Project Cost EUR M
1	ACCESS BANK GLOBAL LOAN	Nigeria	ACP	SMEs	50.0	100
2	ACCESS MICROFINANCE HOLDING III	Regional - ACP	ACP	Microfinance	15.0	130
3	ADM IX	Morocco	MED	Transport	240.0	494
4	AGROKOR PROCESSING & BIOGAS PROGRAMME	Croatia	Pre Acc.	Manufacturing	30.0	68
5	AIR NAVIGATION UPGRADE EGYPT	Egypt	MED	Transport	50.0	101
6	AIR NAVIGATION UPGRADE UKRAINE	Ukraine	EAST	Transport	57.0	119
7	AKBANK LOAN FOR MIDCAPS AND SMES	Turkey	Pre Acc.	SMEs	150.0	300
8	ALTHELIA CLIMATE FUND	Colombia	ALA	Agriculture, forestry and fishing	10.0	60
		Indonesia	ALA	Agriculture, forestry and fishing	5.0	30
		Kenya	ACP	Agriculture, forestry and fishing	10.0	60
		TOTAL:			25.0	150
9	ARCELIK R&D	Turkey	Pre Acc.	Services	100.0	205
10	ARMENIA WATER SECTOR PROJECT	Armenia	EAST	Water, sewerage, waste	6.5	22
11	ASECNA V	Regional - Africa	ACP	Transport	40.0	90
12	BADIA IMPACT FUND	Jordan	MED	Services	4.0	20

ID	Name	Country	Region	Sector	EIB Amount EUR M	Project Cost EUR M
13	BANGLADESH POWER ENERGY EFFICIENCY	Bangladesh	ALA	Energy	82.0	165
14	BARRAGE RESERVOIR DE LOM PANGAR	Cameroon	ACP	Energy	30.0	308
15	BETA GLASS PLC NIGERIA	Nigeria	ACP	Manufacturing	15.0	90
16	BORDER CROSSING AND INFRASTRUCTURE	Armenia	EAST	Transport	30.9	62
17	CA CCFL HYDROPOWER 5 DE NOVIEMBRE	El Salvador	ALA	Energy	46.5	132
18	CA CCFL HYDROPOWER CACHI	Costa Rica	ALA	Energy	42.2	138
19	CAIRO METRO LINE 3 (PHASE 3)	Egypt	MED	Transport	600.0	2,418
20	CHISINAU URBAN ROADS	Moldova, Republic of	EAST	Transport	10.3	28
21	CLSG INTERCONNECTION	Sierra Leone	ACP	Energy	75.0	370
22	CONTINENTAL TYRE PLANT KALUGA	Russian Federation	EAST	Manufacturing	60.0	234
23	CONVERGENCE ICT FUND	Regional - Africa	ACP	Services	22.0	231
24	DASOS TIMBERLAND FUND II	Brazil	ALA	Agriculture, forestry and fishing	3.0	30
		Indonesia	ALA	Agriculture, forestry and fishing	3.4	34
		Russian Federation	EAST	Agriculture, forestry and fishing	2.7	27
		Tanzania, United Republic of	ACP	Agriculture, forestry and fishing	2.6	26
		Ukraine	EAST	Agriculture, forestry and fishing	3.0	30
		TOTAL:			14.7	147
25	DBS GLOBAL LOAN VI	Seychelles	ACP	SMEs	8.0	16
26	DNIPROPETROVSK METRO EXTENSION	Ukraine	EAST	Transport	152.0	305
27	EAC MICROFINANCE FACILITY II	Regional - East Africa	ACP	Microfinance	75.0	150
28	EADB REGIONAL FINANCE FACILITY II	Regional - East Africa	ACP	SMEs	25.0	50
29	EAST AFRICA REGIONAL PEFF	Regional - East Africa	ACP	SMEs	160.0	320
30	EASTERN AFRICA TRANSPORT CORRIDOR	Uganda	ACP	Transport	55.0	129
31	EB SMES AND PRIORITY PROJECTS II	Serbia	Pre Acc.	SMEs	50.0	100
32	ELECTRICITY DISTRIBUTION BIH	Bosnia and Herzegovina	Pre Acc.	Energy	60.0	125
33	ETHEKWINI MUNICIPAL INFRASTRUCTURE	South Africa	ACP	Urban development	50.0	183
34	EXIM BANK OF INDIA CLIMATE CHANGE FL	India	ALA	Energy	150.0	300
35	FERRERO MANISA PLANT	Turkey	Pre Acc.	Manufacturing	50.0	119
36	FLOOD PREVENTION AND PROTECTION	Turkey	Pre Acc.	Water, sewerage, waste	100.0	202
37	FORD OTOSAN II	Turkey	Pre Acc.	Manufacturing	190.0	569
38	FUND FOR THE MEDITERRANEAN REGION II	Regional - North Africa	MED	SMEs	20.0	120
39	HALKBANK LOAN FOR MIDCAPS AND SMES	Turkey	Pre Acc.	SMEs	150.0	300
40	HBOR LOAN FOR SMES AND MID-CAP IV	Croatia	Pre Acc.	SMEs	500.0	1,000
41	IDF LOAN FOR SMES & PRIORITY PROJECTS	Montenegro	Pre Acc.	SMEs	50.0	100
42	ING BANK AS LOAN FOR MIDCAPS AND SMES	Turkey	Pre Acc.	SMEs	100.0	200
43	INTESA SMES MID CAP II	Serbia	Pre Acc.	SMEs	35.0	70
44	ISBANK CLIMATE CHANGE FACILITY	Turkey	Pre Acc.	Energy	75.0	150
45	ISRAEL CHEMICALS LTD IPP	Israel	MED	Energy	100.0	354
46	ISTANBUL EARTHQUAKE RISK MITIGATION II	Turkey	Pre Acc.	Health, education	300.0	660
47	ITEZHI- TEZHI HYDRO PROJECT	Zambia	ACP	Energy	50.0	268
48	KHI SOLAR ONE TOWER PROJECT	South Africa	ACP	Energy	50.0	332
49	LEBANESE HIGHWAYS II	Lebanon	MED	Transport	75.0	150
50	LEBANON ENERGY EFFICIENCY GL	Lebanon	MED	Energy	50.0	147

ID	Name	Country	Region	Sector	EIB Amount EUR M	Project Cost EUR M
51	MAURITIUS AIRPORT HOTEL	Mauritius	ACP	Services	8.0	21
52	MBDP LOAN FOR SME&PRIORITY PROJECTSIII	FYROM	Pre Acc.	SMEs	100.0	200
53	MEDITERRANEAN MICROFINANCE FACILITY II	Regional - Mediterranean	MED	Microfinance	15.0	50
54	METRO DE QUITO	Ecuador	ALA	Transport	200.0	1,361
55	MHP AGRI-FOOD	Ukraine	EAST	Manufacturing	85.0	172
56	MOLDELECTRICA POWER TRANSMISSION	Moldova, Republic of	EAST	Energy	17.0	40
57	MOUNT COFFEE HYDRO GEN REHABILITATION	Liberia	ACP	Energy	50.0	186
58	NORTHEAST BRAZIL SUPPORT TO SMES GL	Brazil	ALA	SMEs	75.0	325
59	NURMINEN LOGISTICS PROJECT	Russian Federation	EAST	Transport	22.5	53
60	ONE - RESEAUX ELECTRIQUES III	Morocco	MED	Energy	180.0	443
61	PEFF III KENYA	Kenya	ACP	SMEs	120.0	240
62	PG VI TUNISIE	Tunisia	MED	SMEs	200.0	400
63	PLAN MAROC VERT PNEEI	Morocco	MED	Agriculture, forestry and fishing	42.5	86
64	PROMINVESTBANK LOAN SMES & MID-CAPS	Ukraine	EAST	SMEs	200.0	400
65	RABOBANK GLOBAL CLIMATE CHANGE FL	Global	ALA	Energy	142.0	350
66	RAIFFEISEN SMES PRIORITY PROJECT II	Serbia	Pre Acc.	SMEs	50.0	100
67	RAILWAY REHABILITATION VINKOVCI-BORDER	Croatia	Pre Acc.	Transport	32.0	65
68	RBBH LOAN FOR SMES & PRIORITY PROJECTS	Bosnia and Herzegovina	Pre Acc.	SMEs	30.0	60
69	REHABILITATION URBAINE TUNISIE	Tunisia	MED	Urban development	70.0	218
70	SAO PAULO POWER DISTRIBUTION - ELEKTRO	Brazil	ALA	Energy	115.0	238
71	SAWISTRA PROGRAMME (GHANA)	Ghana	ACP	Water, sewerage, waste	40.0	93
72	SHELTER-AFRIQUE COMMUNITY DEVELOPMENT	Regional - Africa	ACP	Urban development	15.0	50
73	SME AND GREEN ENERGY GL	Sri Lanka	ALA	SMEs	90.0	180
74	SME GUARANTEE FACILITY	Regional - Mediterranean	MED	SMEs	120.0	320
75	SME GUARANTEE FACILITY (REGIONAL ACP)	Regional - ACP	ACP	SMEs	80.0	400
76	STSPK LOAN FOR SMES &PRIORITY PROJECTS	Bosnia and Herzegovina	Pre Acc.	SMEs	20.0	40
		FYROM	Pre Acc.	SMEs	10.0	20
		TOTAL			30.0	60.0
77	SUSTAINABLE TOURISM & EE GLOBAL LOAN	Turkey	Pre Acc.	Services	200.0	400
78	TAHITI CENTRE HOSPITALIER SWAC	French Polynesia	ACP	Energy	7.5	25
79	TBC BANK SME & ENERGY ENV LOAN	Georgia	EAST	SMEs	50.0	100
80	TUBITAK RESEARCH PROMOTION	Turkey	Pre Acc.	Services	175.0	422
81	TURK TELEKOM R&D	Turkey	Pre Acc.	Services	70.0	147
82	UNICREDIT BANK SME & ENERGY ENV LOAN	Ukraine	EAST	SMEs	140.0	280
83	URGENT FLOOD RELIEF AND PREVENTION	Montenegro	Pre Acc.	Transport	20.0	25
84	VAKIFBANK LOAN FOR MIDCAPS AND SMES	Turkey	Pre Acc.	SMEs	200.0	400
85	VEB LOAN FOR SMES AND MID-CAPS	Russian Federation	EAST	SMEs	200.0	400
86	VIETNAM CLIMATE CHANGE GL	Vietnam	ALA	Energy	150.0	300
87	WATER INFRASTRUCTURE MODERNISATION II	Georgia	EAST	Water, sewerage, waste	40.0	80
88	YAPI KREDI LOAN FOR SMES	Turkey	Pre Acc.	SMEs	75.0	150
89	ZAMBIA WATER AND SANITATION PROJECT	Zambia	ACP	Water, sewerage, waste	75.0	156
90	ZIRAATBANK LOAN FOR SMES	Turkey	Pre Acc.	SMEs	100.0	200

2. Tables, Figures and Boxes

Tables

Figures

Boxes

3. Abbreviations

A	
ACP(s)	African, Caribbean and Pacific (States)
ADF	African Development Fund
AFD	Agence Française de Développement
AfDB	African Development Bank
C	
CEB	Council of Europe Development Bank
COTONOU	The Cotonou Agreement
D	
DFI	Development Finance Institution
E	
EAC	East Africa Community
EADB	East African Development Bank
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ENPI	European Neighbourhood and Partnership Instrument
ESIAF	Economic and Social Impact Assessment Framework
EU	European Union
I	
IBRD	International Bank for Reconstruction and Development (World Bank)
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
M	
MDGs	Millennium Development Goals
MFI	Microfinance Institution
MID-CAP	Mid-Cap Enterprise
MSMEs	Micro, Small and Medium-Sized Enterprises
N	
NGO	Non-Governmental Organization
NIF	Neighbourhood Investment Facility
O	
OCT	Overseas Countries and Territories
P	
PE	Private Equity
PPP	Public-Private Partnership
PRE-ACC	Pre-Accession Countries
R	
R&D	Research & Development
ReM	Results Measurement framework
T	
TA	Technical Assistance
W	
WB	World Bank
WHO	World Health Organization

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