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The EIB's innovative role in ACP countries under the Cotonou Agreement

Options beyond 2020

by San Bilal and Sebastian Große-Puppendahl

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Key messages

With operations both inside (90%) and outside (10%) the EU, the European Investment Bank (EIB) activities are well-placed to contribute to the SDGs. Their universal dimension is closely aligned to EIB core activities, e.g. infrastructure investments, climate financing and private sector support. The EIB's legal mandate to operate in the ACP is the Cotonou Partnership Agreement (CPA), which expires in 2020.	Considering EIB operations beyond 2020, this study looks at aspects of the CPA that have been critical for EIB operations in ACP countries. While under the External Lending Mandate, the EIB needs bilateral framework agreements to operate in non-ACP countries outside the EU, the CPA allows the EIB to operate under a single legal framework.	The CPA's main innovation is the ACP Investment Facility (IF), which supports the private sector, and its Impact Financing Envelope (IFE), targeting higher development impact while bearing greater risks. Yet, EIB operations face many challenges, e.g. limited field presence, country coverage, alignment with EU and ACP priorities, and mostly, how to best reconcile risk, financial return and development impact.	Strategic and political decisions need to be taken for EIB operations to continue post-2020, including a new mandate for the EIB in the ACP. Options are a continuation, possible extension (financially/ geographically) and possible merge of the IF and IFE, further establishment of funds-of funds, increased EIB capacity and greater synergy with other relevant actors as well as with EU, ACP and international actions along the 2030 Agenda.

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The views expressed in this study are those of the authors only and should not be attributed to any other person or institution.

Acronyms

ACP	Africa, the Caribbean and Pacific
AFD	Agence française de développement
AfDB	African Development Bank
AfIF	Africa Investment Facility
AIF	Asia Investment Facility
BOAD	West African Development Bank
CIF	Caribbean Investment Facility
CPA	Cotonou Partnership Agreement
DCI	Development Cooperation Instrument
DFIs	Development Finance Institutions
EADB	East African Development Bank
EBRD	European Bank for Reconstruction and Development
ECA	European Court of Auditors
EDF	European Development Fund
EEAS	European External Action Service
EIB	European Investment Bank
ELM	External Lending Mandate
ENPI	European Neighbourhood and Partnership Instrument
IF	Investment Facility
IFCA	Investment Facility for Central Asia
IFE	Impact Financing Envelope
IFIs	International Financial Institutions
IFP	Investment Facility for the Pacific
IPA	Instrument for Pre-Accession Assistance
KfW	Kreditanstalt für Wiederaufbau
LAIF	Latin America Investment Facility
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MRI	Mutual Reliance Initiative
NIF	Neighbourhood Investment Facility
OCT	Overseas Countries and Territories
OR	Own Resources
RDBs	Regional Development Banks
SDGs	Sustainable Development Goals

SME	Small and medium sized enterprise
TCX	Currency Exchange Fund
TMEA	TradeMark East Africa

Executive Summary

The European Investment Bank (EIB) operations in Africa, the Caribbean and Pacific (ACP) take place under the ACP-EU partnership agreement, the Cotonou Partnership Agreement (CPA). The EIB's activities in the ACP are aimed at contributing to the objectives of the Cotonou Partnership Agreement, supporting projects that yield sustainable social, economic and environmental benefits. Under the CPA, the EIB administers the operations made under the ACP Investment Facility (IF), focused on private sector, as well as the loans made under its own resources, mainly infrastructure projects, guaranteed by EU Member States.

The purpose of the study is to identify what aspects of the CPA have been critical for EIB operations in ACP countries. Over the last months, these questions have served to guide numerous **bilateral interviews** with officials from the EIB (headquarters and in the field), the EU and Member States, the ACP Group, African government and regional officials, state/parastatal companies, private sector actors, and civil society organisations.

The EIB and the CPA in perspective

The EIB is commonly referred to as the EU bank, owned by the 28 EU Member States. It finances activities in line with EU policy objectives and strategies, both within the EU, in terms of European integration, development and cohesion, and outside the EU, in line with EU external and development policy objectives.

Most EIB activities take place within the EU, as the EIB operates approximately only 10 percent of its operations outside the EU. But given its overall size, these operations outside the EU still accounted for a very sizeable €7.7 billion in 2015, almost equivalent to the total activities of the European Bank for Reconstruction and Development (EBRD). While closer neighbouring countries in the EU are the main beneficiaries, the EIB financing operations in the ACP (and OCT States) amounted to close to €1 billion, and near €1.1 billion with South Africa included.

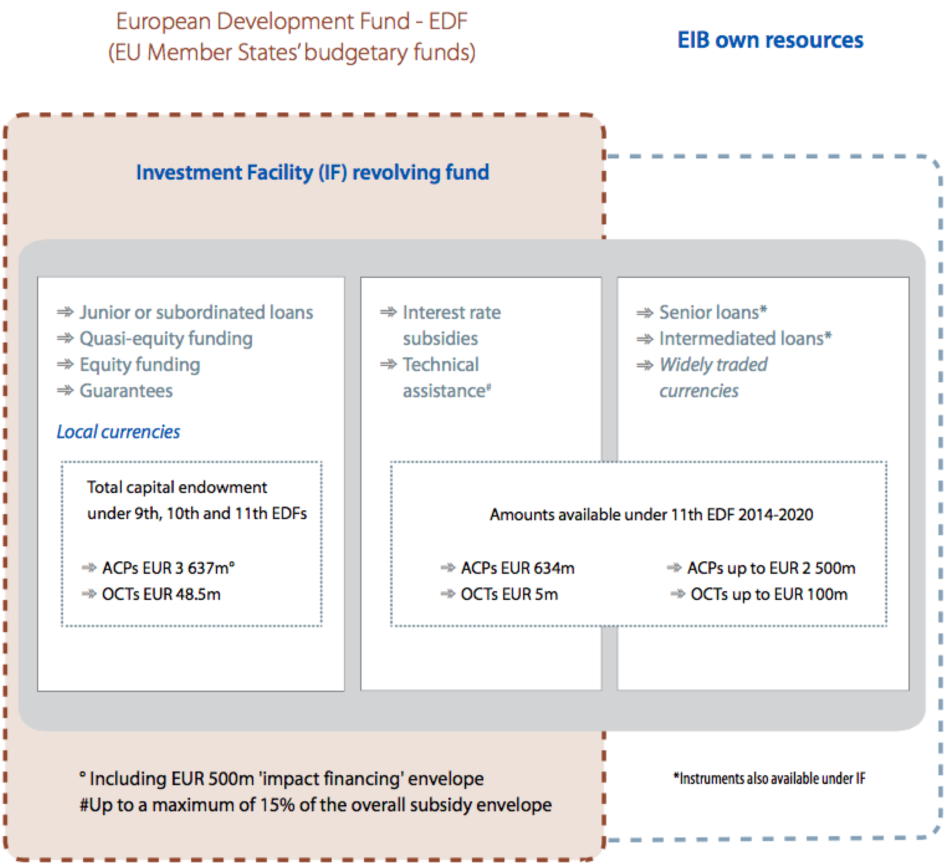
The ACP Investment Facility: key innovation

The CPA has brought up a number of innovative features. The main ones are the following:

First**, it provides a mandate for EIB activities in the ACP countries that has been jointly agreed and ratified by the ACP and the EU States.** This framework, covering a long 20-year period - compared to the External Lending Mandate's (ELM) five-year period - provides stability and continuity for the EIB activities in the ACP. It also allows for regular review, adjustments and some flexibility, as part of the joint ACP-EU institutional framework, and on the initiative of the EU, as in the case of the establishment of the Impact Financing Envelope.

Second, the **major innovation** introduced under the CPA is the **ACP Investment Facility as a revolving fund**, "where loan amortizations are reinvested in new operations, which makes it a financially sustainable facility", to support mainly private sector activities. It allows finance to be leveraged to support private and financial sector activities with a potentially higher risk level, which might otherwise not benefit from EIB's finance. This allows the EIB to do more operations with private sector, with potentially higher development impact**.**

Resources managed by the EIB under CPA



Source: EIB, 2016b

Third, this feature has been further enhanced with the **creation of the Impact Financing Envelope (IFE)**, which allows the EIB to engage in activities with an even higher developmental impact, though potentially carrying a higher risk. Fourth, the EDF financing for the IF also entails a pure grant element, **which allows the EIB to accompany its financial operations with technical assistance and interest rate subsidies,** the non-revolving part of the IF. This is an important element to enhance the effectiveness of its support to private and financial sectors in the ACP.

Fifth, the **28 EU Member States provide a sovereign and political risk guarantee for all ACP operations** as well as a **single institutional framework to operate in all ACP countries** without requiring bilateral framework agreements, as in the case of EIB partner countries under the ELM.

Sixth, the CPA entails a **commitment to not impose any restrictions on currency transfer**, which allows EIB transactions without having to conclude additional bilateral agreements to that effect, as in the case of the ELM countries.

EIB operations in the ACP in practice

The purpose of the study is **NOT to evaluate nor assess** EIB operations, but to consider some of the perceived added value of its activities in practice, and identify some of the challenges and dilemmas it is confronted with.

One of the comparative advantages of the CPA is that it allows the EIB to operate in all ACP countries, including the more vulnerable ones, under a single institutional framework. The EIB claims that it is unlikely it would operate in some ACP countries in the absence of the CPA, or a similar mandate. Among some in the ACP, the NGO community and even in the EC, there is however a feeling of EIB activities being too much concentrated in larger, better developed markets in the ACP, at the expense of weaker economies. The concern is relevant, but difficult to assess.

The EIB's high level of expertise and quality of operations and management is well recognised and acknowledged by a wide spectrum of actors. The EIB applies high financial and technical standards in its management of operations cycle. A prudential approach and due diligence are also an integral part of the EIB's culture. It seems that the EIB's requirements are also a factor that helps uplift the quality of performance of its clients. In addition, the EIB can provide some **technical assistance** to these institutions, for project preparation, improving their internal standards and performance. The importance of **EIB's local presence** has also been stressed by EIB clients and final beneficiaries consulted, as well as by EIB's local staff, as the relationship between the EIB and its (potential) clients and partners cannot be well developed from the Luxembourg headquarter. Understanding local contexts and markets, establishing local contacts, relying more on local expertise and local (financial) systems are major considerations which can benefit from stronger local presence of the EIB.

The EIB often operates together with other IFIs and development finance institutions (DFIs). This allows the EIB activities **to build synergy with these other financial institutions, increasing the leverage and support to the project considered and its development impact**. It also enables the EIB to build on the technical assistance provided by others. In terms of technical assistance and synergy with other development partners, **it seems that very little attention is devoted to combine EIB interventions with donors support**. Given the relatively limited technical assistance available from the EIB, and its very focused nature, one would expect great potential synergy with the development cooperation projects and technical assistance from other donors, in particular the EU and its Member States.

Additionally, **the notions of risk management and market distortions are paramount**. The *raison d'être* of the EIB interventions are the inherent market failures that prevail in many countries to provide sufficient capital and know-how for development impact. The EIB operations provide a temporary remedy to these failures, and can contribute to alleviate and at times correct them. In practice, EIB interventions must constantly strike a balance regarding their level of intervention, which may distort the market they operate in, and the development impact they try to pursue. Identifying the right balance is no easy task, and often relates to strategic decisions as well.

The EIB has paid particular attention to its transparency policy and its openness to various stakeholders, including civil society. The EIB has adopted a clear transparency policy and issued guidelines on transparency for its clients. But civil society in particular, playing a necessary scrutiny role, keeps **asking for greater transparency**.

Options beyond 2020

The CPA will expire in 2020 and at the moment, no decision has been made regarding the future of the ACP-EU partnership beyond the current framework. The purpose here is not to speculate on the outcome of this process. Rather, the aim is to **identify possible options to maintain and build on the innovations of the CPA and beyond**.

From the perspective of the EIB, one of the key factors regarding the situation post-2020 for its operations in the ACP is **whether there will still be an overarching umbrella framework for the**

EU relations specific to the ACP, or whether the ACP specificity will be abandoned and integrated into various dimensions of the EU external relations. Since the CPA provides the current mandate for EIB operations in the ACP, the non-renewing of an ACP-like framework with the ACP would imply that a new mandate would have to be identified. This would most likely entail a revision of the ELM, so as to include the ACP countries. To preserve some of the CPA acquis, the ELM should be more substantially modified to include some of these elements. It could do so specifically for the ACP alone, or for all EU partners, in which case the ACP specificity would be abandoned.

In the absence of an explicit EU decision to preserve the IF and IFE, they will have to close after 2020. The initial endowment will have to be returned to the EU, while it is unclear what would happen to any surplus that could remain. **The major strategic decision for the EU is thus whether it wants the IF and IFE to continue after 2020**. Unless replaced by even more effective instruments, it would seem pertinent to preserve these innovative mechanisms, and further develop them. This could be done in several ways. The following points should be seen as options for consideration rather than strong recommendations:

1) The EU could decide to leave the initial endowment in the IF post-2020;
2) The structure of the IF could be adjusted, so the operations of the IF could be seen along a continuum of risk and development impact assessments and the IFE approach could be fully integrated into the IF guidelines;
3) Access to the IF could be extended beyond the ACP countries should the EIB mandate be adapted accordingly;
4) The endowment of the IF could be increased, as if it works well, why not do more of it;
5) A more radical move would be to change the capital endowment of the IF and open it to other sources of funding, beyond grants;
6) Additional radical moves could include setting up the IF (or similar IF-type of structure) as a subsidiary of the EIB, marking more clearly the difference between EIB's more traditional activities, focused mainly on the EU, and its more development oriented branch of activities
7) In terms of partnership, which is a major dimension of the ACP-EU relations, it would be advisable to more closely associate the ACP Group of countries to the IF process.

Moreover, the **guarantees provided to the EIB could also be expanded**, so as to allow the EIB to undertake more operations with its own resources for greater development impact. The future mandate of the EIB could also **identify priority sectors and/or priority countries** to better guide its operations. However, the EIB Management and Board should be aware that carrying more development impact oriented activities, including to address the root causes of migration and instability in some developing countries, is a complex endeavour more labour intensive than activities within the EU. This requires **greater allocation of staff to development-oriented projects**, and a **greater presence in the field**, in synergy with other actors, including the EU. It may also require some **simplification and adaptation of EIB standards to match the realities on the ground**, instead of sticking to harmonised standards and procedures for operations within the EU and outside.

A promising perspective is through the **establishment of funds** initiatives, in partnership with other institutions and stakeholders, combining different mechanisms to support entrepreneurship in developing countries. The **Boost Africa** proposal, in partnership with the EIB and AfDB, opens interesting prospects in that respect. The future mandate of the EIB could also include **more explicitly due diligence criteria and transparency requirements**, including in terms of the currently missing gender dimension.

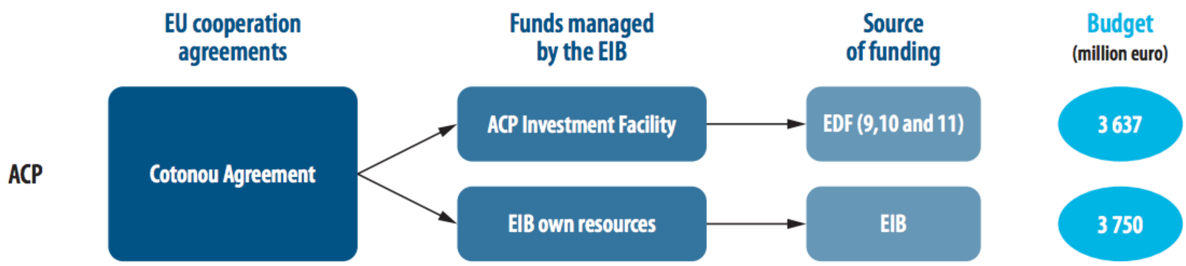
1. Introduction

The European Investment Bank (EIB) operations in Africa, the Caribbean and Pacific (ACP) take place under the ACP-EU partnership agreement (the 'Cotonou Agreement').[1] While the Cotonou Partnership Agreement (CPA) was concluded in June 2000 with a duration of 20 years[2], the European Investment Bank (EIB) "has been supporting EU development policies in ACP regions since 1963" (EIB, 2013a). The EIB's activities in the ACP are aimed at contributing to the objectives of the Cotonou Partnership Agreement (CPA Art. 61.5), supporting projects that yield sustainable social, economic and environmental benefits. Under the CPA, the EIB administers the operations made under the ACP Investment Facility (IF), focused on private sector, as well as the loans made under its own resources (CPA Annex I.6), mainly infrastructure projects, guaranteed by EU Member States.

The innovation under the CPA was the establishment of the **ACP Investment Facility as a revolving fund**, "where loan amortizations are reinvested in new operations, which makes it a financially sustainable facility".[3] The risk-bearing capacity of the IF was an essential element to allow the EIB to increase its support to private and financial sector operations. The IF's aim is "to support the growth of local enterprises and foreign direct investment, especially by increasing SMEs' access to risk sharing instruments and term finance", while reflecting "the recognition of the private sector as a key driver of sustainable growth" (EIB, 2013b).

As illustrated in Figure 1, in the ACP group of states, the Cotonou Partnership Agreement provides the framework for the EIB to manage the ACP IF, which is complemented with EIB own resources (OR). While the ACP IF's source of funding are the 9th, 10th and 11th European Development Funds (EDFs) providing €3,637 million, the EIB provides an extra €3,750 million from its own resources.

Figure 1: Overview of funding provided by the IF and EIB own resources in ACP countries



Source: ECA, 2015

The 2030 Agenda and the EIB in the post-Cotonou context

Financing for development is an integral part of the 2030 Agenda for Sustainable Development, for which the EIB will play an important part. In the years to come, there will be an increasing need to also contribute to the achievement of the Sustainable Development Goals (SDGs). Unlike with the Millennium Development Goals (MDGs), the SDGs are broader, putting a greater reliance on sustainable transformative dynamics and on the role of private sector and multi-stakeholder partnerships. Most importantly, the SDGs have a universal dimension, thus closely aligned to EIB core activities, taking place both inside and outside the EU, with the latter amounting to

[1] Particularly Article 61(5) and Annex II of the Cotonou Agreement regulate the use of the financial resources: www.europarl.europa.eu/document/activities/cont/201306/20130605ATT67340/20130605ATT67340EN.pdf
[2] www.eib.europa.eu/projects/regions/acp/funding-and-financial-instruments/index.htm
[3] www.eib.org/projects/regions/acp/funding-and-financial-instruments/investment-facility/index.htm

only about 10 percent of total EIB operations.[4] The EIB considers itself therefore well placed to contribute to the SDGs, in particular with regard to infrastructure investments, climate financing, supporting the private sector, and providing innovative risk-sharing instruments.

The Cotonou Partnership Agreement entered into force in 2000 for a 20-year period, and thus will remain valid only until 2020. It is currently under close scrutiny, as discussions and debates on what will happen post-2020 have already started.[5] There is no clear consensus yet on how the future of ACP-EU relations will institutionally look like. Will the CPA be extended for another period or will it be adjusted, and if so to which extent? Or will a new cooperation framework replace it, perhaps abandoning the ACP configuration all together, to be replaced by other geographical/regional, developmental or thematic categories.

Purpose of this study

Under the CPA, the EU and ACP have clearly sought to carve a new role for the EIB, the major innovation being the establishment of the ACP Investment Facility. Under this framework, the EIB has clearly aimed to innovate and support development in those countries. The changing international context and the uncertainty regarding the future of EU cooperation with ACP countries and regions post-2020 will have important influence on the instruments and EIB operations in the ACP (and beyond).

The purpose of the study is to identify what aspects of the CPA have been critical for EIB operations in ACP countries? What key innovations have been fostered? What dimensions should be preserved or further improved, and which ones could be adjusted in a post-2020 setting? What should be changed? And how could the institutional framework be adapted and enhanced to best capitalise on the EIB potential in ACP countries?

In addressing these questions, three underlying issues were raised:

- Could the existing instruments continue without a follow-up CPA in place and if so, which mandate would they have?
- What is the value-added of the Cotonou agreement in EIB operations compared to other frameworks in neighbouring countries or within the EU?
- How can the EU ensure that EIB operations in the ACPs can be further developed after 2020, in line with commitments on financing for development, notably involving the private sector? How could the EIB best contribute to the implementation of the SDGs, climate finance and development objectives, including in the context of the emerging European economic diplomacy framework?

Over the last months, these questions have served to guide numerous **bilateral interviews** with officials from the EIB (headquarters and in the field), the EU and Member States, the ACP Group, African government and regional officials, state/parastatal companies, private sector actors, and civil society organisations. Depending on the interviews, more emphasis was put on the CPA institutional setting or the EIB operations. In addition, valuable insights were obtained from a number of **consultations**, including an internal EIB workshop in Luxembourg in November 2015, stakeholder

[4] EIB press release (30 April 2016) 'EIB exceeded lending targets and began roll-out of Investment Plan for Europe, President Hoyer tells MEPs'.

[5] The European Commission launched a public consultation on the future of Cotonou (summary report here), the European Parliament published a draft report (2016/2053(INI)) on the future of ACP-EU relations beyond 2020, the EESC published a green paper 'Future of the EU's relations with the ACP Group of countries', and ECDPM has a dossier on the future of ACP-EU relations post-2020.

consultation events organised by ECDPM in Brussels in December 2015, and jointly with the EIB in Nairobi in December 2015 and in Dakar in January 2016, as well as from the Civil Society Dialogue with the EIB Board of Directors, organised by the EIB in Luxembourg in February 2016.

ECDPM also benefited from its participation in EIB events in Brussels on 'EIB supporting access to finance for SMEs and midcaps in ACP countries in March 2015, on 'EIB's Results Measurement Framework (ReM)' in October 2015, on 'Higher risks for more benefits, the Impact Financing Envelope' in November 2015, and on 'The increasing importance of equity funds in ACP economies' in June 2016, as well as the EIB's Africa Day in Luxembourg in July 2015. The ECDPM interviews and consultations form the basis of this Study and have been conducted on a confidential basis and under Chatham House rule.

It is also important to clarify **what this study is NOT trying to do**. It is not an evaluation of the EIB activities in ACP countries. It is also not an assessment of what the post-2020 relationship between the ACP and the EU will look like, or what should it be.

The discussion is structured as follows. Section 2 considers the EIB institutional setting and its mandates to operate outside the EU, to highlight some key differences and innovation of the Cotonou Partnership Agreement for its activities in the ACP countries. Section 3 then identifies some of the salient features of the EIB operations in the ACP, and the issues raised during our consultations with a wide range of stakeholders. Finally, Section 4 reflects on some of the options for an EIB mandate to operate in the ACP beyond the expiry of the CPA in 2020.

2. The EIB and the CPA in perspective

To understand the framework under which the EIB operates in the ACP countries, it is necessary to first consider its place in the overall EIB setting and general framework for the EIB outside the EU. Only then can the specificities of the institutional framework under the Cotonou Partnership Agreement be identified.

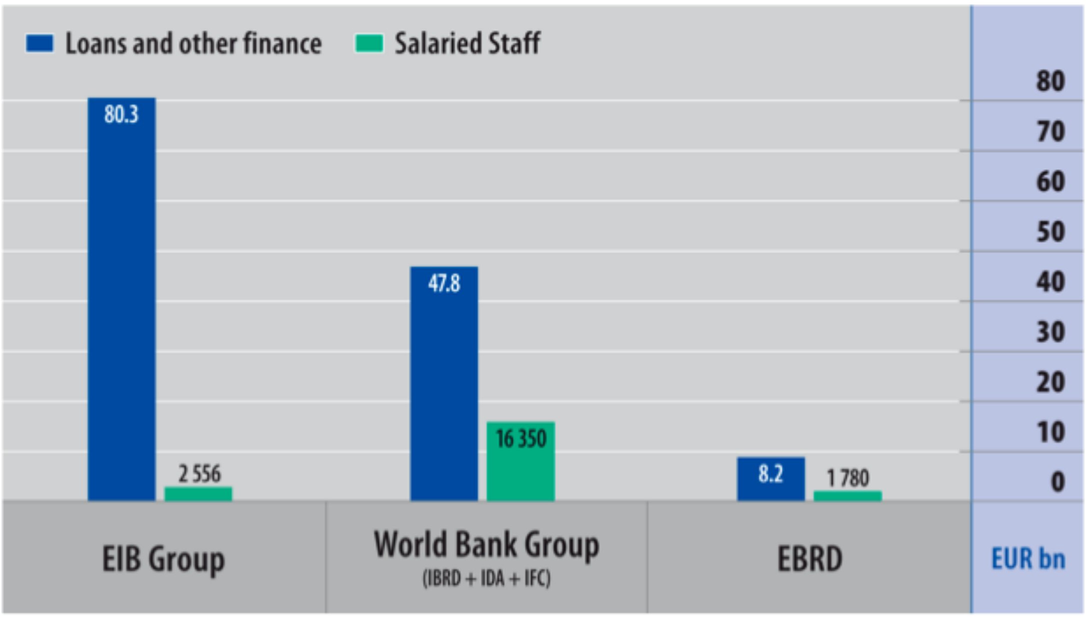
2.1. The EIB framework

The EIB is commonly referred to as the EU bank, owned by the 28 EU Member States. It finances activities in line with EU policy objectives and strategies, both within the EU, in terms of European integration, development and cohesion, and outside the EU, in line with EU external and development policy objectives.

In 2015, the EIB group financing activity amounted to €84.5 billion in total, while raising €62.4 billion on the international capital markets through bond issues, making it "the world's largest multilateral borrower and lender" (EIB, 2016c). Compared to other international financial institutions (IFIs), the EIB is the largest, as illustrated in Figure 3. It is also a very lean institution, with a comparatively very small number of staff.

It is worth noting however that the EIB is not a development bank, in the strict sense of the term, but an investment bank. While many of its activities, in particular outside the EU, have a strong development focus, the fact that it is not like a traditional development bank does have an influence on the way it operates. The mid-term review of the EIB external mandate 2007-2013, commonly referred to as the Camdessus report (Camdessus et al. 2010), identified a number of ways in which the EIB differs from Multilateral Development Banks (MDBs), outlined in Box 1.

Figure 2: EIB compared to World Bank Group and EBRD (2013-2014)



Source: EIB presentation

Box 1: The EIB differences from MDBs

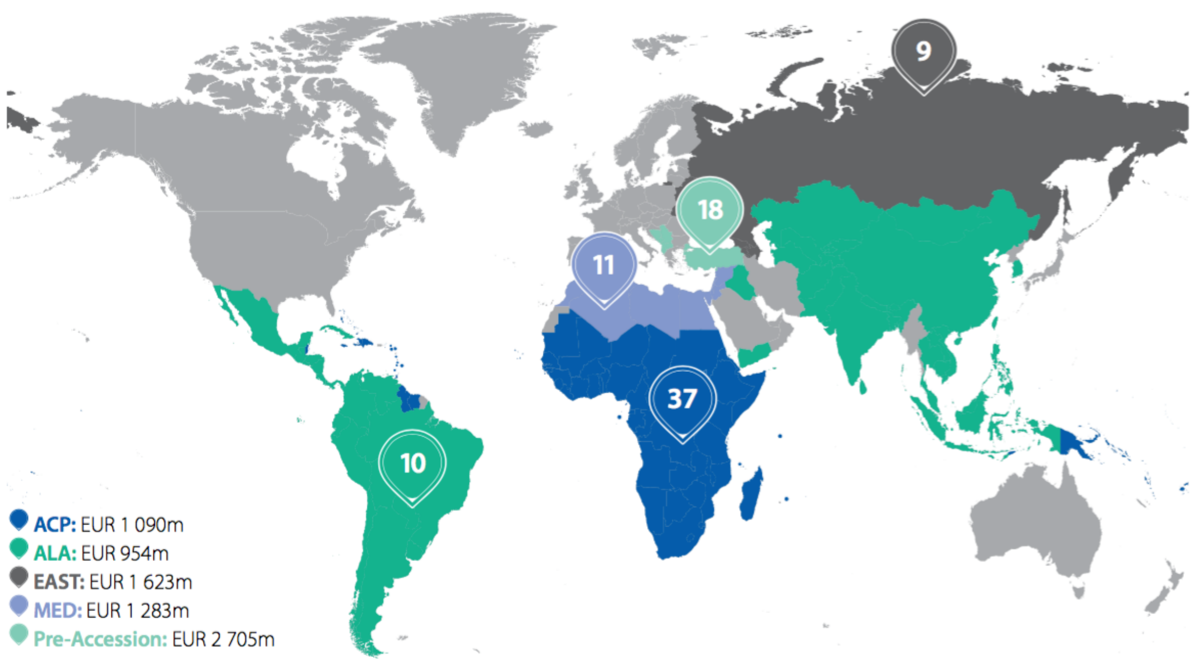
The EIB is different from the Multilateral Development Banks (MDBs) in a number of ways:

1. It operates in all EU countries AND in developing countries;
2. It does not have a pure development mission, but as regards its external activities it works under mandate of the Parliament and Council and/or its Board of Governors;
3. It operates in support of EU external policies and promotes EU standards;
4. It operates outside the EU under a mandate from the EU which provides for a Community guarantee for a significant part of the EIB activity;
5. It is primarily focused on investment/project financing with limited involvement in upstream work (e.g. country and sector strategies, policy support) which is led by the Commission in the EU institutional framework;
6. The beneficiary countries outside the EU are not shareholders of the Bank and the existing EIB institutional setup does not cater for beneficiary countries' ownership;
7. Its access to concessional funds in support of its operations notably in developing countries is small in relation to its own resources for lending (except in ACP); the availability of such funding is organised differently by region, rather than through a single process;
8. In its external operations it has much lower staff resources per unit of financing compared to other MDBs.

Source: Camdessus et al. (2010)

Most EIB activities are taking place within the EU, as the EIB operates approximately only 10 percent of its operations outside the EU. But given its overall size, these operations outside the EU still accounted for a very sizeable amount of €7.7 billion in 2015 (EIB, 2016a), almost equivalent to the total activities of the European Bank for Reconstruction and Development (EBRD). While closer neighbouring countries in the EU are the main beneficiaries, as illustrated in Figure 3, the EIB financing operations in the ACP (and OCT States) amounted to close to €1 billion, and near €1.1 billion with South Africa included (EIB, 2016d).

Figure 3: New projects by region



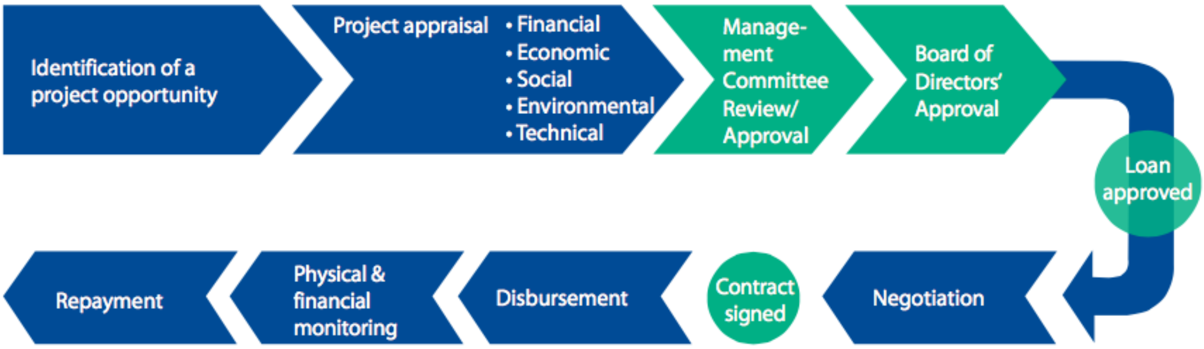
Source: EIB (2016a) The EIB outside the EU 2015

As the EU Bank, the EIB's shareholders are the 28 EU Member States who guide and control the EIB's operations. The EIB Board of Governors is composed of Ministers (of Finance in general) of each of the EU Member States. It is responsible for the adoption of EIB's guiding principles and high-level policies.[6] The Board of Directors comprises non-resident representatives from each EU Member State and one from the European Commission, including observer from the European External Action Service (EEAS), and is responsible for approving financing operations, policies and the operational strategy of the EIB, and for controlling the EIB's Management Committee. Figure 4 outlines the project-cycle process followed by the EIB, including the Management Committee and Board of Directors' responsibilities.

EIB activities outside the EU are conducted under two different mandates: the External Lending Mandate (ELM), for EIB operation in all countries outside the EU, except the ACP countries, and the Cotonou Partnership Agreement for EIB operations in ACP countries. To assess the specificities and innovations of the CPA, these have thus to be compared to the general framework of the ELM.

6 It is also responsible for the approval of EIB's annual accounts, and for the appointment and remuneration of members of the other governing bodies, including the Board of Directors, the Management Committee and the Audit Committee. www.eib.org/about/structure/governance/index.htm

Figure 4: EIB project-cycle process



Source: EIB (2016d) Financial Report 2015

2.2. The External Lending Mandate

The role and guidelines under which the EIB should operate outside the EU, except in the ACP countries (but including South Africa), **are defined in the External Lending Mandate, approved by the Council and the European Parliament.**[7] The general objectives currently include private sector development, in particular SMEs, social and economic infrastructure, as well as climate change mitigation and adaptation, which must account for at least 25 percent of total financing operations.[8]

Under the ELM, cooperation shall be carried out on a **region-by-region basis**, in close cooperation and understanding with the European Commission.[9] One of the principles is that, when and as appropriate, to combine EIB financing with EU budgetary resources, in the form for instance of guarantees, risk capital and interest rate subsidies, investment co-financing, alongside technical assistance, for project preparation and implementation. This is done through EU external financial instruments, which are the Instrument for Pre-Accession Assistance (IPA), the European Neighbourhood Instrument (ENI)[10] and the Development Cooperation Instrument (DCI), thus covering Mediterranean and Eastern Europe, Southern Caucasus and Russia, Asia and Latin America, and South Africa. EIB lending operations outside the EU in these countries totalled to €7.7 billion in 2015 (see also Figure 2).[11]

Most of the EIB financing operations outside the EU benefit from **an EU budget/Community guarantee**, which covers **sovereign and political risks** under the ELM.[12] That is, the Community guarantee provided under the ELM can take the form of (i) **a comprehensive guarantee** for sovereign or sub-sovereign sector operations (i.e. government-related); or (ii) **a political-risk guarantee** for non-sovereign operations. This Community guarantee covers risks that the EIB is not able to take on its own balance sheet except for investment-grade operations. By doing so, It ensures that the EIB's credit standing is not affected by sovereign and political risks and further enables the Bank to maintain attractive lending rates in more 'unstable' countries.[13] However, to be able to benefit

7 The European Parliament has the right of co-decision over the EIB ELM.
8 See Decision No 466/2014/EU of 16 April 2014: guarantee to the European Investment Bank against losses incurred on investment projects outside the EU (Council approves agreement with EP on EIB lending mandate for the 2014-2020 period, press release here, and summary here)
9 Memorandum of Understanding between the EC and the EIB in respect of Cooperation and Coordination in the Regions covered by the External Mandate (12/09/2013).
10 Before 2014 it was the European Neighbourhood and Partnership Instrument (ENPI).
11 EIB presentation 'The EIB Operations and Objectives outside EU', Berlin, 19 March 2016.
12 Council decision 2006/1016/EC.
13 Council of the EU. 2013. Council approves agreement with EP on EIB lending mandate for the 2014-2020 period. Press release 20 December 2013.

from the Community Guarantee, partner countries must first have concluded a bilateral framework agreement with the EIB, which covers legal provisions regarding currency transfer and taxation related to EIB operation.[14] The mid-term review of the EIB's external mandate 2007-2013 "concluded that the Community Guarantee instrument had high value-added and leverage" and recommended "maintaining and optimising it both for the rest of the current mandate and for the following ones after 2014" (Camdessus et. al., 2010). It also encouraged the EIB to pursue own-risk activities.[15]

2.3. The CPA: a mandate for the EIB in the ACP

To operate in the ACP countries (not including South Africa), the EIB receives its mandate from the Cotonou Partnership Agreement, signed on 23 June 2000 by the EU Member States and the ACP States. The EIB is to support the objectives of the CPA. CPA Article 61 on the Nature of Financing stipulates that the EIB's own resources together with the funds earmarked under the multiannual financial framework of cooperation under the CPA and where appropriate other resources drawn from the European Community's budget, "shall be used to finance projects, programmes and other forms of operations contributing to the achievement of the objectives" of the CPA.

A mandate in the context of partnership

Contrary to the ELM, which is unilaterally defined by the EU "to promote the EU's external policy objectives",[16] **the overall mandate under which the EIB operates in ACP countries has been jointly negotiated and agreed by all parties**, i.e. including all ACP countries, in the form of the CPA.

The difference in practice may not appear that substantive, as the ACP have no formal role in the EIB-related specific decision-making process. However, the ACP countries are consulted and do have some general oversight role in the context of the ACP-EU Partnership. The CPA notably foresees that the ACP-EC Development Finance Cooperation Committee, which "ensure[s] the overall achievement of the objectives and principles of development finance cooperation and establish general guidelines for their effective and timely implementation" (CPA Art.83.2(a)), has a specific role with regard to reviewing the financial protocol and terms and conditions of financing, as specified in the CPA annexes (which have indeed been amended by the joint Council of Ministers). These are of direct relevance to the EIB operations (CPA Art.83.2(c)). The Committee also "examine[s] the operations deployed within the framework of the Agreement to attain the objectives of promoting private sector development and investment and the operations of *the Investment Facility*" (CPA Art.83.2(d)) [*emphasis added*]. Besides, each sovereign loan project must be endorsed by the country concerned of course, and the National Authorising Officer, appointed by the government of each ACP State, who "represent[s] it in all operations financed from the resources from the multiannual financial framework of cooperation" under the CPA which are managed by the European Commission or the EIB (CPA Annex IV Art.35.1).

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[14] See Decision No 466/2014/EU Art.3.9.

[15] In particular, the Camdessus Report found that "the Community Guarantee is a form of concessional support for EIB borrowers, although **the leverage is significantly higher than direct grant support** due to the low failure rate as well as a possible reutilisation of provisioned budget funds in case the guarantee is not called or funds are recovered, as it has been the case so far". It further recommended considering the option of "introducing the principle of graduation of EIB eligible countries of operation from Community guarantee to EIB own-risk". The principle of graduation would imply that eligible countries currently receiving EIB support under the comprehensive guarantee, could evolve to receiving EIB support under EIB own-risk, while the "reverse graduation process should also be possible" (Camdessus et. al., 2010).

[16] EIB (2016f), Financial Report 2015.

Arguably, the CPA also reflects some difference in approach compared to the ELM. In particular, the CPA puts a stronger (or at least more explicit) emphasis on dimensions such as poverty alleviation, supporting regional integration and fostering the integration of ACP countries into the world economy, to mention but a few. In this regard, the CPA also offers enhanced opportunities for EIB operations in ACP countries and regions, compared to the ELM.

The ACP Investment Facility: key innovation

However, **the major innovation introduced under the CPA is the ACP Investment Facility (IF).**

The **ACP Investment Facility was established under the CPA as a revolving fund** (CPA Annex II, Art.3.1(a)), "where loan amortizations are reinvested in new operations, which makes it a financially sustainable facility".[17] This is a major innovation, as the initial endowment of the fund (from grant resources) should suffice to make it fully sustainable over time, based on development-oriented financially sustainable investments. It is an essentially different facility than the EU regional blending facilities (see Box 2).

The IF is **managed by the EIB** (CPA Annex I.6, and Annex Ib.3), **acting on behalf and at the risk of the EU**[18], and gets remuneration for it for the costs incurred (CPA Annex II Art.3.1a). This puts a major onus on the EIB to operate it wisely, balancing risk and reward to ensure its financial sustainability, while seeking to maximise its development impact.

Box 2: To be or not to be an Investment Facility

In spite of their most unfortunate similar names, the ACP Investment Facility is not to be confused with the EU regional blending facilities (see graph below), such as the Neighbourhood Investment Facility (NIF), Latin America Investment Facility (LAIF), Asia Investment Facility (AIF), Investment Facility for Central Asia (IFCA), Caribbean Investment Facility (CIF), Investment Facility for the Pacific (IFP) and Africa Investment Facility (AfIF), which are meant to blend EU grants with loans or equity from public or private finance, and are managed by the European Commission.

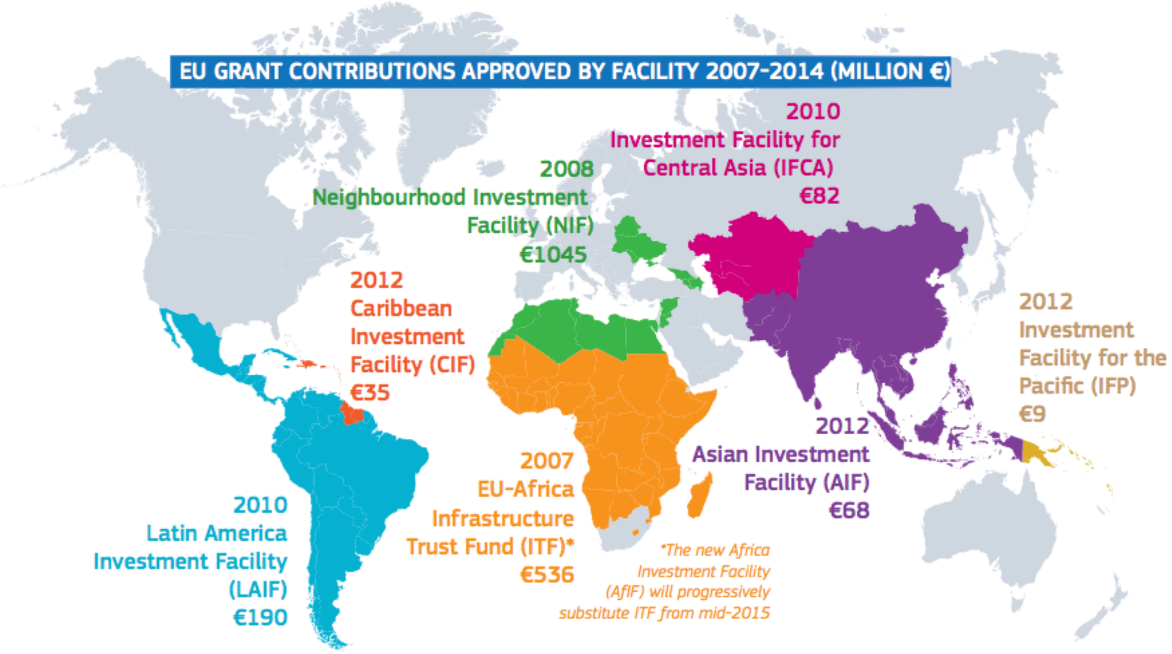
Those blending instruments are, according to the Commission, "an important vehicle for leveraging additional resources and increasing the impact of EU aid" using the grant element in a strategic way "by reducing exposure to risk". To do so, the EU grant contribution can take different forms:

- **Investment grant & interest rate subsidy** → reducing the initial investment and overall project cost for the partner country
- **Technical assistance** → ensuring the quality, efficiency and sustainability of the project
- **Risk capital** (i.e. equity & quasi-equity) → attracting additional financing
- **Guarantees** → unlocking financing for development by reducing risk

The grant contribution is then complemented by the EIB or other European Development Finance Institutions (DFIs) by providing technical and lending capacities. Previously the EIB acted as the financial manager of the EU-Africa Infrastructure Trust Fund (EU-AITF) and hosted its secretariat.[19] From mid-2015 onwards the EIB also provides finance to the European Commission's AfIF through funding coming from the ACP Investment Facility and EIB own resources.

[17] www.eib.org/projects/regions/acp/funding-and-financial-instruments/investment-facility/index.htm
[18] Part two of the Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the 11th European Development Fund (Financial Regulation) (OJ L 58, 3.3.2015, p. 17) regulates the Investment Facility, while Article 51 specifies the role of the EIB.
[19] More information on the EU-AITF: http://ec.europa.eu/europeaid/node/1521

EU Regional Blending Facilities



Source: European Commission. 2015. EU Blending leaflet - EU aid to catalyse investments.

The objectives of blending are threefold.[20] First, there are leverage effects by generating additional public and private resources for enhanced development impact (financial leverage), by improving project sustainability and speed, more financial discipline and ownership (non-financial leverage), and by supporting reforms in line with EU policies (political leverage). Second, there is greater cooperation and coordination between European and non-European development actors, both donors and finance institutions. Finally, the EC hopes to achieve increased EU visibility by using EU grants to catalyse larger projects, where EU would normally not be present or visible by presenting projects labelled with 'co-financed by the EC as joint EU initiatives'.

See also European Commission's DG DEVCO on innovative financial instruments & Bilal and Krätke (2013).

The objective of the Investment Facility is to support investments by private and commercially run public entities in all economic sectors (CPA Annex II Art.3.1). Particular attention must be given to "support the ACP financial sector and have a catalytic effect by encouraging the mobilisation of long-term local resources and attracting foreign private investors and lenders to projects in the ACP States" (CPA Annex II Art.3.1b). So, the approach of the IF is focused on private sector and operations have to be commercially viable. The objective is clearly to combine economic and developmental sustainability.

The IF governance

To ensure the good functioning of the IF, the **Investment Facility Committee** has been established, which consists of a representative from each EU Member State and a representative of the Commission, plus two additional EIB representatives and a Council and EEAS representative

[20] EU regional blending facilities. Presentation 18 June 2015, retrieved from GTAI.

respectively as observers.[21] The role of the IF Committee is to approve the operational guidelines, investment strategies and business plans, annual reports and general policy documents as well as give opinion on the IF financing proposals, all financing proposals from EIB's Own Resources under the CPA, on the use of interest rate subsidies and technical assistance, on proposals related to the development of the EIB's result measurement framework and any other proposals (Council Decision (EU) 2015/354 Article 4). The IF Committee meets at least four times a year and acts by qualified majority of 721 votes out of 1000, expressing a vote in favour by at least 15 Member States and with a blocking majority of 280 votes (Council Decision (EU) 2015/354 Articles 2 and 3). This framework is unique to the ACP-EU Cotonou Partnership Agreement.

The European Commission plays a special role in the EIB's operations. "When a financing proposal is presented to the Investment Facility Committee, the Commission is asked to provide an opinion on the proposal's consistency with the EU's development policy. Once the proposal has been accepted by the IF Committee, it will be submitted to the EIB's Board of Directors, which takes the final financing decision." (ECA, 2015) In terms of Figure 4 above, the IF Committee's decision thus takes place in between the Management Committee Review/Approval and the Board of Directors' Approval. For IF operations between 2011 and 2014, "the Commission had expressed a favourable opinion in respect of all 20 of the operations", which have been reviewed in the November 2015 special report by the European Court of Auditors on the ACP IF.

Resources available

The IF receives its funding from the **9th, 10th and 11th European Development Funds** (EDFs) with a **total capital endowment of €3,637 million** for the ACP, including a €500 million 'impact financing envelope' (IFE), based on the Financial Protocol of the CPA (Annex I) and the respective multiannual financial frameworks. Capital contributions by the EU Member States to the EDFs are paid directly to the EIB managing the Facility. As a result, the IF is an off-balance sheet item in the EIB's accounts. This means that the IF operations have no impact on the EIB credit rating. The triple-A credit rating of the EIB allows it to raise its lending resources in a cheaper way on the international capital market than it would otherwise.[22]

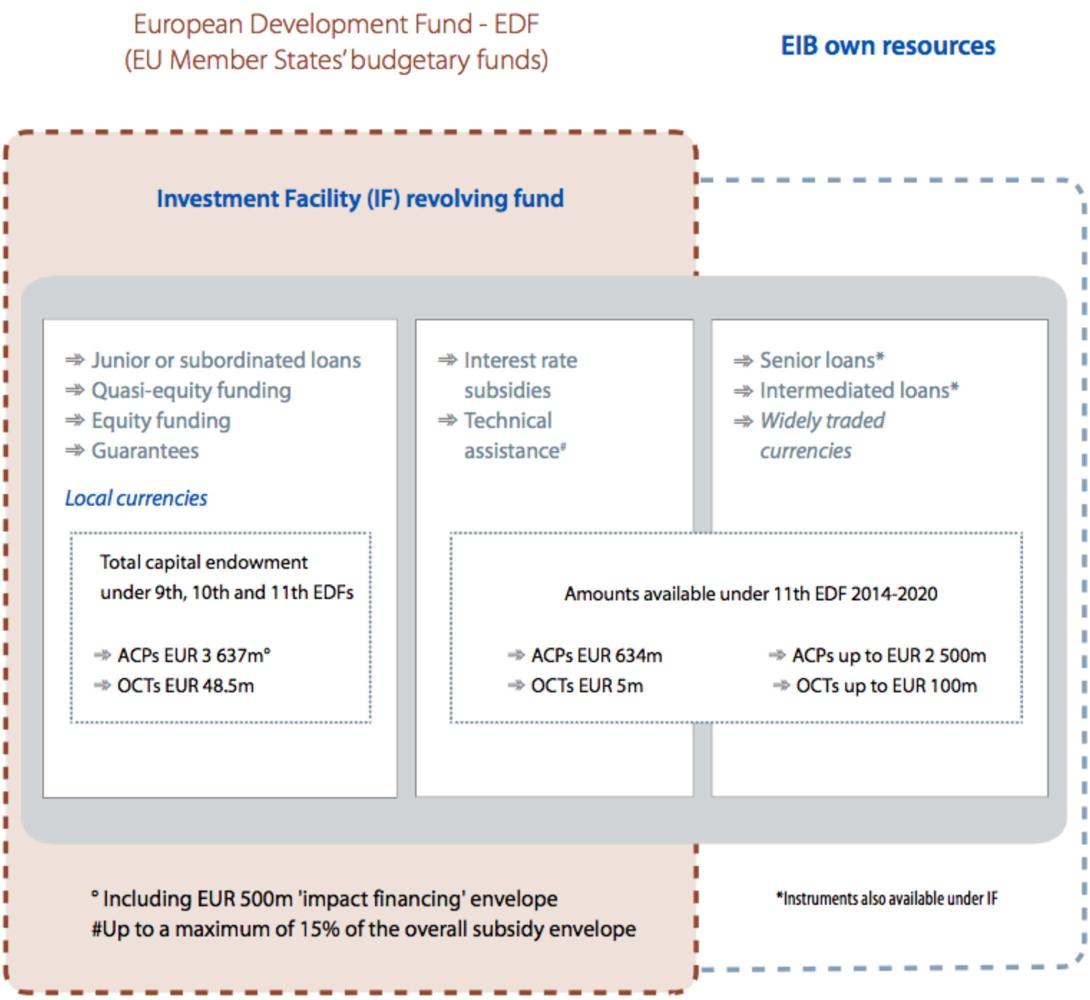
The IF's instruments are (junior or subordinated, senior and intermediate) **loans**, (quasi-) **equity funding**, **and guarantees**. An important element is the further grant envelope from the 11th EDF of €634 million for interest rate subsidies (IRS) and technical assistance (TA), which is the non-revolving part of the IF. These are complemented by a further an amount of up to €2.5 billion under the 11th EDF for the EIB own resources' operations, which are mainly for public sector projects.

Figure 5 provides an overview of the funding structure, amounts and instruments available to the ACP countries (and the Overseas Countries and Territories - OCTs).

[21] See Article 13 of the Council Regulation (EC) No 617/2007 and Council Decision (EU) 2015/354 of 2 March 2015.

[22] The EIB prides itself for its "outstanding asset quality and conservative risk management" as reasons for its "highest credit quality". More information on EIB website: Credit Rating.

Figure 5: Resources managed by the EIB under CPA



Source: EIB, 2016b

Risk dimensions and guarantees

EIB operations in developing countries are generally perceived as more risky than those in the EU. The nature of the IF, as a sustainable revolving fund funded from the EDF resources, does not need a special guarantee. However, for the operations in ACP countries financed by the **EIB own resources**, the EU Member States provide **a guarantee** covering:

- **all risks for EIB loans to ACP public borrowers**, i.e. a comprehensive guarantee for sovereign risks; and
- **political risks for EIB loans to ACP private borrowers**, where political risks include non-transfer of currency, expropriation, war or civil disturbance and denial of justice upon breach of contract.

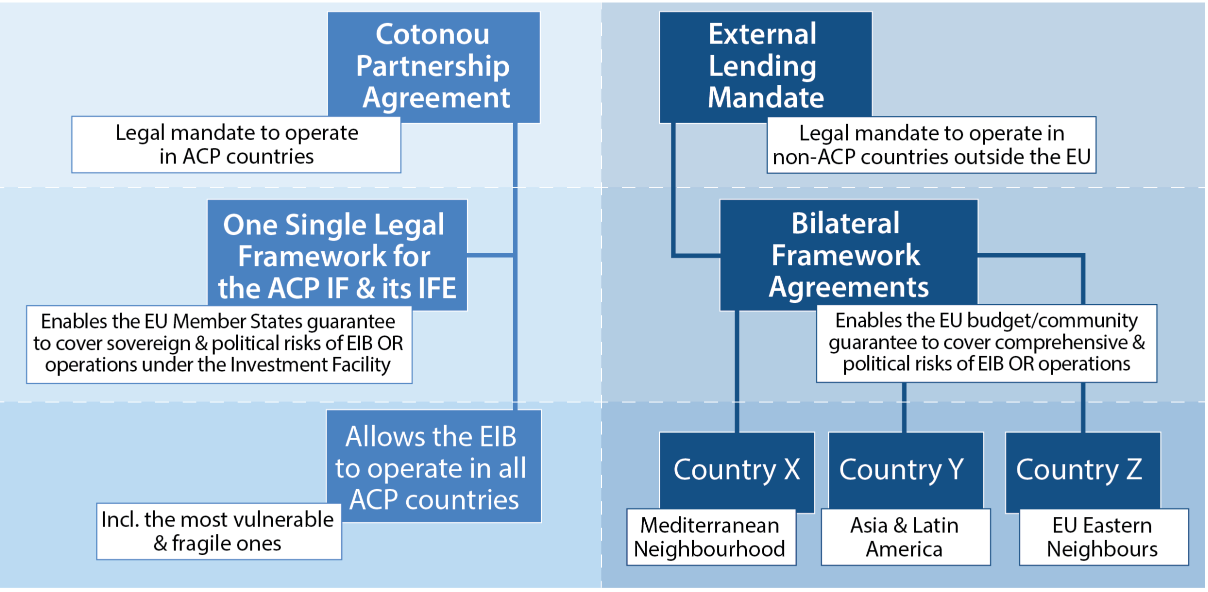
All other risks are borne by the EIB. This guarantee allows the EIB to use its own resources and operate in all the ACP countries, including the most vulnerable and fragile ones. The EU Member States guarantee is specified in the internal agreement concerning loans by the EIB for ACP operations[23], which is negotiated and signed for each financial period (i.e. currently 2014-2020). This single Guarantee agreement needs to be signed and ratified by each of the 28 EU Member States individually, to come into force.

[23] Guarantee Agreement between EU Member States and EIB for 2014-2020.

The advantage of the **CPA** is that it allows the EIB to operate in all ACP countries under a **single legal framework,** without the need to conclude additional bilateral framework agreements with each country, where the EIB operates (unlike under the ELM). All related legal provisions needed for EIB operations (including the freedom of currency transfer and taxation related to EIB operations) are contained in the CPA, covering all ACP countries.[24]

Under the ELM, comprehensive and political risks are also covered by the EU budget guarantee. However, for the EIB to be able to operate in all those countries bilateral framework agreements have to be negotiated and concluded separately with each partner country,[25] which is arguably much more time and effort consuming.

Figure 6: Comparing the Cotonou Partnership Agreement and the External Lending Mandate



Source: Author's own

The Investment Facility, independent from EIB own resources and thus off the EIB balance sheet, allows the EIB to engage in activities that entail higher risk (ECA, 2015), a necessary condition to engage in private and financial sector operations, "especially by increasing SMEs' access to risk sharing instruments and term finance" (EIB, 2013b). The risk profile adopted by the operations under the IF is set by the IF Committee, as managed by the EIB.

The Impact Financing Envelope

In 2013, EU Member States endowed the IF with an additional €500 million envelope to do "impact investing", the Impact Financing Envelope (IFE). It started in 2014 and is an additional resource from the 11th EDF, hence not affecting how the IF is otherwise used (see Figure 5 above). The rationale behind the IFE is to accept to bear greater risks due to higher expected development impacts, while addressing two broader categories of private sector investment:

[24] In the case the internal agreement is not ratified by all EU Member States, the EIB is able to sign operations under its Own Resources envelope, but it cannot disburse any funding.

[25] Under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) - which brings together under one roof the whole range of instruments implemented by the EIB in support of economic development in the Mediterranean partner countries - the 2014-2020 ELM allows the EIB to provide investments of "€9.6 billion with a EU guarantee, which is complemented by the €3 billion which the Bank can lend at its own risk" across the EU-Mediterranean neighbourhood during that period." (EIB, 2015h)

- **Social challenges** related to unemployment, food security, social and financial inclusion, migration, post-conflict and disaster recovery and access to health care and education services;
- **Environmental challenges** related to access to renewable energy and energy efficiency, forestry issues, waste management, biodiversity and water supply.

The principle adopted was to add resources to the IF for such activities, but without jeopardising the financial sustainability of the IF as a revolving fund.

The IFE offers four different financial instruments designed to accept higher risk levels for higher development impact. Due to limited outreach to financial intermediaries in fragile ACP countries under the IF, the IFE aims to also reach those ones, thus expected to make a difference (EIB, 2015c) through using the following financial instruments:

1. social impact equity funds,
2. loans to financial intermediaries,
3. risk-sharing facilitating instruments, and
4. direct debt and equity financing.

It should be noted however that loans to financial intermediaries as well as direct debt and equity financing are also available under the IF. The difference is that under the IFE only those financial intermediaries are targeted that cannot qualify for traditional IF financing (EIB, 2015c). Direct financing operations under the IFE take place in the agribusiness, health and education sectors, or direct investments in specialised vehicles that support SMEs and small projects by e.g. by hedging exchange and interest rate mismatches, as in the case of the Currency Exchange Fund (TCX) (see also next sub-section).

The IFE is a ring-fenced window of the IF managed by the EIB, whose operations are subject to review and approval by the IF Committee and the EIB Board of Directors, as any other activity of the IF.

Local currency

One of the major comparative advantages of the EIB, with great consequences, is its ability to lend in local currency. This is done in countries with stable macroeconomic environments and proper financial regulation. This feature is particularly important for support to private sector, and SMEs in particular, that operate in local currency. The exchange rate risk is borne by the IF (EIB, 2013c). To hedge such risk, the EIB has become a member of TCX, a fund that provides long-term local currency financing, with a pool of some 70 currencies.[26]

While the EIB can provide local currency loans under its ELM as well, the advantage of the CPA is that it entails a commitment to currency transfer freedom (CPA Annex II Art.6). In non-ACP countries, the EIB needs to establish a bilateral framework agreement with the partner country concerned to such effect. In addition, the same CPA provision foresees that there is no withholding tax to be paid by companies on EIB lending.

2.4. To sum up: the innovations of the CPA

The Cotonou Partnership Agreement has brought up a number of innovative features. The main ones are the following:

[26] EIB press release, 20 March 2015: EUR 40m EIB support to address currency barriers to economic growth.

First, it provides a mandate for EIB activities in the ACP countries that has been jointly agreed and ratified by the ACP and the EU States. This framework, covering a long 20-year period (compared to ELM five-year period), provides stability and continuity for the EIB activities in the ACP. It also allows for regular review, adjustments and some flexibility, as part of the joint ACP-EU institutional framework, and on the initiative of the EU, as in the case of the establishment of the Impact Financing Envelope.

Second, the establishment of the Investment Facility, as a sustainable revolving fund, to support mainly private sector activities, **allows finance to be leveraged to support private and financial sector activities with a potentially higher risk level**, which might otherwise not benefit from EIB's finance. This allows the EIB to do more operations with private sector, with potentially higher development impact.

Third, this feature has been further enhanced with the **creation of the Impact Financing Envelope**, which allows the EIB to engage in activities with an even higher developmental impact, though potentially carrying a higher risk.

Fourth, the EDF financing for the IF also entails a pure grant element, **which allows the EIB to accompany its financial operations with technical assistance**, an important element to enhance the effectiveness of its support to private and financial sector in the ACP.

Fifth, the **28 EU Member States provide a sovereign and political risk guarantee for private sector operations for EIB own-resources activities under a single legal framework**, the CPA covering all ACP countries, thus without requiring bilateral framework agreement for complementary legal provisions, as in the case of EIB partner countries under the ELM. This facilitates the intervention of the EIB in all ACP countries, without having to negotiate bilateral agreements with each single ACP partner country.

Sixth, the CPA entails a **commitment to not impose any restrictions on currency transfer**, which allows EIB transactions without having to conclude additional bilateral agreements to that effect, as in the case of the ELM countries.

3. EIB operations in the ACP in practice

Having identified the broad institutional parameters of the EIB engagement in the ACP countries, it is useful to consider how this translates in practice. The purpose here is NOT to evaluate the EIB operations (others have done so, see Box 3), but to consider some of the perceived added value of its activities in practice, and identify some of the challenges and dilemmas it is confronted with.

3.1. Overall picture

Of a total of €77.5 billion that the EIB lent in 2015 in support of EU objectives[27], €7.7 billion of lending went to partner countries outside the EU, including €1.1 billion to the ACP and South Africa[28], which is equal to 14 percent of lending outside the EU and 1.4 percent of the total lending volume (EIB,

[27] This figure only relates to the EIB and not the EIB group, which includes the European Investment Fund.
[28] South Africa receives assistance from EIB under the EIB ELM.

2016c). Though projects tend to be rather small in terms of financial volume, according to the EIB they do "have a very high impact in terms of social and economic development and the difference they make to people's lives" (EIB, 2015a).

Under the IF, the EIB approved €6.1 billion worth of operations in the ACP for the period 2003-2015, as indicated in Table 1. The focus in mainly on the private sector, which takes a prominent role in the ACPs to develop the economies and the much needed financial sector. Out of the EIB's €5 billion signed contracts for over 230 projects through the IF, nearly 90 percent of them were in the private sector to create jobs and foster entrepreneurship (EIB, 2015c). Credit lines accounted for the larger share of financial instruments used under the IF, with an average of 28 percent for the overall cumulative period 2003-2014, but as much of 63 percent for the more recent period 2011-2014, indicating the increasing reliance on this instrument (compared to 23 percent in infrastructure and 8 percent in equity).[29] The publicly-owned PTA Bank for instance has received €80 million to provide credit lines for SMEs and midcaps in East and Southern Africa, which is the EIB's "largest-ever private sector lending programme" for a €160 million initiative (EIB, 2015b). This is just one such example of many similar programmes.

The **IF, as a revolving fund, is already financially sustainable**. That is, cash disbursements from the IF can be financed by the reflows coming from repayment of principals on loans, and incomes from interest rates, dividends and sales of shares. Since 2012, these reflows, which amounted to close to €1.2 billion at the end of 2014, are sufficient to finance all new operations approved by the IF. The EIB estimates that by the end of 2020, the IF will be able to lend three times the amount of the IF original endowment (EIB, 2015b). This would amount to about €10 billion.

Overall, EIB operations in the ACP financed under its own resources amounted to €4.3 billion for the 2003-2014 period, and have been devoted mainly to sovereign loans to finance infrastructure.

Table 1: EIB activities in the ACP, yearly and cumulative 2003-2015 (million €)

ACPs and OCTs		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
ACP-IF (2003-2020) (EUR 3 185.5m)	Approvals	360.7	388.0	500.9	586.2	297.3	299.5	647.3	395.3	381.1	561.0	834.0	448.5	479.7	**6 079.51**
	Signatures	136.9	336.2	353.7	566.2	310.0	334.7	409.3	369.1	193.0	355.0	471.5	652.6	516.5	**5 004.65**
	Disbursements	4.1	93.6	113.8	184.9	328.5	218.0	198.5	260.0	305.5	315.1	277.2	290.5	348.9	**2 938.65**
IFE-IF ACP COTONOU III (EUR 500m)	Approvals												88.3	63.9	**152.10**
	Signatures												8.0	60.0	**68.01**
	Disbursements												0.0	2.3	**2.28**
ACP-Own Resources Prot. 1 (EUR 1 720m)	Approvals	43.1	47.3	170.0	207.3	550.3	133.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**1 150.95**
	Signatures	6.1	62.2	150.9	167.3	431.8	148.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**967.05**
	Disbursements	0.0	6.7	13.7	85.9	107.4	194.7	156.5	34.3	60.4	28.8	27.8	8.7	12.9	**737.79**
ACP-Own Resources Prot. 2 (EUR 2 030m)	Approvals						83.8	663.2	672.0	129.7	382.5	308.5	0.0	0.0	**2 239.74**
	Signatures						83.8	413.2	597.8	386.6	289.5	240.5	93.0	0.0	**2 104.36**
	Disbursements						0.0	26.8	156.4	62.2	86.0	123.1	155.9	174.3	**784.57**
ACP-Own Resources Prot. 3 (EUR 2 600m)	Approvals												364.4	508.6	**872.95**
	Signatures												171.0	359.1	**530.07**
	Disbursements												0.0	0.0	**0.00**

Source: EIB (2016b) IF Annual Report 2015

29 ECA (2014, Annex 2) provides a breakdown by financial instrument with signed amounts in million euro between 2011 and 2014: credit lines (1,056), infrastructure projects (378), equity (136) and other (100).

Box 3: Official assessment of the Investment Facility

In the 2010 mid-term evaluation of the EIB IF, it was concluded "that the EIB has fulfilled so far the mandate it was given under the Cotonou Agreement, but did not maximise its contribution in that regard" (ADE et al., 2010). The EIB activities have also come under increased critical scrutiny by a range of stakeholders, including civil society.

In its most recent report from November 2015, the European Court of Auditors (ECA) assessed i) whether the IF has added value to and is coherent with EU development cooperation with the ACP group of countries, and ii) whether it provides access to long-term financing and loans in local currency, and whether it generates a catalytic effect? (ECA, 2015). In that context, three issues have received particular attention taking into account operations between 2011 and 2014:

- whether operations under the IF were actually coherent with other development aid the EU has provided to ACP countries,
- whether the provision of access to long-term financing as well as loan in local currencies has been successful, and
- whether IF operations have had a catalytic effect, so triggered more investment.

The report concludes that the IF adds value to EU development cooperation with the ACP group of states and operations have been considered overall coherent with the rest of the EU's development cooperation undertakings with ACP countries. It does however note that the contractual obligation to inform the end beneficiaries about EIB IF funding is not always followed and that EIB's technical assistance does not always target SMEs. At the same time, by providing long-term loans and financing in local currency, the IF has demonstrated to have a positive catalytic effect (see below). The report finally sets out two recommendations to further increase the added value provided by the IF. This could be done by:

1. committing to systematic disclosure of the IF in on-lending agreements and by
2. adding technical assistance as supplements to credit lines.

IF leverage ratio of 20 projects investigated by the ECA:

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

Source: ECA, 2015.

3.2. Geographical coverage

One of the comparative advantages of the CPA is that it allows the EIB to operate in all ACP countries, including the more vulnerable ones, under a single institutional framework.

The EIB claims that it is unlikely it would operate in some ACP countries in the absence of the CPA, or a similar mandate. Under the CPA, the EIB operations are spread over all ACP regions: Central and Eastern Africa (29 percent of EIB operations for the period 2003-2015), West Africa and Sahel (27 percent), Southern Africa and Indian Ocean (21 percent), Regional Africa and ACP States (14 percent), Caribbean (6 percent), Pacific (3 percent) (EIB, 2016b).

Between 2003 and June 2016 the EIB signed about €3 billion[30] under the IF and OR going to least developed countries (LDCs) under the CPA, of which approximately 18 percent went to Zambia, Madagascar (12 percent), Uganda (10 percent) and Mozambique (9 percent). Between 3-4 percent of singed operations in LDCs take place in countries like Burkina Faso, Burundi, Chad, DRC, Djibouti, Ethiopia, Guinea, Haiti, Lesotho, Liberia, Malawi, Mali or Mauritania. Within the same time frame and under the same instruments the EIB signed financing operations of almost to €3.5 billion in fragile states: Nigeria (23 percent), Kenya (21 percent), Madagascar (11 percent) and Uganda (9 percent). Countries, such as DRC, Ethiopia, Guinea, Haiti, Ivory Coast, Kenya, Liberia, Malawi, Mali or Mauritania, benefit at around 3-4 percent of total financing going to fragile states.

Among some in the ACP, the NGO community and even in the European Commission, there is however a feeling that EIB activities are too much concentrated in larger, better developed markets in the ACP, at the expense of weaker economies. The concern is relevant, but difficult to assess.

It is true that most EIB activities are concentrated in better developed markets. It is to be expected that the EIB can more easily do operations in larger economies with a more developed private sector and financial market. For instance, given the stage of development of financial and banking sector in East Africa, and Kenya in particular, it is not surprising to see more and larger credit lines in that region, as illustrated in Table 2.

The question is rather whether the EIB does enough to be active in other, weaker markets. The fact that the EIB also provides credit lines to private sector in countries like Botswana and the Dominican Republic, but also in least-developed countries such as Malawi, Mozambique, Zambia, and even Haiti in the Caribbean, suggests that the EIB can and does also engage is lesser developed markets (see Table 2). This is also the case for EIB engagement under its own resources, with recent projects signed in LDCs such as Burkina Faso, Guinea, Mali, Mauritania and Niger, to mention only a few in 2013 and 2014 (EIB, 2015b). The Pacific region is indeed very marginal in recent EIB activities, with the last signed contracts as reported at the end of 2014 being in the 2010, with the Pacific Island Financing Facility (II D7E) under the IF. One may reasonably wonder whether the EIB would ever engage in such remote islands in the absence of the CPA. But by the same token, one may also question why, given the CPA framework, the EIB does not devote more effort to being active in such places. It needs to be recognised though that both the Pacific and the Caribbean countries are small markets, which, if more were to be done there, would require greater EIB capacity. This is a key strategic decision to be taken by the EIB and its stakeholders, the EU Member States.

There are several reasons why the EIB might be perceived as less active than it could be in poorer and vulnerable countries, which are discussed below.

30 Not containing regional facilities.

Table 2: Investment Facility credit lines 2011–2014 (commitments signed in million €)

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

Source: ECA, 2015.

3.3. Perceptions on EIB management and performance

High standards and quality of management

The EIB's high level of expertise and quality of operations and management is well recognised and acknowledged by a wide spectrum of actors. This is the case in formal assessments (ADE et al., 2013; Camdessus et al. 2010; ECA, 2015), but also of the wide range of stakeholders consulted for this study. The EIB applies high financial and technical standards in its management of operations cycle. A prudential approach and due diligence are also an integral part of the EIB's culture.

The EIB is performing such high standards based on a very lean business model, with a very low staff to loan ratio, with the EIB having a ratio of 32 staff members per billion of loans, compared to the 217 for the EBRD (nearly seven times more than the EIB), and 342 for the World Bank Group (over 10 times more than the EIB) (see Figure 2 in Section 2.1).

The high quality of EIB's management seems to be well appreciated and commended by EIB's clients and partners (promoters) that we have engaged with in the context of this study. The **rigorous approach of the EIB** with its financial partners can be very demanding, requiring some of them to improve their internal standards and management approach. But the efforts to match EIB's requirements are also rewarded, in terms of enhanced internal processes and credibility of the banking/financial institutions benefitting from EIB support, which shows its ability to meet highest international financial standards. Thus, it seems that the EIB's requirements are also a factor that helps uplift the quality of performance of its clients.

Technical assistance: important, but limited

In addition, the EIB can provide some technical assistance to these institutions, for project preparation, improving their internal standards and performance. In the case of financial intermediaries, the technical assistance can also be provided to the end beneficiaries, i.e. in general SMEs, though according to the European Court of Auditors report, this assistance does not always reach them (ECA, 2015).

The role of technical assistance provided by the EIB should not be underestimated. First, such assistance could not be provided, at least not to any significant level, in the absence of the grant envelope under the EDF to that end, parallel to the IF (see Figure 5 in Section 2.3). While the IF is a revolving fund, the continued grant dimension for technical assistance (and arguably interest rates subsidies) appears as an important complementarity to the sustainability of the fund. In fact, many of the EIB's clients consulted praised the support of the EIB already at the stage of project preparation, which was deemed often crucial to develop good, bankable projects. They often called for more active involvement of the EIB and additional support.

EIB staff consulted, however, seems to have a more ambiguous approach. While they all seem to value and praise the technical assistance provided, and are committed to support the quality of operations undertaken, they are also very well aware of the EIB's limits. The EIB is first and foremost an investment bank, not a development bank in the traditional sense (see Box 1 in Section 2.1). It also highly values its lean business model. So, the EIB cannot and does not want to provide the support that the World Bank Group, EBRD, or other development banks, such as the Agence Francaise de Developpement (AFD) or the German Development Bank, Kreditanstalt für Wiederaufbau (KfW), are providing. The EIB approach has been characterised as less heavy handed and directive than the approach of some of these MDBs, which tend to influence all stages of a development operation. In this respect, the EIB may appear more flexible, not trying to shape projects according to their available resources, and rather assessing projects only on their merit.

Importance of EIB field's presence

The importance of EIB's local presence has also been stressed by EIB clients and final beneficiaries consulted, as well as by EIB's local staff. The relationship between the EIB and its (potential) clients and partners cannot be well developed from the Luxembourg headquarter. Understanding local contexts and markets, establishing local contacts, relying more on local expertise and local (financial) systems are major considerations which can benefit from stronger local presence of the EIB.

The establishment of EIB regional offices, for Central and Eastern Africa in Nairobi, for Western Africa in Dakar, for Southern Africa and the Indian Ocean in Pretoria, and for the Caribbean in Santo Domingo, is most pertinent. Our consultations in Nairobi and Dakar have confirmed the high value added and high appreciation of EIB's presence and activities on the ground. But EIB's human resources remain extremely limited, for a very wide geographical coverage. The decision to establish EIB representatives in some EU Delegations, as recently in the case of Ethiopia,[31] is also a positive move in that respect. This could also strengthen the relationship and cooperation between the EIB and the EU Delegations (EUDs) and European Commission operations.

[31] EIB opens first office in Addis Ababa, EIB Release: 16 July 2015.

Cooperation with other development actors

The EIB often operates together with other IFIs and development finance institutions (DFIs). This allows the EIB activities to build synergy with these other financial institutions, increasing the leverage and support to the project considered and its development impact. It also enables the EIB to build on the technical assistance provided by others. One of such examples of cooperation with other DFIs is the Mutual Reliance Initiative (MRI) together with the French Agency for Development (AFD) and Germany's KfW Development Bank. In order to enhance the effectiveness of development cooperation, they blend expertise "to benefit from a larger project finance capacity through a structured division of labour".[32] By doing so, a majority of tasks during the project cycle are carried out by one of the three institutions appointed as a lead financier due to its "particular expertise in a given economic sector, or a significant presence in the project country".

Good coordination among IFIs/DFIs in this respect is important. Some bankers consulted in East Africa complained about the heaviness of procedures and duplication of efforts to obtain fragmented support from different IFIs/DFIs, calling on them to come together and align their support to banking support. Interestingly, several EIB clients consulted in West Africa, mainly on EIB's own resources' (sovereign and sub-sovereign loans) activities, called on the EIB to not hide behind other MDBs, and more readily take the lead in a consortium of financiers, to play on its comparative advantage, i.e. expertise and know-how. The EIB may at times prefer to take a less prominent role, apparently due to its human resources capacity constraints.

Cooperation with other regional development banks (RDBs) is more uneven, though it seems more dedicated efforts have been undertaken in recent years to develop support and activities with institutions such as the West African Development Bank (BOAD), the East African Development Bank (EADB) and the African Development Bank (AfDB). While there must be some elements of competition between the various MDBs and RDBs, our consultations suggest that the African RDBs are demandeur for stronger cooperation with the EIB. The *Boost Africa* joint initiative, elaborated jointly by the EIB and the AfDB, to support startups and innovative entrepreneurship in their early stage development phase, appears to seek to respond to such urge.[33]

In terms of technical assistance and synergy with other development partners, **it seems that very little attention is devoted to combine EIB interventions with donors support**. Given the relatively limited technical assistance available from the EIB, and its very focused nature, one would expect great potential synergy with the development cooperation projects and technical assistance from other donors, in particular the EU and its Member States. While the EIB sometimes cooperates with a donor, as in the case with TradeMark East Africa (TMEA)[34] for instance, such cooperation remains limited, and seems more the exception than the rule.

Pursuing EU external and development policy objectives

Although **EIB activities are deemed to be in line with the EU external and development policies** (see ECA, 2015; ADE et al., 2013; and Camdessus et al., 2010), there is still some questioning as to

[32] EIB website on the Mutual Reliance Initiative.
[33] The *Boost Africa* project proposal will combine financing from the IFE, the AfDB and the EC' African Investment Facility, to cover three components: Africa Innovation Fund, Technical Assistance Pool, Knowledge & Innovation Lab (Ruettgers, 2015).
[34] TradeMark East Africa (TMEA) is funded by several donors to support growth and trade for poverty reduction in East Africa, focusing on increased physical access to markets, enhanced trade environment and improved business competitiveness. https://www.trademarkea.com/

whether there is enough complementarity between EIB operations with EU development policies and activities, and with the CPA's overall objectives.

There seems to be a lingering perception among some stakeholders, including from within the European Commission, that the EIB is too focused on financial sustainability and return, too conservative in its (risk) management and not enough focused on development impact. **The EIB would not sufficiently follow EU development policy objectives**: too many of its activities are located in more advanced ACP economies (see Section 3.2 above), and its operations are not focused on priority areas identified by the EU.

Given the rather tight oversight structures of the EIB, if these perceptions are correct, they must however reflect the preferences of the owners of the EIB. As discussed in Section 2.1 and illustrated in Figure 4, the EIB's Board of Directors is responsible to approve all policy guidelines and operational strategies of the EIB, as well as each single operation. In addition (and not instead), in the case of the ACP, the Investment Facility Committee is also responsible for approving EIB's policies, strategies, business plans and policy documents, as well as to give an opinion on all its operations and measurement frameworks. Since all 28 EU Member States and the European Commission are members of the Board of Directors and of the IF Committee, it is clear that the EIB management is under close supervision. In fact, some have argued that this double oversight might be too heavy, resulting in lengthier and more cumbersome procedures than otherwise needed (including compared to some other DFIs).

So, if EIB operations are not considered sufficiently in line with EU development objectives by some, it seems to be rather due to the composition of the EIB's oversight bodies, comprising mainly of finance people rather than development specialists. As a result, they arguably would be less familiar and thus sensitive to development objective concerns and on the contrary more aware of and sensitive to financial considerations. The EU Member States were apparently initially very concerned about the possibility that the Investment Facility would not become financial sustainable over time as a revolving fund, calling for caution on the EIB operations. On the contrary, apparently some development cooperation officials, used to deplete aid budgets, have had some difficulties to admit that EDF capital of the IF would not be at least partly depleted as well, and would rather generate additional income.

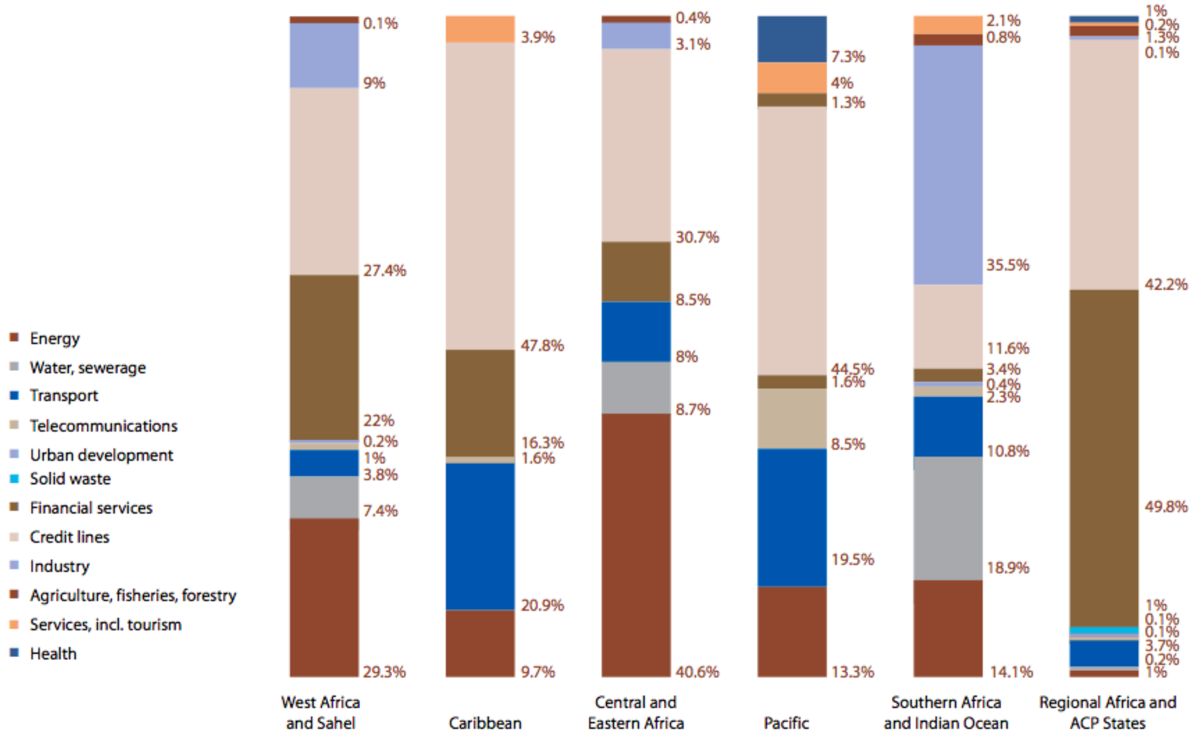
The differences in perceptions may ultimately arise for differences of culture, between an overarching banking and finance culture at the EIB, and a more traditional development culture among some of its critiques. After all, the EIB is first and foremost an investment bank, but with a development mandate, as articulated in the CPA. Reconciling these two dimensions to generate new synergies is the core added value of the EIB activities under the CPA, but does not go without tensions, as discussed below.

The differences in perceptions may also relate to more political economy and power dynamics: who controls who and what are the incentives behind. Obviously, the EIB likes its management autonomy in conducting its operations, while under close supervision. On the contrary, some at the European Commission may wish to have a tighter control of EIB operations, and manage the process more tightly. Our consultations suggest that while there is clearly synergy and formal good cooperations between the EIB and the European Commission, there are also clearly some underlying tensions and elements of rivalry, which seems to somewhat undermine the EU collective action.[35]

[35] Such underlying tensions are not unique to the EIB and the European Commission. They are in fact quite common among various EU institutions and among European Commission Directorate Generals. Similar

Another critique of the EIB activities is that they do not sufficiently follow the EU external action and development cooperation priorities, as opposed to overall objectives. This may be true. The EIB activities in ACP countries do not follow the sector priorities (usually limited to three) identified in the EDF programming.[36] Figure 7 illustrates the spread of sectors in ACP regions covered by the EIB. **Is the EIB doing activities in too many sectors?** This is a key strategic question the EIB is confronted with. One argument is that the EIB responds to demand: it does not initiate projects on its own. This flexibility to finance any 'good' project, in terms of development impact and financial viability, leveraging additional finance, is one of its main assets. But by focusing on some priority sectors, along the EU priorities, the EIB could perhaps enhance its impact, in better synergy with other EU interventions.

Figure 7: IF operations breakdown by sector and region, 2003-2015



Source: EIB, 2016b

Markets for development: risk management and development impact

Building on the above discussion on the complementarity and tensions between developmental impact and financial viability of operations, **the notions of risk management and market distortions are paramount**. The *raison d'être* of the EIB interventions are the inherent market failures that prevail in many countries to provide sufficient capital and know-how for development impact. The EIB operations provide a temporary remedy to these failures, and can contribute to alleviate and at times correct them. In doing so, the EIB uses and seeks to strengthen market forces

tensions also arise among country's institutions and Ministries. While their importance should not be overblown, they may deserve at times some closer scrutiny. In the case of the EIB and the European Commission, the transformation of the Africa Infrastructure Trust Fund (AITF) to the African Investment Facility (AfIF) would be one of the cases where such tensions have also materialised. If the rationale to bring the AITF under the umbrella of other regional blending facilities is clear (see also Box 2), according to some it perhaps also results from the desire of the European Commission to better control and manage the facility, and treat the EIB as one of the numerous European DFIs, with no special status as a European Bank.

36 For a recent analysis of EDF programming, see Herrero et al. (2015).

(the financial and investment rationale), while maximising the development impact (the development rationale as entailed in the CPA, the Addis Ababa Action Agenda (AAAA), the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change[37]).

In practice, EIB interventions must constantly strike a balance regarding their level of intervention, which may distort the market they operate in, and the development impact they try to pursue. Identifying the right balance is no easy task, and often relates to strategic decisions as well. Risk guarantees and mitigation instruments play an important role in this respect. But how much risk should the EIB take in its operations, and how much will its interventions distort the market?

Consulting various EIB stakeholders, it appears that **the EIB is often in a double-bind, or Catch-22 situation**. Some argue that intervening with EU Member States guarantees and with subsidies (as is the case with blending for instance, or interest subsidies), the EIB does distort the market, possibly crowding out other private financiers. Such considerations, which the EIB is well aware off, call for extremely careful interventions of the EIB, with very limited distortionary (e.g. less concessional) lending. On the contrary, others argue that the EIB interventions (in terms of risk coverage, concessionality, etc.) are too modest, and could have a bigger development impact if more ambitious. Such an approach would entail accepting to possibly have more distortionary market interventions, and to take more risk, reducing returns on investment. Striking the right balance is ultimately a strategic choice, which the EIB and its supervisory bodies must make.

This is what they did when they decided to provide an additional €500 million to establish the Impact Financing Envelope. The IFE aims to increase the social and poverty alleviation impact of EIB operations under the IF, with activities in poorer and more vulnerable economies, or segment of the economy in ACP countries, and potentially a higher level of risk. It is still too early to assess the performance of the IFE. But it shows that in terms of framework, the CPA and the IF can be flexible enough to accommodate different approaches to development impact and risk management. It is also based on the consideration that EIB interventions in fragile economies are less likely to have a negative distortive effect on the market, such as crowding out private finance, since such market is underdeveloped if not inexistent. Even in countries like Kenya, where the banking sector is much more developed, there does not seem to be any hard evidence that EIB operations are generating unfair competition or other forms of negative distortions and crowding out.

Strategic choices also affect other characteristics of the EIB operations. For instance, **the IF has proven to be an extremely convenient mechanism to undertake equity investment**. But the EIB's share of equity operations is limited to 20 percent of the IF loans portfolio. The EIB Board of Directors and IF Committee could decide to increase this limit. Similarly, the stake of the EIB in each private equity fund is limited to 20 percent, arguably to ensure sufficient leverage with private finance. But since the EIB often intervene with other DFIs in such equity funds, there is in principle no reason why this threshold could not be increased as well, if deemed relevant in terms of development impact, as argued by some.

The point here is that while the EIB praises itself for its very cautious and conservative risk management (see footnote 21), this is the result both of the EIB's and its owners' (i.e. EU Member States) strategic choices, as well as of some internalised culture within the EIB. In this respect, it is

[37] For instance, the EIB has committed to increase the share of lending to climate-related investment in developing countries up to 35 percent (EIB press release on 9 October 2015), and has recently become a partner of the Green Climate Fund (EIB press release on 9 March 2016).

interesting to note the different appreciations by EIB staff on the EIB's approach to development and risk management. There is a tendency within the EIB to adopt the same criteria, procedures and technical standards, including procurement rules, for its operations within the EU and outside. While this ensures that the EIB consistently applies the highest standards of management for all its operations (as discussed at the start of this Section 3.3), it also somewhat fails to fully recognise that the conditions under which the EIB operates in some of the poorer countries of the world are fundamentally different than in more advanced European countries. This also applies to risk management, where the IFE in particular offers much more flexibility, including in terms of a different internal risk control process within the EIB.

Transparency

The EIB has paid particular attention to its transparency policy and its openness to various stakeholders, including civil society. The EIB has adopted a clear transparency policy and issued guidelines on transparency for its clients (EIB, 2015i and 2015j). But civil society in particular, playing a necessary scrutiny role, keeps **asking for greater transparency** (e.g. Counter Balance, 2010, 2014 and 2015).

Some of the concerns are well summarised in a recent opinion of the European Parliament Committee on International Trade, which "Commends the high level of transparency achieved by the EIB [but] suggests further improvements in transparency with regard to the assessment of the economic and social impact of the EIB's intermediated loans [and] asks the EIB to refrain from cooperation with financial intermediaries which have a negative track record in terms of transparency, tax evasion or aggressive tax planning practices, or which use other harmful tax practices such as tax rulings, abusive transfer pricing, fraud, and corruption or which cause harmful environmental and social impacts, or which have no substantial local ownership" (European Parliament, 2015).

Further, civil society calls on the "improvement of the independence and effectiveness of the current complaints mechanism of the EIB, [...], the European Ombudsman [...] to play a more active role in exerting its external scrutiny over the EIB [and] a stronger role for the Court of Auditors and the European Parliament to monitor and democratise further the EIB." (Counter Balance, 2015).

More generally, it is surprising to note how invisible and unknown the EIB, its processes and operations remain to a majority of stakeholders. Some insiders apparently call the EIB the European *Invisible* Bank. **The EIB should keep strengthening its efforts to have its functioning and operations better recognised and understood by a wider range of stakeholders**, including among the EU and ACP institutions and Member States.[38]

[38] This is well captured at the EU level by the headline of a recent news article in Politico, 3 March 2016 "*The last untapped treasure in the history of European integration*", where the EIB's President Werner Hoyer is quoted as saying "The bank is the last untapped treasure in the history of European integration. It has grown to gigantic size, it's 2 1/2 times as big as the World Bank, but some shareholders don't know that. That cannot be. One has to tell them."

4. Options beyond 2020

The Cotonou Partnership Agreement, signed in 2000 for a 20-year duration, will thus expire in 2020. At the moment, no decision has been made regarding the future of the ACP-EU partnership beyond the current framework. In October 2015 the European Commission launched a broad public consultation process on the future of the Partnership after 2020, which has generated a wide range of inputs.[39] EU Member States and institutions, as well the ACP Group, are currently shaping their positions. The purpose here is not to speculate on the outcome of this process. Rather, building on the above discussion, the aim is to **identify possible options to maintain and build on the innovations of the CPA and beyond**.

4.1. A question of mandate

From the perspective of the EIB, one of the key factors regarding the situation post-2020 for its operations in the ACP is **whether there will still be an overarching umbrella framework for the EU relations specific to the ACP,** or whether the ACP specificity will be abandoned and integrated into various dimensions of the EU external relations.

Since the CPA provides the current mandate for EIB operations in the ACP, the non-renewing of an ACP-like framework with the ACP would imply that a new mandate would have to be identified. This would most likely entail a revision of the External Lending Mandate, so as to include the ACP countries.

This would not necessarily be incompatible with a specific attention to the ACP group of countries, which could be integrated as an additional category of countries in the ELM. Should the ELM's other major features remain the same, this would however entail some significant changes in the EIB's mandate to operate in the ACP, as outlined in Section 2.4, including: partnership dimension, a sustainable revolving fund allowing for impact investment, specific EU Member States guarantee under a single agreement connected to the CPA, non-restriction on currency transfer under a single agreement as well. To preserve some of the CPA acquis, the ELM should be more substantially modified to include some of these elements. It could do so specifically for the ACP alone, or for all EU partners, in which case the ACP specificity would be abandoned.

Let's consider some of the features that could be worth preserving or enhancing, for the ACP, and which ones could be also extended to all other EU developing partners.

4.2. The Investment Facility and the Impact Financing Envelope

As argued by many, one of the major innovations of the CPA is the establishment of the IF, and later on the IFE. What will happen to these post-2020? The CPA is silent on this. So, in the absence of an explicit EU decision to preserve these mechanisms, the IF and IFE will have to close after 2020. The initial endowment will have to be returned to the EU, while it is unclear what would happen to any surplus that could remain.

[39] For information on the consultation process and inputs received, incl. a summary report, EC here.

The major strategic decision for the EU is thus whether it wants the IF and IFE to continue after 2020. Unless replaced by even more effective instruments, it would seem pertinent to preserve these innovative mechanisms, and further develop them. This could be done in several ways. The following points should be seen as options for considerations, rather than strong recommendations.

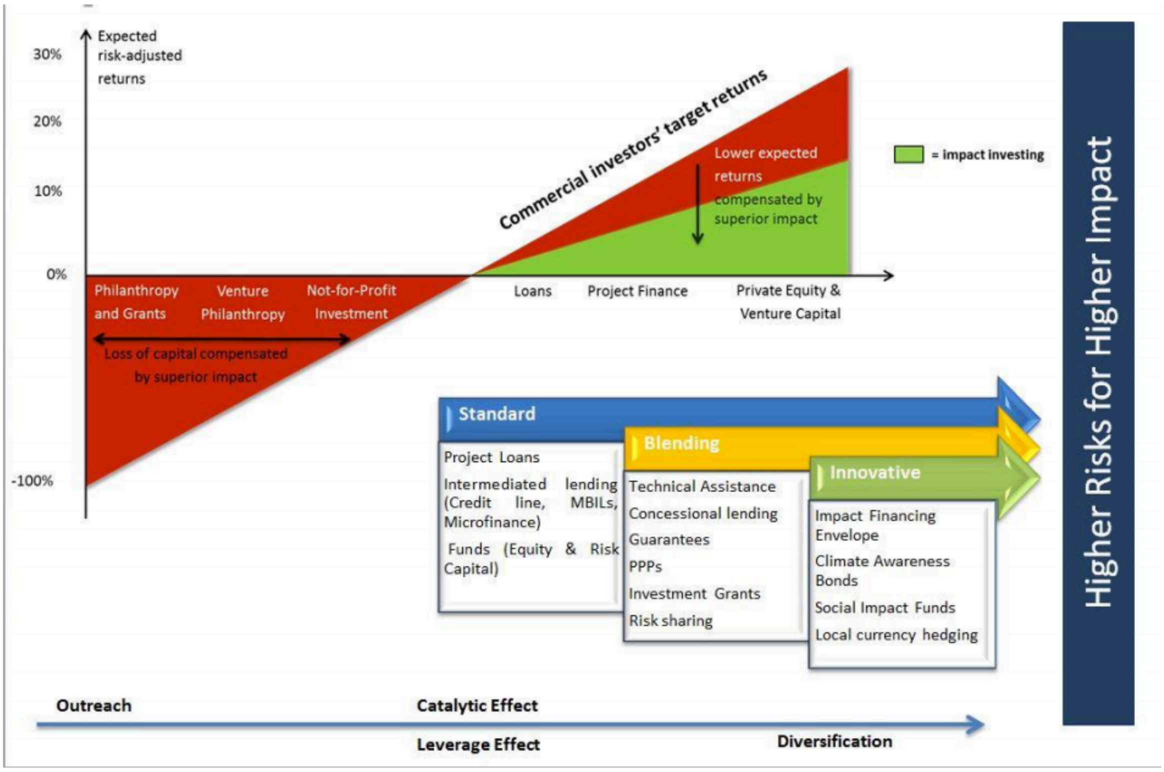
First, **the EU could decide to leave the initial endowment in the IF post-2020**, so as to keep its operations going on, and ensure continuity post-2020. That is the *If it ain't broken, don't try to fix it* principle! Given the appropriate mandate to do so, under a CPA follow up or the ELM, the EIB could continue to operate the IF.

Second, **the structure of the IF could be adjusted**. The dichotomy between the IF and the IFE seems to be justified mainly by a concern to circumscribe the risk of any possible losses due to higher impact investment strategies to a specific financial envelope, currently limited at €500 million. But provided the EIB continues to do a proper risk assessment of each activity and its overall portfolio, and to carefully manage them with a view to maximise development impact, the operations of the IF could be seen along a continuum of risk and development impact assessments, as illustrated in Figure 8. The current clear-cut division from the IFE might be administratively convenient, but seems somewhat arbitrary and not absolutely necessary. The IFE approach could be fully integrated into the IF guidelines. To do so would require extending some of the IFE flexibility, including in terms of risk assessment, to the whole of the IF, entrusting the EIB to manage it accordingly. By 2020, some useful additional insights should have been gained from the IFE implementation, to adequately tailor such an integrated approach.

Third, **access to the IF could be extended beyond the ACP countries** should the EIB mandate be adapted accordingly. Indeed, if the IF framework allows the EIB to do more private sector related activities than it can do under the ELM, extending the IF model to other developing partners of the EU, beyond the ACP, could be considered. Some institutional matters would have to be addressed, as the EDF endowment is specifically dedicated to the ACP, and not part of the EU budget. Insights from the FEMIP Trust Fund could also be valuable in that respect. Of course, opening up the IF to non-ACP countries could lead to a dilution of ACP focus of the IF, as in the case of any non-ACP specific reform. Other criteria, related to development challenges and impact, could become more determinant.

Fourth, **the endowment of the IF could be increased**. If it works well, why not do more of it. More EDF resources could be allocated post-2020. Other sources of grant funding, from the EU budget or other donors could be considered as well. This could potentially contribute to increase (i) the amounts of operations conducted under the IF, (ii) the possible risk exposure for higher development impact (as under the IFE), (iii) the amount of interest subsidies provided and (iv) the amount of technical assistance to accompany EIB operations.

Figure 8: Risk and development impact continuum



Source: EIB, Ruettgers, 2015

Fifth, **a more radical move would be to change the capital endowment of the IF** and open it to other sources of funding, beyond grants. This could include contributions from EIB own resources for instance, but also through bonds, debt financing, or private equity investment, attracting impact investors, foundations and institutional financiers.

Additional radical moves could include **setting up the IF** (or similar IF-type of structure) **as a subsidiary of the EIB**, marking more clearly the difference between EIB more traditional activities, focused mainly on the EU, and its more development oriented branch of activities. Such shifts were also considered by the *Wise Persons Report* on the mid-term review of the EIB external mandate (Camdessus et al. 2010), as indicated in Box 4.

Box 4: Key recommendations on consolidating the EIB activities outside the EU

The Wise Persons Report made the following key recommendations:

- "In view of the growing volume, complexity and importance of EIB external financing activity, and to enhance the impact, effectiveness, efficiency and visibility of all EIB activities outside the EU, we recommend that these activities be consolidated in an 'EIB entity', with a specific governance and organization dedicated to operations outside the EU, allowing a much more focused management of external operations. The Commission should take appropriate participation in the governance. The entity could take the form of an 'EIB subsidiary', following a detailed feasibility study to be swiftly launched by the EIB."
- "During the time until the possible start of activity of the EIB subsidiary, the EIB governing bodies could immediately decide to establish an in-house EIB organisational structure drawing on the experience of the ACP-Investment Facility and Femip."

Source: Camdessus et al., 2010

Sixth, in terms of **partnership**, a major dimension of the ACP-EU relations, it would be advisable to more closely associate the ACP Group of countries to the IF process. This could be done already under the existing CPA. The ACP have requested observer status in the Investment Facility Committee, a demand which is still pending.[40] The cooperation between the EIB and ACP RDBs could be further enhanced, as well as on other ACP initiatives to support the ACP private sector, as currently in the case of the Platform for Dialogue on private sector development. The partnership dimension, enshrined in the CPA, could be lost beyond 2020. But for the EIB operations, it could be recommended to identify various ways to more closely partner countries, including beyond the ACP, in the EIB operations. Stronger cooperation with ACP regional bodies and regional economic communities could be developed, to better capitalise on regional integration potential for development.

4.3. Other issues

The direct link with EU Member States, in terms of funding but also in terms of comprehensive and political risk guarantee is another important feature of the CPA. Such **guarantees by the EU Member States are conveniently covered under a single agreement connected to the CPA covering all ACP countries at once**, which does not require negotiating framework agreements bilaterally with each single ACP country. Beyond 2020, such a collective, simplified approach should be preserved, and possibly extended beyond ACP countries, to facilitate EIB geographic coverage, including in weaker, smaller and remote countries, where the EIB would perhaps be less naturally inclined to pursue operations, unless specifically requested or mandated to do so. The EIB Business Strategy 2015-2017 for the ACP explicitly refers to weaker countries, as "priority will be given to (...) Least Developed Countries, paying particular attention to countries with the greatest need, as well as disaster-affected and conflict-affected countries" (EIB, 2015k). Such endeavours should be encouraged and further actively pursued.

The **guarantees provided to the EIB could also be expanded**, so as to allow the EIB to undertake more operation with its own resources for greater development impact.

[40] See ACP Group of States and Council of the European Union (2016).

The future mandate of the EIB could also **identify priority sectors and/or priority type of countries** to better guide its operations.

The EIB Management and Board should also be aware that carrying more development impact oriented activities, including to address the root causes of migration and instability in some developing countries, is a complex endeavour, that is more labour intensive than activities within the EU. This requires a **greater allocation of staff to development-oriented projects**, and a **greater presence in the field**, in synergy with other actors, including the EU of course. It may also require some **simplification and adaptation of the EIB standards to match the realities on the ground**, instead of sticking to harmonised standards and procedures for operations within the EU and outside.

A promising perspective is through the **establishment of funds-of funds** initiatives, in partnership with other institutions and stakeholders, combining different mechanisms to support entrepreneurship in developing countries. The **Boost Africa** proposal, in partnership between the EIB and AfDB, opens interesting prospects in that respect (see Box 5).

Box 5: Boost Africa as a promising perspective - fund of funds as a smart way forward

Boost Africa is a **partnership between the EIB and the African Development Bank** (AfDB) to foster entrepreneurship in Africa through both financial and non-financial support to the earliest and riskiest stages of entrepreneurship. It is the **first initiative to adopt an integrated approach** to create more jobs through innovation and entrepreneurship building on the resources and complementary experience, expertise and networks of its partners. Besides the objectives of **job creation** and **poverty reduction,** the initiative contributes to the **EU and international response to the migration challenge**.

This initiative will use a **multi-fold approach** via the establishment of:

1. The Africa Investment Fund of Funds (AIF) → structured as a fund of funds catalysing and supporting the growth of innovative African ventures
2. A Technical Assistance Pool → capacity building to financial intermediaries targeted by AIF, investee companies, and investors through grants
3. Knowledge & Innovation (K&I) Lab → a facilitator for innovation, skills, knowledge and partnerships to accelerate the development of MSMEs in Africa

The Investment Fund covers the **entire venture segment** (e.g. seed funds, accelerators' follow-on funds, business angels funds, equity-crowd platforms, social impact funds and venture capital funds) **to support the creation and growth of startups and high-impact SMEs** targeting innovative projects. The **targeted sectors** include ICT, agriculture, health, energy and climate mitigation, education and financial services.

Grants (in particular EU funds through the blending modality) will be mobilised to support **non-financial services** (technical assistance, capacity building and technical transfer) and as a **first loss piece to attract institutional and private investors** by providing them with a more attractive **risk/return profile**.

A possible construction could be that the EIB and AfDB enter into a **co-investment scheme** funded both for the i) investments through the IFE, AfDB own resources and AfIF (blending/Junior tranche) and for ii) the TA pool and the K&I lab, where the EC can participate through the AfIF. Both the EIB and AfDB under EIB lead apply to the AfIF through the 'Boost Africa' project. The idea is a first closing of this “fund of fund” type operation by the two institutions and only at a second closing there could be other investors (public/private) also participating through such a co-investment scheme.

Source: EIB Educational Workshop, Ruettgers, 2015.

The future mandate of the EIB could also include **more explicitly due diligence criteria and transparency requirements**, including in terms of the currently missing gender dimension.

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About ECDPM

ECDPM was established in 1986 as an independent foundation to improve European cooperation with the group of African, Caribbean and Pacific countries (ACP). Its main goal today is to broker effective partnerships between the European Union and the developing world, especially Africa. ECDPM promotes inclusive forms of development and cooperates with public and private sector organisations to better manage international relations. It also supports the reform of policies and institutions in both Europe and the developing world. One of ECDPM's key strengths is its extensive network of relations in developing countries, including emerging economies. Among its partners are multilateral institutions, international centres of excellence and a broad range of state and non-state organisations.

Thematic priorities

ECDPM organises its work around four themes:

- Reconciling values and interests in the external action of the EU and other international players
- Promoting economic governance and trade for inclusive and sustainable growth
- Supporting societal dynamics of change related to democracy and governance in developing countries, particularly Africa
- Addressing food security as a global public good through information and support to regional integration, markets and agriculture

Approach

ECDPM is a "think and do tank". It links policies and practice using a mix of roles and methods. ECDPM organises and facilitates policy dialogues, provides tailor-made analysis and advice, participates in South-North networks and does policy-oriented research with partners from the South.

ECDPM also assists with the implementation of policies and has a strong track record in evaluating policy impact. ECDPM's activities are largely designed to support institutions in the developing world to define their own agendas. ECDPM brings a frank and independent perspective to its activities, entering partnerships with an open mind and a clear focus on results.

For more information please visit www.ecdpm.org

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ECDPM Discussion Papers present initial findings of work-in-progress at the Centre to facilitate meaningful and substantive exchange on key policy questions. The aim is to stimulate broader reflection and informed debate on EU external action, with a focus on relations with countries in the South.

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