1. Experience sharing on credit lines, a traditional loan product for supporting access to finance

2. Lessons from interventions in low-income countries and underserved financial markets (Africa, Pacific, the Caribbean)

3. Time perspective on the actions taken – and challenges encountered – by the EIB to address evaluation recommendations
Intermediated lending: Evaluation findings and lessons

Jan Willem van der Kaaij,
Inspector General, European Investment Bank (EIB)
Session Takeaways

1. Experience sharing on credit lines, a traditional loan product for supporting access to finance

2. Lessons from interventions in low-income countries and underserved financial markets (Africa, Pacific, the Caribbean)

3. Time perspective on the actions taken – and challenges encountered – by the EIB to address evaluation recommendations
Contribution to the AEW

1. Several **recent evaluations** undertaken by IFIs on SME support through intermediaries: common lessons, experience sharing?

2. Evaluating SME support in a context of **scarce data**: what works, what doesn’t?

3. Insights on EIB’s **follow-up of evaluation** recommendations
EVALUATION OF EIB INTERMEDIATED LENDING IN AFRICA, THE CARIBBEAN, AND PACIFIC COUNTRIES

Findings and Lessons

AEW, 3 September 2019

Emmanuel Pondard, EIB Evaluation Expert
Outline

1. The MBIL product
2. Evaluation questions and scope
3. Improving access to finance for SMEs and MidCaps
4. Strengthening local financial sectors
5. EIB’s management of the project cycle
6. Follow-up of recommendations
1. The MBIL product

- Allocation reporting (for EIB loan amount)

- On-lending with transfer of EIB financial advantage

- SMEs or Mid-Caps

- Min. 2x EIB loan
1. The MBIL product

**Inputs**

- Resources from European Development Fund and EIB's human resources/expertise

**Outputs**

- Long-term funding to financial intermediaries to use for on-lending and sometimes to cover part of their capital expenditure
- Strengthening the skills of both financial intermediaries and final beneficiaries

**Outcomes**

- Help the financial intermediaries' clients to obtain suitable funding for their investments
- Help the intermediaries themselves to improve their competitiveness, reputation and credit worthiness
- Reducing risks of projects financed

**Impacts**

- The EIB contributes to strengthening the local private sector, including broadening and deepening the local financial sector
2. Evaluation questions and scope

- **Mandate**: Board-approved evaluation Work Programme & request of the “Investment Facility Committee” to assess the value added of EIB intermediated loans in Africa, the Caribbean, and Pacific countries (ACP).

- **Evaluation Questions**: to what extent has EIB intermediated lending mobilized through the “Investment Facility” (IF) contributed to:
  - Supporting small or medium-sized enterprises and initiatives.
  - Strengthening local financial sectors in ACP countries.

- **Scope**:
  - Intermediated lending signed between 2010 and 2015 in ACP.
  - Excluding loans for microfinance.
2. Evaluation questions and scope

Variety of sources used, including:

- **Portfolio analysis** of EUR 1.24 bn of IF MBILs signed between 2010 & 2015 across ACP, covering 953 allocations to final beneficiaries;

- **Individual evaluations** of 15 contracts signed with 11 financial intermediaries (Nigeria, Kenya and Uganda) including site visits;

- **Database** of all intermediated loans from IFIs for private enterprises in ACP 2010-2015 (for comparison with EIB portfolio);

- **Interviews** with EIB staff, IFIs, DFIIs and members of the “Investment Facility Committee”.

3. Objective: Improving access to finance for SMEs and MidCaps

- MBILs: 61% of all IF signatures (2010-2015).

- The vast majority of EIB allocations were for enterprises with less than 250 employees.
3. Objective: Improving access to finance for SMEs and MidCaps

- But most of the volumes were for a small number of large allocations (> 2m).

⇒ Is such a significant share for larger allocations and enterprises in line with the spirit of intermediated lending in ACP?

⇒ Is the EU definition of SMEs helpful to target actual SMEs, if and when that should be a priority? Is an local/regional definition needed?
3. Objective: Improving access to finance for SMEs and MidCaps

- IF intermediated lending addressed an important barrier constraining access to finance for SMEs: the unavailability of long-term liquidity, particularly in local currency.

- However:
  - The EIB could achieve higher impact by using a combination of instruments to address e.g. risk of lending to SMEs and weak capacity of counterparts.
  - To this end, country financial sector reviews and strategies should be better used.
  - Better coordination with partner institutions addressing legal and regulatory barriers, should be further explored.
4. Objective: Strengthening local financial sectors

- IF intermediated lending has supported competition, primarily by financing local second tier banks (60% of financial intermediaries).
- The EIB tailored its objectives to the needs of local financial markets and selected intermediaries accordingly.
- Longer term local currency loans allowed financial intermediaries to mitigate maturity and currency mismatches.
- The EIB provided long-term finance in ACP markets where there are no or limited (long-term) funding alternatives.
  - Going forward, as some of the more advanced financial markets further develop, the EIB should monitor more closely the potential risk of stifling the development of capital markets (e.g. Nigeria).
5. EIB’s management of the project cycle

- Processes and procedures are effective at managing financial risks and at swiftly delivering disbursements.

- But money is fungible and allocations were found to be interchangeable
  - It is questionable the extent to which the allocation system is useful in reporting and guaranteeing against reputational risk.
  - Reporting on the sum of allocations says little about whether access to finance has actually increased
  - A portfolio approach would allow a better view on the broader outcomes and the sustainability of its operations
6. What has happened next:
Follow up of recommendations

EV formulates recommendations

EIB Management Committee responds to recommendations

After Board discussion, operational staff draft action plans, including responsible unit and deadline

EV judges implementation of recommendations on a quarterly basis

EV reports to EIB Management Committee on a quarterly basis and Board on a half-yearly basis
6. What has happened next: Follow up of recommendations

Enhance the analysis of barriers constraining access to finance, in order to better identify combinations of instruments to address the multitude of needs.

- EIB has
  - Revised the content its financial sector reviews
  - Developed new procedures at appraisal stage, for improving the use of financial sector reviews, for offering TA and combining instruments
  - Trained EIB Heads of Offices, in order to enhance coordination with partner institutions that could address legal and regulatory constraints
6. What has happened next: Follow up of recommendations

 Clarify whether and how MBILs aim to support **small and medium** initiatives and **cross-cutting** objectives

 - EIB has
   - Reflected upon current **SME definition**, and relevance of support for **larger** enterprises and projects
   - Approved new **tailored transactions** that target specific policy objectives, with tailored monitoring (agriculture value chain, combination MBILs with TA, dedicated facilities in fragile states)
   - Revised content of yearly **reporting** against policy objectives
6. What has happened next:
Follow up of recommendations

Consider the pros and cons of monitoring operations at a **portfolio level**, instead/or in addition to the allocation level

- EIB has
  - Approved a **pilot operation** with a “portfolio approach”
  - Put on the table the **pros and cons** of a portfolio versus allocations approach to MBILs operations

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Minimises effects of <strong>interchangeability</strong> of allocation lists</td>
<td>Challenges of <strong>aggregating</strong> data through entire portfolio</td>
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<tr>
<td>More relevant information on <strong>evolution</strong> of intermediary’s portfolio over time</td>
<td>Challenge of controlling for <strong>reliability</strong> of data calculated on a large population of sub-loans</td>
</tr>
<tr>
<td>Can provide <strong>incentives</strong> on composition of intermediary’s portfolio of clients</td>
<td>No direct relationship with intermediary’s customers: issues for <strong>control</strong> and <strong>investigation</strong> at individual customer level</td>
</tr>
</tbody>
</table>
6. What has happened next: Follow up of recommendations

Adapt tools and processes with a view to improve dialogue, monitoring and reporting against policy objectives

- EIB has
  - Clarified in approval documents the specific objectives of the operation, and how these will be monitored and reported on
  - Reflected upon its current result measurement tools