



COMMISSION OF THE EUROPEAN COMMUNITIES

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**REPORT FROM THE COMMISSION TO THE COUNCIL  
AND THE EUROPEAN PARLIAMENT**

**on the implementation and rate of use of loans granted by the  
European Investment Bank for projects of mutual interest in countries  
of Latin America and Asia with which the Community has  
concluded cooperation agreements  
(1995-96)**

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## **1. Introduction**

This annual report on the activities of the European Investment Bank (EIB) in a number of Latin American and Asian countries has been drawn up in accordance with Council Decision 93/115/EEC of 15 February 1993 (OJ No L 45 of 23 February 1993). It relates to the third and final year of implementation of the Bank's first mandate and covers the period from 23 February 1995 to 22 February 1996. The report on the second year was sent to the Council and the European Parliament in October 1995 (COM(95) 507 final of 30 October 1995).

As well as giving a factual account of operations during the third year of activity, this report assesses experience gained from the beginning. The assessment relates to a total commitment of ECU 750 million (as against ECU 500 million for 1993 and 1994) in respect of 21 projects (13 in 1993/94) in 13 different countries (10 in 1993/94).

## **2. Legal framework**

The legal and institutional framework of the Bank's mandate in Latin America and Asia is laid down in the following decisions and documents:

- *Council Decision of 19 May 1992* calling on the Bank to take action in those countries of Latin America and Asia which, on the date of that decision, had concluded cooperation agreements with the Community<sup>1</sup>. This decision covers a period of three years and provides for an annual budget of ECU 250 million. It specifies that the loans will be used for projects of mutual interest that satisfy the Bank's usual criteria;
- *Council Decision 93/115/EEC of 15 February 1993* (published in the Official Journal of 23 February 1993) granting a Community guarantee to operations financed in this context;
- *Decision by the EIB Board of Governors of 22 February 1993* authorizing the Bank to undertake these activities up to an aggregate amount of ECU 250 million per year for a period of three years on condition that the loans granted are fully guaranteed by the Community;

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<sup>1</sup> There are 30 such countries (17 in Latin America and 13 in Asia). See lists in Annex 1. Since the Council Decision of 19 May 1992, a further cooperation agreement has been signed with Vietnam.

*Contract of guarantee signed by the Community and the EIB on 4 and 17 November 1993. This document refers to the above texts and stipulates that the guarantee will apply for a period of three years ending on 23 February 1996.*

In addition to these texts constituting the legal basis for its mandate, the Bank, in accordance with the practice adopted for other geographical areas, signs with the countries in which it operates a "framework agreement" laying down the legal, tax and financial framework for its activities in the country in question.

### **3. The Bank's mandate in Latin America and Asia in relation to its activities outside the Community**

The mandate given to the Bank in Latin America and Asia confers on it special responsibility for supporting the Community's cooperation policy. Most of the Latin American and Asian countries concerned by the Bank's mandate have historical, cultural and economic ties with the countries of the European Union. These long-standing ties are reflected in a cooperation policy which was established by the Community in 1976 with a number of these countries and broadened over the years up to the 1992 and 1993 decisions concerning action by the Bank itself.

The Bank's activities in Latin America and Asia continued to attract increasing interest among the countries concerned (Latin American, Asian and European Union countries) and among European firms and economic operators during the third year of operations. The complementary role which the Bank can play in these regions is increasingly confirmed by experience. The international financial community also continues to view the EIB's action as a useful adjunct to its own operations. After three years and at the end of its initial mandate, the Bank has thus clearly established its position as a lender in Latin American and Asian countries. These points are developed in detail in section 5 below.

### **4. Results of the third year of activity**

During the third year of activity ending on 22 February 1996, the Bank's Board of Directors approved the following seven operations totalling ECU 250 million. A further ECU 12 million operation was undertaken under the global authorization of ECU 20 million granted in the first year.

A summary table giving more details about project commitments and signings up to the end of the third year of activity is set out in Annex 2.

Country	Sector	Amount committed <sup>2</sup> (ECU m)	Mutual interest
<b>- LATIN AMERICA</b>			
Argentina	water treatment	70	Argentine-European project relating to the management of a public service concession and involving public service companies from three EU countries; guarantee provided by a consortium of EU commercial banks; improvement of the environment.
	waste treatment	6	Argentine-European borrower; joint financing with an EU development finance institution; improvement of the environment; transfer of European technology
Colombia	transport	38	concession granted to a consortium led by EU enterprises; contribution to regional cooperation and integration (declared aims of the cooperation agreement between the EU and the Andean Pact countries).
Paraguay	water treatment	17	improvement of the environment; preparation of the project by a European consultant
<b>- ASIA</b>			
China	energy	55	protection of the environment; participation of European consultants in the preparation of the project; joint financing with a European public enterprise
Pakistan	energy	24	transfer of European technology; participation of European consultants; widespread participation of European civil engineering companies
(Pakistan <sup>3</sup> )	(energy)	(12)	(joint venture with a European company; improvement of the environment; preparation by European consultants)
Thailand	transport	18	improvement of the environment: natural gas through the use of gas as a replacement for petroleum products; contribution to a sector/project with a substantial European involvement in gas exploration and use

<sup>2</sup> ECU 22 million of the loan for the gas transmission and distribution project in Indonesia - approved by the Bank's Board of Directors on 31 January 1995 - are included in the third year's accounts (see the Commission's half-yearly report (COM(96) 72 final of 1 March 1996) to the Council and the European Parliament covering the period from 23 February 1995 to 22 August 1995).

<sup>3</sup> This Pakistani private project was provided for under the global authorization set in place in the first year.

## 5. General comments on operations and assessment of the Bank's action under its mandate in Latin America and Asia

- 5.1 Like the previous year, demand substantially exceeded the funds available in the third year. As in the first two years of the mandate, therefore, **funds up to the annual ceiling of ECU 250 million were committed.** Owing to the high absorption capacity of the eligible countries, the **ECU 750 million of the mandate have been completely committed** (see Annex 2).
- 5.2 In accordance with the Bank's mandate, projects financed will benefit both the Latin American and Asian countries concerned and the European Union. In line with this specific concept of **mutual interest**, operations in the third year continued to satisfy one or more of the following criteria: regional integration, improvement of the environment, transfer of European technology, joint ventures bringing together European and local firms, the granting of concessions to private enterprises for investing in and running public services, and the preparation of projects by European consultants (see point 4 above).
- 5.3 The most interesting aspect is the **build-up of projects involving European private partners**: during the third year, the percentage of private projects approved by the Bank increased to 50% (compared with 42% in 1994 and 20% in 1993). This proportion could increase further if consideration is given to those projects that have already been proposed and that could be submitted under the new mandate. This trend is important and places the Bank's mandate in Latin American and Asian countries in a special context. It is clear that:
- through this type of financing the EIB can support European enterprises in their investment in the "emerging countries", which make up the majority of the Latin American and Asian countries. For these enterprises, the markets of the "emerging countries" offer potential for substantial growth;
  - this type of assistance is particularly valued by those same enterprises since, while still within the market framework, it is well suited to funding the privatized public services projects which are proliferating in these areas and in which European enterprises are very actively involved (energy, telecommunications, water, etc.).
- 5.4 The **average size of operations** fell from ECU 36 million in the second year to ECU 33 million in the third year<sup>4</sup>. The average size of all operations undertaken in the three years of the Bank's first mandate is ECU 36 million (if operations funded under the ECU 20 million global authorization are included) or ECU 38 million (if loans under the global authorization are excluded). Loan sizes of this order of magnitude have ensured satisfactory geographical distribution of the ECU 750 million ceiling and are compatible with the Bank's objective of keeping the cost of its operations within reasonable limits.

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<sup>4</sup> Average contributions if the two projects financed under the global authorization of ECU 20 million, which is intended more for small and medium-sized investment projects, is disregarded.

5.5 The **sectoral breakdown** of operations in the third year shows activity to be concentrated in the energy and environmental sectors. This is consistent with the objectives of the cooperation agreements signed between the Latin American and Asian countries and the European Union, which frequently stress the specific importance of cooperation in the energy and environmental protection fields.

	energy	transport	telecommunications	environment	industry
third year	48%	15%	-	37%	-
(second year)	(24%)	(21%)	(30%)	(16%)	(9%)

The sectoral breakdown of the total commitments of ECU 750 million under the first mandate is set out in Annex 3.

5.6 As far as the **geographical breakdown** is concerned, the Bank has kept up its endeavours to maintain, wherever possible, a fair balance between the two regions concerned and between individual countries. The geographical breakdown between the two regions thus varied only slightly in the final year of the mandate: 52% for Latin America (57%) and 48% for Asia (43%). Three of the seven operations undertaken in the third year concerned countries which had not received EIB loans in the previous years (China, Colombia and Paraguay). Operations focused on a limited number of countries<sup>5</sup>, with preference being given to those countries for which the type of finance proposed best meets the needs of borrowers. Some priority was also given to areas or countries which are strengthening their ties with the Community (Mercosur, Chile, ASEAN group, southern Asia, etc.).

The geographical breakdown of the commitments totalling ECU 750 million made under the mandate is set out in Annex 3.

5.7 **Excellent cooperation continued with multilateral and bilateral financial institutions** in the Latin American and Asian countries. Four of the seven operations undertaken in the third year are being financed jointly with one or two multilateral institutions (Asian Development Bank, World Bank) or with a bilateral financial institution (see Annex 2). The activities of the Bank and the other multilateral institutions complement each other at project level (public projects and also private projects, in which these bodies are becoming increasingly involved). The studies produced by the above institutions furthermore constitute a valuable source of general, geographical and sectoral information.

<sup>5</sup> Over the three years, operations were approved in 13 of the 30 countries theoretically eligible (see Annexes 2 and 3). Mexico is a special case: a project was identified and finance approved by the Board of Directors, but approval was withdrawn following Mexico's decision not to go ahead with the project.

The summary table showing the contributions of the various funding sources to the projects financed by the EIB is set out in Annex 4.

- 5.8 **The Bank's cooperation with the European banking sector** has been reinforced in respect of both guarantees and direct joint financing. The EIB and the European commercial banks complement each other in that the latter rarely provide the same type of resource as the EIB, particularly as regards duration and period of grace. The combination of complementary financial instruments constitutes an added benefit.
- 5.9 In the third year, **new framework agreements** establishing the general legal bases for carrying our projects in both the public and the private sector were concluded between the EIB and six countries (Bolivia, China, Colombia, Mexico, Indonesia and Uruguay). A full list of the 16 framework agreements concluded up to the end of the third year is given in Annex 1.



## LATIN AMERICA AND ASIA

1. List of countries which had concluded a **cooperation agreement with the European Community** when the EIB was given its Latin American and Asian mandate. A new agreement has since been signed with Vietnam.

### ASIA

**ASEAN group** (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand)  
 Bangladesh  
 China  
 India  
 Macao  
 Mongolia  
 Pakistan  
 Sri Lanka

### LATIN AMERICA

**Andean group** (Bolivia, Colombia, Ecuador, Peru, Venezuela)  
**Central American countries** (Costa Rica, Guatemala, Honduras, Nicaragua, Panama, Salvador)  
 Argentina  
 Brazil  
 Chile  
 Mexico  
 Paraguay  
 Uruguay

2. List of countries which have concluded a **framework agreement with the EIB** (situation at 22 February 1996)

### ASIA

China	06.12.95
India	17/25.11.93
Indonesia	20.06.95
Pakistan	25/28.02.94
Philippines	15.09.94
Thailand	10/17.01.94

### LATIN AMERICA

Argentina	03.10.94
Brazil	19.12.94
Bolivia	12.10.95
Chile	07.10.94
Colombia	13.03.95
Costa Rica	30.11.93
Mexico	09.03.95
Paraguay	19.09.94
Peru	02.10.94
Uruguay	21.04.95

Framework agreements under negotiation: Panama, Sri Lanka.

**SUMMARY TABLE OF THE EIB'S OPERATIONS IN LATIN AMERICA AND ASIA**  
**between 23 February 1993 and 22 February 1996 (Council Decision 93/115/EEC)**

**1. LATIN AMERICA**

Country	Project	Sector	EIB loan amount (in ECU million)	Total cost of project (in ECU million)	Comments
Argentina	Mercosur highway	Transport (public)	45(*)	134	Joint financing with the Inter-American Development Bank (IDB)
	BAN natural gas	Distribution of natural gas (private)	46	152.8	Private project - public service concession
	Aguas Argentinas	Treatment of water (private)	70	197	Private project - public service concession
	AILINCO	Treatment of waste	6	13	Joint financing with a European development institution
Brazil	CESAN	Sanitation (public)	40(*)	113	Joint financing with the World Bank (IBRD)
Chile	CTC - Compañía de Teléfonos de Chile	Telecommunications (private)	75	731	Private project - public service concession
Colombia	Bogota	Transport (private)	38(*)	97	Guarantees from European banks
Costa Rica	ICE Costa Rica	Energy (public)	44	354	Joint financing with the IDB
Paraguay	Asunción sewerage	Treatment of water (public)	17	60	Joint financing with the IBRD
Peru	Pan American Highway	Transport (public)	27	154	Joint financing with the IBRD
<b>TOTAL for Latin America</b>			<b>408 (54%)</b>	<b>2 005.8</b>	

(\*) not yet signed.

2. ASIA

Country	Project	Sector	EIB loan amount (in ECU million)	Total cost of project (in ECU million)	Comments
China	Ping Hu oil and gas development	Energy (public)	55	770.2	Joint financing with the Asian Development Bank (AsDB) and the French Government
India	Powergrid	Energy (public)	55	173.8	Joint financing with the IBRD
Indonesia	Gas transmission (Sumatra)	Gas transmission (public)	46	474	Joint financing with the AsDB
	CLIPAN	Financial sector (private)	8(*)	---	Private project - European-Indonesian joint venture
Pakistan	KESC	Energy (public)	36	480	Joint financing with the AsDB
	Ghazi-Barotha Hydropower	Energy (public)	24	1 668.5	Joint financing with the IBRD, the AsDB and a European development institution
	Sai Hydro	Energy (private)	12(*)	26	Private project - joint venture with a European company
Philippines	Davao Airport	Transport (public)	25	86	Joint financing with the AsDB
	DUCC Cement	Industry (private)	23	107.7	Private project - industrial joint venture
Thailand	Erawan gas pipeline	Natural gas transmission (public)	40	547.8	Joint financing with the IBRD and the AsDB
	Erawan parallel gas pipeline - Phase II	Natural gas transmission (public)	18	97.7	
<b>TOTAL FOR ASIA</b>			<b>342 (46%)</b>	<b>4 431.7</b>	
<b>GRAND TOTAL (Latin America and Asia)</b>			<b>750 (100%)</b>	<b>6 437.5</b>	

(\*) not yet signed.

## SUMMARY TABLE PROVIDING A SECTORAL AND GEOGRAPHICAL BREAKDOWN OF COMMITMENTS

Country	Number of projects	Sector						TOTAL (in ECU million)
		Energy	Transport	Telecommunications	Environment	Industry	Financial	
Argentina	4	46	45		76			167 (22.3%)
Brazil	1				40			40 (5.3%)
Chile	1			75				75 (10.0%)
Colombia	1		38					38 (5.1%)
Costa Rica	1	44						44 (5.8%)
Paraguay	1				17			17 (2.3%)
Peru	1		27					27 (3.6%)
<b>TOTAL FOR LATIN AMERICA</b>	10	90	110	75	133			408 (54.4%)
China	1	55						55 (7.3%)
India	1	55						55 (7.3%)
Indonesia	2	46					8	54 (7.2%)
Pakistan	3	72						72 (9.6%)
Philippines	2		25			23		48 (6.4%)
Thailand	2	58						58 (7.8%)
<b>TOTAL FOR ASIA</b>	11	286	25			23	8	342 (45.6%)
<b>TOTAL</b>	21	376 (50.1%)	135 (18%)	75 (10%)	133 (17.7%)	23 (3.1%)	8 (1.1%)	750 (100%)

**SUMMARY TABLE SHOWING THE CONTRIBUTIONS OF THE VARIOUS FUNDING  
SOURCES TO THE PROJECTS FINANCED BY THE EIB**

(in ECU million)

EIB	Multilateral financial institutions			Other (1)	Total
	IBRD	IDB	AsDB		
750	539	377	800	3 972	6 438
11.7%	8.4%	5.8%	12.4%	61.7%	100%

1 Governments, public organizations and other financial sources, including own funds of borrower and/or promoter.

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