



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 05.07.2000  
COM(2000) 420 final

Proposal for a

**COUNCIL DECISION**

**on the position to be adopted by the Community within the ACP-EC Council of Ministers on granting financial support to an investment financing scheme for industrial and business development in the ACP countries**

(presented by the Commission)

## EXPLANATORY MEMORANDUM

The Fourth Lomé Convention, as revised by the Agreement signed in Mauritius on 4 November 1995, assigns a key role to the private sector in helping to restructure the ACP economies, especially by creating jobs, boosting earnings and integrating these economies into the global economy.<sup>1</sup> Hence, the Convention emphasises the need to provide adequate support to assist in private sector development.

A substantial amount of funds has therefore been allocated to investment financing in both public and private sectors, through a provision of €1Bn as risk capital operations from the European Development Fund (EDF). These resources are managed by the European Investment Bank (EIB). In addition, other resources from the EDF, in the form of grants managed by the Commission, have been allocated to finance support to private sector development by means of macroeconomic reforms, technical and non-financial assistance via national/regional indicative programmes or ad-hoc initiatives (such as the CDI) and activities related to investment promotion.

As far as investment financing is concerned, the resources managed by the EIB under the two Lomé IV financial Protocols amount to € 1825 million for risk capital operations (€825 million under the first and €1000 million under the second protocol) and € 650 million for interest subsidies. In addition, the EU Member States have fixed a ceiling up to €2858 million for operations to be financed from the EIB's own resources (€1200 Million under the first and €1658 Million under the second protocol). These sums account for 20% of the total financial resources provided by the two financial protocols of the Convention<sup>2</sup>.

The commitment rate of both risk capital funds and EIB own resources has been high since the entry into force of the financial protocols. On 29 February 2000, the total volume of risk capital commitments, for the 1<sup>st</sup> and 2<sup>nd</sup> financial protocols, stands at €1405.62 million, which is equivalent to 77.02% of the total EIB allocation provided for risk capital operations by the Convention<sup>3</sup>. Further analysis shows that the commitment rate rose from an average of €117 million in the period 1990-97 to €271 million in 1998 (despite the delayed entry into force of the 8th EDF).

This rate of commitment can be explained in several ways. From an ACP point of view, it is clear that the structural reforms implemented by the ACP States have led, thanks to the gradual liberalisation of their economies, to the development of a more competitive productive sector. This has resulted in an increased demand for financial resources. Simultaneous efforts to rationalise and restructure the financial and banking sectors in many ACP countries have contributed to ease - albeit only partially - the existing, severe financing constraints. These favourable trends, together with the beneficial effect of the adoption of more flexible criteria for the use of risk capital under the Lomé IVbis Convention have led to a speeding up of the commitment rate of risk capital in all forms.

In addition to these endogenous reasons, support to the development of a strong, competitive and sustainable private sector has become a major pillar of Community development policy.

---

<sup>1</sup> See in particular: Main provisions: **part two**: Title V: Industrial development, manufacturing and processing (Articles 77 to 98); Title VIII: Enterprise Development (Articles 110 to 113); Title IX: Development of services; **part Three**: Title III, Chapter 3, Section 1 (Investment promotion); Section 3 (Investment financing) and Section 4 (Investment support).

<sup>2</sup> See Table I for financial details.

<sup>3</sup> Seen Table II for a full overview of the use of resources (situation 29.02.2000).

All donors, including the Community and its Member States, increasingly take into consideration the need to provide adequate support to the private sector in their policies, since it is an essential source of growth and employment in developing countries<sup>4</sup>.

The Community, in particular, has adopted a renewed strategy for private sector development in developing countries, placing emphasis on support to macroeconomic reform policies, but also on support at an intermediary and microeconomic level. As a result, for the ACP countries, risk capital resources have been complemented with other initiatives funded by the EDF, e.g., demand-driven/cost-sharing facilities aimed at increasing the competitiveness of ACP enterprises and strengthening the capacity of private sector and non-financial intermediaries.

A key element of such an approach is the need to ensure consistency, integration and complementarity among the various Community institutions involved in development cooperation as well as with all other bi/multilateral donors. Hence, this implies a better integration of the various instruments provided by the European Commission, the European Investment Bank and the Centre for the Development of Industry (CDI). In the next Convention, this coherence will be reinforced by increasing the resources available and improving the implementation procedures of initiatives in all sectors.

To ensure such coherence, it is essential that the current instruments and initiatives funded by the 8<sup>th</sup> EDF are not undermined by lack of resources, in particular for investment financing. However, if the current rate of commitment is maintained, the amount of resources allocated for risk capital operations under the Lomé IV Convention may be fully utilised before the entry into force of the next Convention and resources under the new Investment Facility become available.

In view of this situation, and based on the information received from the EIB, the Commission considers that the financial resources for the private sector should be reinforced, in order to prevent exhaustion of resources from interrupting the flow of financing. The Commission, after close consultation with the EIB, estimates that an additional €300 million could be absorbed by investment operations in the ACP countries over the next three years, on top of the €1 Bn already programmed by the EIB under the second protocol.

Accordingly, the Commission proposes that the ACP-EC Council decide on the possibility of using, for risk capital operations in ACP countries, up to a maximum of €300 million from unallocated programmable resources from the eighth EDF and earlier Funds as well as unused funds for interest subsidies and risk capital operations from the sixth and seventh EDFs. The Commission shall be required to take the appropriate measures to implement this decision.

The funds shall be made available by :

- allocating the equivalent to €183 million from the non-allocated 8<sup>th</sup> EDF programmable resources to this programme;
- allocating the equivalent to €55 million from the non-allocated 6<sup>th</sup> EDF resources for risk capital to this programme and

---

<sup>4</sup> Resolution of the Council of Ministers on an EC strategy for the development of the private sector in developing countries (EU Development Council meeting, Brussels, 21 May 1999).

- allocating the equivalent to €62 million from the non-utilised 7<sup>th</sup> EDF resources for interest subsidies to this programme.

The risk-capital interventions under this Decision should be complemented by significant private sector funding and contribute to the enhancement of local management skills; a part of the funds earmarked for risk-capital operations under this Decision should be used to underpin the development of local financial institutions.

The ACP-EC should also decide to entrust the EIB with managing such a programme and with undertaking operations in accordance with the current procedures and financing criteria laid down in the Convention for the use and allocation of “risk capital”<sup>5</sup>.

The joint ACP-EC Council will decide at a later stage how to use the funds that would return to the programme, after investments have been repaid by the borrowers.

---

<sup>5</sup> Title VIII (Articles 110 to 113): enterprise development.  
Article 229: sectors of intervention.  
Article 230 (2(a) to (d)): eligibility for financing, beneficiaries.  
Article 233 (1, 3 and 4): terms and conditions of financing.  
Article 234: risk capital.  
Articles 258 and 259: investment promotion.  
Articles 263 to 272: investment financing and support.

Table I

**Breakdown of the resources managed by the EIB under Lomé IV****(Risk capital and EIB's own resources)**

<b>Lomé IV (1st and 2nd prot.) (€ Billion)</b>	<b>1st protocol</b>	<b>2nd protocol</b>	<b>Total</b>	<b>Ratio / total Convention</b>	<b>Ratio / total EDF funds</b>
<b>EIB's own resources</b>	<b>1.200</b>	<b>1.658</b>	<b>2.858</b>	<b>10.7%</b>	<b>-</b>
<b>Risk capital</b>	0.825	1.000	1.825	6.9%	7.7%
<b>Interest subsidies</b>	0.280	0.370	0.650	2.4%	2.7%
<b>Total EDF funds managed by EIB</b>	<b>1.105</b>	<b>1.370</b>	<b>2.475</b>	<b>9.3%</b>	<b>10.4%</b>
<b>Total Convention funds managed by EIB</b>	<b>2.305</b>	<b>3.028</b>	<b>5.333</b>	<b>20%</b>	<b>-</b>
<b>Total EDF funds managed by the Commission</b>	<b>9.695</b>	<b>11.597</b>	<b>21.292</b>	<b>80%</b>	<b>89.6%</b>
<b>Total EDF funds (EIB+Commission)</b>					
	<b>10.00</b>	<b>12.967</b>	<b>23.767</b>	<b>89.3%</b>	<b>100%</b>
<b>Total Convention (EDF+EIB's own resources)</b>					
	<b>12.000</b>	<b>14.25</b>	<b>26.25</b>	<b>100%</b>	<b>-</b>

Table II

**Risk capital and Interest subsidies : financial situation** (situation on 29.02.2000)

<b>Status</b>	<b>Lome III</b>		<b>Lome IVa</b>		<b>Lome IVb</b>	
	<b>Risk capital</b>	<b>Int. subs.</b>	<b>Risk capital</b>	<b>Int. subs.</b>	<b>Risk capital</b>	<b>Int. subs.</b>
<b>Available</b>	<b>600</b>	<b>86</b>	<b>825</b>	<b>286</b>	<b>1000</b>	<b>370</b>
<b>Total committed</b>	<b>545</b>	<b>86</b>	<b>825</b>	<b>224</b>	<b>5268</b>	<b>53</b>
<b>Total available</b>	<b>55</b>	<b>0</b>	<b>0</b>	<b>62</b>	<b>474</b>	<b>317</b>

Proposal for a

**COUNCIL DECISION**

**on the position to be adopted by the Community within the ACP-EC Council of Ministers on granting financial support to an investment financing scheme for industrial and business development in the ACP countries**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 310 and 300, paragraph 2, second subparagraph thereof,

Having regard to the proposal from the Commission<sup>6</sup>,

Whereas:

- (1) Article 30 of the Fourth ACP-EC Convention, as amended by the agreement signed in Mauritius on 4 November 1995, and extended by decision 1/2000 of the ACP-EC Committee of Ambassadors, establishes a Council of Ministers with powers to make decisions in accordance with the Convention;
- (2) The Community's position within the ACP-EC Council of Ministers should be established with a view to the adoption by the latter of a decision on granting financial support to an investment financing scheme for industrial and business development in the ACP countries,

HAS DECIDED AS FOLLOWS:

*Article 1*

The position adopted by the Community within the ACP-EC Council of Ministers on granting financial support to an investment financing scheme for industrial and business development in the ACP countries shall be based on the attached draft Council of Ministers Decision.

---

<sup>6</sup> OJ C , , p. .

*Article 2*

Minor amendments to the draft Decision may be agreed without the need for a further Council decision.

Done at Brussels,

*For the Council  
The President*

## ANNEX

Draft

### **DECISION OF THE ACP-EC COUNCIL OF MINISTERS**

#### **on granting financial support to an investment financing scheme for industrial and business development in the ACP countries.**

THE ACP-EC COUNCIL OF MINISTERS,

Having regard to the fourth ACP-EC Convention, as amended by the Agreement signed in Mauritius on 4 November 1995, and extended by decision 1/2000 of the ACP-EC Committee of Ambassadors, and in particular Article 282(5) thereof,

Whereas:

- (1) The Fourth Lomé Convention, as revised by the Agreement signed in Mauritius on 4 November 1995, and extended by decision 1/2000 of the ACP-EC Committee of Ambassadors, assigns a key role to the private sector in helping to restructure the ACP economies, especially by creating jobs, boosting earnings and integrating these economies into the global economy.
- (2) A substantial amount of funds has been allocated to investment financing in both public and private sectors, through a provision of €1.825Bn as risk capital operations from the European Development Fund (EDF).
- (3) The total volume of risk capital commitments, for the 1st and 2nd financial protocol, stands at €1405.62 million, which is equivalent to 77.02% of the total EIB allocation provided for risk capital operations by the Convention.
- (4) The Community, in particular, has adopted a renewed strategy for private sector development in developing countries, placing emphasis on support to macroeconomic reform policies, but also on support to intermediary and microeconomic levels.
- (5) The ACP-EC Council of Ministers considers essential that the current instruments and initiatives funded by the 8th EDF be not undermined by lack of resources, in particular for investment financing. However, if the current rate of commitment is maintained, the amount of resources allocated for risk capital operations under the Lomé IV Convention may be fully utilised before the entry into force of the ACP-EC Partnership Agreement and the availability of resources under the new Investment Facility.
- (6) The Committee of Ambassadors shall take a decision on the transitional measures to be adopted between the end of the current Convention (1st August 2000) and the entry into force of the next Agreement, most probably early 2002. This decision will be made taking into account the need to ensure continuity of development financial cooperation.



- (7) The financial resources for the private sector should be reinforced, in order to prevent exhaustion of resources from interrupting the flow of financing.
- (8) Some €300million could be absorbed by investment operations in the ACP countries over the next three years, in addition to the €1.825 million already programmed by the EIB. These resources may be mobilised to fund an investment finance programme in support of the private sector for all ACP countries.
- (9) The EIB should manage this programme and undertake operations in accordance with the current procedures and financing criteria laid down in the Convention for the use and allocation of “risk capital”.
- (10) The risk-capital interventions under this Decision should be complemented by significant private sector funding and contribute to the enhancement of local management skills; a part of the funds earmarked for risk-capital operations under this Decision should be used to underpin the development of local financial institutions.
- (11) The Council will decide at a later stage how to use the funds that would return to the programme after investments have been repaid by the borrowers.

HAS DECIDED AS FOLLOWS:

#### *Article 1*

The following unallocated programmable resources from the eighth EDF and earlier Funds as well as unused funds for interest subsidies and risk capital operations from the sixth and seventh EDFs may be used, up to a maximum of €300 million, to provide risk capital operations in ACP countries:

- €183 million from the non-allocated 8th EDF programmable resources for the above-mentioned purpose;
- €55 million from the non-allocated 6th EDF resources for risk capital to this programme;
- €62 million from the non-utilised 7th EDF resources for interest subsidies to this programme;

These funds shall be additional to the resources allocated for risk capital operations under the eighth EDF and shall be managed by the European Investment Bank.

#### *Article 2*

The EIB should manage this programme and undertake operations in accordance with the current procedures and financing criteria laid down in the Convention for the use and allocation of “risk capital”.

The Council will decide at a later stage how to use the funds that would return to the programme after investments have been repaid by the borrowers.

*Article 3*

The Commission is requested to take the measures necessary to give effect to this Decision, which shall enter into force on the day it is adopted.

Done at

*For the ACP-EC Council of Ministers  
The President*