European
Investment Bank

Financing outside the Community:
Mediterranean countries

Community financing

(million u.a.)

	Funds to be committed by	Loans from EIB own resources (1)	Budgetary Funds: Loans on special conditions (2)	Budgetary Funds: Grant aid	Total
Algeria	31. 10. 1981	70	19	25	114
Morocco	31. 10. 1981	56	58	16	130
Tunisia	31. 10. 1981	41	39	15	95
Egypt	31. 10. 1981	93	14	63	170
Jordan	31. 10. 1981	18	4	18	40
Lebanon	31. 10. 1981	20	2	8	30
Exceptional aid		20	–	–	20
Syria	31. 10. 1981	34	7	19	60
Israel	31. 10. 1981	30	–	–	30
Malta	31. 10. 1983	16	5	5	26
Cyprus	31. 12. 1983	20	4	6	30
Portugal	31. 10. 1983	200	–	30	230
Greece	31. 10. 1981	225	10	45	280
Turkey	31. 10. 1981	90	220	–	310
Yugoslavia	Amount committed in 1977 and 1978	50	–	–	50
Total		983	382	250	1 615

(1) In Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon (apart from exceptional aid), Syria, Malta and Cyprus, loans from EIB own resources generally attract a 2 % interest subsidy financed from grant aid. In Portugal and Greece, the total amount earmarked includes 150 million u.a. carrying a 3 % interest subsidy financed from grant aid; subsidised loans go primarily to economic infrastructure and agricultural development projects and to financing small and medium-scale industrial ventures through development banks.

(2) In Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria, Malta and Cyprus, loans on special conditions are granted for a term of 40 years, including a 10-year grace period, with interest payable at 1% per annum. Part of the aid provided in the form of loans on special conditions may be used as contributions towards the formation of risk capital, the conditions being determined on a case-by-case basis.
In Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon and Syria, the Commission of the European Communities directly administers grant aid earmarked for technical cooperation and loans on special conditions for rural development and social infrastructure. The EIB grants loans from its own resources and, acting under mandate from the Community, administers interest subsidies, special loans and risk capital in the industrial, energy, mining, tourism and economic infrastructure sectors.

(P.T.O.)

In Malta and Cyprus, the Commission of the European Communities directly administers grant aid earmarked for technical cooperation. The EIB grants loans from its own resources and, acting under mandate from the Community, administers interest subsidies, special loans and risk capital.

In Greece, such loans are granted for a term of 30 years, including an 8-year grace period, with interest payable at 2.5 % per annum, and are intended for financing projects concerned with agricultural modernisation.

The Commission of the European Communities directly administers grant aid earmarked for technical cooperation. The EIB grants loans from its own resources and, acting under mandate from the Community, administers interest subsidies and special loans.

In Turkey, such loans are granted for a term of 40 years, including a 10-year grace period, with interest payable at 2.5 % per annum.

The EIB administers these loans, acting under mandate from the Community.

European Investment Bank

Financing outside the Community: Mediterranean countries

October 1978

The banking institution of the European Community

The European Investment Bank (EIB) was created by the Treaty of Rome, which came into force on 1 January 1958 establishing the European Economic Community. The Bank is an independent public institution within the Community and operates on a non-profit-making basis. Its capital, which stood at 7087.5 million units of account at 1 July 1978 (1), is subscribed by the nine Member States of the Community. The EIB borrows on the capital markets the bulk of the funds required to carry out its tasks.

The Bank's basic function is to grant and guarantee long-term loans to enterprises, public authorities and financing institutions within the Community to finance projects which help to remedy regional problems, promote modernisation and conversion of undertakings or the creation of fresh activities or which serve a common interest of several Member States or the Community as a whole.

The Bank's activities were initially confined to the territory of the Member States of the Community, but have gradually been extended since 1963, basically in two phases. Until 1975, such operations were carried out only in countries which had concluded Association Agreements with the Community providing for financial support, i.e. the seventeen Associated African States, Madagascar and Mauritius (AASMM) which signed the Yaoundé Conventions and, in the Mediterranean region, Greece and Turkey.

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(1) The unit of account used by the European Investment Bank is defined in terms of a 'basket' made up of the following fixed amounts of the national currencies of the Community Member States: DM 0.828, £ 0.0885, Ffrs 1.15, Lit 109, Fl 0.286, Bfrs 3.66, Lfrs 0.14, Dkr 0.217, £Ir 0.00759. It is equal to the European Unit of Account, the value of which is calculated each working day by the Commission of the European Communities on the basis of market rates and published in the Official Journal of the European Communities.
At 30 September 1978 1 unit of account was equivalent in value to:

DM	2.54907	Lit	1083.29	Lfrs	40.2016
£	0.666864	Fl	2.77149	Dkr	7.05015
Ffrs	5.69694	Bfrs	40.2016	£Ir	0.666864
US$	1.31593				

Since 1975, the Community has signed agreements with a number of countries aimed at promoting trade, fostering industrial and technical cooperation and providing for various types of Community financing. The most important of these agreements is the Lomé Convention, concluded in 1975 with 46 African, Caribbean and Pacific States (ACP), to which a further seven countries have since acceded. Agreements have also been signed with the majority of countries in the Mediterranean region.

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This brochure explains how the Bank operates in Mediterranean countries outside the Community.

More detailed information can be obtained by applying to the Head Office of the

European Investment Bank
2, place de Metz – Boîte Postale 2005
Luxembourg
Tel. 43 50 11 – Telex 3530 bankeu lu

or its

Representative Office in Brussels
Rue de la Loi, 227
B-1040 Brussels
Tel. 735 21 38 – Telex 21 721 bankeu b

Community financial cooperation with countries in the Mediterranean region

Community financing available to the Mediterranean countries totals 1615 million u.a., of which 983 million u.a. is being provided from the European Investment Bank's own resources [1] and 632 million from the Community's budgetary funds.

Loans from the Bank's own resources are earmarked for capital investment projects. They are granted for a specific term tailored mainly to the ventures' economic and financial characteristics, while interest is payable at the rate applied by the Bank at the date of signature of the finance contract. However, in certain countries, the rate may be reduced by 2 or 3 points by drawing on grant aid.

Budgetary funds are being deployed in one of two ways:

- 382 million u.a. is being made available in the form of *loans on special conditions* (term: 30 or 40 years including an 8 or 10-year grace period; rate of interest: 1 or 2.5 % per annum), also intended for capital investment projects. These loans are administered either wholly or partly by the Bank, depending on the country concerned.

  It should be stressed that such special conditions generally benefit the recipient State which may on-lend the funds to public or private undertakings or investment banks on less favourable terms, although these must be commensurate with the economic and financial characteristics of the projects financed.

- 250 million u.a. is being provided in the form of *grant aid* earmarked partly for subsidising loans from the Bank's own resources under the

(1) Comprising chiefly proceeds from EIB borrowing operations on capital markets and a small proportion of paid-in capital and reserves.

terms of the various agreements and partly, as outright grants, for promoting technical cooperation.

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In the majority of countries, capital investment projects may be financed through standard or subsidised rate loans from the Bank's own resources, or loans on special conditions. In the former case, priority is accorded to productive investment and infrastructural works contributing directly to boosting productivity, while loans on special conditions are channelled mainly to projects offering an indirect or long-term return. However, it is possible for a single project to attract both types of loan.

Terms and conditions of EIB loans

The main terms and conditions of Bank loans are set out below. In general, these apply both to loans from its own resources and loans on special conditions, except for the rate of interest and term, details of which relate solely to loans from own resources.

Currencies

Finance contracts are denominated in units of account. Loans are generally disbursed in several currencies taking account, as far as possible, of the borrower's preferences. Currencies disbursed are those of the EEC Member States or other currencies used in international transactions, in particular the US dollar. The currencies for repayment of principal and payment of interest are stipulated in the finance contracts. The State makes available to borrowers the foreign currencies required to service Bank loans.

Interest rates

As the EIB finances loans from its own resources mainly by borrowing on the capital markets inside and outside the Community and operates on a non-profit-making basis, rates of interest are close to the cost of its borrowings on the markets.

These rates are set periodically by the Bank for each of the currencies in which it disburses loans to its borrowers according to the cost of its resources.

For loans disbursed in several currencies, the lending rate is the weighted average of the rates applicable to each of the currencies to be disbursed and the corresponding maturities.

The Bank's rates are not dependent on the type of project financed, its location or the status of the borrower.

Loans are paid out at par, so that the borrower receives the whole nominal amount of the loan.

As stated earlier, the rate may be reduced by 2 or 3 points in certain countries.

Term

The European Investment Bank grants long-term loans, the exact duration being tailored to the type of project and the normal depreciation period for the equipment financed. The maximum term also depends on conditions prevailing on the capital markets where the Bank procures its funds. Thus, while the term is normally between 10 and 15 years, it may, under favourable market conditions, be as much as 20 years for certain infrastructure projects.

The term usually includes a grace period corresponding to the time required for the project to reach completion and come on stream.

Disbursements

Loans are disbursed against evidence of expenditure on the projects financed, as laid down in the finance contracts.

Security

The beneficiary must furnish the usual guarantees required for long-term loans. Where the loan is not granted to the State, the State is normally required to stand guarantor.

Tendering

Generally, the promoter must ensure that tenders for projects are invited on as wide a basis as possible. Bidding must be open at least to all natural or legal persons of the Member States of the Community and of the country in which the project is being carried out.

In the case of major contracts the Bank reserves the right to monitor and approve the various stages of the tendering procedure (preselection, preparation of tendering documents, vetting of bids). The procedure for posting tender notices is determined individually with the agreement of the Bank which may require that these be published in the press, notably the Official Journal of the European Communities.

Expenditure covered

Loans may be used to finance foreign exchange expenditure as well as local expenditure necessary for implementing the project, including fees for studies, consulting engineers and technical assistance. General administrative, maintenance and operating costs are not covered.

Where foreign exchange expenditure is financed from loans on special conditions, imports must originate from one or more of the Member States of the Community; this restriction does not apply in the case of loans from the Bank's own resources.

Complementary nature of loans

Bank loans are intended as complementary sources of finance, i.e. they must be used in conjunction with other funds earmarked for the project. The financing plan must include an appropriate proportion of the promoter's own funds, or, where the venture is being implemented directly by the State, of budgetary funds. Loans may, with the agreement of the State concerned, be made available under cofinancing operations mounted along with local development and credit agencies, agencies in Member and non-Member States of the Community and international financing institutions. In principle, the EIB does not lend more than 50 % of the total cost of fixed assets.

Project implementation and operation

Promoters are responsible for implementing and operating projects financed. However, the Bank wishes to see that projects which it backs are carried out properly and come to fruition; it asks the promoters to take all necessary steps to guarantee this.

The Bank ensures that the funds are used as effectively as possible in accordance with the agreed allocations.

Financing applications and appraisal procedure

Applications for finance may be submitted by the State concerned, by intermediary financing institutions (development finance banks/companies) or by the promoters. Applications not submitted by the State can be followed through only with its agreement.

In practice, it is advisable to contact the Bank informally (Department for Operations outside the Community) before submitting an official application.

Details to be submitted to the Bank in support of a loan application are given in the **Technical Annex.**

The Bank appraises projects and makes financing decisions on the basis of its Statute, the relevant agreements and their implementing texts.

The appraisal is carried out in contact with the promoter by the Department for Operations outside the Community assisted by technical advisers specialising in the various sectors and by economists and lawyers, all of whom are members of the Bank's staff.

When the appraisal is completed, loan applications are submitted to the Bank's Board of Directors which meets at least six times a year.

Once the approval of the Board of Directors has been given, a finance contract, in an agreed form, is concluded.

Details to be submitted to the European Investment Bank

The layout and contents of documents in the project file submitted to the Bank are the responsibility of the borrower who may, if necessary, seek outside help with their preparation.

The range and diversity of potential projects make it difficult to impose any strict standardisation as regards documents to be submitted to the Bank. Consequently, the Bank does not require its borrowers to complete set forms or questionnaires, but allows them to use their own initiative in compiling as detailed information as possible to permit the technical, economic, financial and legal appraisal of the project.

The following list of details to be submitted to the Bank is therefore meant merely as a guide; during appraisal of a project, the Bank keeps in close touch with the country, enterprise or administrative body concerned in order to obtain any additional information necessary and to discuss the main problems likely to arise before and after commissioning of the project.

For *industrial, mining or tourism projects* the documentation must cover the following main points:

1. General and legal information about the enterprise, its principal partners or promoters

- The enterprise: memorandum and articles of association, shareholders, tax regime, certificate of incorporation, concessions, activities, accounting and administrative structure, balance sheets, trading accounts, profit and loss accounts, movement of funds statement for the last three financial years, details of short, medium and long-term liabilities.
- Principal partners and promoters: articles of association, shareholders, activities, references, balance sheets and profit and loss accounts for the last three financial years.

2. Technical data

- General: purpose, location, factors of production, rated and forecast production capacities.
- Technical description: technology, site and site development, buildings, production and storage plant, general services, conveyance systems and equipment, measures to protect the environment.

- Study and implementation: organisation, consultants (if any), procedures for awarding orders and contracts, supervision, works schedule.
- Detailed estimate of investments, itemising site and plant expenditure, provision for contingencies and price rises, interest on capital during construction, initial and start-up expenses, together with a cost breakdown in foreign and local currencies.
- Operation: raw materials and products, flowcharts, consumption and output levels, managerial staff and workers, management organisation, technical assistance where applicable.

3. Economic data

- Market: statistics showing present and forecast trends in supply, demand and prices.
- Production outlets: sales policy and organisation, position of company in relation to main competitors, domestic and export sales.
- Jobs created, permanent and seasonal jobs, numbers of expatriates and nationals, professional training, projected replacement of staff (if any).
- Part played by the project in the development programme of the country concerned.
- Data used for calculating the economic rate of return of the project and assessing its contribution to the economic development of the country concerned, its impact on the balance of payments and public finance.

4. Financial data

- Breakdown of operating costs, depreciation and overheads.
- Projected trading accounts until the project comes fully on stream (with previous trading accounts, if any).
- Estimate of working capital needed and likely trends over the same period: stocks of raw materials, finished products, credits to customers, suppliers' credits.
- Projected balance sheets and financial statements for the same period (with previous balance sheets, if any).
- Financing plan for the project and schedule of projected expenditure.
- Security offered.
- Policy concerning return on the capital of the enterprise.

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For *infrastructure or energy projects* the information to be supplied must be tailored to the precise nature of the enterprise and the project. Additional details must be given on what needs the project is fulfilling, its implementation, potential use, pricing principles and methods, and the social costs and benefits to the community.

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For all applications, it is also helpful if project files include mention of the names and addresses of those responsible for preparing the technical, economic, legal and financial aspects of the project.

This publication is available in
Danish, Dutch, English, French, German and Italian

upon request to:

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2, place de Metz – Boîte Postale 2005
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Europäische Investitionsbank

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