Financing Facilities under the Mediterranean Agreements

European
Investment
Bank

Current status of financial protocols

As at 1st September 1987

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Mediterranean Financial Protocols

(in million ECUs)

	Agreement	Loans from EIB own resources	Financing from Community budgetary resources: Interest subsidies[1]	Risk capital operations[2]	Loans on special conditions[3]	Grants	Total per Agreement
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This booklet describes the scope of the European Investment Bank's lending operations in non-EEC countries in the Mediterranean region.

CONTENTS

1. Introduction: The role of the EIB

The European Investment Bank is an independent public institution of the European Community established to finance capital investments on a non-profit-making basis to promote the balanced development of the Community. Created in 1958 by the Treaty of Rome as part of the decision to establish the European Economic Community, the EIB operates as a bank, raising the bulk of its financial resources on world capital markets for on-lending to investment projects meeting Community priority objectives.

The EIB's shareholders are the Member States of the European Community, who have all subscribed to its capital which currently stands at 28.8 billion ECUs, of which 2.6 billion ECUs is paid in or to be paid in. As a leading international borrower with a first-class credit rating, it is able to mobilise large volumes of capital at fine terms, on-lending the proceeds to finance projects with only a small margin to cover administrative costs.

The EIB's activities are mainly concentrated in the European Community, but its expertise as a project financing Bank has been called on to contribute to the implementation of the Community's development co-operation in 12 countries in the Mediterranean region. The EIB also finances projects in the 66 African, Caribbean and Pacific States signatories of the Third Lomé Convention[1].

Since 1962 the Community has built up a framework of co-operation or association agreements covering its relationships with all countries in the Mediterranean region wishing to maintain or develop their links with the EEC. Under such agreements the EIB has financed operations in the Maghreb — Algeria, Morocco, Tunisia; the Mashreq — Egypt, Jordan, Lebanon, Syria; as well as Cyprus, Israel, Malta, Turkey and Yugoslavia.

The EIB also financed projects in Greece, Spain and Portugal under similar arrangements prior to their accession to the Community.

In the Mediterranean States, EIB lending is carried out under Financial Protocols[2] running usually for 5-year periods, concluded within the broader bilateral co-operation agreements that define the framework for the Community's development finance.

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(1) Described in the EIB booklet "Financing facilities under the Third Lomé Convention".

(2) See insert for the most up-to-date information on the status of the Financial Protocols with individual countries in the Mediterranean area.

2. Framework of Community financing

Within the framework of the Mediterranean Financial Protocols, European Community development finance is generally composed as follows: loans from the EIB's own resources (with or without subsidies); risk capital assistance granted and managed by the EIB under mandate from the European Community; loans on special conditions granted, depending on the sector, either by the Commission or under mandate by the EIB; and grant aid from the Commission.

Loans made available from the Bank's own resources closely reflect market rates and in most cases attract a 2% interest rate subsidy funded from grant aid. In the case of risk capital operations, as they are drawn from budget appropriations, funds can be granted on more flexible terms and conditions.

For further details, on types of finance available and amounts under Financial Protocols, see insert sheet.

3. Scope, terms and conditions

3.1. Programming

The Financial Protocols provide for programming missions from the EIB and the Commission in each of the countries concerned to establish with the national authorities a mutually agreed indicative aid programme. Each programme may be reviewed and revised in common accord between the Community and the country concerned to take into account changes in economic circumstances and priorities.

3.2. Sectors financed

Sectors in which investments can be financed by the EIB in the Mediterranean vary according to the objectives foreseen in the relevant Financial Protocol for the country concerned. In general the Bank operates in sectors such as agriculture, industry and economic infrastructure (e.g. energy and transport).

3.3 Applying for EIB finance

Projects which conform with the orientation of the indicative aid programme should be submitted to the EIB for appraisal and approval. Within the terms of the relevant Protocol, the EIB can support investment projects undertaken by both public and private sector promoters. In all cases requests for finance must be for specific projects and presented by the authorities of the country concerned or with their formal agreement.

Contacts regarding projects which may be eligible for EIB finance can be made on an informal basis directly with the Bank. The Bank needs to be informed at the earliest opportunity of all preparatory work on project files to be able to advise on the most suitable form of project finance. Such contacts can clarify the required action or studies needed to ensure a timely start to project appraisal procedures.

3.4. Project appraisal and financing decisions

Applications for loans from the Bank's own resources and proposals for risk capital assistance (and the loans on special conditions for which it is responsible) are appraised and decided on by the EIB on the basis of its Statute and the terms of the Financial Protocol concerned. The Bank's appraisal methods are similar to those of other international long-term lending institutions.

Each loan is decided on by the EIB's Board of Directors. Before submitting proposals to the Board, the Bank seeks the opinion of the Commission, as required by its Statute, and when budgetary resources are involved, the opinion of a committee composed of representatives of Community Member States.

3.5. Who can borrow

EIB loans and risk capital assistance are made to specific investment projects and may be granted directly to the State, to a private entity, or a public or semi-public authority in the Mediterranean country concerned. The application when not made by the State needs formal agreement of the authorities in the country concerned (see point 3.3 above).

3.6. Co-financing operations

As well as working in continuous and close co-ordination with the Commission the EIB also co-operates with other project financing institutions of the Community Member States involved in bilateral aid: the International Bank for Reconstruction and Development (World Bank) and its affiliates), regional development institutions, other bilateral or multilateral financing institutions (notably the Arab funds) and commercial banks, and often co-finances projects with them.

3.7. Tendering

For projects financed with EIB funds the Bank generally requires that tenders are invited on as wide a basis as possible for goods and services where the amounts involved are fairly substantial. Appropriate procedures covering national or international invitations to tender or enquiries among suppliers are agreed, taking account of the characteristics of the project.

In the case of international tendering, bidding must be open at least to undertakings in European Community Member Countries and in the Mediterranean State concerned. The Bank is also prepared to consider bids from firms based in countries where it raises its funds or which, in the Bank's opinion, afford the project particular technical or geographical advantages. The EIB normally requires that tender notices are published in the Official Journal of the European Communities. The borrower is also free to publish notices elsewhere.

The technical aspects of bidding procedures are left to the borrower, subject to there being no discrimination (specifications, organisation, payment, delivery periods, etc.). International enquiries among suppliers must involve at least three qualified firms or suppliers based in the Community and may include other contractors acceptable to the Bank.

The EIB reserves the right to verify and approve tendering procedures, particularly preselection, the preparation and contents of tendering documents, vetting of bids and selection of successful bidder.

4. EIB loans from its own resources

4.1. EIB financing

Loans from the Bank's own resources (mainly the proceeds of its own borrowings on world capital markets) are earmarked for projects likely to offer an adequate economic rate of return. The EIB takes into account all factors which may guarantee servicing of the loan.

4.2. Interest rates

The EIB's interest rates reflect conditions on capital markets, the terms of the loan and the currencies borrowed. Rates are not dependent on the type of project funded, its location, the nationality or status of the borrower or economic sector concerned.

As previously stated, EIB loans may attract an interest subsidy financed from the grant aid element of each Financial Protocol. Interest rate subsidies are, however, excluded for loans to projects in the oil sector. For interest rate subsidies in force see insert sheet.

4.3. Currencies disbursed

While the EIB denominates its loans in ECUs, they are generally disbursed in currency mixes tailored to the Bank's holdings.

Repayments, covering both principal and interest, are made in equal semi-annual or annual instalments in the same currencies and proportions as the original disbursements.

4.4 Term

The term of EIB loans depends mainly on the nature of the project funded and, in particular, the normal depreciation period for the life of assets financed.

For industrial projects the terms will range from about 10 to 15 years and for infrastructure from about 15 years to, in some cases, about 20 years. A grace period on repayments of principal is included to cover the time necessary for the project to become operational.

4.5. Security

Like any lender whose resources consist of funds borrowed on capital markets, and in keeping with its Statute, the EIB requires appropriate security for its loans. The guarantee of the Mediterranean State in which the project is located is in almost all cases required, although other first-class guarantees may be considered.

4.6. Project financing

EIB loans may cover up to 50% of a project's total cost. A loan from the Bank's own resources must therefore be combined with other finance (including risk capital, a reasonable proportion of the borrower's own funds, outside credit, etc.) necessary to assure the project's full funding.

5. Risk capital

5.1. Characteristics

Risk capital assistance is a particularly flexible and adaptable form of financing developed by the EIB geared mainly towards aiding both public and private productive enterprises (including in particular those with which enterprises from the European Community are associated). Drawn from Community budgetary resources, risk capital allows for greater flexibility in setting terms and conditions. See insert sheet for details of those Mediterranean countries where risk capital finance is available under the Financial Protocols.

Risk capital can be provided in the form of:

a) subordinated loans. Repayment of principal and in exceptional cases payment of interest are settled only after other bank debts have been met.

b) conditional loans. Repayment or duration terms for the funds lent or their rate of interest are linked to fulfilment of certain conditions, specified at the time of contract signature, covering profit or production levels expected from the project.

c) equity participations taken up, on behalf of the Community, in enterprises. These are in the form of minority holdings. Such acquisitions are temporary and disposed of at an appropriate stage, preferably to nationals or institutions based in the Mediterranean State concerned.

d) acquisition of a shareholding through a conditional loan granted to the State, or with government agreement, to a local undertaking directly, or indirectly through a local financing institution.

e) finance for specific feasibility studies, for helping undertakings during start-up or for rehabilitation purposes.

Risk capital assistance may also be provided through **global loans** (see 6 below), a line of credit for on-lending to smaller productive investments by the intermediary of a financial institution in the Mediterranean country concerned whose activity and management criteria permit this type of support. Such financing may be for direct capital investment needs or tailored to a variety of purposes such as feasibility studies, equity participations, conditional or subordinated loans.

Terms and conditions for risk capital assistance depend on the nature of each project being supported, but are generally concessionary. Interest rates will normally range between 2% to 5% and the term may run up to 25 years.

5.2. Complementing EIB loans from own resources with risk capital

While the EIB can provide risk capital assistance unaccompanied by other credit, this type of financing can also be complemented with loans from the EIB's own resources. Such a combination can provide a more suitable customised financing package, or permit the implementation of different phases of the same project.

6. Global loans to finance small and medium-sized ventures

Clearly, for reasons of operating efficiency, the EIB can only make direct loans to projects of a certain size. However, the need to support smaller-sized productive and infrastructure capital investments is recognised as important in contributing to the smooth development of productive sectors and more generally to economic growth in the different Mediterranean countries. While the EIB itself does not handle large numbers of small-sized loans spread throughout the Mediterranean area on practical grounds, it uses its **global loan** mechanism to provide finance either from its own resources or from risk capital funds to support investments by small and medium-sized companies, agro-projects, infrastructure schemes, etc.

Global loans take the form of lines of credit opened with an appropriate intermediary, e.g. a development bank, or development finance company. Acting as intermediary, such financial institutions on-lend the funds at appropriate terms and conditions in a number of sub-loans for selected small and medium-sized ventures agreed by the Bank.

Global loans in effect bring together the financial resources of the EIB, an international borrowing institution with access to the world's capital markets, and the operational experience of Mediterranean financial institutions. The EIB is able to use the contacts, local knowledge, and awareness of national development priorities of such financial intermediaries in the selection, assessment and monitoring of small-sized investments in line with the Bank's guidelines.

Intermediary financial institutions co-operating with the EIB in global loans are selected in consultation with the authorities of the Mediterranean State concerned. The intermediary institutions are expected to have adequate operating capacity and technical know-how (for project appraisals, follow-up, etc.) to ensure the funds are effectively deployed.

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 asks them to use their own initiative in compiling as detailed information as possible to permit the technical, economic, financial and legal appraisal of projects.

The following list is intended as a guideline. During appraisal of a project the Bank keeps in close touch with the Mediterranean 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 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: legal documents covering incorporation, statutes, shareholders, 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, transport 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, 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 changing requirements 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.

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Further information can be obtained directly and informally from:

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This publication is also available from the same addresses in Danish, Dutch, French, German, Greek, Italian, Portuguese and Spanish.

Other publications providing up-to-date information on the EIB and its activities (Annual Report, EIB-Information bulletin, 100 Questions and Answers, etc.) may also be obtained free of charge by writing to the Bank's Information – Public Relations Division in Luxembourg.

Den europæiske Investeringsbank
Europäische Investitionsbank
Ευρωπαϊκή Τράπεζα Επενδύσεων
European Investment Bank
Banco Europeo de Inversiones
Banque européenne d'investissement
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