

# Financing facilities| under the Third Lomé Convention

**European  
Investment  
Bank**



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# The role of the European Investment Bank

Created in 1958 by the Treaty of Rome establishing the European Economic Community, the European Investment Bank (EIB) is an independent institution within the Community. The Bank's function under the Treaty is to contribute, on a non-profit-making basis and through the provision of long-term finance, to the implementation of directly or indirectly productive capital projects fostering the balanced development of the Community.

The Bank's operations were initially confined to the territory of the Member States, but have gradually been extended since 1963 under agreements, protocols and conventions concluded by the European Community with certain non-member countries.

Consequently, the Bank has come to play an increasingly important part in deploying the Community development aid provided for under these texts. It is now entrusted with mounting operations in 12 countries in the Mediterranean region which have concluded Financial Protocols with the EEC and in the 66 ACP countries signatories to the Third Lomé Convention.

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The EIB's shareholders are the Member States of the European Community who have all subscribed to its capital (28.8 billion ECUs<sup>(1)</sup> at 1 January 1986), part of which is already paid in or to be paid in<sup>(2)</sup>. The Bank raises the funds required for financing its lending operations mainly by borrowing on national capital markets inside and outside the Community and on the international market. It numbers among the leading international borrowers. The EIB's first-class credit rating enables it to mobilise substantial volumes of capital on the best conditions. A non-profit-making

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(1) The EIB's borrowing and lending operations span a wide range of currencies but the Bank draws up its balance sheet and financing and borrowing statistics in ECUs. The ECU consists of the sum of the following amounts of the currencies of the first ten Member States of the Community: DM 0.719, £ 0.0878, Ffrs 1.31, Lit 140, Fl 0.256, Bfrs 3.71, Lfrs 0.14, Dkr 0.219, Dr 1.15, IR£ 0.00871 (as at 1 January 1986).

(2) The Bank's balance sheet at 31 December 1985 shows own funds totalling close on 4.2 billion ECUs, comprising paid-in capital and reserves.

institution, the Bank passes on the proceeds to borrowers on the same conditions, adding only a modest margin to cover its administrative costs.

This brochure describes the scope of the Bank's financing facilities in the African, Caribbean and Pacific (ACP) States<sup>(1)</sup> signatories to the Third Lomé Convention, which came into force on 1 May 1986, and the arrangements under which they are made available. It focuses on a particular facet of the Convention which, following on from its predecessors, starting in 1963 with the First Yaoundé Convention and leading through from the Second Yaoundé Convention (1969) to the First (1975), Second (1979) and now Third Lomé Conventions, provides for an increased volume of funds in support of these States.

## **1. Community financial aid**

Three specific yet complementary distinctions can be made with respect to Community aid in support of the ACP States: the origin of the funds deployed, the conditions attaching to their provision and the purpose of the aid. Taking its lead from previous Conventions, Community aid provided for under the Third Lomé Convention comprises European Development Fund (EDF) resources (7.4 billion ECUs) furnished from Member States' budgetary contributions and financial assistance (1.1 billion ECUs) from the Bank in loans from its own resources (mainly the proceeds of its borrowings on the capital markets). The Bank also manages those EDF resources made available for a variety of risk capital operations.

The terms and conditions attaching to these two categories of aid vary according to the origin of the funds: financing provided by the Bank from its own resources will not carry the same conditions as financing which it advances from EDF resources. Loans made available from the Bank's own resources closely reflect market rates and normally attract an interest subsidy; because EDF resources are used for funding risk capital operations and because they are drawn from budget appropriations, they are granted on far more favourable terms and conditions from the point of view of interest rate, repayment period, the type of capital investment to which they can be given over and so on.

Financial aid provided by the Commission of the European Communities from the EDF consists mainly of grant aid, but also loans

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(1) for the Overseas Countries and Territories (OCT), see page 5.

on special conditions repayable over a long period and carrying a token rate of interest.

The division of responsibilities for managing the different categories of aid is as follows:

<b>Managed by the Commission of the European Communities :</b>	
(from EDF resources)	(million ECUs)
Grants	4 645
Loans on special conditions	600
Transfers for the stabilisation of export earnings (STABEX)	925
Special financing facility for mineral products (SYSMIN)	415
	Total: 6 585
<b>Managed by the European Investment Bank :</b>	
Loans from the EIB's own resources (ceiling amount)	1 100
Risk capital from EDF resources	600
Interest subsidies from EDF resources (chargeable to EDF grant aid)	215
	Total: 1 915
<b>Grand Total</b>	<b>8 500</b>

In tandem with the Convention, and following established practice, a Decision of the Council of the European Communities makes specific provision for aid for the **Overseas Countries and Territories (OCT)** enjoying special ties with certain Community Member States.

For the EIB, this involves a maximum of 20 million ECUs in loans from its own resources and 15 million ECUs in the form of risk capital operations on the same terms and conditions as in the ACP States.

## **2. Scope, terms and conditions of financial aid**

### **2.1 Sectors financed**

In accordance with the division of responsibilities between the Commission and the EIB provided for under the Convention, financing applications with respect to productive projects or action programmes in industry (including agricultural processing), mining and tourism, and energy production schemes linked to investment in these sectors must first and foremost be submitted to, and appraised by, the Bank. The EIB is also empowered to finance infrastructure projects of benefit to the economy in such sectors as transport and telecommunications, as well as, drawing on its own resources, large-scale crop-growing projects.

### **2.2 Programming**

The Lomé Convention provides for programming missions in each ACP State. A concrete example of co-operation between the Community and the authorities in these States, programming missions are designed to evaluate proposals put forward by the ACP States within the context of their development objectives and priorities. The EIB participates with the Commission in all programming missions aimed at finalising the indicative aid programme drawn up by common accord between the Community and the ACP State concerned. Each programme may be revised subsequently to allow for any changes in the economic situation of an individual ACP State or any alternations to the original priorities spelled out in the programme.

Each project featuring or likely to feature in the indicative aid programme may be submitted to the Community by the ACP State or States concerned or, subject to their agreement, by other promoters. The foregoing remarks need not, of course, rule out the possibility of finance being provided during the currency of the Convention for a project not mentioned during a programming mission, notably a new project.

### **2.3 How to go about applying for financing**

Contacts regarding all projects in sectors for which the Bank is primarily responsible should, in principle, be made on an informal basis directly with the EIB.

The Bank prefers to be informed at the earliest opportunity of all preparatory work on project files in order to be able to discuss with potential borrowers the types of financing most suited to the



project. This also helps the EIB to join with the promoter in considering any action or studies that need to be undertaken to make a rapid start on the appraisal procedure and to ensure that this is conducted effectively.

#### **2.4 Project appraisal and financing decisions**

The Bank appraises applications for loans from its own resources and proposals for the granting of risk capital assistance, making its financing decisions on the basis of its Statute and the texts implementing the Lomé Convention. The Bank's appraisal methods are very similar to those practised by other international long-term lending institutions.

When commencing its appraisal, the Bank seeks the favourable opinion of the competent authorities in the ACP State concerned. As required under its Statute, the EIB has also to obtain the opinion of the Commission of the European Communities and of a consultative committee consisting of representatives of EEC Member States' Governments and a Commission representative (Article 22 Committee).

The Commission is responsible for appraising and deciding whether and how to finance projects eligible for other forms of aid provided from EDF resources (grants, loans on special conditions, special financing facility for mineral products (SYSMIN), etc.), after an opinion has been delivered by the EDF Committee comprising representatives of Member States' Governments on which the Bank is also represented.

#### **2.5 Who can borrow ?**

EIB loans are earmarked for specific projects and may be granted directly either to a private, public or semi-public enterprise, or to an ACP State or ACP public authority. Neither the status nor nationality of the borrower has any bearing on the decision to grant a loan or on the accompanying terms and conditions. The Bank does nevertheless without exception assure itself of the formal agreement of the authorities in the country where the project is to be mounted before deciding to make a loan.

#### **2.6. Co-financing operations**

In addition to working permanently in close concert with the Commission of the European Communities with respect to operations financed from the European Development Fund, the Bank maintains close collaborative ties with financial institutions in EEC

Member States (bilateral aid), with those in the ACP States themselves and with international development aid organisations. The EIB has a long, unbroken tradition behind it of co-financing operations mounted with these different agencies. The principal co-financiers with whom it has partnered operations have included the Caisse centrale de coopération économique (France), the Commonwealth Development Corporation (UK), Kreditanstalt für Wiederaufbau and Deutsche Gesellschaft für Beteiligungen in Entwicklungsländern mbH (Germany), Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands), the World Bank group (IBRD, IDA and IFC), the African Development Bank, the Asian Development Bank, the Inter-American Development Bank and various banks and funds set up by Arab countries.

## **2.7 Tendering**

In the case of projects financed with EIB funds, the Bank generally requires that tenders be invited on as wide a basis as possible for the supply of goods and services where the amounts involved are fairly substantial. Appropriate procedures — national or international invitations to tender or enquiries among suppliers — are agreed, taking account of the features and scale of the project and the particular situation of the country involved.

In the case of international tendering, bidding must be open at least to undertakings in EEC Member Countries and in the ACP States. The Bank is also prepared to provide financing to cover bids from firms based in countries where it raises the funds required for its activities or which, in the Bank's opinion, afford the project particular technical or geographical advantages.

The EIB normally ensures that tender notices are published in the Official Journal of the European Communities, although the borrower is also free to publish them elsewhere.

The technical aspects of the tendering procedure are left to the borrower, subject to there being no discrimination (organisation, payment, delivery periods, etc.). International enquiries among suppliers must involve at least three qualified firms or suppliers based in EEC Member Countries and may embrace other contractors deemed acceptable by the Bank.

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

### **3. Details of financing facilities**

#### **3.1. Loans from the Bank's own resources**

Loans from the Bank's own resources are earmarked for projects likely to offer an adequate economic return. The project's operating results or the resources generated by it must normally be such as to cover repayment of principal and payment of interest. The EIB takes particular account of the economic and financial situation of the ACP State concerned and all factors which may guarantee servicing of the loan.

#### **3.2 Interest rates**

The Bank's rates are not dependent on the type of project financed, its location, the nationality or status of the borrower, or the economic sector concerned. They are governed by conditions on the markets, the term of the loan and the currencies in which it is made available.

The EIB's loans automatically attract an interest subsidy financed from EDF resources. This subsidy is normally 3% although, where necessary, it will be adjusted so that the interest rate actually borne by the borrower is neither less than 5% nor more than 8%.

There are two exceptions to the practice of granting interest subsidies automatically: projects in the oil sector and operations financed under Article 83 of the Convention in support of mining and energy projects of mutual interest to the EEC and the ACP State concerned, i.e. operations financed outside the ceiling amount laid down in the Convention for loans from the Bank's own resources.

#### **3.3 Currencies of disbursement**

The EIB's loans are denominated in ECUs; they are generally disbursed in a cocktail of currencies in varying mixes tailored to the borrower's preferences and the Bank's holdings.

Loan 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.

#### **3.4 Term**

The term of EIB loans depends upon the nature of the project concerned and, in particular, the normal depreciation period for

the plant and equipment financed. For industrial projects, the term is generally between 10 and 12 years. For infrastructure projects, it may be as much as 15 years or, in exceptional cases, 20 years. Repayment of principal can be deferred at least until the end of the construction period.

### **3.5 Security**

Like and lender whose resources consist of funds borrowed on the capital markets, the Bank must, in keeping with its Statute, request appropriate security for its loans. The guarantee of the State in which the project is located is generally required, although other first-class guarantees may be considered.

### **3.6 Project cost**

The granting of loans from the EIB's own resources is always subject to mobilisation of funds from other sources (borrower's own funds, outside credit, etc.). The Bank's loans may cover up to 50% of a project's total fixed asset cost.

## **4. Risk capital**

Risk capital assistance — a mode of financing developed by the Bank and first tested under the Second Yaoundé Convention — is a form of aid particularly well suited to the financial situation and economic conditions of a large number of ACP States. Drawn from budgetary and not borrowed funds, risk capital permits greater flexibility in setting terms and conditions.

A versatile medium, it may be provided in the form of:

- equity participations taken up, on behalf of the Community, in enterprises or development banks in the ACP States. Minority holdings, these can go in tandem with a loan from the EIB's own resources or with quasi-capital assistance. They are of a temporary nature and must be disposed of in due course, preferably to a national or institution of the ACP State concerned;
- quasi-capital assistance under the following loan formats:
  - subordinated loans, in respect of which repayment of principal and, in some cases, payment of interest are settled only after other banks debts;

- conditional loans, in respect of which repayment terms, the period for which the funds are made available or the rate of interest charged is linked to fulfilment of certain conditions, specified at the time of contract signature, as regards profit or production levels expected from the project.

Conditional loans may be granted to a promoter (possibly, in certain circumstances, an EEC firm), an ACP State or a development bank for acquiring a shareholding in an ACP undertaking, provided that an indirect operation of this kind contributes towards financing new investment and is normally supplemented by additional funds from the Community.

Risk capital may also take the form of global loans for financing smaller businesses through the intermediary of ACP financial institutions whose activity and management criteria permit this type of support. Such financing can be given over to direct capital investment needs or can be tailored to a variety of purposes via assistance for feasibility studies, equity participations, conditional or subordinated loans.

Risk capital assistance may also be used for financing specific project preparation and development studies, for aiding undertakings during the start-up phase or for rehabilitation purposes. Research and investment preparatory to launching projects in the mining and energy sectors may also qualify for finance.

The terms and conditions attaching to quasi-capital assistance depend upon the nature of each project financed but are generally concessionary. The interest rate will frequently amount to 2% or no more than the maximum for subsidised loans, while the term will often run to up to 25 years. Repayments are made in equal annual instalments.

Risk capital assistance is denominated in ECUs and disbursed in one or more Community currencies.

Although no particular security is required for assistance of this type, the EIB nevertheless monitors implementation of operations financed and the beneficiary's compliance with his commitments, as with loans from the Bank's own resources.

#### **4.1 Project cost**

Risk capital assistance may cover all or only part of a project. Feasibility studies, for example, are often financed in their entirety.

#### **4.2 Twinning loans from the Bank's own resources with risk capital**

Risk capital operations have proved immensely successful since their official introduction under the First Lomé Convention; they trebled in volume terms from this Convention to the next only to double again for the Third Lomé Convention, proving that this form of aid is particularly well suited to local needs and circumstances in the ACP States.

Indeed, despite the growing number of instances in which, because of the particular nature of the project or the limited borrowing capacity of the country concerned, the Bank has mounted risk capital operations unaccompanied by other credit, this form of aid has often been deployed in tandem with loans from the EIB's own resources with a view to offering a more customised financing package or to permitting implementation of different phases of the same project.

The choice of resources put to the borrower and the precise terms and conditions offered are decided by the Bank's managing bodies in keeping with its Statute and the Lomé Convention and in the light of permanent contacts established with the ACP State concerned.

<b>Type of financing</b>	<b>Definition</b>	<b>Interest rate</b>
from the EIB's own resources	page 9, 3.1	page 9, 3.2
from risk capital resources – subordinated loans – conditional loans	page 10, last para. page 11, first para.	page 11, 5th para.
– equity participations	page 11, 2nd para.	page 11, 5th para.

## **5. Global loans to ACP financial institutions for financing small and medium-sized enterprises**

For reasons of operating efficiency, the customary practice is to advance individual loans, whether from the Bank's own resources or from risk capital funds, solely in support of projects of a certain size, although there is no insistence on a minimum amount as such. Responsive to the particular situation of certain ACP States, for many years the EIB has also been deploying "global loan" credit with a view to reconciling operational flexibility with the aim of financing smaller-scale items of capital investment. Such investment is unanimously acknowledged to contribute to the smooth development of the productive sector and to lend itself particularly well to meeting the economic needs of the ACP States.

Global loans take the form of credit lines opened with an appropriate development bank or development finance company at national or regional level. Acting as intermediary, this passes on the proceeds in a number of sub-loans for select, smaller and medium-scale ventures endorsed by the Bank in those sectors approved for financing.

Global loans can be described as a partnership, bringing together the financial resources of the EIB, a borrowing institution with access to the world's capital markets, and the local operational resources (direct contacts, awareness of national development priorities and on-the-spot monitoring) of ACP financing institutions which, in the process, see a consolidation of their contribution towards their country's economy.

Development banks co-operating with the EIB in the deployment of global loan financing are selected in consultation with the authorities in the ACP State concerned. They are expected to offer adequate operating capacity and technical know-how (project appraisal, follow-up, etc.) in order to ensure that the funds are put to the best possible use. In certain circumstances, the EIB is in a position to help with setting up, fostering or rehabilitating the activities of these banks and providing risk capital for financing such technical assistance as they may require.

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### **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 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 ACP 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, taxation, 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, 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, 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 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.

## **List of ACP States signatories to the Third Lomé Convention**

Angola	Malawi
Antigua and Barbuda	Mali
Bahamas	Mauritania
Barbados	Mauritius
Belize	Mozambique
Benin	Niger
Botswana	Nigeria
Burkina Faso	Papua New Guinea
Burundi	Rwanda
Cameroon	St Christopher and Nevis
Cape Verde	Saint Lucia
Central African Republic	Saint Vincent and the Grenadines
Chad	São Tomé and Príncipe
Comoros	Senegal
Congo	Seychelles
Djibouti	Sierra Leone
Dominica	Solomon Islands
Equatorial Guinea	Somalia
Ethiopia	Sudan
Fiji	Suriname
Gabon	Swaziland
Gambia	Tanzania
Ghana	Togo
Grenada	Tonga
Guinea	Trinidad and Tobago
Guinea-Bissau	Tuvalu
Guyana	Uganda
Ivory Coast	Vanuatu
Jamaica	Western Samoa
Kenya	Zaire
Kiribati	Zambia
Lesotho	Zimbabwe
Liberia	
Madagascar	

**Overseas Countries and Territories  
eligible for assistance under the heading of  
financial and technical co-operation**

(see page 5: Decision of the Council of the European Communities)

French Polynesia	Anguilla
French Southern and Antarctic Territories	British Antarctic Territory
New Caledonia	British Indian Ocean Territory
and Dependencies	British Virgin Islands
Wallis and Futuna Islands	Cayman Islands
	Falkland Islands
	and Dependencies
Netherlands Antilles	Montserrat
Aruba	Pitcairn Islands
	St Helena and Dependencies
	Turks and Caicos Islands

Additional information can be obtained by applying directly and informally to the Head Office of the:

European Investment Bank,  
Directorate for Operations  
outside the Community,  
ACP-OCT Department,  
100, bd Konrad Adenauer,  
L-2950 Luxembourg.  
Tel.: 4379-1  
Telex: 3530 bnkeu lu

or its:

Representative Office in Brussels  
Rue de la Loi 227,  
B-1040 Brussels.  
Tel.: 230 98 90  
Telex: 21721 bankeu b.

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

Firms, authorities or financing institutions (ACP or other) interested in following developments in Bank activity in the ACP States should write to the Bank's Information — Public Relations Division in Luxembourg requesting that they be put on the mailing list for EIB-Information, the EIB's Annual Report, its brochures and press releases.

**Den europæiske Investeringsbank  
Europäische Investitionsbank  
Ευρωπαϊκή Τράπεζα Επενδύσεων  
European Investment Bank  
Banco Europeo de Inversiones  
Banque européenne d'investissement  
Banca europea per gli investimenti  
Europese Investeringsbank  
Banco Europeu de Investimento**

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