

# **European Investment Bank**

Financing under the  
second Lomé Convention

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# **The European Community's bank for long-term finance**

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. An independent public institution within the European Community, the Bank's function under the Treaty is to contribute, on a non-profit-making basis, to financing investment which assists the Community's balanced development.

The members of the European Investment Bank are the Member States of the Community, who have all subscribed to its capital (this stood at 7 087.5 million units of account – u.a.<sup>(1)</sup> at 31 December 1979), part of which has to be paid in<sup>(2)</sup>. The Bank raises the bulk of the funds required for financing its lending operations by borrowing on national capital markets inside and outside the Community and on the international market. It numbers among the leading international borrowers and its first class credit standing

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<sup>(1)</sup> The EIB borrows and lends in a wide variety of currencies. It draws up its balance sheets and statistics relating to its activity in units of account (u.a.). The composition and value of the u.a. are the same as those of the European Unit of Account (EUA) and European Currency Unit (ECU) which comprise the sum of fixed amounts of the currencies of all the 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. At 30 April 1980, one unit of account was equal to US \$1.39128.

<sup>(2)</sup> At 31 December 1979, the EIB's balance sheet showed own funds (paid-in capital plus reserves) amounting to more than 1 284 million u.a.

enables it to mobilise substantial volumes of capital on the best conditions.

The Bank's operations were initially confined to the territory of the Member States, but have gradually been extended since 1963 under association and cooperation agreements providing, inter alia, for Community financial aid. The EIB is now working in the majority of countries in the Mediterranean region <sup>(1)</sup> and in the States which signed the two Lomé Conventions.

The various agreements and financial protocols concluded between these countries and the Community generally provide for the Bank to make loans from its own resources and also to provide finance on special conditions from budgetary funds which it manages on behalf of Member States or the Community.

In 1979, financing provided by the EIB totalled more than 3 000 million u.a., of which some 2 560 million in Member Countries and more than 500 million in countries outside the Community.

This brochure outlines arrangements for European Investment Bank operations in the African, Caribbean and Pacific (ACP) States under the second Lomé Convention.

The Convention, signed on 31 October 1979 between 58 States and the European Economic Community, enables the EIB to deploy greater volumes of funds in pursuing the tasks first entrusted to it with signature of the first Yaoundé Convention in 1963 and expanded both geographically and in terms of the amount of funds available and the financing facilities offered, under the second Yaoundé Convention (1969) and the first Lomé Convention (1975).

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<sup>(1)</sup> See brochure "Financing outside the Community: Mediterranean countries"

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

European Investment Bank  
Boîte Postale 2005  
Luxembourg  
Tel. 43 50 11 (NB. changes to 4379-1 from 1 September 1980)  
Telex 3530 bankeu lu  
Facsimile 20 422

or its

Representative Office in Brussels  
227, rue de la Loi  
B-1049 – Brussels  
Tel. 735 21 38 – Telex 21721 bankeu b

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**List of ACP States signatories to the second Lomé Convention**

as at 30 April 1980

Bahamas	Guinea-Bissau	Senegal
Barbados	Guyana	Seychelles
Benin	Ivory Coast	Sierra Leone
Botswana	Jamaica	Solomon Islands
Burundi	Kenya	Somalia
Cameroon	Kiribati	Sudan
Cape Verde	Lesotho	Surinam
Central African Republic	Liberia	Swaziland
Chad	Madagascar	Tanzania
Comoros	Malawi	Togo
Congo	Mali	Tonga
Djibouti	Mauritania	Trinidad and Tobago
Dominica	Mauritius	Tuvalu
Equatorial Guinea	Niger	Uganda
Ethiopia	Nigeria	Upper Volta
Fiji	Papua New Guinea	Western Samoa
Gabon	Rwanda	Zaire
Gambia	Saint Lucia	Zambia
Ghana	Saint Vincent and the Grenadines	
Grenada		
Guinea	Sao Tome and Principe	

## Amounts and types of EIB financing

The second Lomé Convention provides for Community financial aid from both European Development Fund (EDF) resources (4 542 million u.a.), comprising Member States' budgetary contributions, and from the EIB's own resources. The finance is to be managed as follows:

### **Commission of the European Communities** (from EDF resources) (million u.a.)

Grants	2 753
Loans on special conditions	504
Transfers for the stabilisation of export earnings (STABEX)	550
Special financing facility for mineral products (SYSMIN)	280

### **European Investment Bank**

Loans from the EIB's own resources	685
Risk capital from EDF resources	280
Interest subsidies from EDF resources	175

in addition, the Community has provided for the possibility of financing from the EIB's own resources for mining and energy projects of mutual interest to the ACP State concerned and the Community, for an amount totalling up to 200

Loans from the Bank's own resources (i.e. chiefly the proceeds of its borrowings on the capital markets) attract an interest subsidy for which an aggregate amount of 175 million u.a. has been earmarked from EDF grants. This subsidy is normally 3%, although, where necessary, it will automatically be adjusted so that the interest rate actually borne by the borrower is neither less than 5% nor more than 8%.

The amount of risk capital managed by the EIB on behalf of the European Community has been increased substantially, mainly as a result of the success in using this form of aid under the first Lomé Convention.

Moreover, in accordance with a Community declaration annexed to the second Lomé Convention, the EIB may commit up to a further 200 million u.a. in the form of loans from its own resources for mining and energy projects of mutual interest to the State concerned and the Community. These loans are subject to particular conditions: they are not eligible for interest subsidies and must be approved on a case-by-case basis by the Bank's Board of Governors.

Parallel to the second Lomé Convention, and in line with previous conventions, a Decision of the Council of Ministers of the European Communities provides for specific aid for Overseas Countries and Territories (OCT) enjoying special ties with certain Member Countries.

For the EIB, this involves advancing 15 million u.a. in loans from its own resources carrying an EDF interest subsidy and 7 million u.a. in the form of risk capital operations on the same terms and conditions as in the ACP States.

In accordance with the division of responsibilities between the Commission and the EIB, financing applications in respect of industrial, agro-industrial, mining and tourism sector projects and energy production schemes linked to investment in these sectors, must first and foremost be

submitted to, and appraised by, the EIB. This, however, does not exclude the Bank from granting loans for productive infrastructure projects, particularly in the energy sector, where this is warranted by the level of development and the economic and financial position of the country concerned.

One of the new Lomé Convention's most significant innovations is the special emphasis which it places on development of the mining and energy sectors in the ACP States. The Commission of the European Communities and the EIB have been invited to step up their activity appreciably in this direction. The Commission will be responsible for rehabilitating and maintaining potential (SYSMIN) as well as for furnishing technical assistance and conducting basic studies. The Bank will be able to deploy appropriate funds firstly for research and investment preparatory to the launching of projects in these sectors and secondly for investment in developing production potential.

The EIB will participate with the Commission in programming missions to each of the ACP States to draw up Community indicative aid programmes which will serve as a basis for identifying and appraising projects to be financed.

# **Purpose, terms and conditions of EIB financing**

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

The EIB assesses the eligibility of projects, appraises applications and grants loans from its own resources in accordance with the provisions of its Statute; these are much the same as those applicable to other international long-term credit institutions.

In view of the numerous types of Community financing facilities offered by the Convention and the volume of grant and other aid available on very favourable conditions (special loans, risk capital, etc.), loans from the Bank's own resources are earmarked for projects likely to offer an appropriate economic and financial return. The project's operating results or the resources directly generated by it must normally be such as to cover repayment of principal and payment of interest. In each case, the EIB takes account of the economic and financial situation of the ACP State concerned and all factors which may guarantee servicing of the loan.

EIB loans are earmarked for specific projects and may be granted either directly to a private, public or semi-public enterprise, or to a State or public authority. Finance can also be provided through the intermediary of a development bank or other development financing body.

This is particularly the case with small and medium-scale ventures: to facilitate financing of this type of investment, the EIB applies the global loan formula which involves making available to experienced development banks or institutions in the ACP States a line of credit or global loan from which allocations for limited individual amounts are drawn down, with the EIB's approval, to support a range of industrial, agro-industrial and tourism ventures. Global loans may be described as a partnership, bringing together the financial resources of the EIB as the Community's bank enjoying access to the international capital markets and the local operational resources (direct contacts, awareness of national development priorities and on-the-spot monitoring) of financial institutions in the ACP States.

EIB loans may be used to cover both foreign currency and local expenditure.

### **Interest rates and currencies**

The Bank operates on a non-profit-making basis. Its lending rates follow closely interest rate fluctuations on the financial markets, where it obtains the bulk of its funds. As the EIB has a first-class credit standing, it may borrow on the most favourable terms available, passing on these benefits to its own borrowers by charging only a margin to cover administrative costs and to build up sufficient reserves and provisions.

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

EIB loans are generally denominated in units of account; they are disbursed in a variable cocktail of currencies adapted to the provisions of the finance contract and the Bank's holdings.

Loan repayments, covering both principal and interest, are made in the currency or currencies of disbursement, generally in equal six-monthly instalments.

### **Interest subsidies**

EIB loans in the ACP States are granted at preferential rates, compared with its ordinary rates: under the terms of the Convention, Bank loans carry a 3% interest subsidy (subject to the adjustments mentioned earlier), except in the case of investment projects in the oil sector or the additional operations in support of mining and energy projects of mutual interest, mentioned on page 7.

### **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; in the case of 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.

## **Tendering**

In the case of projects financed with EIB funds, the Bank generally requires that tenders be invited for the supply of goods and services where amounts involved are fairly substantial. Appropriate procedures – national or international invitations to tender or consultation – are agreed jointly, 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 borrows funds required for its activities and in countries which, in the Bank's opinion, offer particular benefits for the project from the technical or geographical viewpoint. The Bank ensures that tender notices are published in the Official Journal of the European Communities, although the borrower is free also 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 consultation* must involve at least three qualified undertakings or suppliers based in the various countries which are members of the Bank. It may be extended to other undertakings or suppliers deemed acceptable by the Bank.

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

## **Financial scope**

The granting of loans from the EIB's own resources is always subject to mobilisation of funds from other sources (borrower's own funds, other borrowings, etc.).

Generally, the Bank does not lend more than 50% of a project's fixed asset cost.

Although there is no minimum amount for EIB loans, the Bank prefers, wherever possible, to use global loans for financing smaller-scale projects: only in exceptional cases does it carry out direct financing operations for less than 2 million u.a. or more than 30 million.

In addition to keeping in constant touch with the Commission of the European Communities concerning operations financed under the Community aid package, the Bank collaborates with financial institutions in Member States of the European Community and in the ACP States, and with international development aid organisations. Indeed, co-financing is tending to become almost standard practice for the EIB.

Numerous examples can be cited of projects cofinanced with the Caisse Centrale de Coopération Economique (France), the Commonwealth Development Corporation (United Kingdom), Kreditanstalt für Wiederaufbau and Deutsche Entwicklungsgesellschaft (Germany), Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands), the World Bank, the African Development Bank and, to an increasing extent, with various banks and bilateral or multi-lateral funds in the Arab world.

## **Security**

Like any lender whose resources consist of funds borrowed on the capital markets, the Bank must request appropriate

security for its loans in order to maintain its own credit standing and also to comply with its Statute. The guarantee of the State in which the project is located may be required, although other first-class guarantees may be considered.

## **2. Risk capital assistance from EDF resources**

In order to foster industrial cooperation between the Community and the ACP States and to promote Bank operations in sectors for which it is chiefly responsible (industry, agro-industry, mining and tourism and energy production schemes linked to investment in these sectors), the Bank was given the task under the Lomé Conventions of providing, on behalf of the Community, a type of financial aid known as risk capital assistance, particularly suited to the financial situation and the economic conditions of the ACP States.

As the first Lomé Convention confirmed the value of this type of aid (often granted along with loans from the Bank's own resources), it was agreed to triple the amount of risk capital assistance available under the second Convention and to adapt and extend the scope for deployment.

Risk capital may be provided either in the form of equity participations or quasi-capital assistance.

The EIB may acquire holdings, on behalf of the Community, in undertakings or development banks in the ACP States. These are minority shareholdings and can go in tandem with an EIB loan or quasi-capital assistance. They are of a

temporary nature and must be disposed of in due course, preferably to ACP nationals or institutions.

Quasi-capital assistance may take the form of a subordinated loan, on which the principal and, in some cases, interest payments are settled only after other bank debts.

Another form of quasi-capital assistance is the conditional loan. Rather than being fixed definitely in advance, repayment of these loans, their term and interest rate are linked to fulfilment of certain conditions regarding profit or production levels expected from the project, which are specified at the time of signature of the contract.

Conditional loans may be granted to a specific undertaking, an ACP State or a development bank for acquiring a shareholding in a firm, provided that an indirect operation of this kind contributes towards financing new investment and is supplemented by additional funds from the Community or other sources.

As well as the sectors mentioned above, risk capital may now be used in exceptional circumstances for financing transport and telecommunications projects where the borrower is an undertaking with autonomous, industry-style management.

A further innovation is the use of risk capital for granting global loans to finance smaller business investment through the intermediary of development banks whose activity and management permit this type of support.

Risk capital may also be drawn on to finance specific project preparation and development studies and for assisting undertakings during the start-up phase.

**In view of the special emphasis which the second Lomé Convention places on aid for developing the mining and energy sectors in the ACP States, it is now possible to deploy risk capital for research and investment preparatory to launching projects in these sectors.**

## **Community aid programming and submission of financing applications to the Bank**

The Lomé Convention provides that following a programming mission sent to each ACP State to study the targets and priorities proposed by the State concerned, an indicative programme will be drawn up by mutual agreement between the competent Community authorities and the individual ACP State. This aid programme may be revised during the lifetime of the Convention to take account of any changes in the economic position of the various ACP States and any amendments to their original priorities.

Each project included, or eligible to be included, in the indicative programme may be submitted to the Community by the ACP States themselves or, with their agreement, by other applicants.

Preliminary contacts regarding all projects in the industrial, agro-industrial, tourism and mining sectors and energy production schemes linked to investment in these sectors should be made with the European Investment Bank.

The Bank should be kept informed, as far as possible from the beginning, of all preparatory work on the project file. It will then be able to discuss with potential borrowers the types of financing which would appear most suited to the project in question and advise on preliminary action and

**studies necessary to enable a rapid start with the appraisal procedure.**

**The final choice as to the type of financing for a particular project can be made only at a later stage.**

**Files on projects eligible for a loan from the European Investment Bank, or for finance in the form of risk capital, should be addressed to:**

**European Investment Bank  
Directorate for Operations outside the Community  
Boîte postale 2005  
Luxembourg  
Grand Duchy of Luxembourg.**

## **Project appraisal and financing decisions**

When appraising and making financing decisions on projects to be financed through loans from its own resources, or from risk capital, the European Investment Bank works on the basis of its Statute, the Lomé Convention and related agreements.

Under arrangements for appraising projects eligible for Community aid the Bank seeks the favourable opinion of the competent authorities in the ACP State concerned. The Bank must also obtain the opinion of the Commission of the European Communities in accordance with its Statute and of a Committee consisting of representatives of Member States' Governments in which the Commission participates (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 and special loans) after an opinion has been delivered by a Committee consisting of representatives of Member States' Governments in which the Bank is also represented (EDF Committee).

## TECHNICAL ANNEX

### **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 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 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, 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 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.



This publication is also available in  
Danish, Dutch, French, German and Italian  
upon request to

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