



# **European Investment Bank**

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**European Investment Bank Operations  
under the Lomé Convention**

# **European Investment Bank, Luxembourg**

European Investment Bank Operations  
under the Lomé Convention

# **The Banking Institution of the European Community**

The European Investment Bank (EIB) was created under 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, standing at about 3 500 million units of account (u.a.)<sup>(1)</sup> is subscribed by the nine Member States of the Community. The Bank borrows most of the funds required to carry out its operations on the capital markets.

The EIB's basic activity is to make loans to enterprises, public authorities and financial institutions within the Community for financing projects which favour the development of less advanced regions and conversion areas, or which serve the interests of the Community as a whole.

The Bank's activities were initially confined to the territory of the Member States. Between 1958 and 1974, 432 financing operations involving some 4 000 million u.a. were mounted in support of projects located in, or directly benefitting, the Community.

However, the EIB's activities have gradually been extended and diversified under the Association Agreements with Greece and Turkey and the two Yaoundé Conventions signed between the EEC and the Associated African States, Madagascar and Mauritius (AASMM).

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<sup>(1)</sup>This unit of account has the same value as that adopted for the Lomé Convention; its equivalent in the various national currencies is determined daily. At 1 July 1975, it was equivalent to US \$1.28.

The Bank's activities in these countries have not been confined solely to making loans from its own resources; it also arranges and manages special operations, under mandate from the Member States or the Community, financed from the resources of Member States, as in the case of Turkey, or from the European Development Fund (EDF), as in the AASMM (1).

Operations outside the Community began in 1963 and totalled 652.6 million u.a. by the end of 1974.

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The purpose of this brochure is to explain the exact nature of the European Investment Bank's operations in the African, Caribbean and Pacific (ACP) countries (see list appended) over the period 1976-80 under the Lomé Convention.

More detailed information on the Bank's general activities can be obtained from 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 from its

Representative Office in Brussels  
Rue Royale 60 – Bte 1  
B – 1000 Brussels  
Tel. 513 40 00 – Telex 21 721 bankeu b

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(1) See annexes for details of operations under the two Yaoundé Conventions (loans from the Bank's own resources, loans on special conditions and contributions to the formation of risk capital from the resources of the EDF).

## A. Details of European Investment Bank (EIB) financing under the Lomé Convention

The Lomé Convention, signed on 28 February 1975 between the European Economic Community and 46 African, Caribbean and Pacific (ACP) countries considerably extends the Bank's activities outside the Community.

Financial aid to be provided by the Community is as follows:

— Aid from Member States to be drawn from EDF resources	
Grants	2 100 m u.a.
Special loans	430 m u.a.
Risk capital	95 m u.a.
Transfers for the stabilisation of export earnings under Title II of the Convention	375 m u.a.
— Loans from the EIB's own resources	390 m u.a.
	<hr/>
	Total: 3 390 m u.a.

Of the total of 3 390 million u.a., the Bank will be responsible for making available 585 million u.a., as follows:

- (i) **390 million** u.a. in the form of loans from its own resources, normally attracting interest subsidies for which **100 million** u.a. has been set aside from the EDF grant allocation.
- (ii) **95 million** u.a. in the form of contributions to the formation of risk capital, also to be provided from EDF resources.

In line with the division of responsibilities between the Commission of the European Communities and the Bank, productive projects in the industrial, mining and tourism sectors should be submitted to the Bank for appraisal. Such projects will be given priority financing by means of loans and risk capital provided by the Bank. However, this does not exclude the Bank from making loans from its own resources for viable infrastructure projects where this is warranted by the stage of development and economic and financial position of the countries concerned.

Bank representatives will participate with the Commission in programming missions sent by the Community to ACP countries to prepare indicative aid programmes, which will then be agreed by the competent Community authorities and the ACP countries.

## **B. Financing facilities: scope and conditions**

### **I. Loans from the resources of the European Investment Bank**

The European Investment Bank assesses the eligibility of projects and makes 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 provided for under the Lomé Convention and the scale of aid available on very favourable conditions, loans from the Bank will, in accordance with its Statute, be granted exclusively for projects offering a satisfactory and assured rate of return. The project's operating results or the resources directly generated by it must normally be such as to cover loan repayments and interest due. The EIB will, in each case, take account of the economic and financial position of the ACP country concerned and any factor guaranteeing servicing of the loan.

Loans by the Bank for specific projects may be made available either directly to a private, public or semi-public enterprise, or to a government or public authority. Finance can also be provided through the medium of development banks or other development financing bodies.

### **Interest rates**

The Bank's lending rate is based on three criteria: trends in the cost of its borrowing on the capital markets inside and outside the Community, the fact that it is a non-profit-making institution and the need to cover its expenses and to build up sufficient reserves and provisions. According to its basic function, the Bank seeks to offer its borrowers the most favourable conditions which these constraints will allow. Its rate of interest is close to the average rate charged on its borrowings and is independent of the type of project financed, the status of the borrower and the country concerned. The rate applicable to each loan is that in force on the date of signature of the contract and is not subject to revision. At 1 October 1975, the rate of interest stood at 9 ½ % per annum; it changed frequently over the previous two years in line with capital market trends.

### **Interest subsidies**

The Lomé Convention provides for an exception to the above rule in the case of ACP countries in that the interest rate charged by the Bank will normally be reduced by 3 % through an interest subsidy provided from the 100 million u.a. set aside for this purpose from the EDF.

It is also laid down in the Lomé Convention that the effective rate of interest borne by the borrower will be neither less than 5% nor more than 8%. The interest subsidy will, if necessary, be adjusted accordingly, following any major changes in the Bank's lending rate.

There is no provision for interest subsidies in the case of loans for projects in the petroleum sector, regardless of location, or for projects in the mining sector unless such projects are located in one of the least developed countries cited in Article 48 of the Convention (see list appended). Further exceptions may be decided subsequently by the Council of Ministers established under the Convention.

## **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 7 and 12 years; it may be as much as 20 years in the case of infrastructure projects. Repayment of principal can be deferred, at least until the end of the construction period.

## **Security**

Like any lender whose resources consist of funds borrowed on the capital markets, the Bank must have appropriate security for its loans in order to maintain its

own credit standing and to obtain the most favourable conditions possible for its borrowings. The country in which the project is located may be required to stand guarantor, although other guarantees (from banks or foreign promoters) may be deemed acceptable.

## **Currency**

EIB finance contracts are drawn up in units of account. Loans are generally disbursed in several currencies which the Bank selects in the light of its own holdings, after consulting the borrowers as to which of these currencies they would prefer to receive. Currencies disbursed are those of the EEC Member States as well as other currencies used in international transactions.

Each loan repayment and payment of interest must be made in the same currencies and in the same proportions as the original disbursement.

## **Utilisation of loans**

Loans granted by the Bank may be used for payments in any country, including local expenditure. The Bank requires that tenders for orders, supply contracts and work financed by its loans be invited on an international basis, covering at least EEC Member States and the ACP countries.

**CORRIGENDUM**

A partir du 10/2/1976, le taux d'intérêt des prêts de la Banque Européenne d'Investissement est fixé à  
- 9 % l'an, lorsque la durée des prêts n'excède pas 8 ans;  
- 9 1/2 % l'an, lorsque la durée des prêts est supérieure à 8 ans.

Mit Wirkung vom 10/2/1976 beträgt der Zinssatz für die Darlehen der Europäischen Investitionsbank  
- 9 % p.a. für Darlehen mit einer Laufzeit bis zu höchstens 8 Jahren ;  
- 9 1/2 % p.a. für Darlehen mit einer Laufzeit über 8 Jahre.

A partire dal 10/2/1976, il tasso d'interesse annuo applicabile ai mutui della Banca Europea per gli Investimenti è :  
- del 9 %, quando la durata del mutuo non supera gli 8 anni ;  
- del 9 1/2 %, quando la durata del mutuo è superiore a 8 anni.

With effect from 10/2/1976, the interest rate on loans of the European Investment Bank is fixed at  
- 9 % p.a. for loans with a duration of up to 8 years ;  
- 9 1/2 % p.a. for loans with a duration of more than 8 years.

De rentevoet van de kredieten van de Europese Investeringsbank bedraagt met ingang van 10/2/1976  
- 9 % per jaar voor kredieten met een looptijd van hoogstens 8 jaar ;  
- 9 1/2 % per jaar voor kredieten van meer dan 8 jaar.

Med virkning fra den 10. februar 1976 fastsættes rentefoden for lån fra Den europæiske Investeringsbank til  
- 9 % p.a., såfremt løbetiden ikke overstiger 8 år, or til  
- 9 1/2 % p.a., såfremt løbetiden overstiger 8 år.



## **Financial scope**

EIB loans cover only part of the cost of the project, supplementing the borrower's own funds and credits from other sources. The Bank rarely lends more than 40 % of the cost of the fixed assets. The amount of the loan is based on the total fixed cost of the project and not solely on the cost of materials imported for the project. Although there are no strict legal limits the Bank very rarely makes loans of less than 500 000 u.a. or of more than 15 million u.a.

The Bank keeps in constant touch with the Commission of the European Communities concerning all operations financed from the EDF. Where co-financing is called for, the Bank collaborates with financial institutions in the Member States of the European Community, in the ACP and other countries, as well as with international development aid organisations.

## **II. Risk capital assistance from EDF resources<sup>(1)</sup>**

In order to foster co-operation between the Community and the ACP countries and to promote bank operations in the industrial, mining and tourism sectors where its main responsibility lies, the Bank was given the task, under the Lomé Convention, of acting on behalf of the Community, and at the Community's risk, in providing a relatively new type of financial aid, known as risk capital assistance, particularly suited to financing projects in these sectors.

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<sup>(1)</sup> In contrast to the procedure adopted under the two Yaoundé Conventions, **special loans** from EDF resources provided for under the Lomé Convention will be appraised and approved exclusively by the Commission. The Bank's role as regards this type of aid will be to act on the Community's behalf in ensuring recovery of funds.

This assistance can be used either as a direct contribution towards increasing the equity capital of an enterprise or to provide quasi-capital assistance for financing its investment programme.

A shareholding may be acquired in the capital of an enterprise in the sectors concerned with a view to increasing its equity base and establishing a more balanced financing plan for the project. Funds may be provided in one of two forms:

- (i) Acting on behalf of the Community, the Bank may acquire a minority holding in the capital of an enterprise; operations of this kind will generally be mounted along with a loan from the Bank and the holding will be transferred, preferably to nationals or institutions of the ACP country concerned, as soon as this is deemed appropriate;
- (ii) quasi-capital assistance may be granted to an ACP country or to a national development financing institution to enable it to acquire a stake in the capital of an enterprise in one of the sectors concerned, provided that the operation relates to new productive investments and is supplemented by a further Community financing operation provided for under the Lomé Convention.

Apart from contributing to the share capital of an enterprise, risk capital may also be granted in the form of quasi-capital assistance for financing investment. It may take the form of:

- (i) subordinated loans which are repayable only after priority loans have been paid off;
- (ii) conditional loans which are repayable only after fulfilment of certain conditions, indicating that the project has overcome its teething troubles or has achieved a certain level of profitability.

Quasi-capital assistance may also be granted for financing specific preinvestment studies or as aid to enterprises during the start-up period of a project. Where such assistance is granted to a firm of consultants, the amount will normally be included in the capital or quasi-capital assistance extended to the promoter in support of the project, if implemented.

## **C. Community aid planning and submission of financing applications to the Bank**

The Lomé Convention provides that following a programming mission sent to each ACP country to study the targets and priorities proposed by the country concerned, an indicative programme will be drawn up by mutual agreement between the competent Community authorities and the individual ACP country. 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 countries concerned 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 countries themselves or, with their agreement, by individual applicants.

Preliminary contacts regarding all projects in the industrial, tourism and mining 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, a

priori, most suited to the project in question and advise on preliminary action and studies necessary to accelerate commencement of the appraisal procedure.

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

Files on projects eligible for a loan, whether subsidised or not, from the European Investment Bank, or for finance in the form of risk capital, should be addressed to:

European Investment Bank  
Department for Operations outside the Community  
2, Place de Metz – Boîte postale 2005  
Luxembourg  
Grand Duchy of Luxembourg

## **D. Project appraisals and decisions on financing**

The European Investment Bank works on the basis of its Statute, the Lomé Convention and related agreements when appraising and making financing decisions on projects which appear eligible for either ordinary loans from its own resources, whether subsidised or not, or for finance in the form of risk capital.

Under the Community aid planning arrangements, the Bank seeks the favourable opinion of the competent authorities in the ACP country concerned. In accordance with its Statute, it must also obtain the opinion of the Commission of the European Communities and of a Committee consisting of representatives of Member States' Governments together with a representative of the Commission.

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 together with a representative of the Bank.

## 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 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 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.

\* \* \*

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.

Copies of this publication are available  
in Danish, German, English, French, Italian and Dutch

from

EUROPEAN INVESTMENT BANK  
2, place de Metz – Boîte Postale 2005  
Luxembourg  
Tel. 43 50 11 – Telex 35 30 bankeu lu

or from the Bank's other offices:

Representative Office in Brussels  
Rue Royale 60 – Bte 1  
B-1000 Brussels  
Tel. 513 40 00 – Telex 217 21 bankeu b

Office for Operations in Italy  
Via Sardegna, 38  
I-001 87 Rome  
Tel. 48 36 51 – Telex 621 30 bankeuro

**List of ACP Countries  
signatories to the Lomé Convention  
with the European Economic Community**  
(31.12.1975)

Africa	Caribbean	Pacific
Benin*	Malawi*	the Bahamas Fiji
Botswana*	Mali*	Barbados Tonga*
Burundi*	Mauritania*	Grenada Western
Cameroon	Mauritius	Guyana Samoa*
Central African Rep.*.	Niger*	Jamaica
Chad*	Nigeria	Trinidad and
Congo	Rwanda*	Tobago
Equatorial Guinea	Senegal	
Ethiopia*	Sierra Leone	
Gabon	Somalia*	
the Gambia*	Sudan*	
Ghana	Swaziland*	
Guinea*	Tanzania*	
Guinea-Bissau*	Togo*	
Ivory Coast	Uganda*	
Kenya	Upper Volta*	
Lesotho*	Zaire	
Liberia	Zambia	
Madagascar		

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\* The least developed ACP Countries as cited in Article 48 of the Convention.

**Ordinary loans from the EIB's own resources made within the AASMM and OCT(\*)  
under the Yaoundé I and Yaoundé II Conventions  
(Position as at 31.12.1975)**

Amount in m.u.a. — Number of loans in brackets

Country	Sector	Industrial projects					Tourism	Infrastructure	Grand total	Of which industrial projects	% of total
		Energy	Mining and quarrying	Agricultural and foodstuffs industry	Metal-lurgy	Fertilizers					
Ivory Coast		11.64 (4)	3.82 (2)	1.22 (1)			9.90 (2)	4.03 (3)	0.65 (1)	29.64 (4)	51.18 (10)
Cameroon	7.55 (2)	9.00 (1)	0.51 (1)	0.45 (1)			0.40 (1)		1.19 (1)	17.27 (9)	21.54 (6)
Congo									2.33 (1)	9.00 (1)	17.27 (9)
Gabon										4.43 (4)	9.00 (1)
Upper Volta										0.45 (1)	0.91 (2)
Mauritania	1.75 (1)	11.00 (1)								1.75 (1)	0.45 (1)
Senegal		32.60 (2)					2.43 (1)	1.60 (1)	1.44 (1)	3.87 (2)	1.75 (1)
Zaïre										34.20 (3)	1.75 (1)
TOTAL AASMM	9.30 (3)	52.60 (4)	16.42 (8)	1.22 (1)	2.43 (1)	15.93 (7)	0.65 (1)	2.63 (2)	31.97 (5)	133.15 (32)	98.55 (25)
as %	7.0%	39.5%	12.3%	0.9%	1.8%	12.0%	0.5%	2.0%	24.0%	100%	74 %
New Caledonia		2.03 (1)								2.03 (1)	2.03 (1)
GRAND TOTAL	9.30 (3)	54.63 (5)	16.42 (8)	1.22 (1)	2.43 (1)	15.93 (7)	0.65 (1)	2.63 (2)	31.97 (5)	135.18 (33)	100.58 (26)
as %	6.9%	40.4%	12.1%	0.9%	1.8%	11.8%	0.5%	2.0%	23.6%	100%	74.4 %
											100 %

Table 1

(\*) Parallel with the Conventions of Association with the AASMM, similar financial aid has been provided to the dependent Overseas Countries and Territories (OCT) of France and the Netherlands.

**Loans on special conditions made from EDF resources and managed by the EIB(\*)  
within the AASMM and OCT under the Yaoundé I and Yaoundé II Conventions**  
(Position as at 31.12.1975)

Amounts in m u.a. — Number of loans in brackets

Sector Country	Industrial projects				Agriculture	Infrastructure	Total	of which industrial projects	% of total
	Energy	Agricultural and foodstuffs industry	Textile industry	Other industries					
Bénin	3.28(1)				9.32(2)	18.97(4)	3.28(1)	3.28(1)	3.1
Ivory Coast	5.32(2)				5.00(1)	23.37(5)	5.32(2)	5.32(2)	32.1
Cameroon	15.33(2)				3.04(2)	3.06(2)	3.06(2)	—	22.4
Congo						3.26(2)	3.26(2)	—	2.9
Gabon							5.04(1)	5.04(1)	3.1
Upper-Volta	5.04(1)						1.86(1)	1.86(1)	4.8
Madagascar	1.86(1)						2.75(1)	2.75(1)	1.8
Mauritania							0.97(1)	0.97(1)	2.6
Senegal							1.22(1)	1.22(1)	0.9
Chad							9.00(1)	9.00(1)	1.2
Zaire									14.2
TOTAL AASMM as %	9.00(1) 9.7%	30.83(7) 33.1%	2.19(2) 2.3%	3.04(2) 3.3%	9.32(2) 10.0%	38.84(11) 41.6%	93.22(25) 100.0%	45.06(12) 48.6%	89.1
Netherlands Antilles							4.38(1)	4.38(1)	4.2
New Caledonia							1.00(1)	1.00(1)	1.0
Surinam							1.86(1)	1.86(1)	1.8
Guadeloupe							0.72(1)	0.72(1)	0.7
Martinique							0.63(1)	0.63(1)	0.6
Reunion							2.12(1)	2.79(2)	2.6
GRAND TOTAL as %	9.00(1) 8.6%	30.83(7) 29.5%	2.19(2) 2.1%	3.04(2) 2.9%	9.99(3) 9.5%	49.55(17) 47.4%	104.60(32) 100.0%	45.06(12) 43.1%	100.0 %

(\*) Under its Special Section.

Table 2

Table 3

**Contributions to the formation of risk capital granted  
under the Yaoundé II Convention by the EIB on behalf of the Community  
from the resources of the European Development Fund  
(Position as at 31.12.1975)**

Country	Sector	Project	Amount (m u.a.)
Cameroon	Agricultural and foodstuffs ind.	Extension of sugar refinery and sugar-cane plantations at Mbandjock (SOSUCAM)	0.541
	Textile ind.	Construction of first stage of a spinning and weaving mill at Dimbokro (UTEXI)	0.991
Senegal	Infrastructure	Feasibility study for the construction of a projected repair yard for large-tonnage ships at Dakar (DAKARMARINE)	0.972 (1)
<b>TOTAL</b>			<b>2.504</b>

(1) Of which 0.108 m u.a. in the form of an equity participation and 0.864 m u.a. quasi-capital assistance.

