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PROJECT FINANCING
BY THE EUROPEAN ECONOMIC COMMUNITY
IN DEVELOPING COUNTRIES

The purpose of this note is to set out the main features of the European Economic Community's (EEC) financing facilities in the developing countries, including the possibilities opened for project co-financing with public and private money.

1. Legal and financial framework

The EEC has -besides bilateral financial relations existing between its nine Member States and LDCs (1) - a network of trade and financial relations with almost all developing countries in the world. With respect to financing, the EEC has two different means of funding :

- The European Investment Bank (EIB), an independant institution which raises funds on the market and lend them for project financing ;
- The European Development Fund (EDF) and the EEC Budget, both administered by the EEC Commission, Brussels, (i.e. the EEC's executive body) and providing grants and soft loans for project and non-project assistance (2).

These relations come under three different framework :

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(1) See list of EEC Member States

(2) Net disbursements from the EDF and from the EEC budget amounted to 1.75 bn £ in 1980. Recent forecasts indicate net disbursements worth 2.60 bn £ in 1981 and approximately 2.88 bn £ in 1982.

1.1. The ACP-EEC Convention, an international treaty signed between the EEC and 61 countries in Africa, the Caribbean and the Pacific (1), known as the "Lomé Convention", is the most sophisticated framework : it includes provisions for trade (free access to EEC markets, trade promotion), finance (4.6 bn \$ for 1975-1980, 7.6 bn \$ for 1981-1985) (2), industrial cooperation, common institutions, etc..... Funding includes a wide range of possibilities, from outright grants to World Bank-type loans, coming from the EDF and the EIB (3). This Convention is administered by the EEC Commission (Brussels).

1.2. A set of separate agreements with South-Mediterranean countries (4), all set up on the same model, including trade (preferential access) and financial provisions (890 mio \$ for 1977-1981, due to be renewed). The agreements are of an unlimited duration, while the financial protocols are of a five-year duration. Funding includes grants and soft loans from the EEC budget and World Bank-type loans from EIB. The EEC Commission administers these agreements.

1.3. Relations with other developing countries in Asia and Latin America are governed by a variety of trade or trade and economic agreements (e.g. EEC-ASEAN agreement, EEC-Andean Pact, EEC-Brazil, EEC-India). Funding of projects from the EEC budget is not included in the agreements and is provided on a year-to-year basis. It amounted to 184 mio \$ in year 1980, provided solely in the form of grants, mainly for rural development projects.

1.4. Notwithstanding the above three types of relations, the EEC is also providing other types of finance, mainly in commodity form (food aid). Project funding on a case-by-case basis is also available in certain cases for coal and iron ore projects related to EEC's supplies.

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(1) See List of ACP States in Annex 1

(2) 1975-1980 : Lomé I Convention - 1981-1985 : Lomé II Convention

(3) See chart of financial resources in Annex 2

(4) See List of countries in Annex 1.

2. Main features of EEC financing

2.1. Relations under para. 1.1. and 1.2. are contractual in nature. They are based on an international treaty signed by governments and ratified, of a five-year duration with ACP States or of an unlimited duration with South-Mediterranean States.

With respect to financing, this provides the recipient country with the necessary predictability as the agreement specifies the amount of finance, and reciprocally it provides the EEC (as well as its partners in a cofinancing venture) with the security of a permanent relation whatever, for example, the political changes that may occur.

Thus, EEC participation in a project constitutes an element of continuity and stability in the lenders-borrower relation.

2.2. The ACP-EEC Lomé Convention (1) provides for multi-purpose financing (2) : nationally or regionally allocated programmes and projects financed through grants or special (soft) loans, an emergency facility (grants), a Stabex facility (stabilization of exports earnings for agricultural commodities and iron ore), a Sysmin facility (a rehabilitation scheme for mining operations : soft loans), risk capital (temporary capital holdings or conditional loans), EIB loans (World Bank type) with automatic interest subsidy except in the oil sector, a specific EIB loan facility for energy and mining investment. This diversity of means allows the allocation of the best suitable type of financing to each compartment of a project, including co-financed projects (see para. 3.3. below).

2.3. Under the ACP-EEC Convention, part of the soft EDF money (3.4 bn \$ out of 7.6 bn) is allocated on country-by-country basis and then pre-allocated sector-wise ("programmed") at the beginning of the five-year period according to the requests of each beneficiary country. Most of the remaining (3.0 bn \$, including EIB loans, EDF risk capital, interest subsidies, funds for regional projects, facility for mining rehabilitation) is allocated on a case-by-case basis, according to the merits of each individual project. Funding has to be requested by the interested beneficiary country.

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(1) This is valid, to a more limited extent, for the South-Mediterranean countries.

(2) See chart in Annex 2.

2.4. Every single project is of course going through the project cycle : identification, appraisal (1), financing agreement, supervision, Throughout the project cycle, the EEC is applying well-tested and long-established procedures for economic appraisal and feasibility, bidding, etc... The EEC has highly specialized staff both at home (EEC Commission in Brussels, EIB in Luxembourg) and abroad (EEC Commission's permanent offices : see para. 2.5. below). All co-financiers can benefit from these procedures and expertise, thus improving the security standard of their investment. Extensive information is given for projects available for financing through a bi-monthly "operationnal summary" (2).

2.5. Moreover, the EEC Commission (as administrator of the Lomé Convention and South-Mediterranean agreements) has a permanent office (called "delegation") in each of the fund-recipient countries. This office, composed of EEC nationals (a Delegate, an economist, several technical officers), has among its duties : liaison with the national administration, data collection, performance of de-centralized functions of the project cycle (3), etc... as well as providing with services institutions entering a co-financing venture with the EEC, if and when requested.

2.6. A new feature included in the second Lomé Convention (1981-1985) is the possibility of concluding, for any specific, EEC-financed project in the mining or energy sector, an investment protection agreement between the ACP State concerned and the EEC. This is independent from and additional to both existing bilateral investment protection agreements and export credits guarantee schemes.

Altogether, these features secure a very high standard for the EEC-financed investment. In the case of co-financing, EEC funding is frequently associated with funds coming from EEC Member States, the World Bank Group and Arab funds and banks, thus having on the project soundness a "multiplier effect" of great interest for private co-financiers.

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(1) The EEC also finances pre-feasibility and feasibility studies

(2) Published in "the Courier ACP-EEC" and also included in the World Bank monthly operational summary

(3) In particular with regard to international bidding, technical supervision, billing, etc....

3. Co-financing

3.1. As it is for the World Bank group, co-financing is now a permanent feature of EEC project financing in developing countries. During the last 5 years, the EEC has entered 116 co-financing agreements with public or private institutions worth 11.2 bn \$, of which EEC financial means (1) account for 1.3 bn \$. Also present in these co-financing agreements are bilateral funds from EEC Member States (1.1 bn \$), the World Bank group (1.1 bn \$), Arab development banks and funds (1.2 bn \$) (2).

3.2. Roughly half of these co-financed operations are development projects. The remaining half concerned either industrial infrastructure (dams, power stations, railways,...) or directly productive industrial developments (3).

3.3. One of these cases is a relevant example : a cement plant jointly owned by three African Governements. 30 % of the total projects cost was in the form of equity capital, shared by the three governements and three private cement companies (direct investment). Part of the governement's shares was provided by EEC risk capital. 70 % of the total cost represented external finance : the plant was financed through export credits and loans from bilateral or multilateral financial institutions, such as the World Bank and the EIB ; related infrastructure (railway, harbour terminal, power, housing) was financed primarily through soft loans from EDF and from bilateral aid programmes. Thus, the co-financing operation included 8 financial institutions, 3 governements and 3 private companies, using 5 different types of financing.

3.4. Under the second Lomé Convention (1981-1985), EEC co-financing is bound to expand to an even larger degree. Among the reasons for this, are : a) a greater diversification of financial means than was the case under Lomé I (1975-1980), b) new provisions included in the Convention, aimed specifically at fostering co-financing (4), c) new provisions and financial facilities earmarked for energy and mining projects. In particular, the latter idea (c. above) will enhance the possibilities of co-financing agreements with private operators, merchant banks, investment companies.

(1) EDF/EEC Budget and/or EIB

(2) See detailed statistics in Annex 3

(3) e.g. agro-industries (sugar mills, processing, ...), tourism, mining operations (iron ore, tar sands), production of cement, aluminium, plastics, textiles.

(4) Articles 54, 58, 76, 96 to 100, 125, 133 of the Convention.

EEC Member States (as of January 1st, 1981) (10)

Belgium	Ireland
Denmark	Italy
France	Luxembourg
Germany	Netherlands
Greece	United Kingdom

ACP States (61)Africa (43)

Bénin	Madagascar
Botswana	Malawi
Burundi	Mali
Cameroun	Mauritanie
Cape Verde	Mauritius
Centrafrique	Niger
Comores	Nigeria
Congo	Rwanda
Côte d'Ivoire	Sao Tome Principe
Djibouti	Sénégal
Ethiopia	Seychelles
Gabon	Sierra Leone
Gambia	Somalia
Ghana	Sudan
Guinea-Bissau	Swaziland
Guinea Equatorial	Tanzania
Guinée	Tchad
Haute-Volta	Togo
Kenya	Uganda
Lesotho	Zaire
Liberia	Zambia
	Zimbabwe

Caribbean (10)

Bahamas	Jamaica
Barbados	St Lucia
Dominica	St Vincent
Grenada	Suriname
Guyana	Trinidad and Tobago

Pacific (7)

Fiji	Tonga
Kiribati	Tuvalu
Papua New Guinea	Vanuatu (*)
Salomon Islands	Western Samoa

South Mediterranean States (8)

Algeria	Morocco	Israël
Egypt	Syria	
Jordan	Tunisia	
Lebanon		

(*) in the process of accession

origin of resources	type of resources	use of resources	
TOTAL 5607	EIB Art. 18 200	LOANS 200 (1)	
	EIB 685	SUBS. LOANS 685 (2)	
CONVENTION 5227	EDF 4542	RISK CAPITAL 280 (3)	
		GRANTS 2928	
		INT. SUBS. 170 (4)	
	EEC BUDGET 180	GRANTS 180 (10)	EMERGENCY 200 (5)
			OTHER GRANTS 2558 (6)
			SP. LOANS 504
			SP. LOANS 504 (7)
			TRANSFERS 550
			STABEX 550 (8)
			SP. LOANS 280
SYSMIN 280 (9)			
		3062	
		REGIONAL 600 (11)	
		NATIONAL 2462 (12)	

(*) For 59 ACP States. An amount of 85 million eua has been added due to the accession of Zimbabwe on Nov. 4, 1980.

(see notes on next page)

- NOTES :
- (1) 200 Mio Eua : EIB loans (without interest subsidies) which can be devoted to projects in mining and energy, on a case-by-case basis, in accordance with Article 18 of the Bank's statute.
 - (2) 685 Mio Eua : EIB loans (with a 3 % interest rate subsidy except for investment in the oil sector, cf. note 4).
 - (3) 280 Mio Eua : Risk capital, out of EDF resources and administrated by the EIB. Takes the form of, inter alia, acquisition of temporary minority capital holdings, conditional loans or subordinated loans.
 - (4) 170 Mio Eua : Interest subsidies out of EDF resources allowing for a 3 % rebate on the rate of interest of EIB loans (cf. note 2)
 - (5) 200 Mio Eua : EDF resources earmarked for emergency aid.
 - (6) 2558 Mio Eua : EDF grants available either for regional projects or national projects.
 - (7) 504 Mio Eua : EDF special loans (40 years duration, 10 years grace period, 1 % interest) available either for regional projects or national projects.
 - (8) 550 Mio Eua : EDF resources earmarked for Stabex operations : grants in the case of the 35 least developed ACP countries, interest-free loans for other ACP countries.
 - (9) 280 Mio Eua : EDF resources earmarked for Sysmin operations (System for rehabilitation of mining investment) : conditions are 40 years duration, 10 years grace period, 1 % interest.
 - (10) 180 Mio Eua : EEC budget resources (outside Lomé Convention) earmarked for administrative costs (i.e. costs of Commission delegations in ACP countries).
 - (11) 600 Mio Eua : Resources (grants and special loans) to be devoted to "regional" projects or programmes involving 2 or more ACP countries.
 - (12) 2462 Mio Eua : resources (grants and special loans) available for "national programmes", i.e. administrated under an "indicative programme" set up by the EEC and each ACP State at the beginning of the Convention's five year period.

INVESTMENT IN MINING SECTOR :

- resources under (9) are specifically devoted to the mining sector
- resources under (1) are specifically devoted to the mining and energy sectors
- resources under (2), (3), (4), (11) and (12) could be devoted to the mining sector