

EIB INFORMATION

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EIB operations outside the Community

Given that the EIB's primary task is to provide financing for capital investment required to further European integration, the Bank devotes the bulk of its activity to achieving balanced economic development within the Community. However, under special authorisations granted unanimously by the Board of Governors under Article 18(1) of the Bank's Statute, the EIB may make loans available for projects to be carried out either in whole or in part outside the Community. These special authorisations have been provided for projects of direct interest to the Community and having a physical link with it, such as energy or communications infrastructure. However, the Board of Governors also grants blanket authorisations to finance projects in non-member countries, thereby enabling the Bank to participate in Community development aid policies with countries or groups of countries outside the EEC with which the Community has privileged ties based on common historical or geographical interests.

The Community's development aid policies in support of non-member countries take the form of bilateral agreements or conventions signed between the EEC and individual countries or groups of countries. These agreements define mutual cooperation ties in general terms covering commercial aspects and economic or technical assistance managed by the Commission of the European Communities. Some of these agreements also involve financial cooperation in which the EIB plays a key role. This package of policies, implemented jointly by the Commission and the EIB, fulfils two of the fundamental objectives for building Europe, as enshrined in the Preamble to the Treaty of Rome: working for peace and stable

DEN EUROPÆISKE INVESTERINGSBANK
EUROPÄISCHE INVESTITIONSBANK
ΕΥΡΩΠΑΪΚΗ ΤΡΑΠΕΖΑ ΕΠΕΝΔΥΣΕΩΝ
EUROPEAN INVESTMENT BANK
BANCO EUROPEO DE INVERSIONES
BANQUE EUROPEENNE D'INVESTISSEMENT
BANCA EUROPEA PER GLI INVESTIMENTI
EUROPESE INVESTERINGSBANK
BANCO EUROPEU DE INVESTIMENTO



international relations, whilst participating in the development of world trade.

A WIDE THEATRE OF OPERATIONS

The Community's policy of cooperation with non-member countries was limited in the 1960s to twenty or so African countries which were parties to the Yaoundé Conventions and a handful of Mediterranean countries which had signed bilateral agreements with the EEC. The scope of the Community's policy has since widened considerably and grown in substance to cope with the difficulties confronting an increasing number of countries on their road to development and to respond to the widespread interest being shown in the move towards European unity. Nowadays over one hundred countries throughout the world enjoy the fruits of the Community's policy of cooperation with non-member countries: among these, 69 African, Caribbean

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EIB operations outside the Community page 1

As the European Community's financing arm, the EIB devotes the bulk of its activity to promoting European integration. It also operates, however, in over 80 non-member countries, implementing the financial aspects of cooperation and development aid policies arranged by the Community.

Redirected Mediterranean policy: a greater role for the EIB page 4

Renewal of the bilateral financial protocols between the EEC and the Maghreb and Mashreq countries and Israel for the period 1991 - 1996 confirms not only the importance attached by the Community to its partnership with countries on the southern and eastern shores of the Mediterranean, but also the role which the EIB is called upon to play in implementing this policy. Scope for operations has been broadened further by introducing an innovative feature: so-called "horizontal" financial cooperation designed to support, outside the framework of the financial protocols, capital projects of common interest to partners on both shores of the Mediterranean.

From Lomé III to Lomé IV: the role of the EIB in the ACP countries page 7

The fourth Lomé Convention bringing together the Community and 69 countries in Africa, the Caribbean and the Pacific came into force on 1 September of this year. The EIB is helping to attain the economic objectives provided for in this Convention by granting loans for projects fostering the sustained development of the countries concerned.

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and Pacific (ACP) States, parties to the fourth Lomé Convention ⁽¹⁾, and 12 Mediterranean countries, which have signed bilateral agreements with the EEC, benefit from substantive cooperation arrangements, including, in particular, financial aspects in which the EIB is closely involved.

The EIB, the Community's financial institution deploying funds raised on the capital markets, enhances this financial cooperation with its own contribution reflecting its specific banking identity.

It grants loans from its own resources and manages, under mandate from the Community, risk capital financing and interest subsidies as an adjunct to its loans. The EIB places at the disposal of both the Community and the countries involved its banking know-how and experience earned in over thirty years of financing productive investment.

Furthermore, since 1990, the EIB has been lending to countries in Central and Eastern Europe. Here again, the Bank is involved in Community cooperation and aid policies aimed at modernising the economies of five countries (Poland, Hungary, Czechoslovakia, Bulgaria, Romania), working closely with the Commission ⁽²⁾. The EIB makes loans in these countries to back up endeavours to create a market economy, while the Commission implements the "PHARE" technical cooperation programme ⁽³⁾, financed from the Community budget.

The Table 1 illustrates the breakdown of financing deployed as part of EEC financial cooperation with non-member countries.

COMMON GROUND

EIB lending operations in furtherance of the Community's policies are implemented **under the terms of agreements negotiated by the Community,**

the EIB being involved in their preparation. Loans are subject to ceiling amounts, authorised for each agreement (see Table) by the Bank's Board of Governors. Regardless of the non-member country in which the EIB conducts operations, the latter comply with several fundamental principles which reflect the Bank's specific features.

Implementation of financial cooperation provided for in these agreements results in **close cooperation between the Bank and the Commission**, which is responsible for grant aid and technical assistance. Responsibilities between the two institutions are thus clearly

delineated: the EIB operates in those sectors where investment can be financed through loan aid, i.e. industry, energy, mining, economically essential infrastructure, tourism and agricultural development. The purpose of such cooperation is to encourage efficient management of the means available and to tailor the type of financial assistance to local economic conditions, in the interests of the countries and projects concerned.

With the exception of the Bank's operations in Eastern European countries, **the funds deployed by the EIB in non-member countries are drawn both**

Table 1: CONVENTIONS, FINANCIAL PROTOCOLS AND DECISIONS IN FORCE OR CONCLUDED AT 1 OCTOBER 1991

(million ecus)

Agreement	Duration	Loans from own resources ⁽¹⁾	Operations mounted from budgetary resources			Total
			Risk capital operations ⁽²⁾	Grant aid ⁽³⁾	Loans on special conditions	
MEDITERRANEAN COUNTRIES						
Yugoslavia	Second Financial Protocol	550	—	—	—	550
	Third Financial Protocol	730	—	77 ⁽⁴⁾	—	807
Turkey	Fourth Financial Protocol	awaiting signature	225	—	50	325 ⁽⁵⁾
Algeria	Third Financial Protocols	183	4	52	—	239
Morocco		151	11	162	—	324
Tunisia		131	6	87	—	224
Algeria	Fourth Financial Protocols	280	18	52	—	350
Morocco		220	25	193	—	438
Tunisia		168	15	101	—	284
Egypt	Third Financial Protocols	249	11	189	—	449
Jordan		63	2	35	—	100
Lebanon		53	1	19	—	73
Syria		110	2	34	—	146
Egypt	Fourth Financial Protocols	310	16	242	—	568
Jordan		80	2	44	—	126
Lebanon		45	2	22	—	69
Syria		115	2	41	—	158
Israel	Third Financial Protocol	63	—	—	—	63
	Fourth Financial Protocol	82	—	—	—	82
Malta	Third Financial Protocol	23	2.5	12.5	—	38
Cyprus	Third Financial Protocol	44	5	13	—	62
"Non-Protocol" horizontal financial cooperation	1992-1996	1 800	25	205 ⁽⁶⁾	—	2 030
ACP STATES-OCT						
ACP	Third Lomé Convention ⁽⁴⁾	1 100	600	5 785 ⁽⁵⁾	1 015 ⁽⁶⁾	8 500
	Fourth Lomé Convention	1 200	825	9 975 ⁽⁵⁾	—	12 000
OCT	Council Decision ⁽⁴⁾	20	15	60 ⁽⁵⁾	25 ⁽⁶⁾	120
	Council Decision	25	25	115 ⁽⁵⁾	—	165
CENTRAL AND EASTERN EUROPEAN COUNTRIES ⁽⁶⁾						
Poland / Hungary	1990-1993	1 000	—	—	—	—
Czechoslovakia / Bulgaria / Romania	1991-1993	700	—	—	—	—

⁽¹⁾ Loans attracting interest subsidies from the European Development Fund in the case of projects in the ACP States and the OCT and from the General Budget of the European Communities in the case of projects in certain Mediterranean countries. Amounts required for interest subsidies are financed from grant aid.

⁽²⁾ Granted and managed by the Bank.

⁽⁴⁾ In the form of interest subsidies managed by the EIB.

⁽³⁾ Granted and managed by the Commission.

⁽⁵⁾ Including 105 million in interest subsidies managed by the EIB.

⁽⁴⁾ The duration of which has been extended until entry into force of the fourth Lomé Convention.

⁽⁶⁾ The figures do not include Commission budget appropriations for these countries.

⁽⁵⁾ Including amounts reserved for interest subsidies managed by the EIB.

from: the Bank's own resources in the case of its loans; third party resources managed under mandate in the case of risk capital funding or interest subsidies. In this way, the EIB is able, as some of the resources are derived from budgetary funds, to modulate the conditions (duration and interest rates) of its financing in non-member countries to the best advantage. Funds managed by the Bank under mandate are clearly identified as such to the recipients when the loans are granted and such operations are not posted in the EIB's balance sheet, but are recorded separately in the "Special Section" (see box article).

Regardless of whether the investment is in the public or private sector, **Bank lending is accorded solely for projects deemed technically, economically and financially viable.** This constraint is necessary in view of the EIB's status as an institution raising funds on the markets and reflects the dictates of sound banking practice: as the EIB can provide only a proportion of the funds which a non-member country needs to pursue its economic development, the Bank considers one of its basic responsibilities is to guarantee that resources are invested as effectively as possible in keeping with priorities jointly agreed with recipient countries. As a result, any project eligible for financing is thoroughly examined to assess not only its inherent merits, but also its contribution to the development of the country in which it is located.

Lastly, the EIB, which has to safeguard its "AAA" rating on the markets, ensures

that loans disbursed are backed by **appropriate forms of security.** The first guarantee that the project will be properly completed is the rigorous

selection and appraisal process referred to above. However, under its Statute, the Bank also requires that each finance contract be secured by a

"OWN RESOURCES", "RISK CAPITAL" AND THE "SPECIAL SECTION"

The Lomé Convention and the Mediterranean Financial Protocols refer to the European Investment Bank providing loans from its "own resources". Under mandate the EIB also manages "risk capital" provided for in these agreements. This terminology is used here in a specific sense which can cause confusion for the uninitiated. The distinction, in particular, between "own resources" and "own funds" is not always clear.

"Own resources"

What are referred to as "own resources" are essentially the proceeds of the EIB's borrowings on capital markets, mainly raised through public bond issues. Own resources also include the Bank's "own funds" made up of the paid-in portion of its subscribed capital and reserves. Own resources are fully accounted for on the Bank's balance sheet.

On 31 December 1990 the EIB's "own resources" included:

	ECU billion
Borrowings	48.86
Own funds	
Paid in capital	2.10
Reserves	5.97
Balance of profit and loss acc. (*)	0.89
Total own resources	57.82

* Annually credited to the reserves

"Risk capital"

The Convention and Protocols also provide for a specific form of concessionary finance referred to as "risk capital". These funds are drawn from the budgets of the Member States through the European Development Fund under the Lomé Convention, and from the budget of the Community in the Mediterranean. They are managed by the EIB under mandate from the Member Countries in the first case and from the EEC in the second. Risk capital is mostly used as quasi capital (in the form of conditional loans and subordinated loans) but can also be used for capital participations. As for all operations under mandate, this concessionary or soft loan funding is recorded off balance sheet in a fiduciary account called the "Special Section".

The "Special Section"

The Special Section was set up by the Board of Governors in 1963 to account for concessionary financing the EIB carried out in Turkey under mandate from the EC Member States with funds provided from their budgets. The EIB's activities were also widened to provide concessionary finance in African states and later in Caribbean and Pacific countries under what became known as the Yaoundé Conventions and then the Lomé Conventions, and in the Mediterranean region under the Financial Protocols. In 1977, the Bank's Board of Governors extended the Special Section to cover further operations the EIB carries out under mandate inside and outside the Community.

While financing operations carried out under mandate form an integral part of the EIB's overall activity, in accounting terms they are kept distinct from the Bank's lending on own resources by being clearly identified in the Special Section.

(1) In addition, 20 Overseas Countries and Territories (OCT) also enjoy financial and technical assistance as a result of decisions taken by the Council of the European Communities.

(2) For details of EIB activity in Eastern European countries, see, in particular, "EIB Information" Nos. 68 and 69.

(3) "Poland and Hungary - Aid for economic restructuring", extended in 1990 to cover Czechoslovakia, Bulgaria, Yugoslavia and Romania; this technical assistance programme was set up by decision of the Council of the European Communities. It covers the environment, agriculture, vocational training and balance of payments support. The programme has been funded with Community budgetary appropriations amounting to 500m ecus in 1990, 785m ecus in 1991 and a projected 1 000m ecus in 1992.

guarantee, generally that of the non-member State concerned. Moreover, in the case of loans granted as part of Community policy towards non-

member countries implying an element of risk, Bank lending made available in such countries is covered by a blanket guarantee from the Community budget

(in the case of Mediterranean countries) or Member States (in the case of ACP countries).

Redirected Mediterranean Policy: A greater role for the EIB

Beyond the geographical and cultural bonds which link the southern and northern shores of the Mediterranean, the move towards closer ties between Europe and non-member countries on the Mediterranean seaboard benefiting from Community development aid reflects a need born out of ever closer economic interdependence. Cooperation was given a fresh boost at the end of 1990 when the "Redirected Mediterranean Policy" was adopted, comprising three facets:

- renewal of bilateral financial protocols with each of the Maghreb and Mashreq countries, and Israel for the period 1991-1996; these constitute the fourth generation of protocols signed by the Community and the countries concerned during 1991 (1); the funds available under these protocols approach 2 billion ecus, a 30% increase on the previous package;

- creation of "horizontal" financial cooperation, implemented outside the bilateral terms of reference for financial protocols. This horizontal cooperation, the main innovation compared with previous protocols, concerns all those Mediterranean countries having association or cooperation agreements with the EEC. The cooperation is aimed at providing funds for regional projects of relevance to the Community, notably in the area of environmental protection; for the years 1992-1996, funding will comprise EIB loans (up to a ceiling of 1800m ecus) and grant aid (230m ecus) from budgetary resources;

- improved trade concessions granted by the Community in favour of such countries and the application of duty-free

arrangements as from 1 January 1993 (instead of 1996) for products from Maghreb and Mashreq countries; this facet of cooperation will also involve financial support of the order of 300m ecus drawn from budgetary resources, provided by the Community to Maghreb and Mashreq countries embarking on structural reform programmes.

A CLEAR FRAMEWORK: THE FINANCIAL PROTOCOLS

The Community's policy of cooperation with Mediterranean countries takes the form of bilateral agreements which include financial protocols. Such protocols define the Community's participation in financing investment intended to further the economic and social development of signatory countries. The five-year protocols provide for loans from EIB own resources and financing from budgetary resources for risk capital operations (2), managed by the EIB under mandate from the Community. Most of the protocols also include a grant aid component, again funded from the EC budget, part of which may, at the request of the recipient country, be used to finance an interest subsidy - in general 2% - on Bank loans.

Since EIB loans from own resources represent the bulk of financial cooperation (see Table, page 2), the Bank's contribution is significant, as evidenced by the graph page 5 illustrating the sectoral breakdown of EIB operations in the countries concerned. Since 1976, the EIB has granted loans of over 1700m ecus towards implementing the financial protocols with the Maghreb countries (Algeria, Morocco, Tunisia), the Mashreq countries (Egypt, Jordan, Lebanon, Syria), Malta, Cyprus and Israel. Moreover, between 1964 and 1981, the EIB made an active contribution to implementing three financial protocols with

Turkey giving rise to financing of over 734m ecus (3). Lastly, since 1975, EIB lending in Yugoslavia has been used to finance projects furthering the economic development of the country and building transport infrastructure to link Greece with the rest of the Community; between 1975 and 1990, such operations involved a total of some 760m ecus (4).

Drawing on its knowledge of the economies concerned and its experience in financing productive investment, the EIB participates actively in deliberations between the Community and each non-member Mediterranean State about the nature and type of operation needed to further the latter's development. Thus in order to allocate effectively the means available under the various protocols, as soon as these are signed the EIB and the Commission arrange joint programming missions to each of the signatory states in order to define, in agreement with the authorities concerned, an indicative programme of objectives and areas for financial cooperation. These programmes, which are drawn up in such a way that they can be revised during the five-year lifetimes of the financial protocols, are subject, where necessary, to regular review so that due account can be taken of any changes in the economic situation of a beneficiary country or in national development plan priorities.

A LASTING CONTRIBUTION TO DEVELOPMENT

The purpose of EIB loans, which may or may not carry an interest subsidy, is to foster projects selected for their viability and lasting contribution to the development of the countries concerned. For this reason, the EIB applies the same stringent standards when choosing and assessing projects financed in Mediterranean countries as it does for operations within the Community.

EIB loans cover a broad range of capital investment, but are primarily directed towards **basic infrastructure projects** necessary for the urban and rural development of the recipient countries. The Bank has provided financing for the construction of two stretches of the East-West motorway in Algeria, upgrading of the railway network in Tunisia and building of water supply systems, notably in Cyprus, to name but a few of the more recent projects. Similarly, the EIB has funded construction of a desalination plant and modernisation of the international airport in Malta.

Environmental protection and rehabilitation of areas affected by environmental degradation are also priority targets for financial cooperation with Mediterranean countries: substantial funds have been lent for such major projects as sewerage and sewage disposal in nine coastal towns in Morocco, the building of a waste water collection and treatment system serving Greater Algiers, etc. Other loans have been used to help finance the construction of waste processing plants (in Malta for instance) or water purification facilities, as in Jordan as part of the programme for improving sanitation infrastructure in Amman.

These loans illustrate the efforts made by the EIB to further the cause of environmental protection both outside and inside the Community (5). The EIB, as a member of the Committee of International Development Institutions for the Environment (CIDIE), is also involved in implementing the Environmental Programme for the Mediterranean in conjunction with the World Bank and with the joint support of the Commission of the European Communities and the United Nations Development Programme (UNDP): the two institutions provide technical assistance in pinpointing and defining projects as well as strengthening bodies concerned with environmental protection in countries on both Mediterranean seaboard.

Through its loans, the EIB also enables non-member Mediterranean countries to acquire installations to generate, transport and distribute **energy**. Financing has been forthcoming for power supply systems in both rural areas (Morocco, Cyprus) and urban areas (Amman in

Jordan, Cairo in Egypt) and for natural gas supply networks (Cairo). Loans have also been made available for installations to expand local electricity generating capacity, for instance in Egypt (through the use of natural gas and oil at Shoubrah-El-Kheima, north of Cairo) and in Algeria (power station at Bechar).

Bank financing also serves to further **industrial development**: loans have promoted major industrial projects (for example, the setting-up of an Egyptian-European joint venture near Alexandria to manufacture tyres for heavy goods vehicles) or fostered smaller businesses. Several global loans, the proceeds of which are onlent by local banking partners whose own development is furthered in the process, have been granted in Jordan, Cyprus, Israel, Tunisia and Morocco; such loans make it possible to provide financing for hundreds of local industrial or tourism-based businesses, many of which have sprung from joint ventures with European partners.

Lastly, the EIB has financed projects in the **agricultural sector** geared to the development of cooperatives, for example in Jordan (for sheep-farming), Tunisia and Morocco (via global loans for smaller on-farm schemes). In addition, EIB support has been also made available for developing land under cultivation, in particular through loans for irrigation schemes, some of which, such as those in Nubariya (Egypt) and Mitidja (Algeria), cover over 20 000 hectares.

RISK CAPITAL: A FLEXIBLE AND WELL-ADAPTED INSTRUMENT

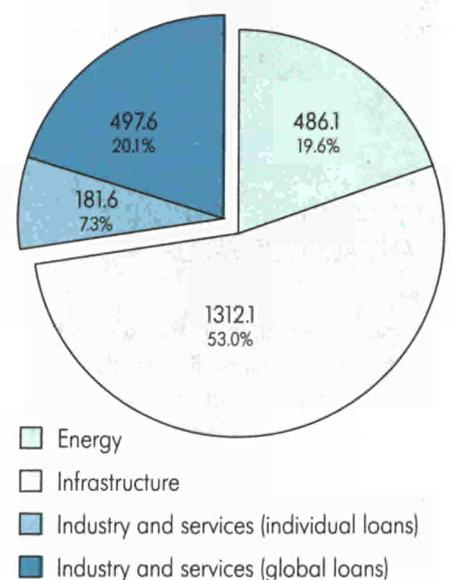
Risk capital, financed through budgetary resources and managed by the EIB, is a particularly versatile form of funding which can be made available over a long period (up to 25 years). Risk capital assistance was developed by the EIB under the Lomé Conventions benefiting ACP States and extended to cover financial cooperation with Mediterranean countries in the third generation of financial protocols (1988-1991). The volume of such funds was substantially increased in the fourth protocols (see Table, page 2), furnishing unequivocal proof of the Community's determination to bolster industrial cooperation with Mediterranean

countries and foster joint ventures between local and Community promoters.

The purpose of risk capital is to promote the creation of equity in industrial or tourism companies; operations of this kind usually provide an injection of equity for companies and are **conditional**, leaving scope for flexible interest rate formats and repayment terms linked to the development of the project (output levels achieved, profits made, etc.). In some cases, loans from risk capital resources may, in the interests of the project financed, be **subordinated** such that repayment is only due after other bank loans contracted for the project have been repaid. Risk capital financing can be used in conjunction with a loan from the EIB (as was the case with the tyre factory in Alexandria).

Risk capital can also be used to finance **direct participations**, acquired by the Bank in the name of the EEC, in companies set up by local partners, often in association with European promoters, in one of the sectors of the economy identified as a priority target in the financial protocol. Risk capital was used in this way to acquire stakes in venture capital companies set up to promote the financing of corporate equity in Morocco (Société de Participation et de Promotion du

Financing provided in the Mediterranean countries
1977-1990 (million ecus)



Partenariat - S.P.P.P) and Algeria (Société Financière Algéro-européenne de Participation - FINALEP): in both cases, acquisition of the capital stake was supplemented by a conditional loan to the newly-established venture capital company to finance the creation or bolstering of local businesses' equity bases. Such financial packages, however, can also be used to channel funds to existing local financing bodies keen to expand or diversify their business : an example of this approach was the recent acquisition by the EIB of an equity participation in the Cyprus Development Bank (CDB), supplemented by a global loan from risk capital resources to the Cyprus Central Bank for the financing, via local banks, of participations in Cypriot industry.

These operations reveal the full spectrum of possibilities offered by risk capital: the flexibility of the terms and conditions applied thanks to their budgetary origin makes such instruments particularly well-suited to financing projects in the productive sectors, especially where the investment involved is to be implemented in a fragile economic environment. Moreover, the provision of long-term resources and equity to companies fosters the development of local industries and promotes partnership with European businesses, thereby giving Mediterranean countries wider access to new technologies and markets.

AN INNOVATION: HORIZONTAL FINANCIAL COOPERATION

The main innovation in the Redirected Mediterranean Policy lies in the creation, for the period 1992-1996, of **"non-Protocol" horizontal financial cooperation** comprising : loans from the EIB's own resources (up to a ceiling of 1800m ecus) and 230m ecus worth of budgetary funds, of which 105m ecus

will be deployed to provide 3% interest subsidies on the Bank's loans for environmental protection projects ⁽⁶⁾.

This cooperation will represent additional support outside the framework of the financial protocols as part of the Community's dialogue with different partners on the southern and eastern seaboard of the Mediterranean and is directed towards all those non-member countries in the region which are parties to bilateral cooperation or association agreements.

Loans granted under these innovative arrangements will be aimed at promoting projects of relevance to all or part of the region and to the Community itself. **The main areas targeted for funding will be the transport, telecommunications and energy sectors as well as environmental protection schemes.** The latter are being given particularly high priority in view of the serious problems facing the Mediterranean Basin, which is why EIB loans for such projects will carry interest subsidies. Indeed, urgent schemes (such as converting industries, creating or modernising water purification plants or providing ballast water cleansing facilities, constructing urban or industrial waste treatment plants, etc.) have already been pinpointed as essential conservation measures for the Mediterranean area; in this respect, joint studies conducted by the EIB and the World Bank under the Environmental Programme for the Mediterranean represent a major contribution towards the type of action that needs to be taken.

Lastly, the **industrial sector** will also benefit from this horizontal financial cooperation: the EIB will be able to deploy 25m ecus of risk capital from budgetary funds to assist European promoters interested in setting up projects with local partners, particularly smaller businesses/industries. These loans will supplement risk capital operations provided for under the financial protocols

and aimed at local entrepreneurs in non-member countries which have signed bilateral agreements.

Within the framework of the Redirected Mediterranean Policy, the EIB has been entrusted with a wider mandate with over 4000m ecus at its disposal. This prospect will enable the Bank to build on the contribution that it has been making for over 15 years to the development of countries in the southern and eastern Mediterranean. Hence, the EIB will take on added responsibilities as a Community institution in implementing the policy of financial cooperation with non-member Mediterranean countries whose stability and expansion are essential for the development of the region as a whole.

(1) The Third Financial Protocols, barring those concerning Cyprus and Malta (which run until 1993) and Yugoslavia (covering the period 1991 - 1996), expired on 31.10.91.

(2) Except for those protocols with Yugoslavia and Israel.

(3) The EIB's operations in Turkey date back to the First Financial Protocol implemented from 1964 as part of the 1963 EEC-Turkey association agreement; the last protocol to be implemented was the Third Financial Protocol (1979-1981), since when financial cooperation with this country has been suspended and the signing of the Fourth Financial Protocol postponed.

(4) In view of the domestic situation in Yugoslavia, new operations with this country have been temporarily suspended.

(5) On the northern Mediterranean seaboard, the EIB has been involved in a large number of programmes to clean up rivers (Po, Tiber, Segura, Nervion), coastlines (Liguria, Veneto) and gulfs (Naples, Saronic - Athens, Thessaloniki). For more information on this topic, please refer to the brochure "Protection of the Environment", as well as the newsletter "EPM Currents" available solely in English and French, giving information about the Environmental Programme for the Mediterranean.

(6) As Yugoslavia qualifies for budgetary aid provided for Eastern Europe (PHARE programme), it will only be eligible for lending, under the horizontal financial cooperation programme, for environmental projects.

From Lomé III to Lomé IV: The role of the EIB in the ACP countries

Following ratification by all the Member States of the European Community and more than two thirds of the 69 African, Caribbean and Pacific States (ACP), the fourth Lomé Convention (1991-2000) came into force on September 1, 1991. It is accompanied by a Financial Protocol spanning the first 5 years (1991-95) which foresees funding up to 12 billion ecus. The Commission of the European Communities manager grants totalling 9 695 million ecus from the European Development Fund (EDF) while the EIB has responsibility for a total of 2 305 million ecus: up to 1 200 million ecus in loans from its own resources and, from EDF resources, 280 million ecus for interest rate subsidies as well as 825 million ecus in the form of risk capital.

THE LOMÉ FRAMEWORK

Under two Yaounde Conventions (1963-75) and the first three Lomé Conventions (1976-91), the European Investment Bank, through its participation in the implementation of EC financial and technical cooperation policies, evolved new working relations with an increasing number of ACP partners. In particular Lomé I, signed in 1975, was a major political milestone involving countries of the North and the South in a contractual commitment for the benefit of both. The second and third Lomé Conventions widened and intensified these cooperative links and Lomé IV now sets the framework for the European Community's development cooperation policy in the ACPs countries up to the year 2000.

Given the nature of the funds provided by the two institutions, the Convention foresees a division of responsibilities between the Commission and the EIB.

Table 2: LOME IV CONVENTION: FINANCIAL PROTOCOL 1991-1995

(million ecus)

Managed by the Commission of the European Communities: from EDF resources		Lomé III
Grants	7 715*	4 645
Transfers for the stabilisation of export earnings STABEX	1 500	925
Special financing facility for mineral products SYSMIN	480	415
Loans on special conditions	—	600
Total	9 695	6 585
Managed by the European Investment Bank:		
Loans from the EIB's own resources ceiling amount	1 200	1 100
Risk capital from EDF resources	825	600
Interest subsidies from EDF resources	280	215
Total	2 305	1 915
GRAND TOTAL	12 000	8 500

* including 1 150 million ecus for structural adjustment and 350 million ecus for emergency aid.

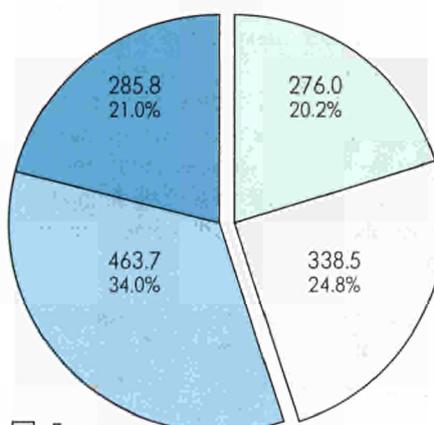
Requests for financing of projects in industry (including agro-industry), mining, tourism, commercial agriculture, as well as infrastructure projects in sectors such as transport, telecommunications, energy and water are thus received by the EIB.

With **loans from its own resources**, the EIB principally finances viable projects in countries whose economic and financial

situation is such that they can assume the debt involved and ensure that service payments are maintained. These loans attract an interest rate subsidy from the grant aid foreseen under the Conventions.

Risk capital financing, a form of concessional funding introduced under the second Yaoundé Convention and refined during successive Lomé Conventions, is well suited to the financial situation and economic conditions found in many ACP countries. It is often made available together with subsidised loans from own resources and affords the Bank greater flexibility in its operations. Risk capital may be used either for the acquisition of equity participations or as quasi-capital funding. Equity participations are minority stakes in the capital of ACP companies or development banks, made in the name of the Community. The equity holding, which is of a temporary nature, is intended to be transferred at the appropriate time, preferably to nationals or institutions of the ACP countries in question. Quasi-capital funding may take the form either of subordinated loans, repayment of which only occurs when the borrower has settled all other bank commitments in relation to the project, or of conditional loans, whose terms of repayment can vary to

Financing provided under the third Lomé Convention
Sectoral breakdown (1986-1991)
(million ecus)



- Energy
- Infrastructure
- Industry and services (individual loans)
- Industry and services (global loans)

the extent that certain predetermined financial or technical targets are achieved.

LOMÉ III IN A DIFFICULT FINANCIAL ENVIRONMENT

Under the third Lomé Convention (1986-1991) it was foreseen that the EIB would provide up to 1.7 billion ecus for projects in ACP countries: made up firstly of a ceiling of 1.1 billion in loans from the Bank's own resources and secondly, 600 million ecus from risk capital resources. While the economic situation, especially in sub-Saharan ACP countries has somewhat limited the demand for loans from the Bank's own resources, the rate at which risk capital has been committed demonstrates once again that the terms of this financing tool are particularly well suited to the many ACP States with limited borrowing capacity.

When Lomé III expired on 31 August 1991, the EIB had committed funding of some 1 330 million ecus: about 740 million ecus from the Bank's own resources and about 590 million ecus from risk capital resources. The balance of 10 million ecus from risk capital will be carried over.

Of total financing provided under the third Lomé Convention, **736 million ecus (55%) went to industry, tourism and related services. Energy schemes received 264 million ecus (20%) and water supply and other revenue-generating infrastructure 330 million ecus, or 25% of loans provided** (see graph page 7). In industry as well as in infrastructure an increasing number of rehabilitation and modernisation schemes were financed. In manufacturing and tourism the EIB provides individual loans for larger projects and finances small and medium-sized ventures indirectly through global loans to development banks and other financial institutions. Global loans combine the EIB's ability to raise funds on the finest terms on the international capital markets, and the local operational knowledge of ACP financing institutions, such as first-hand contacts with the private sector and governments, as well as knowledge of local markets and development priorities.

Industrial projects financed through individual loans under Lomé III included iron-

ore processing in Mauritania, an open-cast gold mine in Ethiopia, an alumina plant in Guinea, a cotton spinning plant and an integrated textile complex in the Ivory Coast, a mill producing cotton and polyester in Mauritius, a cotton ginnery in Mozambique, an integrated tuna-processing complex and a textile mill in Madagascar. In agro-industry the EIB financed a vegetable cannery in Mozambique, abattoirs in Botswana, tea processing facilities in Kenya, flour mills in Mauritius and Swaziland, palm-oil production in Nigeria, Papua New Guinea and Sao Tome and Principe, and coffee sorting and storing equipment in Burundi. A chemical complex for processing phosphates was financed in Senegal, a saw-mill in Malawi, and two factories producing cardboard boxes and plastic sheeting and sacks in Burkina Faso.

In cooperation with local and regional development banks, the EIB was able to maintain a steady flow of funds to small and medium-sized industrial enterprises (SMEs). A total of 321 SMEs attracted some 125 million ecus from EIB global loans. The overwhelming majority of these ventures were in the private sector, about 90 % of SMEs were majority-owned by local investors. A small proportion were joint ventures, with a mixture of local and foreign shareholding. Of the SMEs supported more than half were new ventures and the remainder expansions of existing enterprises or rehabilitation and modernisation projects; around two thirds were import-substituting and the rest divided between export-oriented projects or service industries. Thus, under Lomé III financing for industrial projects already focused to a large extent on promoting the private sector whose role in the development process was recognised and emphasised further during the negotiations of the fourth Lomé Convention.

One of the most pressing problems facing the authorities in many ACP countries during the Lomé III period was migration from rural areas to the cities. This reality combined with the requirements of industry, tourism and service companies has led the EIB - generally in conjunction with other sources of bilateral or multilateral financial assistance - to fund an increas-

ing number of **schemes to expand basic urban infrastructure**, especially power distribution, telecommunications, and water supplies. The negotiators of the third Lomé Convention had already stressed the necessity to provide adequate infrastructures and to finance projects designed to foster protection of the environment and improve water supplies, from both own resources and risk capital. The concessionary terms of financial assistance provided by the EIB proved to be particularly suitable for financing basic infrastructure in the poorer ACPs.

Drinking water schemes and drainage systems were financed in Benin, Botswana, the Congo, Guinea, Kenya, Malawi, Nigeria, the Gambia, Tchad and Zimbabwe. Examples of energy schemes financed by the EIB were the extension of electricity transmission networks and/or the improvement of generation capacity in the Central African Republic, Burkina Faso, Zimbabwe, Tanzania, Cape Verde, Cote d'Ivoire, in Djibouti, Ghana, Malawi, Uganda, Sudan, Western Samoa, St Lucia and St. Vincent. In addition, a number of loans were made for financing airports, ports and telecommunications projects.

Finally, the EIB provided funding for a number of **projects involving cooperation between several countries**. For example ASECNA, the Agency for Air Traffic Control in Africa and Madagascar, received EIB loans to improve air traffic safety in eleven African countries.

INNOVATIONS UNDER THE FOURTH LOMÉ CONVENTION

The fourth Lomé Convention signals the start of a new phase of cooperation between the Community and the ACP States. It provides a 10-year framework (1991-2000) to guide the cooperation between the European Community and the 69 ACP States. Newcomers to the Convention are the Dominican Republic, Haiti and Namibia.

The EIB's role in implementing EC-ACP financial cooperation has clearly been enhanced under the new Convention as the Bank has become sole provider for loan finance, whereas all aid from the Commission is now in the form of grants. **The Bank has thus sole**

responsibility for all reimbursable aid. At the same time the amounts foreseen have been increased both for loans from the Bank's own resources and for funding from risk capital.

The new Convention places even greater emphasis on the private sector, underlining its role in promoting the growth and diversification of the ACP States' economies. In view of the economic and financial context of many ACP States, the fourth Lomé Convention includes for the first time a structural adjustment support mechanism administered by the Commission, as an adjunct to traditional long-term development aid. Other instruments of cooperation, such as STABEX and SYS-

MIN, have been further improved and trade arrangements, already very favourable, are even more liberal than in the past.

INCREASED FINANCIAL RESOURCES ON MORE CONCESSIONARY TERMS

Total financial aid (see Table 1) has been increased from 8.5 billion ecus under Lomé III to 12 billion ecus for the first five years of Lomé IV; the European Development Fund (EDF) financed from EC Member States' budgetary contributions, has been increased to 10.8 billion ecus while the EIB is providing up to 1.2 billion ecus in loans from its own resources. Under Lomé IV interest rate subsidies paid from EDF resources increased to 4% from 3% under Lomé III. The new Convention also stipulates that the subsidy be adapted to the extent that the interest rate effectively borne by the borrower will not be less than 3% or more than 6%, compared with 5% and 8% under Lomé III. The amount foreseen for risk capital has been increased to 825 million ecus. The interest rate for conditional and subordinated loans will not exceed 3% and in certain cases the exchange risk is to be borne by the Community.

OPTIMAL USE OF RESOURCES

As under previous Conventions, the EIB is again participating with the Commission in the programming exercise, characterised by a dialogue with the ACP States on their development objectives and priorities, and designed to achieve the optimal utilisation of the various financial resources of the Protocol.

The country indicative programmes that have already been finalised, confirm that the promotion of the private sector will continue to occupy an important place in the Bank's activities; particularly assistance to small and medium-sized enterprises, and their role in stimulating growth and diversifying the economies of the ACP countries, is emphasised in many indicative programmes.

Financing the private sector, particularly small and medium size industrial ventures will again require an effective cooperation between the EIB and local development banks or other financial intermediaries in the ACPs. To ensure that a substantial portion of risk capital is utilised for investment in the private sector, and especially for small and medium-sized enterprises, the scope of this instrument has been broadened further and the use of new intermediaries, including European financial institutions, has been made possible.

But to function successfully, SMEs, as well as larger industrial, agro-industrial, mining and tourist enterprises, require a solid infrastructure. This necessity is also reflected in many indicative programmes, which again foresee considerable funding for infrastructure projects - often renovation and modernisation schemes - in such fields as water, energy, telecommunications and transport.

CONCLUSIONS

The fourth Lomé Convention goes much further than simply preserving the legacy of its predecessors. Many mechanisms have been overhauled in detail with a view to ensure swifter, better-tailored and more effective measures and procedures to accommodate new requirements. Productive projects and programmes in industry, agricultural processing, tourism, mining, energy, water, transport and telecommunications continue to be financed by the EIB whose role has been strengthened both quantitatively and qualitatively. Special emphasis will again be put on the private sector.

The quest for greater effectiveness represented the negotiators' main concern and this ambition is reflected at all levels, both in the objectives and in the instruments of cooperation. The EIB, with more than a quarter of a century experience in EC-ACP cooperation under varying economic conditions, will continue to develop and adjust its expertise to meet these challenges.

THE EIB AND THE OCT

Scattered across the globe are a large number of Overseas Countries and Territories (OCT) constitutionally linked to three of the Community's Member States: France, the Netherlands and the United Kingdom. These OCTs, more often than not a patchwork of small islands are, for the most part, sparsely populated (i.e. with about 850 000 inhabitants in all).

The Community's relations with the OCTs are governed by decisions of the Council of the European Communities reflecting much the same provisions as those applicable to the ACP States. Financial support amounting to 165 million ecus over the period 1991-1995 comprises 25 million in loans from the Bank's own resources and 140 million in aid from budgetary resources; of this amount 25 million ecus will be used by the EIB for risk capital operations and 6 million ecus for interest subsidies; the remaining 109 million ecus will be granted by the Commission in form of non-repayable aid.

EIB financing activity in the OCTs over the period 1976-91, the timeframe covered by the first three Lomé Conventions, amounted to 63.9 million ecus, of which 42 million was extended from own resources.



Get to know the BEI

A Video :

"Financing Europe's Future and Setting up the Single Market of 1993"

The European Investment Bank has produced a new video that explains its role as the European Community's long-term financing institution.

In the last five years, the Bank has provided over 50 billion ecus for projects supporting the balanced development of the EC and its economic policy objectives. Working in close co-operation with the banking system, the EIB draws on experience in project financing and evaluation that it has built up over more than thirty years throughout the Community and in many countries outside.

"Financing Europe's Future and Setting up the Single Market of 1993" is a video designed to provide viewers with a straightforward description of the EIB's financing activity. It describes how the Bank operates in raising finance on capital markets and makes loans, illustrating, through examples of projects it has financed, how it contributes to the European Single Market and the economic and social cohesion of the Community.

A new brochure: "Communications"

The EIB has just published a new brochure in its briefing series, this time describing the Bank's actions to support development of communications in Europe which play a major role in strengthening economic and social cohesion within the Community and completing the Single Market. It also provides key data on the Bank's lending activity, illustrated by maps and

As a complement to the Bank's publications, the film will be of interest to those wishing to know more about the EIB. In particular, it has been designed for teaching, training and giving presentations on the European Community. Last but not least, the video may be used, as a whole or in sections, by television stations.

Format: Video VHS PAL (BVU for TV stations)

Length: 20 min

Languages: English, French, German, Italian, Spanish, Portuguese.

How to Order

For borrowing or buying a copy of this video, please contact:

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graphs covering the main projects financed.

The EIB's briefing series, which started out with a brochure on financing for environmental protection, examines the main areas of Bank activity. Forthcoming titles will look at EIB funding outside the Community and for development in the Community's less advantaged regions.

Ecu

Below are the ecu values in national currencies, as at 30 September 1991. These rates are applied to the fourth quarter in preparing financial statements and operational statistics of the Bank:

DEM	2.04708	BEF	42.1805
GBP	0.702859	LUF	48.1805
FRF	6.97672	DKK	7.89854
ITL	1531.43	GRD	227.997
NLG	2.30743	IEP	0.765889
ESP	129.678	PTE	129.678
		USD	1,231.55

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