



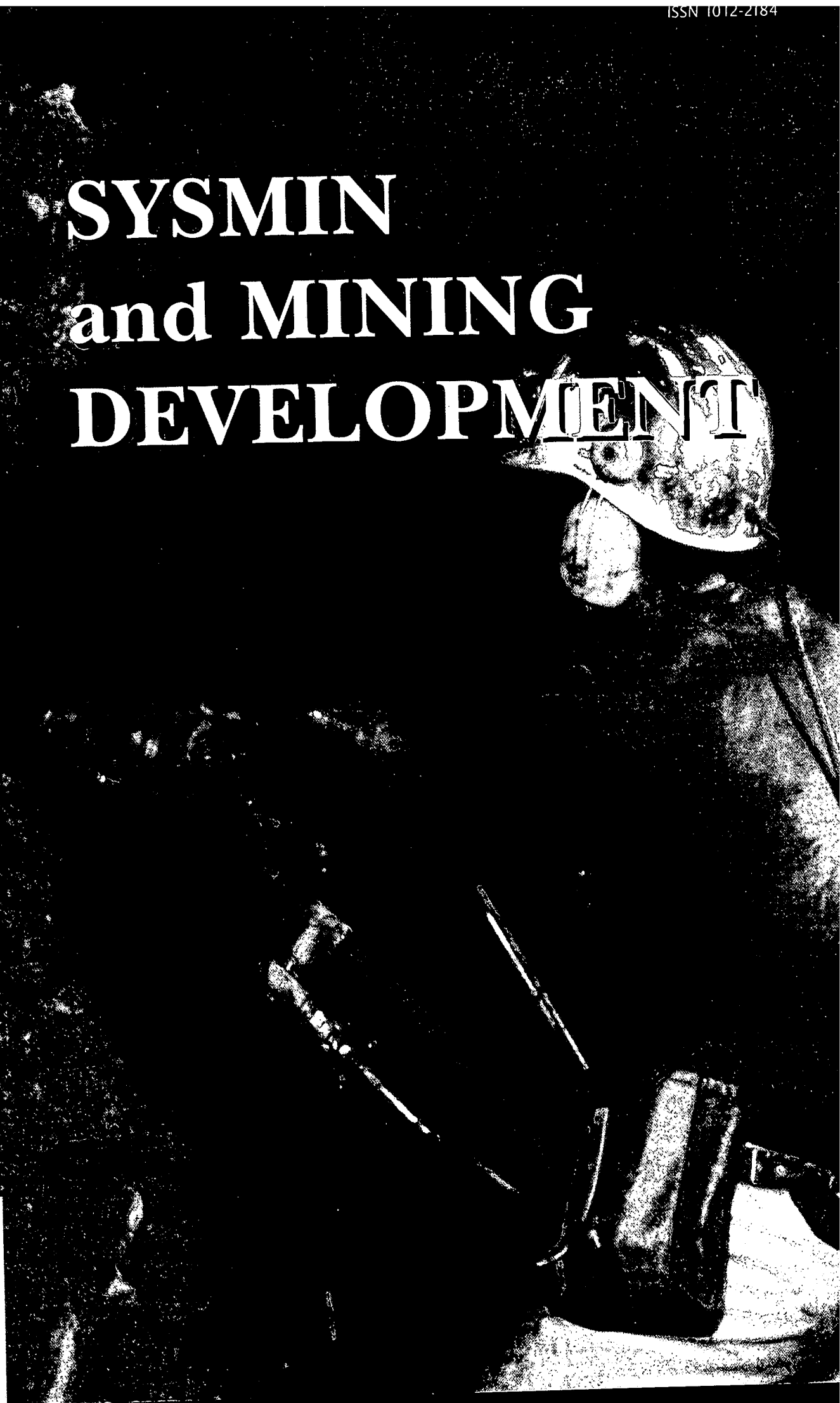
DEVELOPMENT

SYSMIN and MINING DEVELOPMENT

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SYSMIN and Mining Development

Cooperation between the European Union and the ACP States

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Introduction

The aim of this brochure is to provide clear and simple information on mining cooperation between the European Union and the African, Caribbean and Pacific (ACP) countries and to give precise and detailed answers to anyone interested in knowing the procedures and general conditions governing this field of EU-ACP cooperation.

Mining plays an important role in developing primary industry, providing as it does the raw materials needed for iron and steel making and basic chemical processing. As a result, it can be considered one of the building-blocks of economic and industrial development. Since 1980, mining in developing countries with which the European Union has ties of cooperation (and particularly the ACP countries, which have had special arrangements with it since the 1957 Treaty of Rome) has been receiving targeted aid.

Cooperation in mining seeks primarily to give this sector of the ACP countries' economies enough output capacity to enable the sector to make an efficient contribution to increasing exports of minerals from the beneficiaries. To that end, the Commission wants to extend assistance to more of its Lomé Convention partners. Two institutions are responsible for managing the funds set aside for this type of cooperation: the European Commission (the Union's executive body) and the European Investment Bank or EIB (the Union's financial and credit body). The Commission provides grants, while the EIB provides loans for investment in the ACP countries. The Commission and the EIB consult each other on all cases of financing, and any request mistakenly routed to one of them is automatically redirected to the other. Financing of one or more projects can, however, be shared between the two institutions, and projects which would usually be financed by one can be financed by the other.

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Historical background to the establishment of SYSMIN

The EEC Treaty, which was signed in Rome on 25 March 1957, provided for special aid for overseas territories through an Implementing Convention on the association of the overseas countries and territories (OCT) with the European Community. The Convention was designed to maintain trade and aid links.

The European Development Fund (EDF) was established in 1958. It provided grants for operations such as building and infrastructure projects. The funds from the first EDF largely went to the OCT. Between 1960 and 1970, most of the OCT became independent, changing their relations with the European Community. Eighteen countries (except in the cases of Madagascar and Somalia all in Africa and all French-speaking), the Associated African States and Madagascar (AASM), signed the Yaoundé Convention in July 1963. This Convention with the European Community followed bilateral negotiations and was concluded for a renewable period of five years. It consisted of agreements for preferential trade and for technical and financial assistance. The second Yaoundé Convention, signed in 1969, adopted the same priorities for infrastructure and industrial development.

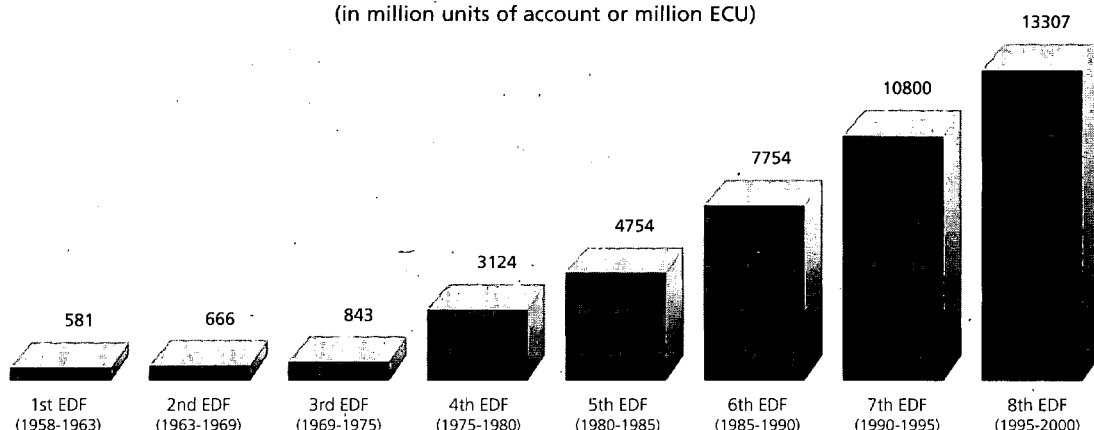
1973 brought enlargement of the Community to the United Kingdom, Ireland and Denmark. The developing countries of the UK's former colonial empire had special status, and the European Community consequently expanded its relations beyond Africa to encompass the Caribbean and Pacific. The second Yaoundé Convention was due to expire on 31 January 1975. Negotiations began in Brussels in July 1973, and culminated in the signing of the first Lomé Convention on 28 February 1975. It linked the Community and 48 African, Caribbean and Pacific countries (the ACP states). Against

the background of an oil crisis which pitted the members of the Organization of Petroleum-Exporting Countries (OPEC) against oil importing countries, Lomé I seemed the ideal framework in which to sort out the problems of economic interdependence between the ACP countries and the Community. Lomé I established STABEX, an arrangement intended to safeguard the incomes of commodity-exporting countries affected by falling prices.

SYSMIN, established by the second Lomé Convention (1980-1985), is the equivalent of STABEX for minerals. Mining had long been an important activity for many ACP countries, being a source of foreign exchange, jobs and funds for the national exchequer. The money brought in by the industry allows the countries in question to fund industrialization projects and projects to diversify their economies. Mining is therefore essential to their economic development. The climate of prosperity which lasted until the mid-70s brought over-investment in some parts of the mining industry. In the recession that has been with us since, the industry's viability has been seriously threatened, forcing some ACP countries and some companies to take steps to protect their profitability and their capacity to produce. The countries' financial structure has suffered as a result, with over-indebtedness leading to a higher cost of borrowing.

During that time, the Member States of the European Community were expressing concern at price fluctuations and the security of their supplies of minerals. To help to cope with the challenges facing the mining industry in the ACP countries, SYSMIN, an instrument designed for that industry, was established, and mining development was designated a priority for backing within the general programmes set out by the successive Lomé Conventions.

EDF allocations since 1958
(in million units of account or million ECU)



Framework and sources of financing

Legal framework

Assistance for the mining industry in the African, Caribbean and Pacific (ACP) countries is available under the Lomé Conventions. These are multilateral treaties concluded by the Member States of the European Union (EU) with the ACP countries. They provide the legal basis for wide-ranging cooperation and provide such facilities as preferential trade arrangements for ACP goods and considerable technical and financial assistance. The current convention, Lomé IV, covers the ten years from 1990 to 2000 (consult the annex for a full list of EU Member States and ACP countries).

Institutional framework

The main institutions responsible for managing the arrangements for the European Union are:

- **the European Commission**, which is the Union's executive. Its functions include administering the grants made to the ACP countries for development projects;
- **the European Investment Bank (EIB)**, which is the Union's financial institution. The Bank has a role in EU development policy through its loans for investment, which also extend to the ACP countries.


Sources of financing

Assistance from the European Development Fund (EDF) is provided through four separate channels:

- **SYSMIN**: a special arrangement providing financial aid for ACP countries in the form of grants in instances in which their mining industries are in difficulty.
- **National indicative programmes (NIPs)**: when a new Convention comes into operation, each ACP country is allocated a fixed sum from the EDF. Each country then establishes a five-year programme for the use of its allocation. The programme may include development in mining. Financing is also available for projects with a regional dimension.
- **Risk capital**: risk capital is provided through the acquisition of a financial stake in an investment or through facilities (subordinate or conditional loans) almost equivalent to capital. These measures are administered by the EIB.
- **Interest-rate subsidies**: funds are used to lower the rate of interest on loans provided from the EIB's own resources.

The Lomé Conventions stipulate that the EIB can provide loans from its "own resources" to finance viable national or regional projects in the ACP countries.

Sources of financing

	General resources			Targeted resources	
	SYSMIN	National indicative programme	Venture capital	Interest-rate subsidies	Loans from own resources
European Development Funds	○	○	○		
European Investment Bank				○	○

SYSMIN: description and development

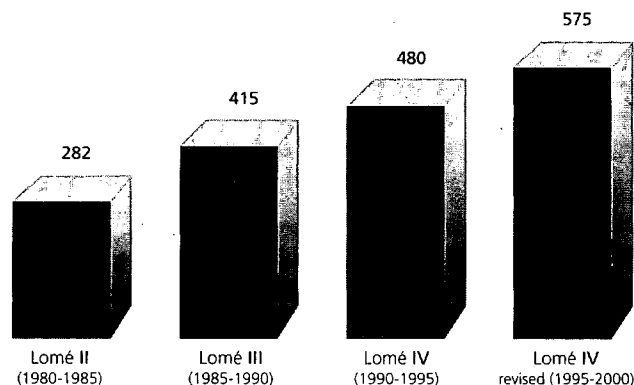
SYSMIN is what the Lomé Conventions term a special financing facility. It provides funds for ACP countries to use to help their mining industries in times of difficulty.

SYSMIN came into being under Lomé II as an instrument to maintain output of eight major minerals (copper, cobalt, phosphates, manganese, bauxite, alumina, tin and iron ore). The Convention also provided for technical assistance (geology and mining) and financial assistance for preparatory research and investment. Under Lomé II, the total allocation for SYSMIN was ECU 282 million.

Unlike other sources of financing, which scaled back their commitments for mining, the European Community undertook in the third Lomé Convention (1985-1990) to confirm and define in detail the substance of its cooperation with the ACP countries in the field of mining development. Under Lomé III, substantial financial resources were put into mining in the form of very soft loans (interest rates of 1% over 40 years with a ten-year grace period), and SYSMIN was allocated ECU 415 million. The resources in question were usable for any stage leading up to ore-processing, i.e. exploration, technical and economic assessment and investment in mines.

Under Lomé IV (1990-2000), the European Union's backing of the economies of the ACP countries has increased substantially. SYSMIN, which carried an allocation of ECU 480 million under the first financial protocol (1990-1995) and has been allocated ECU 575 million under the second financial protocol (1995-2000), has been extended to two new minerals (uranium and gold). Aid, which is now in the form of grants, can also be used for diversification projects outside the mining industry. SYSMIN's allocation is a global one, and it is no longer divided in a fixed manner or in advance over time or between countries. The funds are allocated on a case-by-case basis.

SYSMIN allocations
(million of ECU)



SYSMINS' objectives

The aim of SYSMIN is to make a significant contribution to establishing a more secure and broadly based economic base for the development of the recipient ACP countries, either by safeguarding their mining industries' ability to produce and export or by diversifying and expanding the foundations of economic growth using national income produced by SYSMIN operations.

SYSMIN operations seek to address the economic consequences of the decline in viability of the mining industry. This phenomenon can be caused by reduced output potential or a drop in export revenue from the products of that industry because of a drop in supply: the industry's earnings depend on the volume of output and world commodity prices.

The objective of mining development defined by the Lomé Conventions and financed by the EDF is to exploit all kinds of mineral resources in a way which ensures that mining is viable in terms of local and export markets while also addressing environmental concerns and making the most of human resources. This is in the interests of promoting and speeding up diversified economic and social development. When each Convention comes into operation, mining development is allocated a fixed sum per ACP country. The sum is used in accordance with a national indicative programme (NIP) signed by the Community and the government of the country in question.

The EIB's contribution, also described in the Lomé Conventions, is to use the resources for which it is responsible (loans from own resources and venture capital) to fund projects and programmes relating to production.

For these purposes, the Lomé Conventions established resources and instruments managed by the European Commission (in the case of the EDF: SYSMIN and mining development) and by the EIB. In order for this assistance to come into play, the ACP countries have to fulfil certain conditions and find themselves in a particular situation.

Eligibility

Countries: All the ACP countries are eligible for SYSMIN operations provided they meet the conditions described below.

Products: SYSMIN applies to all minerals except oil, gas and precious metals other than gold.

Two major macroeconomic conditions must be fulfilled: the ACP country concerned must be an exporter of minerals to the European Union and mining must occupy a prominent position in the country's economy.

The decision as to whether or not the mining industry is prominent can be approached in two ways: either by looking at the share of export revenue accounted for by one of the eight major minerals, or by looking at the share accounted for by all the minerals taken together. The eight major minerals are copper (including cobalt), phosphates, manganese, bauxite or alumina, tin, iron ore (agglomerated or non-agglomerated) and uranium.

The degree of prominence can be judged by calculating the ratio of the exports of one or all of the minerals in question to the country's total exports, discounting exports of minerals not covered by the system. In order to be able to request a SYSMIN allocation, the ACP country must have drawn at least 15% of its export revenue in at least two of the four years preceding the request from one of the eight minerals listed, or at least 20% from all the minerals covered by the system.

The thresholds are lowered to 10% and 12% for the ACP countries classified as least-developed, landlocked and island states.

Theoretical example of calculating ratios and the threshold trigger mechanism

Let us assume country X to be an ACP country wishing to ask the Commission for a SYSMIN allocation in year n(1996). Let us assume 'a' to be its export earnings from uranium in years 'n-1', 'n-2', 'n-3' and 'n-4', 'b' to be its total export earnings, 'c' to be its export earnings from minerals not covered by the system (silver and diamonds) and 'd' its export earnings from all the minerals covered by the system.

The ratios to be calculated are:

$$[a/(b-c)] \times 100 \text{ and } [d/(b-c)] \times 100$$

See table below.

The conditions attached to the EDF national indicative programmes

One or more ACP countries can request the Union to provide technical and financial assistance for all stages of mining research and exploration, whether on land or on a continental shelf. To the extent compatible with investment and management capacity and trends on the market, it can also help with identifying, preparing and implementing new and viable projects, with particular emphasis on feasibility or pre-investment studies.

National indicative programme resources can be used to finance the following: general exploration studies, exploration studies pinpointing specific areas and studies of mineral deposits.

Such studies and/or the technical assistance needed to carry them out can be financed by the Commission or the EIB, depending on the outcome of the examination of the case. That examination will consider not only the aims and content of the studies, but also whether or not there is an operational structure (e.g. mining syndicate), whether or not previous studies were paid for by the Commission and whether or not later studies could be financed by the EIB.

EIB conditions

In the interests of providing backing for the exploitation of the ACP countries' mineral resources, the Union assists with rehabilitation, maintenance, rationalization and modernization projects for economically-viable production facilities in order to improve their operation and competitiveness.

Under the Lomé Conventions, the ACP countries can all receive financial support from the EIB. This is provided for specific projects, and may go to a private, state-owned or semi-state-owned ACP company, to an ACP country or to a public conglomerate in an ACP country.

Alternatively, with the express consent of the ACP country in question, it can go to an EEC company in order to enable it to invest in production in that ACP country. It can also go to ACP or EEC financial institutions seeking to promote and finance private investment in an ACP country.

Project proposers can approach the EIB directly, but approval of the loan is subject to the formal agreement of the authorities of the host country (usually its finance ministry).

SYSMIN - calculating export ratios and the threshold trigger mechanism

Country X (x 1,000,000 currency unit)	n-4 (1992)	n-3 (1993)	n-2 (1994)	n-1 (1995)
a : uranium exports	80	112	89	80
b : total goods exports	1026	1091	1130	1048
c : export of all minerals not covered	370	401	357	380
d : export of all minerals covered	196	209	201	166
$[a/(b-c)] \times 100 = \text{ratio uranium}$	12,3%	16,2%	11,5%	12,0%
Conditions fulfilled?	No	Yes	No	No
$[d/(b-c)] \times 100 = \text{ratio minerals covered}$	29,9%	30,3%	26,1%	24,9%
Conditions fulfilled?	Yes	Yes	Yes	Yes

Assessing eligibility for SYSMIN operations

In examining applications for operations under SYSMIN or national indicative programmes, the Commission uses eligibility criteria. Similarly, the EIB uses conventional financial criteria.

The trigger

Only the following two situations can act as a trigger for SYSMIN operations: either an important component of the mining industry is under threat, or a drop in export earnings is jeopardizing the implementation of ongoing development projects.

The first of these two situations must be verifiably present or imminent. The viability (ability to develop in the future; chances of success) of one or more companies in the mining industry must have been or be in the course of being seriously affected by temporary or unforeseeable technical, economic or political circumstances outside the control of the country or company in question. Furthermore, this threat to viability must have produced or be producing a significant drop in revenue for the ACP country in question. Whether or not the drop in revenue is significant is judged mainly by looking for a fall in the output or export capacity of the particular product under examination of around 10%. Such a drop can be accompanied by a worsening of the foreign debt situation. Damage to viability can be considered to be imminent when output capacity begins to deteriorate and produce an effect on the country's economy.

The second of the two situations must be verifiably present. A serious fall in export revenue from the mineral in question over the average for the two years preceding the application must be seriously jeopardizing the implementation of projects and programmes already under way. In order to be considered valid, this fall must be the result of unforeseeable technical, economic or political circumstances and must not have been directly or indirectly provoked by policies or measures for which the ACP country or economic operators concerned are responsible. It must also result in a drop in total export revenue of at least 10% over the level for the year preceding the application.

The unforeseeable circumstances described above can be accidents, serious technical faults, serious political events inside or outside the country, substantial technological or economic change or a substantial change in trade relations with the Community. If eligibility is determined by export revenue, the project must fall outside the mining industry.

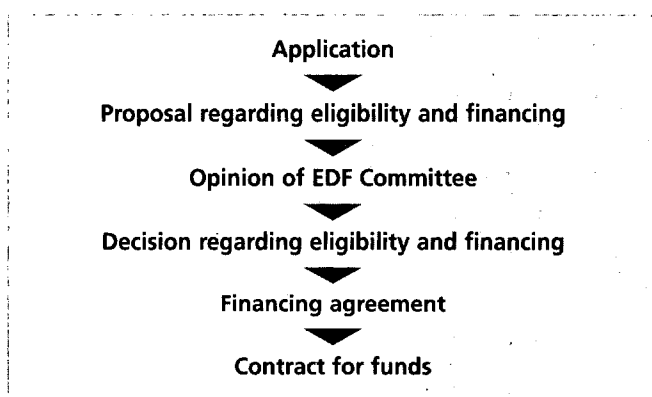
Decision-making and implementation procedures

Applications for SYSMIN allocations must include information on the nature of the problems faced, the actual or expected consequences of disruption in the country or in the mining industry, and an indication (on a form intended for that purpose) of what could or should be done to improve the situation.

The application should be made when the circumstances described become apparent, and in any case within twelve months.

Before any decision is taken, a systematic technical, economic and financial analysis of the affected portion of the industry is carried out in order to determine whether or not the application and the proposed project or programme can be accepted. This analysis is conducted in great depth and determines the shape the operation should take by considering factors including the outlook of the world and Community markets for the products concerned. Also examined are the potential implications of a SYSMIN operation for competing mineral exports from the Member States and the potential implications for the ACP country concerned of a SYSMIN operation not being carried out. Its first objective is to check whether the viability of the production facility in question has been or might be harmed, whether it could be restored or whether it would be more appropriate to provide assistance for diversification. Its second objective is to see whether the fall in export revenue is seriously jeopardizing the implementation of development projects or programmes already under way. This analysis relies on close cooperation with the ACP country concerned and its economic operators.

A single decision contains the verdict as to eligibility and a financing proposal, and is taken after consulting the EDF Committee (see table below).



SYSMIN operations (1980-1995)

Convention	Country	Financing (millions ECU)	Type of project
Lomé II (1980-1985)	Zambia I	55	Rehabilitation of mining equipment
	Zambia II	28	Rehabilitation of mining equipment
	Zaire I	40	Rehabilitation of mining equipment
	Zaire II	41	Rehabilitation of mining equipment and railway infrastructure
	Guyana	34,50	Supply of spares and rehabilitation of mining equipment
	Jamaica	25	Diversification
	Liberia	3,50	Rehabilitation of mine
	Rwanda	2,84	Assistance for small-scale craftsmen
Lomé III (1985-1990)	Guinea	35	Modernization of alumina plant and associated measures
	Papua New Guinea	30	Diversification
	Senegal	25,50	Assistance with ore-processing
	Botswana	21,65	Rehabilitation of mining equipment
	Mauritania	18	Rehabilitation of transport equipment
	Togo	15,70	R&D programme for removal of cadmium and improvement of productivity
	Niger	12,45	Exploration
Lomé IV (1990-2000, situation at 31.12.95)	Zambia	60	Diversification
	Namibia	40	Support for the mining industry
	Niger	31	Diversification
	Republic Dominican	23	Support for the mining industry
	Gabon	14	Support for the mining industry
	Burkina Faso	27	Support for the mining industry and rehabilitation
	Mauritania	58	Rehabilitation of mining equipment

Assessing eligibility for national indicative programme operations

When each successive Lomé Convention comes into operation, the European Community clearly indicates to each ACP country the sum which will be allocated to it and for which use must be programmed over five years. Each of the countries prepares a draft national indicative

programme (NIP) setting out major priorities, the areas on which aid should be focused and the most appropriate ways to attain the objectives set. The draft NIP is discussed and adopted by agreement between the ACP country and the Community. The programmable aid consists of grants and a portion of venture capital. The ACP countries officially transmit to the Commission delegate the dossier of projects and programmes.

The ACP country (or any other eligible recipient) concerned is responsible for the identification and preparation of projects and programmes. The examination of those projects and programmes is carried out jointly by the ACP country or countries involved and the Community. It takes account of the ACP countries' individual characteristics and constraints, plus a number of other considerations, the first being the viability and profitability of the operations requested (a cost-benefit analysis is used). However, direct and indirect social, cultural, gender-related and environmental aspects are

also considered, as are the impact of the projects and programmes on the public. In the interests of speeding up implementation and reducing costs to a minimum, account is also taken of the availability of labour and other resources needed to implement, operate and manage the projects and programmes, training and institutional development needed for implementation, recurring operating costs, the countries' own commitments and efforts, the experience drawn from similar operations and existing studies of similar projects and programmes.

The delegate

The Commission is represented in individual ACP countries or regional groups of countries (where specifically requested) by a delegate accredited by the country or countries in question. The delegate has the necessary information, powers and back-up to facilitate and speed up the preparation, examination and implementation of projects and programmes, in close collaboration with the National Authorizing Officer.

At the request of the ACP country concerned, the delegate will participate in and assist with projects, programmes and the negotiation of technical assistance contracts. The delegate will also participate in examining projects and programmes, preparing tender dossiers and seeking ways to simplify the examination and implementation of projects and programmes, preparing financing proposals and examining tenders (he or she receives copies of the tenders and of the results of the examination of those tenders). The delegate ensures that EDF-financed projects and programmes managed by the Commission are properly implemented from the financial and technical points of view and regularly

evaluates the operations in question, in cooperation with the authorities of the ACP country to which he or she is accredited.

The delegate maintains close contact with the National Authorizing Officer in order to analyse and solve any specific problems arising in connection with the financing of development cooperation, checking regularly that operations are keeping to the approximate schedule established in the Financing Decision. The delegate will pass to the ACP country concerned any written or other information on the procedures applying to the financing of development cooperation which might be of use (especially the criteria for examining and evaluating tenders) and will provide regular information on Community activities likely to have implications for cooperation between the Community and ACP countries.

At the end of the life of each Convention, the delegate will draw up a report on the implementation of the NIP and regional programmes, concentrating on the EDF operations managed by the Commission.

The EDF Committee

The EDF Committee plays an important decision-making role, as a positive opinion is required from it before the Commission can proceed with financing. Over the years it has come to fulfil wider functions in programming Community aid, coordinating aid between the Commission and the Member States and monitoring and implementation.

The Committee was set up and is regulated by the Internal Agreement on the financing and administration of Community aid, which is renewed and updated every five years.

Most financing proposals put to the Committee by the Commission are unanimously approved. In most of the remaining cases, a qualified majority is obtained at the first reading. Where this too fails, the Commission has to

amend or add to its proposal, which may then be examined at a second reading. In cases of disagreement with the Committee, the Commission can refer the proposal to the Council.

The increase in the number of projects and recipient countries and the fact that the Community now has fifteen Member States mean that the role and functions of the Committee will inevitably drift away from technical examinations of projects towards greater concentration on programming, strategy and better coordination with the Member States.

Directorate-General VIII (development) provides secretariat services for the EDF Committee.

The National Authorizing Officer

The government of each ACP country appoints a National Authorizing Officer to represent it in matters relating to the EDF-financed operations managed by the Commission. The National Authorizing Officer will also be kept informed of EIB-financed operations. The National Authorizing Officer may delegate some of his or her functions, but must inform the Chief Authorizing Officer accordingly.

The National Authorizing Officer is responsible, in close collaboration with the Head of Delegation, for preparing, presenting and examining projects and action programmes, issuing invitations to tender and processing, examining and adopting bids, and for signing contracts and approving expenditure.

During implementation, the National Authorizing Officer can, provided the Delegate is informed, make detail modifications, make purchases on the local market without regard to their country of origin, make use of plant and equipment which is not from a Member State or ACP country (and which has no comparable equivalent made in one of those countries), subcontract work and recruit consultants and other experts for technical assistance.

At the end of the life of each Convention, the delegate will draw up a report on the implementation of the NIP and regional programmes in the ACP country in question.

The Chief Authorizing Officer

The Commission appoints a Chief Authorizing Officer (Commissioner for Development) for the EDF. The Chief Authorizing Officer commits, validates and authorizes expenditure, keeps a record of commitments and authorizations and ensures that Financing Decisions are adhered to. The Chief Authorizing Officer works closely with the National Authorizing Officer in issuing commitment decisions and taking the financial steps needed to see that the operations approved are properly implemented from the

economic and technical points of view, approves tender dossiers before invitations to tender are issued, sees that the latter are published in good time, and approves proposed awards of contract. At the end of each accounting period, the Chief Authorizing Officer provides detailed EDF accounts showing the EDF contributions made by the Member States and overall disbursements for each heading (including regional cooperation, emergency aid, STABEX, SYSMIN and structural adjustment).



Assessing eligibility for EIB operations

The Arlit open-cast mine, Ariège. Somair. Niger.

The EIB can provide financing for any production-related mining (or other) project. The projects in question may be new investments (establishing new facilities) or investments for improving existing facilities. If pre-feasibility studies produce a positive outcome, the EIB can provide financing for feasibility studies to help with investment decisions. It is the Commission, rather than the EIB, which finances pre-feasibility and general studies. The EIB can, however, finance feasibility studies, workshops or sounding programmes to determine the size or composition of a mineral deposit.

The EIB examines all applications for financing itself. Loans from EIB own resources are usually provided for viable projects based in countries whose financial situation prevents them from taking on and regularly servicing a debt associated with such a project. Repayment of the principal and interest should usually be coverable by the forecast income or resources from the project. The decision as to whether or not to finance the project is taken once the EIB's evaluation is complete.

Projects, programmes and financing

Depending on whether an operation is intended to maintain or restore viability, the financing will be used for projects or programmes to maintain, restore or rationalize production to produce suitable output and export capacities. The operation can also seek to finance restructuring to tailor the competitiveness of the companies involved to technical changes or changes in market conditions. Financing may be used for across-the-board or targeted diversification projects or for conversion. Diversification may also be pursued if an economy's dependence on a particular mineral is considerable, even in cases where viability can be

restored. The aim of diversification can also mean financing development projects or programmes outside the mining industry which are already under way and are in jeopardy.

Technical and financial assistance under the NIPs

General prospecting studies constitute an overall recognition of the mining potential of an area and consist mainly in compiling existing geological data, carrying out remote sensing and analysing the results of remote sensing. If the results are good, more sophisticated prospecting is then carried out (aerial geophysical reconnaissance, seismic studies - for hydrocarbons - spotting and examination of outcrops and alluvial analysis).

Localized prospecting uses earlier studies as a basis and is intended to pinpoint targets (i.e. probable deposits) and provide an initial indication of their mineral content. Detailed geological mapping is carried out (cross-sections and survey maps) following geological or surface reconnaissance. Also possible are detailed geochemical studies and soundings to compile stratigraphic information.

Deposit studies are performed for the selected targets in order to determine more precisely whether or not the deposit exists, what it is like, and what the prospects for exploration are. Two major stages are involved: reconnaissance on a selected target and a preliminary evaluation of the deposit.

The aim of reconnaissance is to determine the target's morphology and provide an estimate of the deposit's reserves and content. Research usually comprises drilling, cross-sectioning and the taking of soundings. The outcome of the research indicates the probability of the deposit's being economic.

The preliminary evaluation of the deposit provide further details of its value (the extent of its reserves and their mineral content) and, where appropriate, also furnish preliminary indications of the technical and economic conditions in which mining would take place. Such evaluations are usually used to provide a basis for a pre-feasibility study, often including a compilation of previous geological studies, plus additional soundings (or, in the case of hydrocarbons, mapping out the deposit and looking for faults) and possibly the taking of samples of varying sizes for analysis, initial exploitability tests or laboratory treatment. The scale and precision of these studies often depends on the assessment of the results of previous reconnaissance and deposit studies and the probability in the eyes of the developer of the project that mining will take place.



EIB loans and risk capital

The provision of risk capital from EDF resources, under the management of the EIB, may be used to reinforce the capital base of a company or to provide a loan of one of the following varieties: direct or indirect financial stakes on behalf of the Community (minority and temporary stakes) taken in companies or financial intermediaries in ACP countries, contributions nearly equivalent to capital, in the form of subordinate loans (repayable after all other credit has been cleared) and conditional loans (interest rates and payment arrangements vary according to the results of the project financed - minimum profit level or output target).

Financing in the form of venture capital is for long-term transactions denominated in ecus and requiring no outside guarantee. Depending on the nature of the project being financed, exchange-rate risks are borne wholly or partly by the Community.

EIB loans from own resources are funded by the Bank's borrowing on world capital markets and go to projects or borrowers complying with the EIB's statutory requirements for first-class guarantees. These debts cannot be rescheduled.

In the case of ACP borrowers, EIB interest rates are scaled back by 4%, an amount which is subsidized by the

EDF. This means that the borrower pays a rate of 3% to 6% per year.

The loans are long-term or medium-term, depending on the profile of the project. The duration of the loans can be up to 20 years for infrastructure projects, but it is usually 10 to 12 years for industrial and mining projects.

First-class guarantees are required. These may come from the government of the country involved or from other sources.

For practical reasons, the EIB does not directly provide loans for amounts under a particular threshold (ECU 2 million for investment projects). However, in order to give SME access to EIB financing, lines of credit can be opened with local banks and financial establishments. These then pay out the funds in smaller amounts.

Since the EIB will only lend up to 50% of the cost of the project, the rest of the latter is usually financed from other sources which supplement the project developer's own funds. Contributions nearly equivalent to capital, in the form of subordinate loans (repayable after all other credit has been cleared) and conditional loans (interest rates and payment arrangements vary according to the results of the project financed - minimum profit level or output target).

EIB financing for mining projects in ACP countries to date
Projects financed by the Bank under successive Lomé Conventions to date (mining, metallurgy and building materials)

	Lomé I	Lomé II	Lomé III	Lomé IV (1990-95)	Total
Number of projects	12	11	9	7	39
EIB financing, (million ECU)	96,18	144,29	125	92,0	457,47
Add. subprojects using lines of credit (million ECU)	11,40	9,10	15,48	9,20	45,18
TOTAL (million ECU)	107,58	153,39	140,48	101,2	502,65

Potential co-financing of programmes with development bodies and institutions

Potential co-financing of programmes with development bodies and institutions

If ACP countries so request, Lomé Convention resources can be used for co-financing (particularly with development bodies and institutions, Community Member States, ACP countries, other countries, international or private financial institutions, companies or export credit bodies).

Co-financing would be used for major projects for which one source of financing is not enough, projects in which the Union's involvement and project experience could make it easier for other donors to take part, projects which could benefit from a combination of financing on easy terms and financing on usual terms, projects for which diversification of sources of financing could be an advantage and regional or inter-regional projects.

With the agreement of the parties involved, steps are taken to harmonize and coordinate what is done by the European Union and what is done by other donors in order to reduce the complexity and increase the flexibility of procedures to be followed by the ACP countries. Consultation and coordination with other donors is strengthened and developed by the conclusion of framework agreements for co-financing. The Union can provide administrative assistance or play the part of team leader or coordinator for the projects it is co-financing.

If a mining project is eligible for NIP, SYSMIN and EIB financing, the application goes to the Commission and the EIB, which examine the matter together. Financing in association with an NIP is usually used for infrastructure backing up mining facilities.

Assessment and results of mining cooperation to date

From the time it was established (1980) to 1995, SYSMIN provided financing for a large number of projects and programmes (in Zambia, Zaire, Guyana, Jamaica, Liberia, Rwanda, Guinea, Papua New Guinea, Senegal, Botswana, Mauritania, Togo, Niger, the Dominican Republic, Gabon and Burkina Faso). The projects have mostly been for rehabilitating mining equipment and railway infrastructure, the supply of spares, economic diversification, assistance for small-scale craftsmen and research and development programmes.

EIB financing for the mining, metallurgy and building materials industries reached over ECU 90 million under the first financial protocol for Lomé IV (1990-1995).

The European Union is a major partner in mining cooperation for the ACP countries. Being poor in mineral resources itself, it is a substantial importer of minerals. It is also prepared to give ACP countries whose mining industries are in difficulties the benefit of its cooperation and experience. The European Union and the ACP countries acknowledge their interdependence in this field, and both are committed to simplifying and easing the procedures for approaching the Commission and the EIB.

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Annex I: relevant sections of the fourth Lomé Convention (1990-2000)

1. General objectives

- Part 1 : chapter 1, Article 16
- Part 2 : title IV, Articles 69 to 76
title VI, Articles 99 to 109
title VIII, Articles 110 to 113
- Part 3 : title III, chapter 3, Articles 258 to 272

2. SYSMIN

- Part 3 : title II, chapter 3, Articles 214 to 219 and Article 240(a).

3. Financing

- Part 3 : title III, chapter 1, Articles 229 and 230
title III, chapter 2, Articles 233 to 238

4. Procedures

- Part 3 : title III, chapter 5, Articles 281 to 293

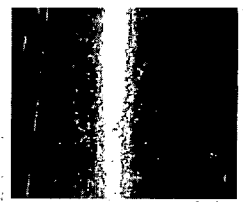
Annex II : List of the European Union Member States and ACP States signatories to the second financial protocol to Lomé IV (1995-2000)

The European Union Member States

AUSTRIA	FRANCE	ITALY	SPAIN
BELGIUM	GERMANY	LUXEMBOURG	SWEDEN
DENMARK	GREECE	NETHERLANDS	UNITED KINGDOM
FINLAND	IRELAND	PORTUGAL	

ACP States

ANGOLA	DOMINICAN REPUBLIC	MADAGASCAR	SIERRA LEONE
ANTIGUA AND BARBUDA	EQUATORIAL GUINEA	MALAWI	SOLOMON ISLANDS
BAHAMAS	ERITREA	MALI	SOMALIA
BARBADOS	ETHIOPIA	MAURITANIA	SUDAN
BELIZE	FIJI	MAURITIUS	SURINAME
BENIN	GABON	MOZAMBIQUE	SWAZILAND
BOTSWANA	GAMBIA	NAMIBIA	TANZANIA
BURKINA FASO	GHANA	NIGER	TOGO
BURUNDI	GRENADA	NIGERIA	TONGA
CAMEROON	GUINEA	PAPOUA NEW GUINEA	TRINIDAD AND TOBAGO
CAPE VERDE	GUINEA BISSAU	RWANDA	TUVALU
CENTRAL AFRICAN REPUBLIC	GUYANA	ST KITTS AND NEVIS	UGANDA
CHAD	HAITI	ST LUCIA	WESTERN SAMOA
COMOROS	JAMAICA	ST VINCENT AND THE GRENADINES	VANUATU
CONGO	KENYA	SAO TOME & PRINCIPE	ZAIRE
CÔTE D'IVOIRE	KIRIBATI	SENEGAL	ZAMBIE
DJIBOUTI	LESOTHO	SEYCHELLES	ZIMBABWE
DOMINICA	LIBERIA		



Lomé IV Convention

Mining products: special financing facility (SYSMIN): Articles 214-219

CHAPTER 3 Mining products: special financing facility (SYSMIN): Articles 214-219

Article 214

1. A special financing facility shall be set up for those ACP States whose mining sectors occupy an important place in their economies and are facing difficulties that are already perceived or foreseeable in the near future.
2. Its aims are to contribute towards establishing a more solid and wider basis for the development of the ACP States while supporting their efforts:
 - to safeguard their mining production and export sectors by remedial or preventive action designed to alleviate the serious consequences for their economies of the loss of viability as a result of a decline in their production or export capacity and/or export earnings in the mining products sector following major technological or economic changes or temporary or unforeseeable disruptions beyond the control of the State concerned and of the enterprise managing the sector concerned. Particular attention shall be paid to adjusting the competitive situation of enterprises to changes in market conditions; or,
 - for States heavily dependent on exports of one mining product, to diversify and broaden the bases of their economic growth, notably by helping them complete development projects and programmes under way where these are seriously jeopardized owing to substantial falls in export earnings from that product.
3. In pursuing these objectives, this support:
 - will be adapted to the economic restructuring needs of the ACP State concerned;
 - will take into account at the time of its formulation and implementation the mutual interests of the Contracting Parties.

Article 215

1. The special financing facility provided for in Article 214 shall be aimed at ACP States which export to the Community and which, during at least two of the four years preceding that of the request for aid, have derived either:
 - (a) 15% or more of their export earnings from one of the following products: copper (including cobalt), phosphates, manganese, bauxite and alumina, tin, iron ore, whether or not in agglomerate form, uranium; or
 - (b) 20% or more of their export earnings from all mining products (excluding precious minerals other than gold, oil and gas).

However, for least-developed, landlocked or island ACP States, the figure stipulated in (a) shall be 10% and the figure stipulated in (b) shall be 12%.

For the calculation of the thresholds referred to in (a) and (b) earnings shall not include those from mining products not covered by the system.

2. Recourse to the special financing facility shall be possible where, in the light of the aims referred to above:
 - (a) it is perceived or expected that the viability of one or more enterprises in the mining sector has been or is about to be seriously affected following temporary or unforeseeable difficulties - whether technical, economic or political - beyond the control of the State or undertaking concerned, and where such damage to viability leads to or may lead to a significant fall in revenue for the ACP State concerned - assessed in particular on the basis of a drop in production or export capacities of the product in question of around 10% - and/or a deterioration in its external trade balance.

Foreseeable damage to viability shall be characterized by the onset of deterioration of the means of production and its impact on the country's economy; or

 - (b) in cases under paragraph 1(a), it is perceived that a substantial fall in export earnings from the mining product concerned, in relation to the average for the two years before the request, is seriously jeopardizing the completion of development projects and programmes under way. To be taken into consideration, such a fall in earnings must:
 - be caused by technical, economic or political difficulties and not artificially provoked, directly or indirectly, by policies and measures of the ACP State or the economic operators concerned;
 - result in a corresponding fall in total export earnings of approximately 10% at least in the year before that of the request.

The said difficulties shall refer to disruptions such as accidents, serious technical incidents, serious internal or external political events, major technological and economic changes or major changes in trade relations with the Community.

3. An ACP State may request financial aid under the special financing facility where the conditions set out in paragraphs 1 and 2 are met.

Article 216

1. The aid referred to in Article 215 shall be used in pursuit of the aims of the facility as set out in Article 214(2).

- Where maintenance or return to viability of the mining enterprise or enterprises affected is deemed possible and appropriate by the two parties, the aid shall be used to finance projects or programmes, including the financial restructuring of the enterprise or enterprises concerned, with a view to maintaining, re-establishing or rationalizing at a viable level the production and export capacity concerned.

- Where it is not thought possible by the two parties to maintain or restore viability, the aid shall be used to broaden the bases of economic growth through the financing of viable horizontal or vertical conversion or diversification projects or programmes.

- By common agreement, the aim of diversification may also be pursued where the economy is dependent on the mining product in question to a significant degree, even where viability can be re-established.

- Where Article 215(2)(b) is applicable, the objective of diversification shall be pursued through financial assistance to aid the completion of development projects and programmes under way outside the mining sector which are in jeopardy.

2. Any decision to allocate funds to projects or programmes shall take due account of economic interests and the social implications of such aid in the ACP State concerned and in the Community and will be adapted to the economic restructuring needs of that ACP State.

In the case of requests presented under Article 215(1)(b), the Community and the ACP State concerned shall jointly and systematically seek to establish the scope and the terms of any aid accorded in such a way that such aid does not injure competing Community mining production.

The consideration and appraisal of these factors shall be part of the analysis referred to in Article 217(2).

3. Special attention shall be accorded to:

- processing and transport operations, notably at regional level, and the proper integration of the mining sector in the country's overall economic and social development;

- preventive operations to minimize any disruptive effects by adapting technology, improving the technical and

managerial skills of local staff and adapting the skills of local staff to enterprise management techniques;

- stepping up the ACP States' scientific and technical capacity for the production of new materials.

Article 217

1. The request for aid must include information on the nature of the problems encountered, the perceived or expected consequences of the disruption both at national level and at the level of the mining enterprise or enterprises affected and indications in the form of an identification sheet on the measures or actions undertaken or desired to remedy them.

The request shall be made as soon as these consequences are identified and within a period not exceeding twelve months for making up the file.

2. Prior to any Community decision a technical, economic and financial analysis shall be made systematically of the mining sector concerned in order to assess both the eligibility of the request and the project or programme to be undertaken to utilize the aid. That analysis, which shall be very detailed, shall, in order to identify the operation, take particular account of world market prospects and, without prejudice to the first paragraph of Article 216(2), the situation of the Community market in the products concerned. It shall also include an analysis of the possible implications of such an operation for the competing mining products of Member States and the possible implications of its non-implementation for the ACP State concerned. Its objective shall be to ascertain:

- whether the viability of the means of production concerned has been or is likely to be damaged and whether that viability can be restored, or whether recourse to diversification measures is more appropriate; or

- whether the fall in export earnings referred to in Article 215(2)(b) seriously jeopardizes the implementation of development projects and programmes under way.

The analysis shall be carried out in accordance with the procedures for financial and technical cooperation. It shall require the close co-operation of the ACP State and economic operators concerned.

3. A single decision shall be taken on eligibility and the financing proposal.

The Community and the ACP State concerned shall take the necessary steps to expedite appraisal of requests so that the appropriate action may be taken swiftly.

Article 218

1. If necessary, technical assistance for setting up and supervising the project may be financed under the facility.
2. The procedures applicable to such assistance and the detailed rules for its implementation shall be those laid down in this Convention for development finance cooperation.

Article 219

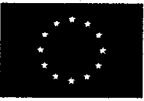
1. For the purposes specified in Article 214 and for the period of application of the Financial Protocol annexed to this Convention, the Community shall allocate the overall amount provided for in that Protocol to cover all its commitments under this special financing facility. The amount allocated to the facility shall be managed by the Commission.
2.
 - (a) This overall amount shall be divided into a number of equal annual instalments corresponding to the number of years of application. Each year, except the last, the Council of Ministers, on the basis of a report submitted to it by the Commission, may authorize the advance use of up to 50% of the following year's instalment where required.
 - (b) Any balances remaining at the end of each year of application of the Financial Protocol annexed to this Convention, except the last, shall be carried over automatically to the following year.
 - (c) Consequently, the resources available for each year of application will be made up of the following elements:
 - the annual instalment, less any amounts used under (a);
 - the sums carried over under (b).
 - (d) If the resources available for any year of application are insufficient, the amounts provided for shall be reduced accordingly, without prejudice to subparagraphs (a), (b) and (c).

Before expiry of the period of application of the Financial Protocol, the Council of Ministers shall decide on the allocation of any balances remaining from the overall amount.

3. The amount of the aid provided for in Article 215 shall be determined by the Commission in the light of the funds available under the special financing facility, the

nature of the relevant projects and programmes, the possibilities for co-financing and the relative importance of the mining industry concerned for the economy of the ACP State.

4. Under no circumstances may a single ACP State be eligible for more than 35% of the resources available as a result of the application of paragraph 2(c). The rate shall be 15% for aid under Article 215(1)(b).
5. Aid accorded to an ACP State under the special financing facility may be on-lent by that State to the final borrower on different financial terms which shall be established in the financing decision and shall result from an analysis of the aid project conducted on the basis of the usual economic and financial criteria for the type of project planned.
6. The analysis referred to in Article 217 shall be financed from resources of the facility.
7. In exceptional circumstances arising out of an emergency, confirmation and proof of which will have to be provided initially by the analysis, an ACP State which so requests may be granted an advance by way of partial pre-financing of the project or programme which it precedes.



DEVELOPMENT

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