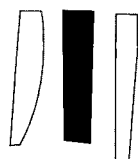


Financing in the ACP

AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES

Supporting private enterprise and investment in developing economies



**European
Investment
Bank**



*The
European
Union's
financing
institution*



*The European
Investment Bank
in Luxembourg*

EIB - Banking on ACP development

The European Investment Bank (EIB) is the **development bank of the European Union**. It is owned by the EU Member States and is the largest institution of its kind in the world, measured by volume of annual financing activity.

The EIB's principal task is to fund investment within the European Union, but it also operates in more than 120 countries in the framework of external co-operation and development policies of the EU. The **ACP - African, Caribbean and Pacific** - countries, which have established a special relationship with the European Union through the Lomé Conventions and lately the Cotonou ACP-EU Partnership Agreement, are the largest group: over 75 countries (population 600m).

The Republic of South Africa became an associate member of the ACP Lomé Convention in 1997, which continues with the Cotonou Agreement. Financing from the EIB to South Africa is provided under a separate bilateral agreement.

The Bank has been a development partner of most ACP for some 25 years, in many for almost 40 years. Under parallel provisions, the EIB also supports investment in 20 Overseas Countries and Territories (OCT), mainly in the Caribbean and Pacific, which have constitutional links with certain EU Member States.

This co-operation will be **expanded substantially under the ACP-EU Cotonou Agreement**, through which the EIB is called upon to make its biggest contribution yet to economic progress in the ACP.

EIB funding goes to support investment in **all key sectors of the econo-**

my: production (manufacturing, agro-industry, horticulture, mining/quarrying); transport (airports and air traffic control, ports, shipping, railways); telecommunications; water supply and sewerage; power generation and transmission infrastructure; oil and gas development; tourism and services linked to the above.

The Bank deals with both **private and public** promoters, with increasing **emphasis on private enterprise**, given its potential to stimulate growth in ACP economies and contribute to a competitive economic environment. The Bank is often associated with divestiture programmes and investment to modernise and re-equip privatised ventures.

To receive EIB funding, investment **projects or programmes must be viable** in four fundamental areas - economic, financial, technical, environmental. In most cases the promoters are ACP companies or institutions, sometimes in partnership with European interests.

All **EIB funding** is reimbursable (no outright grants). A variety of instruments is available **on competitive conditions** - from long term loans to various forms of risk capital which can be finely modulated according to project needs, borrower's capacity, and the risk/return profile of the project.

EIB funding is not tied to purchases of goods or equipment from specific suppliers or countries. Bidding procedures are required on a "best for the project" approach and are mainly on the basis of open tendering or consultation.

The **Bank's services are easily accessible**. Initial contact may be quite informal, by telefax or telephone.

A long partnership with the ACP

The present structured relationship with the ACP started in 1975, with the first Lomé Convention, which itself built on the earlier Yaoundé Conventions with 18 countries, going back to 1963. Right from these beginnings, the EIB has participated in the provision of finance to foster and sustain economic development.

By end-2001, the EIB had **provided over EUR 7 billion in the ACP and OCT**, of which some 1.9 billion in the past 5 years.

How much funding is available ?

The Cotonou Agreement between ACP and EU emphasises the private sector in ACP countries.

EIB will channel EUR 3.9 billion to ACP projects in 2003-2007, providing long-term capital investment in the framework of a special strategy for the private sector. EUR 1.7 billion will be lent from the EIB's own resources, and a new Investment Facility, funded by EU Member States, will provide EUR 2.2 billion mainly in the form of various risk sharing instruments.

The Investment Facility will support local companies, in particular small and medium sized enterprises (SMEs), as well as foreign direct investment.

Are there limits per country ?

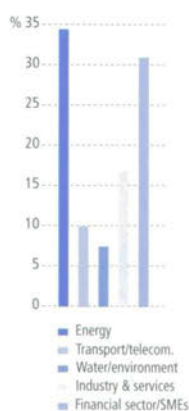
There are no allocated amounts or fixed floors or ceilings per country. So far the Bank has funded projects in 77 of the ACP and OCT, but those countries which are able to generate more **bankable investments**, largely because they offer conducive **macroeconomic conditions**, are likely to benefit most from EIB funding.

(1) At 01.01.2002 - 1 EUR = approx 0.9 USD

Provision of Internet services



1997-2001: 1.9 billion EUR



Where do the EIB resources originate ?

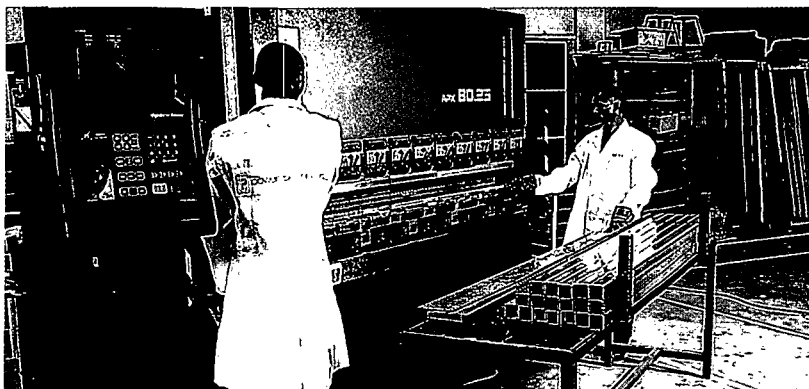
The Bank raises its **own resources on the capital markets** where it is, in terms of annual borrowing, the major international finance institution. These funds are used by the Bank to make its long term loans. In addition, the Bank manages under mandate budgetary funds contributed by EU Member States, which it uses primarily for risk-sharing operations in the ACP.

Are EIB terms advantageous ?

The EIB's **first class international credit rating (AAA)** enables the Bank to raise funds long term on the best conditions available in the markets at any given time. It can pass on this benefit to its own borrowers, since it operates on a non-profit-making basis and adds only a small margin to cover its operating costs. In limited cases, there is also provision for interest subsidies. The **risk capital funding allows great flexibility in setting terms and conditions** through equity, quasi-equity or various forms of loans adapted to the precise nature of a project and the macroeconomic parameters of the country concerned. In most such cases, in exchange for accepting to share the commercial or foreign exchange risk, the Bank will look for a commensurate share of financial benefits which may be generated by the project.

Does the EIB cover full project cost ?

Unless there are exceptional circumstances, the EIB **does not cover more than 50%** of a financing plan. Normally, the proportion is lower - some 25-30% - and the Bank usually expects a solid commitment by the project's promoter from its own resources. The EIB aims at being a lever or catalyst for financing from others and co-operates closely in co-financing with the private banking sector, the World Bank group and the other main international and national development finance institutions, especially those of EU Member States.



Manufacture
of electrical
fittings

Is there a specific EIB “value-added” ?

The Bank conducts its **own project appraisals** and discusses its findings with promoters. It has wide cross-sector technical, economic and financial knowledge and, uniquely, experience as a development bank working in advanced as well as emerging economies. The Bank’s position within European business and financial circles can be of particular relevance when investors from EU countries are involved as, quite often, they are already EIB clients.

What criteria are applied in project appraisals ?

The principal areas examined are the project’s economic, financial and technical viability; the Bank examines, in particular, management capacity in implementation and operation, and the impact on the national economy (foreign exchange earnings, employment, etc). Every project appraisal includes an **evaluation of likely effects on the environment** and mitigating measures. The Bank treats with **confidentiality all information received** in the course of appraisals.

Does the EIB provide technical assistance ?

There are limited possibilities. The Bank can help promoters in assessing technical assistance needs, drawing up terms of reference for independent consultants and identifying sources of funding. Sometimes, the costs of assistance can be included in the project finance plan and thus become eligible for EIB funding. The EIB can assist in financing **pilot projects and feasibility studies**, designed to lead to the definition of full-scale investments.

What information does the EIB want in a finance request ?

After initial contact has confirmed that the project would be eligible, a request should be accompanied – in the form the client finds most appropriate – by a description of the project (nature, purpose, cost, working capital requirements, finance plan, timetable, expected return) and information on the financial status of the promoter (recent annual reports, financial statements). For major infrastructure projects, a feasibility study and environmental impact assessment will be required. The Bank prefers to be informed as early as possible of preparatory work on projects in order to examine with potential borrowers specific finance needs, action or studies to be undertaken.



Effluent treatment at tannery



Packing horticultural produce

Procurement guidelines

For projects financed by the EIB, the general requirement is that invitations to tender competitively for the supply of goods and services should be on a wide basis. Appropriate procedures for each project - international or national competitive bidding, or enquiries with potential suppliers - are agreed by the Bank with the project's promoter, taking account of the features and scale of the project.

Are procedures lengthy ?

Being a major source of finance for private enterprise, the Bank aims to respect the tempo of business-driven decisions and to be **non-bureaucratic in approach**. There are accelerated procedures for dealing with smaller scale projects. Funding requests for larger projects are subject, after appraisal, to management approval.

Is Government involved ?

Formally, to be eligible for funding, all projects (even fully private enterprise ones) must receive **consent from the host country**, since funding is intended to support national development priorities. Obtaining such agreement is rarely a problem.

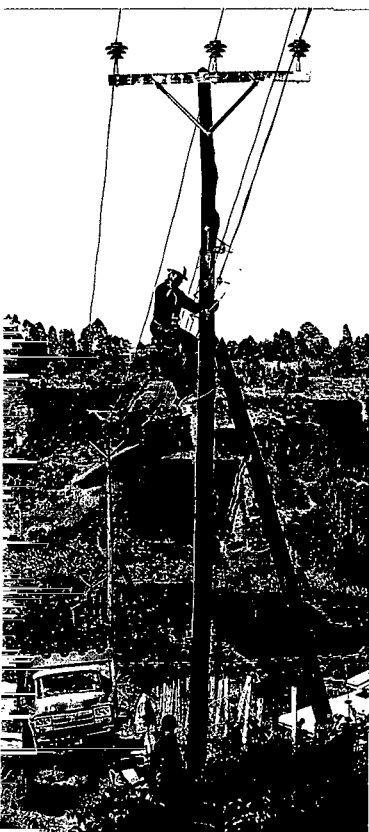
Can the EIB lend for Government services ?

When the Bank lends for government services or public enterprises, these are normally **revenue-generating** (e.g. electricity and water boards; civil aviation and port authorities) and are required to operate with commercially-oriented policies.

Does the EIB finance only large-scale investments ?

No. In fact, about 25% of funding in the past 5 years has gone to **small and medium-scale investments**, mainly through the Bank supporting the local financial sector. In particular, the Bank provides credit (global loans) to commercial banks or development finance institutions which then on-lend small amounts to their own clients, on their own credit judgement and according to criteria agreed with the EIB. In many ACP countries, this is the principal means of funding private enterprise investments in productive activities, allying EIB financial resources to the on-the-spot presence, manpower and local knowledge of the banks. The Bank also provides credit lines or other financial support to micro-finance institutions and leasing companies.

Electricity transmission



Finance products and services

Below are only summary guidelines. The EIB has a **wide variety of financing instruments** which can be **tailored, project by project**, to meet the specific needs of its clients. A combination of different components - for example, ordinary loan together with risk capital - is often used to support the same investment.

LOANS (EIB's own resources)

- term:** Medium to long term (up to 20 years, occasionally more).
- grace period:** Depends on the type of project, period of implementation, running-in, useful life of the installations; the moratorium (on principal repayments) may typically be for 2 years on an 8-year loan for an industrial project, perhaps 5 years on a 20-year loan for a large infrastructure scheme.
- currencies:** Borrower's choice: EURO, other EU currencies and other major currencies (USD, Swiss Francs, Yen...), subject to availability to EIB.
- repayment:** Equal 6-monthly instalments. Other formulae can be negotiated on a case by case basis, according to project characteristics.
- interest rate:** Fixed usually at date of contract signature (alternatively at moment of each disbursement). Set by EIB for each currency.
- Rates reflect EIB's excellent status on the capital markets, where it borrows its own resources, and its operating on a non-profit-making basis; they are therefore equivalent to the finest market rates.
- interest subsidy:** Provisions exist for subsidies – paid from budgetary funds – to be applied to EIB loans, under limited circumstances. The subsidy is either used to support expenditure by the borrower on environmental improvements, training programmes or other items agreed with the Bank, or – in certain cases – is passed to the government as budgetary support.
- security:** Adequate security is required, usually in the form of a guarantee of high standing (typically from a first class bank or company); government guarantees may be considered appropriate in public sector or mixed public/private projects.
- amount limits:** Up to 50% of project cost (frequently a lower proportion); no ceiling in absolute terms. No definite lower limit, but not usually less than about EUR 1.5m (see "Finance for Small and Medium Scale investments" p.9).



Training at rubber plantation



Coach building



Chemical industry

EQUITY, QUASI-EQUITY, CONDITIONAL AND SUBORDINATED LOANS

Risk-sharing operations are funded from budgetary resources, contributed by EU Member States, and can take the following forms:

- **direct equity participation** by the Bank (on behalf of the EU) to strengthen capital of an ACP company or finance institution;
- **indirect equity participation** – through intermediaries such as banks, other financial institutions – in ACP companies, especially small/medium scale enterprises;
- **financing of risk capital/ venture capital funds** which take stakes in small/medium scale companies, especially start-up investments, but also existing firms which need capital injections to tackle modernisation / expansion;
- financing of **“joint ventures”** between European and ACP investors, usually by assisting the ACP partner towards putting in its share of capital;
- **credit lines to local banks**, generally for on-lending in domestic currency or provision of equity funding, with various forms of risk-sharing;
- **“Apex” (financial sector) loans** (for channelling through several banks, on a competitive basis, to fund small/medium scale firms);
- support for **privatisation purchase schemes and loan guarantee funds**;
- **participating or convertible loans** to enterprise (remuneration linked to profits/turnover);
- **conditional loans** (repayment and remuneration linked to attainment of specific performance targets);
- **subordinated loans** (interest and repayment after other claims have been settled);
- **guarantees**;
- **study and pilot project loans** for project preparation; the loan is normally reimbursable, but if the study or pilot is not conclusive and no full-scale investment follows, the loan can be commuted into grant.

Flower growing



In risk capital operations

- the base currency for disbursement is the **EURO** but debt may be contracted in other currencies;
- **exchange risk** can be shared or, in some cases, borne by the EU;
- **security requirements vary**, but the EIB will make a stringent banking assessment of project viability to **contain risks to acceptable levels**;
- **interest rates** on risk capital loans are set competitively, according to project characteristics.

FINANCE FOR SMALL/MEDIUM SCALE INVESTMENTS

Small/medium scale investments are generally assisted via the global loans or "Apex" facilities (different forms of credit lines used by banks and financial intermediaries), which can be funded by the Bank on both own resources and risk capital.

Contact the EIB if in doubt about which banks in the country operate under these arrangements. Otherwise, all appraisals, negotiations, security arrangements are dealt with direct between the promoter and the local bank.

The conditions under which firms can draw down funds from the credit lines vary according to the specific agreements but typically loans may be for up to EUR 2m. Rates (for foreign and local currency loans) are competitive, with terms generally ranging from 5 to 8 years.

In some ACP countries it has not been possible to mount global loan/Apex operations; if there is an exceptionally promising project, of small size, the Bank may decide to deal with it on a stand-alone basis.



Salt packing



Garments industry

How to get in touch with the EIB

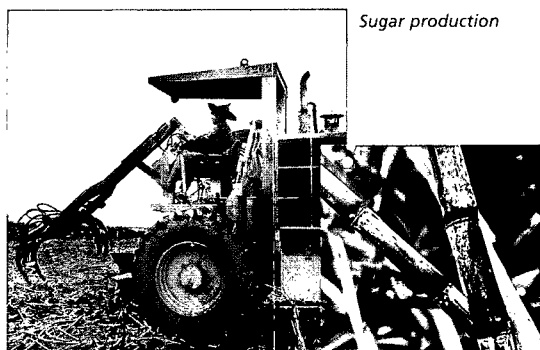
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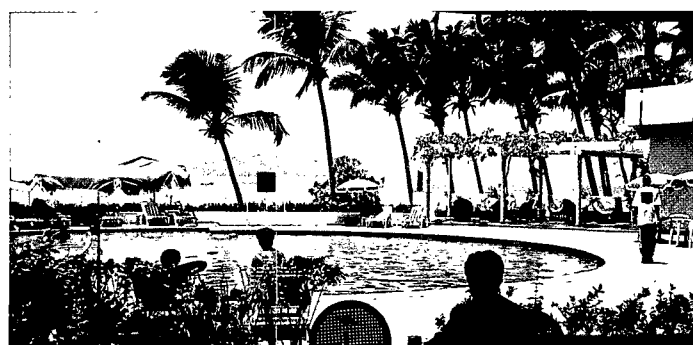
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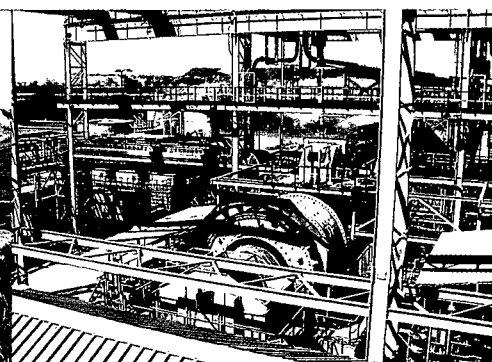
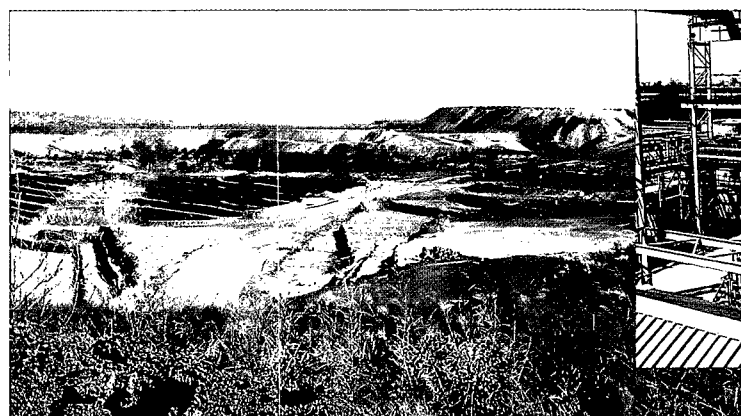
Sugar production



Tourism



Hydro-electric power station



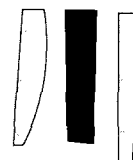
Gold mining

Photos cover page: Dairy, Electricity transmission

All photos are of projects financed by the EIB

EIB - in business together with the ACP

- **Long-term partner:** understands the challenges of investment in the ACPs, having been involved for almost 40 years in financing projects in Africa, and 30 years in the Caribbean and Pacific;
- **Extensive knowledge base:** operates both in industrialised countries (the European Union) and more than 120 countries around the world under co-operation/development policy agreements with EU;
- **Regional projects:** as development bank of the European Union - the world's biggest exercise in economic partnership - the EIB has extensive experience in cross-national, regional investments;
- **Europe's largest industrial and banking concerns,** many with existing or potential interests in the ACP, are EIB clients;
- **Banking, business-driven culture;**
- **"Added value"** through independent project appraisal (technical, economic, financial, environmental);
- **Steadily increasing portfolio** of loans and investments in the ACP;
- **Wide spectrum of sectors** covered, types of borrowers, sizes of investment;
- **Market-responsive** financing instruments;
- **Easy accessible** through EIB staff with country-specific responsibilities.



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