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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

European Community Investment Partners (ECIP) Report 1999

EXECUTIVE SUMMARY

ECIP - European Community Investment Partners - was the first EU economic cooperation tool. It was conceived in 1988 at the initiative of the Commission with the support of the European Parliament for the mutual interest and advantage of the developing countries of Asia, Latin America and the Mediterranean, and of European industry wishing to invest in them. Subsequently ECIP was extended to South Africa, and it also inspired the creation of the JOP scheme for the Phare and Tacis countries.

ECIP aimed to encourage joint ventures between European partners and local partners in the developing countries. Joint ventures are:

– highly favoured by the developing countries to whom they bring capital, technology, know-how and integration into international networks of production and trade;

– very risky, since they combine two difficulties: those inherent in the creation of a new enterprise, and those involved in an installation in a cultural, economic and political environment less sure and less predictable than that in Europe.

It was this double characteristic which justified the financial intervention of the EU which worked in close cooperation in particular with the development banks of the EU Member States (EDFI) who also work on the same task.

The principal traits of the ECIP scheme were as follows:

– it replied exclusively to initiatives coming from enterprises (demand-driven);

– it was accessible to these enterprises - local or European - via a network of over one hundred financial institutions - local and European of which about twenty were very active. The scheme was highly decentralised at two levels. The Commission provided advances to the ECIP financial institutions who in turn, and after the green light from the Commission, attributed these funds in the form of grants, financial participations (risk capital) or interest-free advances which could be either reimbursed in cases of success or converted into grants (see below) to the final beneficiaries;

– ECIP covered all the phases of the putting into place of a joint-venture:

  * partner search (grants);

  * feasibility studies by the enterprise (interest-free advances reimbursable by the enterprise in case of success, or converted into grant in the case of a non-success);

  * capital participation in the equity capital of the joint venture;

  * grants for SMEs, and interest-free reimbursable advances for larger enterprises, to finance training in the case of technology transfer.

According to the final beneficiaries and financial institutions who have received funds ECIP's reported positive impact is impressive. On the basis of detailed analysis of eight "on the ground" country inspections, and of 1.565 of the individual detailed Final Reports received from the beneficiaries of ECIP actions, the Commission's services estimate that each EURO of ECIP financing is associated with over 16 EURO of investments in the developing countries. The MEURO 261 of ECIP actions already executed are reported by the beneficiaries to be associated with about EURO 4,3 Billions (=4,369 millions) of private investment projects in the developing countries of Asia, Latin America, the Mediterranean, and the Republic of South Africa. The final beneficiaries also report that over 38.000 EU and local firms have been involved as partners in these actions, that some 1.442 joint ventures are created, and that over 49.000 jobs are reported to have been generated directly by these joint ventures. According to the reports received from the final beneficiaries and the financial institutions, since 1988 ECIP has proven to be an effective joint venture creation, investment and development promotion instrument. And it enhanced the Commission's development policy and reputation both within and outside the EU.

Initiated originally as a pilot project, ECIP has been the object of two successive Council Regulations approved in cooperation procedure by the European Parliament and the Council – and three separate independent evaluations of the instrument have been established and published:

– Regulations:

  * Regulation (EEC) 319/92 of 3 February 1992;

  * Regulation (EEC)213/96 of 29 January 1996.

– Independent evaluations (sent to the Council and Parliament and available on request):

  * 1990 Touche Ross;

  * 1994 SEMA Group;

  * 1999 Deloitte & Touche (see below).

– Financial audits:

  a) Court of Auditors: 1993

  b) Independent Financial Audits: 1996 Coopers & Lybrand

  1997 Price Waterhouse Coopers

  2000 Contract in progress of invitation to tender

The management of ECIP was from the start intended to be as "business-friendly" as possible: rapid decisions, transparency, flexibility, rapid payments. This approach, specific to ECIP, gave the scheme a good reputation with the financial institutions and prevailed until 1996. Since then the management of ECIP became progressively more bureaucratic and heavier due to three factors:

– ECIP, because it is principally oriented towards small and medium-sized enterprises is very "labour intensive", and the rapid growth in the number of projects came up against the limited personnel resources available to the Commission to manage them. These insufficiencies of staff were progressively but only partly relieved by recourse to a Technical Assistance Unit (1997 onwards) and then also to a Financial Assistance Unit (1999 onwards);

– the reinforcement of the Commission's financial procedures following observations by the Court of Auditors, led on the one hand to delays in procedures (decision by full Commission Written Procedure instead of habilitation), and, on the other hand to a separation of the technical functions (DG IB) from the financial functions (Common Service Relex) in virtue particularly of the SEM 2000 (1996 onwards), although qualified personnel was not available in sufficient number, particularly in the financial sector.

– when the period for a reimbursable (facility 2) advance, fixed at 5 years by the ECIP Regulation, ends the financial institution is required, by its contract with the Commission, to recover the funds for the Commission. These recoveries thus form a routine part of the financial operations of ECIP. Nevertheless these financial closures and recoveries require a great deal of precise, careful administrative work for which an insufficient number of staff was available. Nevertheless by the end of 1999, 1398 individual action files had been financially audited.

These difficulties had two consequences:

a) the accumulation of a backlog of payments to which the Commission's services decided to give priority, and which had largely been addressed by the end of the year 1999. In the meantime, despite the continued demand for finance, ECIP was put on hold as regards new activities and contracts in 1999. The Commission services decided that in 1999 the exclusive priority for the financial services must be the financial completion and closure of the existing ECIP contractual files and the recovery of unused and reimbursed ECIP funds. No specific agreements were signed for actions approved and committed in 1999.

b) increasing discontent among Financial Institutions and enterprises frustrated by the delays in decisions, contracts and in payments has been evidenced.

The ECIP regulation expired on 31 December 1999. Until now the Commission has left open the questions in the long term:

– of a follow-up, or not, to the instrument;

– of its fundamental redesign including a possible eventual "outsourcing".

The Commission services received at end-December 1999 the final draft by Deloitte & Touche of their independent evaluation report on ECIP for which they were selected after open international tender. The definitive version of this report was submitted to the Parliament, Council and the public in January 2000.

Deloitte concluded (quote):

" We recommend that the added value that ECIP brings be protected in forthcoming discussions on EU private sector development activities. Complementarity with EU, multilateral and bilateral instruments should be ensured. The effective positioning of ECIP will also be crucially dependent on a reduction of the administrative problems which have handicapped the instrument since 1998.

We conclude that ECIP is almost unique, of value to the Commission and the business community that it serves and should, therefore, be continued. However this continuation should be accompanied by significant modifications. “ (unquote).

At this stage, the opinion of the services managing ECIP is that:

1. ECIP replies to a real need;

2. ECIP must be rendered:

   * less costly in internal management;

   * more rapid in its decision, payment and recovery procedures;

   * better articulated with other complementary economic cooperation programmes (such as Al-Invest, Asia-Invest, Meda and others);

   * possibly enlarged to include operations of a larger scale;

   * probably “outsourced” in a form which remains to be determined.

In the meantime during the year 2000, the absolute priority of the Commission’s services is to solve the delays in recoveries of the advances resulting from the past financial operations of ECIP, and the audit and closure of the past operations of ECIP.

Accordingly on 31 January 2000 the Commission proposed to the Council and Parliament a regulation concerning the closure and winding down of the projects approved previously by the Commission in application of regulation (EC) N° 213/96 on the implementation of the European Communities Investment Partners financial instrument. This is to ensure both i) continuity of the implementation and of sound ongoing management of actions already financed; and ii) to allow an adequate period fundamentally to reappraise the ECIP instrument and to develop and negotiate a revised programme and regulation. The adoption of this regulation implies the restriction on the use of the ECIP budget only for steps needed to close and liquidate the projects adopted under Council Regulation (EC) N° 213/96.

The re-examination of any possible successor, or not, to ECIP will have to be made in the light of the ongoing discussions within the Commission on the redefining of its overall policy priorities.

Within that framework of the redefinition of the Commission’s overall policy priorities, any long term reassessment of ECIP's policy purposes and operational design would have to take account of i) primarily, the Commission’s overall policy priorities; ii) the rapid evolutions in the international economic and investment environment; iii) the views and experience of the financial institutions and the business operators who have been essential to the success of the instrument to date; and iv) only if the Commission decides that a possible continuation is a policy priority then the Commission’s services will also need to identify measures further to simplify and improve the financial management of ECIP.

Better coordination in a transparent manner of ECIP with other similar EU instruments is also necessary. Since 1988, when ECIP began, the Commission has developed a wide gamut of other investment promotion and financing programmes for developing countries (ALINVEST, ASIAINVEST, MEDA, JOP, JEV and the instruments addressed to the ACP countries) which have purposes related to ECIP. ECIP's positioning, coordination and possible synergies with these other EU programmes are also being re-assessed. The design of a single instrument addressing all developing countries, which will include mechanisms to adapt to local conditions may be considered.

The four tasks: i) redefining the Commission's overall policy priorities; ii) consultations and collection of the views of beneficiaries, business operators and financial institutions; iii) improvements and simplification of financial management and approval procedures; and iv) an inventory and policy coordination of the various similar EU investment promotion instruments will not be finished before end-2000 at the earliest. So any proposal for an improved ECIP for the longer term will not be available to send to the Parliament and Council (for consideration in codecision procedure for a new regulation) before 2001. Given the delays involved in such negotiations with the Parliament and Council it is very unlikely that a substantially revised and improved ECIP regulation could be agreed and approved before 31.12.2001. So with this proposed closure regulation the Commission is particularly concerned to ensure that the necessary assistance and administrative resources are available until the end of the year 2001 to allow the management of the closure and liquidation of projects adopted under Council Regulation (EC) N° 213/96.

The Commission hereby presents its progress report on ECIP in respect of 1999. The report comprises three detailed sections. <u>Part One</u> describes ECIP actions in 1999 and over the period 1988 – 1999. <u>Part Two</u> contains a set of estimates and analyses as regards the economic impact of ECIP. <u>Part Three</u> provides a description of the financial management of ECIP.

ECIP REPORT 1999

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Part One

1. ECIP ACTIVITY REPORT FOR 1999

1.1. ECIP Regulation 213/96 approved on 29th January 1996

The approval by the Council on 29th January 1996 of the ECIP Council Regulation (EC) N° 213/96 (O.J. L.28/2 of 6.2.1996) allowed the Commission to begin to implement further improvements to ECIP during 1996 and to consolidate them in 1997 and 1998. The new Regulation carried forward the main features of the previous ECIP Regulation and also incorporated:

a) improvements to the detailed conditions of the existing financial facilities;

b) the new Facility 1B ECU 200.000 grant for preparation of privatisation and private infrastructure projects;

c) provisions for significant measures to reinforce ECIP's management (technical assistance unit), financial audit (the independent financial audit), and reinforced anti-fraud provisions; and

d) provisions for reinforced information, and for coordination with other EU investment promotion actions such as the JOP, ALINVEST, MEDA, ASIA-INVEST, the South Africa Business Council, the systems managed by DG XXIII (BCNET, BRE, Euro-info Centres etc.) as well as with the European Investment Bank's risk capital activities.

Since the new ECIP Regulation was approved just at the beginning of 1996 (29.1.96) the new financing conditions (and other changes) of Regulation 213/96 have been applied to all new ECIP actions approved for finance in 1996 and thereafter in 1997 and 1998.

At the initiative of the Council, the ECIP Regulation 213 /96 includes a financial reference amount of EURO 250 millions for the five year period 1995-1999 inclusive.

The validity of the Regulation was for a four year period until end-1999 allowing the Commission thoroughly to implement the reinforcements foreseen for financial management which are described in later sections of this report.

1.2. Proposed Regulation of the European Parliament and the Council regarding the closure and liquidation of ongoing ECIP projects

Council Regulation (EC) 213/96 of 29 January 1996, which provided the legal basis for the management by the Commission of the ECIP financial instrument, expired on 31 December 1999.

On 22 December 1999, the Commission decided not to propose to the Council and the Parliament to extend the validity of this regulation. This decision implied the decision not to continue the ECIP programme after 31.12.1999. While recognising the success of ECIP in previous years, it was necessary to take this decision as part of the overall rationalisation of the Commission's policies and the reform and simplification of the Commission's services' management tasks. These reforms are intended to reinforce the sound financial management of EC budget funds, and reduce the risks and the complexity of the programmes financed. The limited resources available to the Commission for the management of such programmes have also been taken into account in taking this decision. The European Court of Justice's ruling C-106/96 of 12 May 1998 making the legality of an expenditure by the Commission dependent on the existence of a valid basic legal act authorising the expenditure is also relevant.

On 31 January 2000 in order to finance the costs of the management of the completion and closure of the existing portfolio of previously contracted ECIP projects, and to finance the necessary technical assistance and financial audits, the Commission decided to propose the adoption by the Council and the Parliament of a new regulation (COM(1999) 726) that would serve until 31.12.2001, as a new and separate legal basis. In accordance with a specific requirement of the European Parliament's Budgetary Committee, the budget in 2000 does not allow the financing of new ECIP actions. No new ECIP actions can be assessed, approved or contracted after 31.12.1999. The proposed legal basis restricts the use of the EU budget to operational follow-up of ECIP actions which already before 31.12.1999 were the subject of signed specific financing contracts, amendments to contracts already signed, and technical assistance and audits to ensure the completion and closure of the ongoing and previously contracted actions.

The re-examination of any possible successor, or not, to ECIP will have to be made in the light of the ongoing discussions within the Commission on the redefining of its overall policy priorities.

Within that framework of the redefinition of the Commission's overall policy priorities, any long term reassessment of ECIP's policy purposes and operational design would have to take account of i) primarily, the Commission's overall policy priorities; ii) the rapid evolutions in the international economic and investment environment; iii) the views and experience of the financial institutions and the business operators who have been essential to the success of the instrument to date; and iv) only if the Commission decides that a possible continuation is a policy priority then the Commission's services will also need to identify measures further to simplify and improve the financial management of ECIP.

Better coordination in a transparent manner of ECIP with other similar EU instruments is also necessary. Since 1988, when ECIP began, the Commission has developed a wide gamut of other investment promotion and financing programmes for developing countries (ALINVEST, ASIAINVEST, MEDA, JOP, JEV and the instruments addressed to the ACP countries) which have purposes related to ECIP. ECIP's positioning, coordination and possible synergies with these other EU programmes are also being re-assessed. The design of a single instrument addressing all developing countries, which will include mechanisms to adapt to local conditions may be considered.

The four tasks: i) redefining the Commission's overall policy priorities; ii) consultations and collection of the views of beneficiaries, business operators and financial institutions; iii) improvements and simplification of financial management and approval procedures; and iv) an inventory and policy coordination of the various similar EU investment promotion instruments will not be finished before end-2000 at the earliest. So any proposal for an improved ECIP for the longer term will not be available to send to the Parliament and Council (for consideration in codecision procedure for a new regulation) before 2001. Given the delays involved in such negotiations with the Parliament and Council it is very unlikely that a substantially revised and improved ECIP regulation could be agreed and approved before 31.12.2001.

1.3. Financing requests, approvals and contracts in 1999

The management of ECIP was from the start intended to be as "business-friendly" as possible: rapid decisions, transparency, flexibility, rapid payments. This approach, specific to ECIP, gave the scheme a good reputation with the financial institutions and prevailed until 1996. Since then the management of ECIP has become progressively more bureaucratic and heavier due to three factors:

– ECIP, because it is principally oriented towards small and medium-sized enterprises is very "labour intensive", and the rapid growth in the number of projects came up against the limited personnel resources available to the Commission to manage them. These insufficiencies of staff were progressively but only partly relieved by recourse to a Technical Assistance Unit (1997) and then to a Financial Assistance Unit (1999);

– the reinforcement of the Commission's financial procedures following observations by the Court of Auditors, led on the one hand to delays in procedures (decision by full Commission Written Procedure instead of habilitation), and, on the other hand to a separation of the technical functions (DG IB) from the financial functions (Common Service Relex) in virtue particularly of the SEM 2000 (1996), although qualified personnel was not available in sufficient number, particularly in the financial sector.

– when the period for a reimbursable (facility 2) advance, fixed at 5 years by the ECIP Regulation, ends the financial institution is required, by its contract with the Commission, to recover the funds for the Commission. These recoveries thus form a routine part of the financial operations of ECIP. Nevertheless these financial closures and recoveries require a great deal of precise, careful administrative work for which an insufficient number of staff was available. Nevertheless by the end of 1999, 1398 individual action files had been financially audited.

These difficulties had the following consequences:

a) the accumulation of a backlog of payments to which the Commission's services decided to give priority, and which were largely addressed by the end of the year 1999. In the meantime, despite the continued demand for finance, ECIP has been put on hold as regards new activities and contracts in 1999. The Commission services decided that in 1999 the exclusive priority for the financial services must be the financial completion and closure of the existing ECIP contractual files and the recovery of unused and reimbursed ECIP funds. No specific agreements were signed for actions approved and committed in 1999.

b) increasing discontent among Financial Institutions and enterprises frustrated by the delays in decisions, contracts and in payments has been evidenced.

<u>Financing requests</u>

From 1988 to end-1999 the Commission has received 3781 formal requests for ECIP financing of which 2587 have been approved for MEURO 291,7 of ECIP financing. In 1999 the number of requests for ECIP financings drastically decreased to not more than 70 and their EURO value also declined to MEURO 9,5.

Number of ECIP financings requested

Year	1998	1999
Facility 1	101	16
Facility 2	223	40
Facility 3	18	4
Facility 4	54	10
Facility 1B	-	-
Total	396	70

Approvals

During 1999, only 53 new ECIP financing actions were approved bringing the total cumulative number of individual ECIP actions approved for financing 1988-99 to 2.587.

ECIP actions approved (All regions)

	ANNUAL		CUMULATIVE	
	All Regions		All Regions	
	1999		1988-1999	
Facility	**N° of Approvals**	**Approved amounts in EURO**	**N° of Approvals**	**Approved amounts in EURO**
1	12	799.019	741	43.063.412
2	30	2.777.521	1532	161.147.913
3	4	1.298.025	161	66.723.924
4	7	533.567	149	18.539.987
1B	0	0	4	2.200.000
TOTALS	53	5.408.132	2.587	291.675.236

Contracts signed

The Commission's services decided to give priority to the backlog of payments that was largely addressed by the end of the year 1999. Following this, in the meantime, and despite the continued demand for finance, ECIP was put on hold as regards new activities in 1999 (analysing new requests for financing and signing of specific agreements). The Commission Services have decided that in 1999 the exclusive priority for the financial services must be the financial completion and closure of the existing ECIP contractual files and the recovery of unused and reimbursed ECIP funds. Hence no specific agreements were signed for actions approved and committed in 1999.

On 22 December 1999 the Commission decided not to continue the ECIP programme after 31.12.1999. This decision was taken, despite the success of ECIP in previous years, as part of the overall rationalisation of Commission policies and the reform and simplification of the Commission Services' management tasks in order to reinforce the sound financial management of EU budget funds, reducing the risks and the complexity of the programmes financed. The limited resources available to the Commission for the management of such programmes have also been taken into account in taking this decision. The European Court of Justice's ruling C-106/96 of 12 May 1998 requiring a valid basic legal act to govern EU expenditures is also pertinent.

On 31st January 2000 the Commission proposed to the Council and to the Parliament (COM(1999)726) a separate legal basis for two years until 31.12.2001 in order to finance only the costs of the management of the completion and closure of the existing portfolio of previously contracted ECIP projects, and to finance the necessary technical assistance and financial audits. In accordance with a specific requirement of the European Parliament's Budgetary Commission, the budget in 2000 does not allow the financing of new ECIP actions. No new ECIP actions can be assessed, approved or contracted after 31.12.1999. The proposed legal basis implies the restriction on the use of the EU budget only for steps needed to close and liquidate the projects adopted under Council Regulation (EC) N° 213/96.

Part Two

2. THE ECONOMIC IMPACTS OF ECIP FINANCINGS

2.1. Reporting of ECIP actions

The global estimates below are based on a detailed economic impact reporting system which analyses the results of every ECIP action on the basis of written reports from the beneficiaries. The economic impact of ECIP is estimated by the Commission's services by assessing the detailed written Final Report on each individual action. Up to the end of 1999, 2587 actions have been approved, resulting in 2336 contracted ECIP actions. 1577 Final reports had been received and 1565 of those had been technically assessed by the time of writing this report. Because of the limited staff resources available to it the Commission is obliged to rely on the Financial Institutions' and Final Beneficiary's reports on the actions.

On the basis of detailed analysis of 1565 of these individual detailed Final Reports on 1565 individual ECIP actions the Commission estimates that each EURO of ECIP financing is associated with over 16 EURO of investments in the developing countries. EURO 261 millions of ECIP actions executed are reported to be associated with about EURO 4,3 Billions (= 4.369 millions) of private investment projects. Over 38.000 EU and local firms have been involved as partners in the 2.336 contracted actions. 1422 joint ventures are reported to have been created, and over 49.000 jobs are reported to have been created in these joint ventures.

ECIP actions approved, contracted, assessed (1988-99)

Facility	Approved	Contracts already signed	Final Reports assessed
1	741	706	594
2	1532	1.403	866
3	161	87	49
4	149	140	56
1B	4	0	0
Totals	(100%) 2587	(90%) 2.336	(60%) 1.565

There is a substantial time lag between the approval of an action, contract signature, execution, and then its written report. The facilities take between 18 months (Facility 1), 24-36 months (Facility 4), 3 years (Facility 2), and up to 10 years (Facility 3) on average to be completed and to present their Final Report. As a result, at the time of writing, 759 of the 2587 actions approved until 31.12.99 were still in progress and their final reports awaited.

The Commission has been conservative in compiling the reported results of completed actions. Only if the Final Report has been received and a joint venture has been reported to have been created, are investment, resulting employment and other development factors taken into the reported impact totals. All other actions, where the final outcomes of an action are not available have not been included in the economic impact data analysed below.

Throughout this report the economic impact of ECIP is measured on the basis of the 1565 action reports analysed in detail and then calculated on the basis of success rates per facility.

The tables included in this chapter each have one column of actual results relating to the 1565 researched actions (*1565 Reports Evaluated*) and another column with the (*Estimates for all 2336 contracted)* results for the total 2336 actions contracted.

2.2. Joint venture creation

Based on the 1565 completed, reported and evaluated actions ECIP has helped to create 1037 reported joint ventures. Based on the same rates of success the 2587 actions approved 1988-99 would lead to the establishment of 1422 joint ventures. The breakdown of these figures by facility is shown below:

Number of Joint Ventures created (1988-99)

Facility	1565 actions Reported and Evaluated	Estimates for all 2336 actions contracted
1	730	868
2	203	329
3	48	85
4	56	140
Totals	1.037	1.422

The nature and quality of the results of each facility differs as follows :

Facility One assists Chambers of Commerce, industry associations, and FIs with matching activities. Based on the 594 Final Reports evaluated, around 730 joint ventures are reported to follow from these 594 Facility One actions. On that basis it can be estimated that some 868 joint ventures might be expected to follow the total of 706 Facility One actions contracted to end-1999. These Facility One numbers represent the reported (rather than the realised) intentions to create joint ventures. Many will take some years to be actually realised. For this reason the Commission has not included their investment or employment creation projections in its overall estimates for the economic (investment and jobs) impact of ECIP, and double-counting does not occur of Facility One with other facilities.

Reported Facility 1 Results (1988-99)

	Actions reported and evaluated	Actions contracted
Number of actions	594	706
Results	**For reported actions**	**Estimated for all actions contracted**
Firms involved	22.540	26.800
Resulting joint ventures claimed to be created	730	868

594 Facility One Final Reports show an involvement of over 22.000 companies, so on the same basis an estimated 26.800 companies should benefit from ECIP support under the 706 Facility One actions approved. On average 38 companies are involved in each Facility One, so that it costs on average EURO 1.530 to ECIP for each company involved.

On the basis of 866 written Final Reports analysed Facility Two is reported to have a one in four JV creation success rate since 203 out of the 866 actions are reported to have led to a joint venture. On that basis the total 1403 actions contracted 1988-99 could lead potentially to 329 joint ventures.

Facility 2 Results (1988-99)

	Actions reported and evaluated	**Actions contracted**
Number of actions	866	1.403
Results	**For reported actions**	**Estimated for all actions contracted**
Number of joint ventures resulting	203	329

Facility Three is very different from Facility Two measured at the contractual level since the ECIP funding goes to the establishment of the joint venture itself which must be established for the contract to be signed. As a result there is (and has to be) a nearly 100% success rate at contractual level. 91% of these represent fully subscribed and disbursed equity and equity loan participations and the remaining 9% represent those cases for which contracts are signed and the Financial Institution is still in the process of completing the financial and legal “due diligence” before subscribing the ECIP funds for equity or an equity loan.

Facility Three exhibits a low (54 %) rate of contracts signature following in principle approval by the Commission. This is normal since the various partners in the joint venture and the FI are obliged actually to agree complex legal contracts and to subscribe cash to the JV before the ECIP Facility Three contract can be signed and disbursed. This 1 in 2 signature and disbursement rate is to be expected in development risk capital financing and reflects the Commission’s (and the FIs’) conservative and careful financial management as regards Facility Three before disbursing ECIP funds.

Facility 3 Results (1988-99)

	Actions reported and evaluated	**Actions contracted**
Number of actions	49	87
Results	**For reported actions**	**Estimated for all actions contracted**
Number of joint ventures created	48	85

Accordingly, of 161 Facility Three actions approved 1988-99, 87 have been the subject of full contracts signature and 85 of those have actually been totally “executed” and ECIP funds have been disbursed to the joint venture.

A particularly interesting statistic is that one third of Facility Three actions follow a Facility Two preparation study and financing.

Facility Four finances training, management and technical assistance for joint ventures. As such, since the JV must be created to apply for and to receive the ECIP funds it has a 100% JV creation rate, since the contracts cannot be signed and disbursed until the JV exists.

Facility 4 Results (1988-99)

	Actions reported and evaluated	Actions contracted
Number of actions	56	140
Results	**For reported actions**	**Estimated for all actions contracted**
Number of joint ventures	56	140

The real measure of Facility Four's impact is the number of persons trained, its qualitative support to the human resources, and to the management of each JV (see section 3.5 below).

2.3. Investment

The 2336 ECIP actions contracted 1988-99 will, on the basis of the written reports and the Commission's conservative analysis of them, be associated with EURO 4,3 Billions (= 4,369 millions) of joint venture investments :

ECIP Investment Creation in Mio € (1988-99)

Facility	1565 Reports evaluated		Estimated for all 2336 contracts signed	
1		***PM**		***PM**
2	€ Mio	2.053	€ Mio	3.327
3	€ Mio	381	€ Mio	674
4	€ Mio	147	€ Mio	368
Totals	€ Mio	2.582	€ Mio	4.369

* (**Remark**: In order to maintain a conservative assessment the Commission has not taken intentions resulting from Facility One meetings into these totals.)

Facility One results in terms of joint ventures created are always sometime after the closure and Final Report of the action. The Commission's files on Facility One actions only contain reports on intended future investment and so the Commission is conservative in not quoting any "investment creation" effect from Facility One. Nevertheless many of the 730 reported JVs from Facility One should certainly have an important additional investment effect eventually which would add to the above totals.

Only the investment effects of Facilities Two, Three and Four are discussed here. Of the 1565 action specific reports analysed 307 JVs created report EURO 2.582 millions invested. For the total 1630 actions contracted (Facs Two, Three and Four) EURO 4.369 millions investment total is estimated to be in the pipeline relating to 554 joint ventures.

The average total investment per successful ECIP joint venture is 8,4 million EURO. 95 % of all ECIP's successful JVs involve less than MEURO 27 total investment each and can hence be considered SMEs according to the relevant SME definition:-

Total investment in ECIP-supported Joint Ventures

	Less than MEURO 5 Investment	MEURO 5 to 27 investment	More than MEURO 27 investment
% of JVs by number	70 %	25 %	5 %

A reported ECIP funding-investment multiplier of 19 times has been calculated as a ratio of all the ECIP funding approved and contracted for all facilities and the investments generated through successful joint ventures resulting from all the facilities (not including reimbursements).

Facility Two has a reported funding-investment multiplier of 21 the result of the about one in four actions success rate, an average ECIP cost of EURO 110.000 per action (1988-1999), and an average of EURO 10,1 millions per successful Facility Two joint venture. This multiplier of 21 does not include repayments to the EC budget. If repayments of successful Facility 2 actions are considered as reductions in the net funds provided by ECIP, the Facility Two funding multiplier goes up from 21 to 27.

Facility Three with an average ECIP financing of EURO 360.000 (1988-1999) has a funding-investment multiplier of 15. This facility generally requires a larger amount of ECIP funding per action. The resulting multiplier is corrected upward because all Facility Threes which are contracted succeed in the sense that the JV is created. However, a more representative multiplier should take account also of reimbursements. The 13 actions closed and reimbursed to date have led to a 101 % rate of reimbursement, leading in the long run to a potentially significantly positive multiplier calculation (after repayments) since Facility 3 so far has led to a small profit to the EU budget (see next Section below).

The Facility Four has an average cost to ECIP per action of EURO 125.000 (1988-1999). And Facility Four is associated with a lower average total investment per joint venture of MEURO 2,6 since it is particularly oriented towards SMEs by the conditions defined in the ECIP Regulation.

2.4. Analysis of facility 3 actions

The ECIP facility 3 equity and equity loans disbursed are particularly indicative of ECIP results since each and every action disbursed concerns a joint venture realised on the ground. Accordingly this section provides more detail on them.

The Commission's conservative financial management means that only about one third of applications received lead eventually to a contract and a disbursement. 161 (68%) of the 238 applications received have been approved for financing and only 87 (about half) of these are signed and disbursed. This attrition rate is normal for three important reasons: (i) the various cofinanciers (EU partner, local partner, and FI) are all required actually to provide proof of their cash commitment; (ii) the legal documentation is costly and often difficult to agree; and (iii) the Commission and the FI are particularly diligent as regards fulfilment of all the technical, economic, legal and financial conditions for Facility 3 actions. A low rate of signature and disbursement is normal for development risk capital actions.

The majority (80 %) of ECIP Facility 3 financings are executed by the EU member state development finance companies which are grouped in EDFI (European Development Finance

Institutions). 19 of the ECIP Financial Institutions have executed Facility 3 financings. 8 of these FI are members of the EDFI (European Development Finance Institutions), 5 non-EU development finance institutions, and 6 are European commercial banks.

The wide geographical spread of these actions is as below: -

Facility 3 projects carried out by country

Country	Number of projects
China	13
Mexico	11
South Africa	10
Argentina	7
Morocco	6
Thailand	5
Turkey	5
India	4
Brazil	3
Sri Lanka	3
Egypt	2
Indonesia	2
Tunisia	2
Uruguay	2
Bangladesh	1
Bolivia	1
Cambodia	1
Chile	1
El Salvador	1
Maldives	1
Malta	1
Peru	1
Venezuela	1
Algeria	1
Total:	85

For the actions already closed the average timelapse from the signature of the contracts and disbursement until the closure and reimbursement is 7½ years. So by 31.12.99 only 13 Facility 3 financings had been completed, closed and reimbursed as follows:

Facility 3 reimbursed projects as at end-1999

Joint Venture project	EURO Amount disbursed	EURO Amount reimbursed	Profit/Loss	% reimbursed/ disbursed
Dairy production in Mexico	350.000,00	420.000,00	+70.000,00	120,00%
Plastics manufacturing in Bolivia	215.000,00	211.678,00	-3.322,00	98,45%
Hotel services in Thailand	254.983,00	258.725,00	+3.742,00	101,47%
Machine-tools manufacturing in Turkey	500.000,00	500.000,00	0,00	100,00%
Hotel group in Egypt	562.052,00	1.082.187,00	+520.135,00	192,54%
Food production in Morocco	144.000,00	4.350,00	-139.650,00	3,02%
Wind energy park in Argentina	120.000,00	156.617,00	+36.617,00	130,51%
Goods handling and services in India	316.700,00		-316.700,00	0,00%
Meat production in Mexico	1.000.000,00	282.912,00	-717.088,00	28,29%
Eggs production in Turkey	264.831,00	101.759,00	-163.072,00	38,42%
Manufacturing of industrial goods in Mexico	156.152,00	184.459,00	+28.307,00	118,13%
Manufacturing of food products in China	551.161,00	646.157,00	+94.996,00	117,24%
Toll highway in Argentina	800.000,00	1.445.291,00	+645.291,00	180,66%
Total	5.234.879,00	5.294.135,00	59.256,00	101,13%

This table shows how these projects are very varied in their nature, location and their financial results. Such a small sample does not have statistical validity leading to generalisations. Nevertheless, the profile of their financial reimbursement is indicative of the wide variety of financial outcomes ranging from 80 to 90% profits realised, to total losses.

The impact in terms of incremental investments is also very varied. Several of the actions have been closed down at a loss, while others are highly successful with much larger investments generated than originally expected. Overall (for the small group of 13) these MEURO 5,2 ECIP Facility 3 financings have been totally reimbursed with a 1% profit and are associated with over EURO 150 millions of confirmed ongoing investment projects. While this small sample should not be extrapolated to refer to the whole of ECIP - it is nevertheless indicative and positive.

2.5. Employment and training

Specific Final Reports already received for the 307 JVs reported to be created following Facilities Two, Three and Four show 28.700 jobs created. On that basis the 554 JVs expected to be created after all Facilities Two, Three and Four are completed are estimated to involve almost 50.000 jobs.

Employment (1988-99) number of jobs created

Facility	Reports	Estimated for contracted actions
1	***PM****	***PM****
2	22.000	35.600
3	3.400	6.000
4	3.300	8.200
Totals	28.700	49.800

* (no job creation estimate is made for Facility One).

The average joint venture created after ECIP support involves about 80 employees. 92% of the JVs created employed less than 250 persons and can therefore be classified as SMEs on that basis:

Number of employees per joint venture created

	Less than 10	**10-50**	**51-250**	**More than 250**
% of JVs created	7 %	40 %	45 %	8 %

Under Facility Four, in addition to the management and technical assistance provided, over 4000 employees are calculated to have been, or still be receiving training funded by ECIP.

2.6. Other development factors (environment, technology transfer)

The Commission assesses the environmental impact and risks of each ECIP action before approving each action. 8% of the Facility Two approvals were required to include an environmental assessment in their feasibility study in order to clarify, address and mitigate the risks. 12% of the actions were considered to have a potentially significant positive impact on the environment (such as cleaner diesel engines production unit, wind energy project, etc.). 80% of the actions were considered to have an acceptable impact and level of risks for the environment.

95% of ECIP-supported actions which resulted in a joint venture show positive elements of transfer of know-how, profitable to both partners in the enterprise. All ECIP actions involve some sort of technology and know-how exchanges. 5% of the cases approved concern projects with appropriate technologies, such as artisan or handicraft-type production units using local resources.

2.7. Assessment and follow-up of ECIP actions

ECIP is a decentralised programme without direct contractual contact between the final beneficiaries and the Commission's services, and with standardised written reporting procedures on projects executed by the FI. For the impact assessment the Commission relies on the end-of action written reports, the so-called *Final Report*, which each beneficiary has to make available through its Financial Institution and which the Financial Institution assesses and comments upon, before making the last disbursement to the beneficiary.

As the ECIP instrument matured and as more and more Final Reports were available in 1997 and 1998 the Commission has executed a programme of eight on-the-ground inspections by independent consultants (see Section 2.8 below). Furthermore the Independent Appraisal Study foreseen in Article 10 para 2 of the ECIP Regulation provides for inspection and independent reporting of all these results.

The independent appraisal report from Deloitte & Touche was finished and officially presented to the Commission, the Council and the European Parliament early 2000 (see Section 2.9 below).

2.8. Eight ECIP country project inspection studies

The Commission has completed a programme of rigorous on-the-ground inspections of the ECIP projects realised in eight eligible countries. The eight countries were chosen in order to give a representative sample from all four continents concerned and to represent a wide range of types and levels of development. These countries: Chile, China, Indonesia, India, Morocco, Mexico, Tunisia and South Africa account for more than half of all the ECIP actions requested, approved and implemented and therefore already represent a substantial and representative sample. The terms of reference of these 8 separate studies were identical to ensure cross-country comparisons, and to enable aggregation of the results found to compare them to the aims of the ECIP regulation.

In conformity with standard EC procurement procedures via the framework contract procedure eight individual consultants have been contracted for the eight studies which cost a total of EURO 355.100 (or EURO 44.875 on average for each contract/study). These contracts were financed out of the ECIP Budget in accordance with Article 10 of the ECIP Regulation. Considering that these consultants reviewed 1.132 individual approved actions their work cost EURO 312 per action – a minimal cost. They also visited and interviewed many ECIP beneficiaries, financial institutions, government officials and chambers of commerce. 93 of ECIP's successful joint ventures investments have been visited by these consultants and they have provided detailed individual reports on these 93 investments which confirm the written Final Reports already held by the Commission. 20 of these project visits were witnessed by Commission officials as a sample check on the work.

These eight country inspections have therefore served to verify and confirm the reality on-the-ground as regards over half of the ECIP economic impact results which are quoted in this report. All these detailed on-the-ground findings have been made available to the independent appraisers Deloitte S.A. The country- and project-specific studies do not replace their formal "Independent Appraisal" of ECIP foreseen in Article 10.2. of the Regulation which was received in December 1999 (next section).

2.9. The independent appraisal study

The ECIP Council Regulation 213/96 of 29.1.96 provides at Article 10 para 2 that the Commission shall forward the results of an independent appraisal of the instrument to the European Parliament and the Council and that this report must permit an assessment of the implementation of the principles of good financial management, economy and a cost/benefit analysis of the instrument.

Accordingly the Commission's services initiated in May 1998 the international tender procedure to procure this study. This tender was published in September 1998, adjudicated in December and the contract was signed in February 1999 with Deloitte S.A.

The terms of reference of this study contract specified that the contractor had to describe and assess to what extent each ECIP facility as well as the instrument as a whole since 1988 had achieved the objectives laid down in the ECIP Regulation particularly as regards total investments promoted, the number of joint ventures and jobs created, as well as the development contributions listed in Article 6 para 2 of the ECIP Regulation as regards the ALAMEDSA countries.

Deloitte concluded (quote):

“ We recommend that the added value that ECIP brings be protected in forthcoming discussions on EU private sector development activities. Complementarity with EU, multilateral and bilateral instruments should be ensured. The effective positioning of ECIP will also be crucially dependent on a reduction of the administrative problems which have handicapped the instrument since 1998.

We conclude that ECIP is almost unique, of value to the Commission and the business community that it serves and should, therefore, be continued. However this continuation should be accompanied by significant modifications. “ (unquote).

Deloitte & Touche have provided their full report in early 2000 and it was sent to the Parliament and Council immediately. It was also put onto the internet in January 2000 and can be consulted on the http://www.europa.eu.int/comm/scr/evaluation/program/medrep.htm.

Part Three

3. FINANCIAL MANAGEMENT

3.1. Sound and efficient financial management

During 1999 in the framework of the Commission's Sound and Efficient Management Programme (SEM 2000) the Commission continued to implement the major reinforcements to its financial management and audit capabilities which had been proposed in 1994 to the Council and Parliament and approved as a part of the new ECIP Regulation N° 213/96 Council of 29th January 1996. These measures were:

– an Independent Financial Audit;

– anti-fraud measures; and

– Technical and Financial Assistance Units;

as provided for in Article 10 para 3 and 4 of the ECIP Regulation.

The management of ECIP was from the start intended to be as "business-friendly" as possible: rapid decisions, transparency, flexibility, rapid payments. This approach, specific to ECIP, gave the scheme a good reputation with the financial institutions and prevailed until 1996. Since then the management of ECIP has become progressively more bureaucratic and heavier due to three factors:

– ECIP, because it is principally oriented towards small and medium-sized enterprises is very "labour intensive", and the rapid growth in the number of projects came up against the limited personnel resources available to the Commission to manage them. These insufficiencies of staff were progressively but only partly relieved by recourse to a Technical Assistance Unit (1997) and then to a Financial Assistance Unit (1999);

– the reinforcement of the Commission's financial procedures following observations by the Court of Auditors, led on the one hand to delays in procedures (decision by full Commission Written Procedure instead of habilitation), and, on the other hand to a separation of the technical functions (DG IB) from the financial functions (Common Service Relex) in virtue particularly of the SEM 2000 (1996), although qualified personnel was not available in sufficient number, particularly in the financial sector.

– when the period for a reimbursable (facility 2) advance, fixed at 5 years by the ECIP Regulation, ends the financial institution is required, by its contract with the Commission, to recover the funds for the Commission. These recoveries thus form a routine part of the financial operations of ECIP. Nevertheless these financial closures and recoveries require a great deal of precise, careful administrative work for which an insufficient number of staff was available. Nevertheless by the end of 1999, 1398 individual action files had been financially audited.

These difficulties had the consequence that the Commission's services decided to give priority to the accumulation of a backlog of payments, which was largely addressed by the end of the year 1999. In the meantime, despite the continued demand for finance, ECIP has been put on hold as regards new activities in 1999. The Commission services have decided that in 1999 the exclusive priority for the financial services must be the financial completion and closure of the existing ECIP contractual files and the recovery of unused and reimbursed ECIP funds. No specific contract agreements were signed for actions approved and committed in 1999.

3.2. Independent financial audit

During 1998 "…the independent financial audit of the financial institutions and of the Facility 1 beneficiary organisations, as regards the ECIP funds they received." Unquote (Article 10 para 3 of ECIP Regulation 213/96) as at 31.12.96 had been completed by Coopers & Lybrand Reviseurs d'Entreprises (Belgium). Then in 1998 into 1999 Price Waterhouse Coopers (the successor of Coopers & Lybrand) produced the subsequent audit situation of ECIP accounts as at 31.12.1997. The contract with Coopers & Lybrand (succeeded by Price Waterhouse Coopers) had been placed after an open international tender in conformity with Council Directive 92/50/EC of 18th June 1992 relating to the coordination for the award of public service contracts. The contract includes the following elements: (I) visits and specific audit reports of the ECIP accounts of ECIP financial institutions and Facility 1 beneficiaries located in EU and ALAMEDSA states were executed and delivered; and (ii) an overall audit report was produced. In this way two independent financial audits of the contractual and financial records relating to ECIP transactions have been completed and 1398 individual action accounts had been financially audited by 31.12.1999.

3.3. Anti-fraud measures

As required by Article 10 para 3 of the new ECIP Regulation the Commission "…made specific provision in the framework and the specific financing agreements for anti-fraud measures, in particular a mechanism for the recovery of advances which are not justified after audit" by including strong contractual provisions in all ECIP contractual agreements.

3.4. Technical and Financial Assistance Units

As provided for in Article 10 para 4 of the ECIP Regulation (213/96) the Commission had launched open international tenders in 1996 (in accordance with Council Directive 92/50/EC) and after a further invitation to tender (in accordance with Article 11.3. of the Council Directive 92/50/EC) a contract was signed in July 1997 with GOPA-Consultants (D) for a total amount of EURO 1.167.920 for 12 months' TAU service from 1st August 1997 to 1st August 1998. In order to ensure the continuity of the management of ECIP and after another open international tender this contract was continued with GOPA (D) for a six month period from 1st August 1998 to 31st January 1999 for an amount of EURO 787.434. And in accordance with the approved bid valid until 31.7.2000 further contracts of a total value of EUR 1.562.903 were signed with GOPA in 1999 and 2000 for their services until 31.7.2000. EUR 1.079.700 of these costs were imputed to the 1999 budget, and EUR 483.203 of these costs are imputed to the 2000 budget. This Technical Assistance unit will be closed down on 31.7.2000.

The role of this Technical Assistance Unit can be summarised, non-exhaustively, as follows:

– To deal with all requests from the public for information on ECIP, primarily by dispatch of ECIP information materials.

– To evaluate and process requests for ECIP funding.

– To follow-up and manage all dossiers on a continuing basis.

– To maintain correct and up-to-date files on all ECIP transactions – past, present and future.

– To maintain and update computerised records of ECIP transactions to ensure timely availability of correct management information.

In January 1999 in order to respect the SEM 2000 (Sound and Efficient Management) guidelines the Commission decided to divide these TAUnit tasks into a) a Technical Unit (still run by GOPA under their original tender), and b) separately a Financial Assistance Unit run by PB Auditores (ES) from 1 February 1999 also on the basis of an international tender. Accordingly from 1 February 1999 PB Auditores took over the financial management tasks.

In accordance with the B7-872 1999 budgetary commentary the Commission's decision of 29 January 1999 provided EURO 1.590.000 for total Technical Assistance costs in 1999. EUR 1.588.700 of these credits were consumed in 1999 in order to finance the essential contracts in 1999 with the Financial and the Technical Assistance units which both operated until 31.12.1999 on 1999 credits and then thereafter on 2000 credits – thus respecting the principle of budgetary annuality.

The two Assistance Units provided these services under the control of the Commission's services, and the Commission services retained control and signature as regards all decisions to finance, contracts, commitments and payments.

3.5. Budgetary appropriations and recoveries

The 1999 budgetary appropriations for ECIP under budget line B7-872 were as follows:

Consumption of ECIP B7-8720
Budgetary credits 1999

Year		Initial Budget	Transfers	Credits authorised	Use	%
1999	CE	29.750.000	0	29.750.000	12.926.452	43,45%
		10.000.000		*10.000.000*		
	CP	29.750.000	-13.000.000	16.750.000	14.782.930	88,26%
		5.000.000	*-5.000.000*	0		

(The figures in italics correspond to amounts in chapter B0-40 (reserve).)

A large proportion of ECIP funds are recoverable being dividends, interest accrued, capital and loan repayments. EUR 26.795.589,68 of ECIP funds were the subject of recovery orders issued. Furthermore, the Commission's services estimate that a further EUR 62 millions is held for the account of the Commission in the ECIP financial institutions' ECIP accounts which (after the completion of the next round of independent financial audits) will become due for reimbursement.