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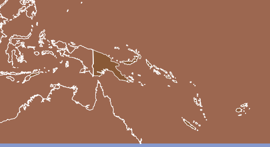
Investment Facility

ACP-EU Cotonou Partnership Agreement

Annual Report 2004



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Mission of the Investment Facility

The ACP Investment Facility is a key financial instrument of the Cotonou Partnership Agreement signed in Cotonou on 23 June 2000 and officially launched on 2 June 2003. In accordance with the terms of the Cotonou Partnership Agreement, the Investment Facility "shall operate in all economic sectors and support investments of private and commercially run public sector entities, including revenue generating economic and technological infrastructure critical for the private sector."

"The Facility shall:

- be managed as a revolving fund and aim at being financially sustainable. Its operations shall be on market-related terms and conditions and shall avoid creating distortions on local markets and displacing private sources of finances; and

- endeavour to have a catalytic effect by encouraging the mobilisation of long-term local resources and attracting foreign private investors and lenders to projects in the ACP States."

The OCT Investment Facility was set up in accordance with the Council Decision of 27 November 2001 on the association of Overseas Countries and Territories (OCTs) with the European Community with the aim of promoting commercially viable enterprises, mainly in the private sector but also those in the public sector supporting private sector development in the 20 OCTs situated in the Caribbean, the Pacific, and the north and south Atlantic Oceans that are eligible for European Community financial assistance.

Both the ACP and the OCT Investment Facilities (the "IF") are risk-bearing instruments whose mission is to be prepared to invest in situations where private sector investors are reluctant to do so and, thereby, to aim to fill financing gaps in the market. In doing so it has to balance responsiveness to opportunities with the obvious duties of scrutiny and accountability that go together with the management of public funds.

In line with the aims and objectives which were expressed by the international community in the UN Millennium Development Goals, the IF pays particular attention to the broader development impact of the various investments it makes and especially supports those that promise appreciable social, economic or environmental benefits.

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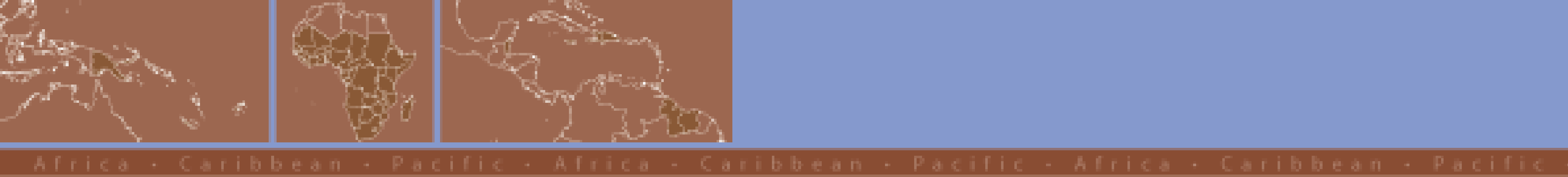


Summary Highlights

- The Investment Facility was established under the Cotonou Agreement and the OCTs Association Decision as a risk-bearing revolving fund under the management of the European Investment Bank (EIB).
- Its purpose is to support economic development by investing in the private sector in the ACP countries and the OCTs on market-related terms, and also by financing commercially run public entities, especially those responsible for key economic infrastructure.
- The IF's financial sustainability is supported by the implementation of risk pricing, whereby any credit risk taken is priced accordingly.
- The IF came into effect on 1 April 2003.
- 2004 was the first full year of IF activity, with sixteen projects signed for a total amount of EUR 337 million.
- Four operations were regional ones; the others were distributed across Africa (nine), the Caribbean (one) and the Pacific regions (two).
- Except for three projects which related to the public sector, all the others target the private sector, a key objective of the IF, which now accounts for close to 90% of the IF's portfolio of signed operations.
- Global loans or investment specifically targeting the financial sector accounted for 33.5% of the overall portfolio, while the financial services sector, including venture capital funds and the agency agreement with the EDFIS, has so far benefited from nearly 60% of the IF lending.
- In line with the IF's policy of developing a wider range of financial instruments, one operation comprised the issuance of a portfolio guarantee in favour of the West African Development Bank (BOAD), while a number of projects entailed the use of quasi-equity type instruments such as participating loans, where the IF is able to share the risk with the promoter.
- By the end of 2004, the total portfolio of the IF comprised 24 projects, corresponding to contracts signed totalling EUR 477 million and equivalent to 23% of the IF capital endowment.
- After the usual slow start the rate of disbursements, which reached the equivalent of some EUR 93m on a cumulative basis, is beginning to accelerate.
- By the end of the year, a total of fifty-five EIB staff had been directly assigned to operations in the ACP countries, while a substantial amount of additional services had been made available by the EIB's non-operational Directorates.
- During the year, considerable preparatory work was undertaken for the opening of the new EIB representative offices in Dakar for Western Africa; in Nairobi for East and Central Africa; and in Pretoria for the Southern Africa and Indian Ocean region. These representations became operational at the beginning of 2005. The possibility of opening offices in the Caribbean and the Pacific is being examined.

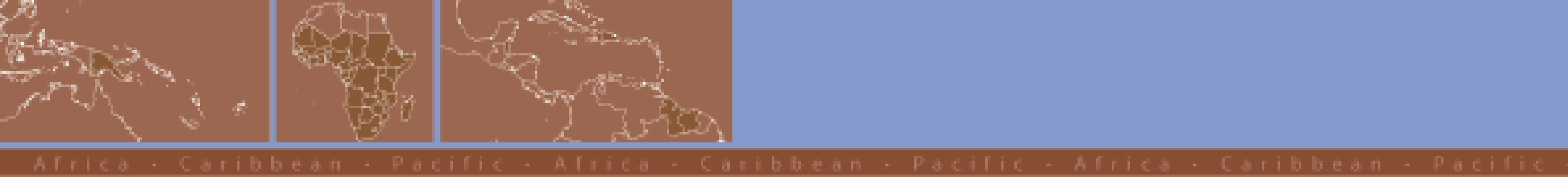
Introduction

The Investment Facility (IF) is a risk-bearing instrument established to promote the development of the private sector and commercially run public enterprises in the seventy-eight[1] countries which make up the African, Caribbean and Pacific (ACP) group, as well as the 20 Overseas Countries and Territories. It was created under the Cotonou Agreement between the ACPs and the then fifteen Member States of the European Union and in accordance with the Council Decision of 27 November 2001 and is managed under mandate by the European Investment Bank (EIB). The Cotonou Agreement was signed on 23 June 2000 and, following ratification, came into force on 1 April 2003, with an initial endowment from the ninth European Development Fund of EUR 2.2 billion[2].

[1] *There were originally seventy-seven ACP signatories to the Cotonou Agreement. East Timor signed subsequently and became the seventy-eighth member. The Republic of South Africa is a signatory to the Cotonou Agreement but does not participate in the Investment Facility. Cuba is the seventy-ninth member of the ACP group but is not a signatory to the Agreement.*

[2] *The ninth European Development Fund (EDF) for ACP countries has three components: grants under the long-term development envelope (EUR10 billion), grants under the envelope for regional cooperation and integration (EUR 1.3 billion) and the ACP IF (EUR 2.2 billion). Of the total amount of EUR 13.5 billion, EU Member States had originally decided to keep EUR 1 billion - "the conditional billion" - in reserve pending an evaluation of the progress made with the commitment and disbursement of EDF resources. The conditional billion is reflected in the EDF accounts as a proportional reduction of the three envelopes. After a successful overall performance review in 2004 the conditional billion has been released and allocated to the setting-up of the EUR 500m EU Water Facility and the EUR 250m EU Energy Facility; the balance of EUR 250m is in the process of being allocated. All EDF components have consequently been reduced in due proportion, including the IF initial endowment, which has been revised downwards to EUR 2 037m.*

The ACP-IF team



Institutional Framework

As manager of the IF, the EIB brings to bear its considerable expertise in lending to the private sector, its detailed knowledge of the ACPs and the OCTs and their investment climate, and the long experience of its staff in assessing the real risks of operating in these countries. In addition, the Bank has made own resources available for up to EUR 1.7 billion in the ACPs under the Cotonou Agreement and EUR 20 million in the OCTs.

Within the framework of this mandate, responsibility for defining the policy and overall direction of the IF rests with the Bank's Management Committee and Board of Directors, in close consultation with the IF Committee, which consists of representatives of the Member States and the Commission, with the Committee Secretariat being provided by the Bank. Indeed, the IF Committee, of which the members are individually nominated by their governments, plays a key role in the success of the Facility. The IF Committee met on eight occasions during 2004 and pronounced on a number of policy issues related to financial instruments such as equity, guarantees and credit risk.

A key task of the IF Committee, very much reflected in the approved Operational Guidelines, is to give guidance to the Bank in its efforts to strike an appropriate balance between two key objectives: to take risks which other market participants would not usually contemplate, in the broad interests of the development of the ACP countries and of the OCTs, yet at the same time to aim at being financially sustainable, which is interpreted as aiming to maintain the value in real terms of the capital endowment of the IF.

Development impact assessment

With about half its members officially on the list of "Least Developed Countries", the ACP group includes the majority of the poorest countries in the world. Over the past ten years, this reality has pushed the international community to focus its efforts increasingly on the overarching objective of reducing poverty - and tackling its many dimensions as reflected in the UN Millennium Development Goals - which is also the central objective of the Cotonou Agreement.

While there is an assumption that sustainable projects in the ACP countries will typically have a significant development impact, there is also an expectation on the part of all stakeholders that due attention should be paid to aspects of projects yielding substantial social benefits and improving the welfare of the poorer segments of the population. Indeed, by financing productive and economically and financially viable projects, the IF contributes to economic growth, which is a widely recognised prerequisite for poverty alleviation. Private sector projects in particular can make a powerful contribution to poverty reduction by their direct contribution to economic growth, provided, however, that the policy context is right.

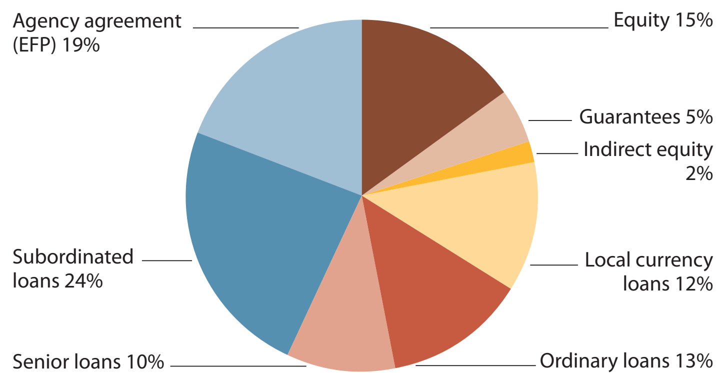
The Bank in general, and the IF in particular, ensures that its projects contribute to sustainable development by assessing their economic, environmental and social sustainability through appropriate analyses.

To refine its approach further, the Bank is currently experimenting with a new methodology stemming from its standard economic valuation of projects based on a social cost-benefit analysis summarised in the calculation of the Economic Rate of Return of the project. This new methodology will go further by defining more precisely and formalising in a simple, efficient and systematic manner the added value of the project from an environmental, social and governance perspective as a contribution to the overall development impact. The implementation of this new framework will be instrumental in striking a balance between the IF development objectives spelt out in the Cotonou Agreement on the one hand and ensuring the IF's financial sustainability on the other.

Financial Instruments

An important source of the IF's value added stems from its risk-bearing capacity, notably through the use of various forms of subordinated and conditional loans, quasi-equity (otherwise known as mezzanine finance), as well as direct and indirect equity.

IF cumulative signatures
Breakdown by financial instrument



These instruments - which play a key role in supporting the financing of development projects - represent a significant portion of the IF's current portfolio of signed operations - 41% at the end of 2004. Alongside these specific instruments, the IF has a number of other instruments - from ordinary or senior loans to local currency loans and the recently introduced guarantees - the use of which is sometimes better suited to the financing needs of individual projects.

Equity investments, which accounted for 17% of the IF's portfolio at the end of 2004, are an important financing instrument for ACP countries. Equity investments stimulate the growth of companies since they do not constrain cash flow as rigorously as loan finance and provide companies with a cushion to absorb start-up losses or weather difficult trading conditions. Having the IF as a shareholder can also bring additional, non-financial value added through (i) acting as a catalyst for other potential investors and thus helping to mobilise funds and (ii) possible active involvement at board level.

Making equity investments that will enable the IF to achieve its objectives in terms of both the returns generated and the demonstration effect to the wider financial services industry requires the IF to implement a specific and flexible investment approach that differs from established loan financing. The IF's approach is pro-active and aims at identifying countries and sectors presenting the most interesting investment opportunities.

Quasi-equity and subordinated loans. Quasi-equity accounted for 24% of the IF's portfolio at the end of 2004. It is a powerful instrument which the IF can deploy to achieve the catalytic objective of enabling other lenders such as commercial banks to support investment projects with debt financing, particularly in cases where a project sponsor has limited capacity to raise sufficient new ordinary equity.

Guarantees constitute an obvious alternative to direct lending in a number of ACP countries where there is no absolute shortage of financial resources, but rather a lack of capacity to take on risk. They can have a major economic benefit in bridging a confidence gap which could otherwise lead promoters/operators to forgo or abandon long-term investment in developing countries. Finally, guarantees help to channel external funding to these

The **Moma Titanium** project in northern Mozambique is a EUR 300 million investment in the mining and processing of heavy mineral sands (for the production of ilmenite). The promoter of the project (Kenmare Resources plc) was a mid-cap company listed on the Dublin and London Stock Exchanges, and one of the challenges for the project was to be able to attract a sufficient level of debt financing on a relatively small capital base.

In the financing plan put together by the promoter and its financial adviser NM Rothschild, the Bank agreed to provide EUR 40 million of subordinated loan funding (alongside EUR 15 million from FMO), which, together with new equity of EUR 70 million to be raised in the market, enabled a senior loan package of USD 200 million to be secured from a syndicate led by Absa Bank of South Africa and KfW of Germany (with ECIC and Hermes export credit support) alongside loans from the African Development Bank, EIB (ordinary loan) and FMO.

The subordinated debt was a critical element in the financing plan, and the Bank's ability to utilise IF resources at the more risky end of the credit spectrum corresponded precisely to the Bank's mandate under Cotonou. To reflect the downside risks taken, the IF will participate in the upside success of the project - in the form of a higher fixed interest rate than on the senior debt, a substantial early repayment premium in certain circumstances, and up-front issue of ordinary shares to the value of a proportion of the subordinated loan.

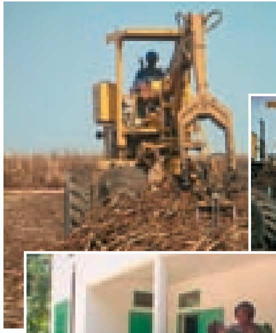
The Moma Titanium project was awarded the Euromoney/Project Finance Magazine prize for 2004 African Mining Deal of the Year.

countries and mobilise domestic savings on a long-term basis, thus strengthening the local capital markets.

In agreement with the IF Committee, the Bank has defined clear guidelines for the issuance of guarantees under the IF and has made good progress in the field. A first operation has been signed with the West-African Regional Development Bank (BOAD), while another has been approved in Chad, aimed at assisting the borrowers to raise funds locally. Similar schemes are being considered in other countries, representing a good basis for the further development of this new instrument. At the end of 2004, guarantees accounted for 5% of the IF's portfolio.

Finally, the development of ***local currency instruments*** under the IF is of considerable help in meeting the requirements of SMEs and other companies with very little or no foreign exchange revenues. Local currency loans, whereby the IF provides loans in the currency of the recipient country and takes on the foreign exchange risk of the operation, accounted for 12% of the IF's portfolio at the end of 2004. In return for the foreign exchange risk assumed and to avoid market distortions, the IF receives a premium based on the difference between interest rates in the local market and the euro market.

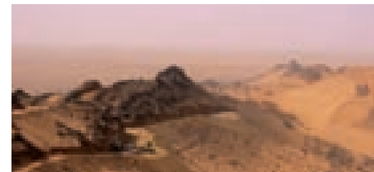
In order to preserve its overall financial viability, the IF operates according to specific credit risk policies which, while reflecting "best banking practice", take into consideration the IF's development objectives as well as its remit to operate in all ACP countries and OCTs and the resulting need to apply sufficient flexibility in implementing those policies. Such policies require pro-active monitoring of the IF's exposure, in particular - but not exclusively - to the various risk-bearing instruments it uses in the course of its operations.



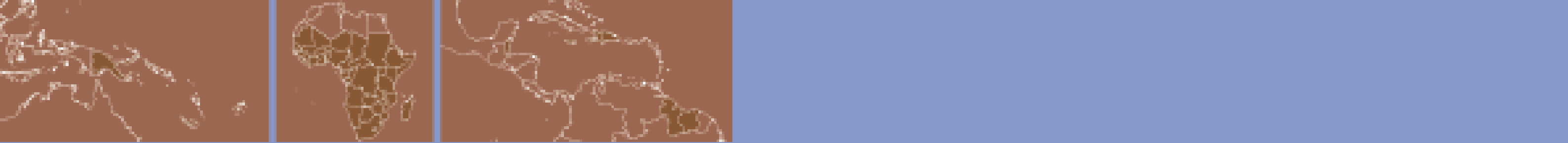
The project **Compagnie Sucrière du Tchad** (CST) involves the modernisation and extension of a sugar complex consisting of a sugar factory and refinery and irrigated sugar cane plantation, located in Banda, in the Chari river valley, 30 km east of Sahr in southern Chad. The project also comprises minor investment in renovating the confectionery and agglomerates factory at Farcha. The investments will be financed through a loan granted by a Central African Economic and Monetary Community (CEMAC) syndicate of banks, which will be guaranteed by the EIB from IF resources, Proparco and DEG. This guarantee will thus enable CST to obtain long-term finance in CFA francs, and will simultaneously allow the banks concerned to use available liquidity for a fully collateralised financing operation while complying with Central African Banking Commission (COBAC) ratios for risk diversification and weighting. The value added of this operation is one of classic credit enhancement.

The operation also provides for the financing of important environmental and social investments by way of subsidy. While the environmental measures consist in particular of the treatment of industrial effluents and the addition of a wet wash filter, social investments concern the construction of eight village wells and 400 latrines. These investments fall within the wider context of CST's vital role in stabilising the social fabric of communities in the region. Healthcare and schooling, for example, extend beyond the community of Banda and represent a substantial expense for CST.

The **El Aouj SA** equity investment - the first direct equity investment under the IF - concerns the execution of a bankable feasibility study on the exploration of Guelb el Aouj deposit, located 50 km from the existing iron ore operations of Société Nationale Industrielle et Minière (SNIM), which is the only iron ore producer in Mauritania and also a leading supplier to Western Europe. It is a long-standing client of the Bank in Mauritania, to which the EIB has extended a number of loans. This operation should enable the promoter, an Australian-based resource company, to decide whether it is worth proceeding with the establishment of a new low-grade iron ore mine and subsequent processing infrastructure designed to produce direct reduction grade pellets for the North African and Middle Eastern markets. Should the outcome of the study be positive, as expected, the pelletisation project will contribute to the development of a low-grade iron ore industry, which is considered to be of long-term strategic importance to the Government of Mauritania. It would also support SNIM's policy of diversification of its core activity, reinforcing its long-term sustainability. It would increase the country's foreign exchange reserves and create more than 1 500 new jobs. Finally, this natural resources utilisation project would contribute to a considerable transfer of skills to the country.



The IF's equity participation in a junior mining company at an early stage of its exploration programme significantly improves the investment profile of the promoter, thereby acting as a catalyst for other sponsors in the operation. At a later stage, the Bank could bring substantial financial value added by contributing to the financing plan of the pelletisation project, either from IF or own resources.



Investment Conditions in the ACPs

In common with other groupings of developing countries, many ACP countries benefited from the incipient global recovery in 2003, a trend that continued in 2004, particularly for oil producers in Central Africa. Nevertheless, volatility is intrinsic to activity in the ACP area, which is highly sensitive to economic and political shocks of both internal and external origin.

ACP economies remain vulnerable to bad weather, disease and political turmoil, while most of them are still hampered by a limited absorptive capacity, poor infrastructure and/or inadequate legal and administrative systems. Overall, most ACP countries continue to face serious development challenges, one of them being the economic impact of HIV/AIDS in sub-Saharan Africa, which is fast becoming a major obstacle to economic development in many countries in the region, in particular in the Southern Africa region.

A more detailed assessment of the situation by region (see attached map of ACPs and OCTs, Annex 1) shows that the economic development of the sixteen countries in **West Africa** is far from uniform, although most of them are to a large extent dependent on the prices of primary commodities, which have been unstable and mostly falling in recent years. Commodity prices remain low by historic standards, but the increases that were experienced in 2003 helped West Africa become the fastest growing region in sub-Saharan Africa in 2003, with real GDP growth of 5.9%. Strong regional growth continued in 2004, helped by over 10% growth on account of oil market developments in Nigeria, the largest economy of the region, with Ghana as a close second. Another factor has been the excellent performance of the agricultural sector in many countries: agriculture dominates the productive sector in the region, representing about 30% of GDP on average and substantially more in countries like Guinea-Bissau, Mali and Niger. However, a number of countries remained politically unstable, with low growth prospects in the short to medium term. The crisis in Côte d'Ivoire continues to affect the region and stagnation seems to have taken hold in the landlocked Sahel countries of the West African Economic and Monetary Union (UEMOA). Senegal, Mauritania and Cape Verde offer sound growth prospects, albeit from a low base as far as the last two are concerned. The late 2004 locust invasion, which affected several West African countries, in particular Mauritania, Senegal, Mali and Niger, could, however, contribute to a slowdown in growth in the region.

The 18 countries located in the **Central and East Africa region** - out of which thirteen rank among the least developed ACP states - present a very heterogeneous picture in terms of size, GDP per capita and natural resources. Market conditions remain difficult in the whole region, albeit to a varying degree. Many countries are still suffering the consequences of the long-lasting crises in the Great Lakes area, while growth and economic development continue to be negatively affected by widespread political tensions and instability, weak administration and poor public infrastructure, as well as an inefficient legal and judicial system. Also, the reliance of the regional economy on oil, in particular in Central Africa, means that its performance can be volatile, in line with oil price fluctuations.

Nevertheless, investment conditions are encouraging in a number of more politically stable countries such as Cameroon, Gabon, Ethiopia, Tanzania, Uganda and Kenya, where structural reforms and privatisation processes have made good progress or where the private sector is traditionally more dynamic. Surging revenues from oil exploitation are likely to foster investment in economic and social infrastructure in Chad, Equatorial Guinea and Sao Tomé. Both the Congos, Rwanda, Sudan and Burundi are still in a transition period, an improvement in the investment climate being largely dependent on the degree of success in achieving balanced macroeconomic ag-

gregates and sustained growth. Countries such as Somalia, the Central African Republic, Djibouti, Sudan and Eritrea are characterised by weak to non-existent governments, ineligibility for the HIPC[3] programme and little potential for attracting foreign direct investment (FDI), while bankable investment projects are scarce.

The performance of the **Southern Africa and Indian Ocean region** is largely driven by the South African economy, which constitutes around 80% of the regional economy and provides a significant part of FDI to other countries in the region. All four SACU[4] States (Botswana, Lesotho, Namibia and Swaziland) continue to offer a propitious environment for business development, in particular functioning legal systems and reasonably good infrastructure, although their absorptive capacity is limited by their relatively small size and the problems associated with the AIDS pandemic. With regard to the rest of the region, investment conditions are improving in the Portuguese-speaking states of Angola and Mozambique: the Angolan economy has gained importance in the region in recent years, despite a still difficult and distorted business environment, while Mozambique has successfully implemented resource-based and pro-business policies. Zambia has large mineral and energy resources and, for almost a decade, the Government has been redressing years of economic mismanagement by fostering pro-business policies, the development of new copper mines and the diversification of the economy into non-mining activities. Debt relief is being addressed within the framework of the HIPC programme. Zimbabwe remains suspended from IF operations in line with overall EU policy until the politico-economic situation improves. Malawi - one of the poorest countries in the region - is highly indebted and with few natural resources, although relief is coming from the HIPC initiative.

In the Indian Ocean, Mauritius is one of the most developed economies in Sub-Saharan Africa: careful economic management has resulted in a good business environment, an efficient legal system and functioning infrastructure and the country has developed successful manufacturing industries, financial services and tourism in the middle- to up-market sector. The Malagasy economy, after contracting significantly in 2002 on account of political unrest, has achieved partial recovery. Institutional stabilisation has facilitated the negotiation of a new arrangement with the IMF and Madagascar reached the completion point of the enhanced HIPC initiative in October 2004. However, the political environment remains fragile and progress in implementing structural reforms has so far been mixed. The small island economies of the Comoros and the Seychelles have both experienced difficulties of mainly political origin and investment opportunities are further restricted by their limited absorptive capacity.

[3] Heavily Indebted Poor Countries
[4] SACU : Southern African Customs Union

The **Caribbean and Pacific countries** are spread across a vast area of the globe, yet in themselves display certain similarities in the development challenges they face, being mostly small island states with limited resource bases, economic and environmental vulnerability and limited access to global markets. With some exceptions (Haiti and the Solomon Islands), virtually all countries potentially have access to IF finance. Located in the more temperate parts of the world with relatively easy access by air to wealthier countries, high-value tourism has been a major growth area for many and looks set to continue to expand.

In the Caribbean region, economic prospects depend to a large extent on the pace of recovery of the global economy, in particular North America and Europe, which provide the bulk of tourists and are the major markets for the commodity exports of the region (significant oil and gas reserves in Trinidad and Tobago, oil in Suriname, potential for forestry and tropical agriculture in Guyana, the Dominican Republic, Haiti and Belize, and large bauxite reserves in Jamaica and Guyana). Extensive hurricane damage has, however, derailed developments in a number of countries, most acutely in Grenada, Jamaica and Saint Vincent and the Grenadines, and it may take some time before economic activity returns to normal. The largest and previously best-performing economy in the region, the Dominican Republic, remains in a difficult situation after the crisis in the banking sector in early 2003. The future outlook largely depends on the authorities' ability to restore confidence in their policy-making, which should be helped by the recent signature of the new Stand-By Arrangement with the IMF, and the country's ability to work out a debt restructuring with its external creditors.

In the Pacific, the previous pattern of relatively low economic growth seems likely to continue in the 14 ACP countries of the region. These countries have a number of characteristics that distinguish them from their African and Caribbean partners, the most obvious one being the significant physical distance between each of the individual islands, as well as between themselves and Europe. Economically, the Pacific ACPs are diverse in their resource endowment and stage of development. Fish, particularly tuna, where stocks are plentiful, and minerals are nevertheless the region's most important assets for economic development, while tourism is a potential engine of economic activity, employment and foreign exchange. Economic performance in Fiji, one of the most developed of the Pacific island economies, has been positively affected in the last two years by the return to a more settled political climate, with GDP growth staging a vigorous recovery in 2002-2004, boosted by strong increases in tourism income and a substantial fiscal stimulus. Papua New Guinea is endowed with considerable natural resources - fertile agricultural land, extensive forestry and fisheries resources, and substantial mineral deposits in addition to oil and natural and gas reserves - and has seen an improvement in macroeconomic performance and management in 2003 and 2004.

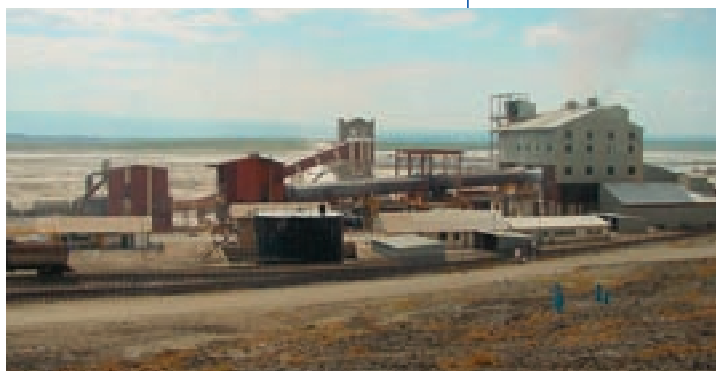
Operations in 2004

The Cotonou Partnership Agreement in general and the IF in particular introduced a different approach to development cooperation from the one that prevailed under the successive Lomé Conventions, with an explicit focus on creating an enabling environment for private investment, notably through the provision of adequate infrastructure and the development of the financial sector, and on the provision of finance for the private sector, the latter being understood in a wide sense and including commercially-run public sector entities. While being bound by the development objectives of the Cotonou Agreement, the IF seeks to be financially successful and thereby to have a high demonstration effect. Being rewarded for the risks taken is therefore essential to the continued existence of the IF.

The IF operates in a volatile environment where conditions can change dramatically in any direction and in any given region or country without notice. Its focus on the private sector nevertheless means that creating value added has become more of a challenge for the IF, while it is dealing with borrowers who are generally more sensitive to lending terms and conditions. In the public sector, the IF's

The **Magadi Soda Pure Ash** project entails the construction by one of Kenya's leading industrial companies of a high-purity natural soda ash plant using a process that meets the market's top quality criteria.

The Bank is providing a US dollar-denominated financing package of senior and subordinated loans from both its own resources and IF resources, in co-financing with the International Finance Corporation (IFC) and the Dutch FMO as guarantor for the Bank's own resources loan. The terms of the IF loan meet the project's requirement for financing that is adapted to the nature and scale of the investment, with a grace period reflecting the construction time, a prerequisite for the project's success. The promoter would otherwise not have had access to such finance on the local or international financial markets.



The project is of important strategic value to the company, as it will enable the promoter, which is also Kenya's largest industrial earner of foreign exchange, to achieve higher sales revenues and position itself better on the international soda ash market. It is fully in line with the Government of Kenya's objectives to improve the country's balance of payments, raise employment and reduce poverty.

ability to lend is significantly constrained in HIPC countries as well as in other developing countries pursuing economic adjustment.

Despite this generally difficult working environment, IF operations gained momentum during 2004, the Facility's first full year of activity. Both tangible and intangible progress was made in the implementation of the IF: the appraisal process commenced on some 44 projects representing close to EUR 1.4 billion of potential financing, while fourteen projects were approved by the EIB's Board of Directors for a total amount of financing of EUR 314 m. Signatures for the year totalled EUR 337 m, corresponding to a 140% increase over 2003, and concerned the following projects:

- An equity investment in the **African Lion Mining Fund II**, a regional fund to invest in early stage equity of mineral resource companies targeting advanced exploration/feasibility and development projects throughout Africa. This operation, which follows on from the successful African Lion Mining Fund I financed with Lomé risk capital resources, corresponds to the general trend in the mining industry whereby exploration has shifted from the large mining companies to small specialised "junior" exploration companies, which are generally underfinanced and dependent on their ability to raise finance via the stock markets. Equity finance through a specialised fund such as African Lion is an appropriate type of financial assistance.

- The reinforcement of the West African regional development bank **(BOAD)**'s activities in favour of the private sector through the increase in the Bank's shareholding and the setting up of a guarantee facility aimed at counter- or co-guaranteeing local bond issues as well as loans to private companies or credit lines to specialised local financial institutions (micro-finance). The operation also comprises a global loan from the Bank's own resources.

- A global loan in favour of **DFCU Leasing**, Uganda's pioneer provider of leasing finance, which is already well known to the Bank. This operation will contribute to broadening the availability of lease finance in the country, thereby encouraging the development of small enterprises, which account for the bulk of job opportunities.

- The establishment of **European Financing Partners (EFP)**, a special purpose vehicle (SPV) jointly owned by the Bank and the European development finance institutions (EDFIs), through which IF contributions will be channelled via a related agency agreement. This instrument is designed to intensify European development finance co-operation in supporting private sector development in the ACP countries.

- A directly financed private sector operation in Botswana in favour of **Fabulous Flowers**, the first floricultural export venture to be established in the country. This project will help to further diversify the Botswanan economy away from mining and will be instrumental in developing a new type of export activity.

- The **Moma Titanium** project involves the construction and operation of facilities for mining, concentration and separation of heavy mineral sands in the North of Mozambique. It will yield substantial benefits for the country's economy via improved transport and

First cathode at Kansanshi Copper Mine project, Zambia, signed in 2003.

In line with the IF's strategy to support initiatives that spearhead the microfinance industry, the Bank acquired an equity stake in **ShoreCap International Ltd (SCI)**, a fund set up mainly to provide equity for micro and small business finance institutions on a profit-oriented basis in developing countries. SCI will also provide governance support and technical assistance in areas such as new product development and improved technologies.

The fund's sponsor, Shorebank Corporation, has a strong reputation as a bank focusing on lower-end clients and poorer communities throughout the United States and has acquired extensive experience in emerging markets over the last 20 years, not only in Asia (the Grameen Bank in Bangladesh and other Bengali and Pakistani microfinance institutions (MFIs) such as BRAC, Proshika and the Aga Khan Rural Support Program) but also in Latin America and Africa, notably through its shareholding in K-Rep, one of East Africa's most successful commercial microfinance banks. Other investors in the fund include the IFC, the Dutch FMO, the Belgian BIO, Finnfund and ABN-AMRO.

energy-related infrastructure, job creation and increased revenues from royalties.

- The **Mozambique-South Africa Natural Gas Project (Upstream Component)** comprises the upstream components, i.e. gas production wells, disposal wells and flow lines, of a large-scale gas export scheme promoted by SASOL of South Africa in partnership with the Governments of Mozambique and South Africa, that will bring natural gas from Mozambique to South Africa, where it will replace coal and coal-based gas. The importance of the Bank and IF contribution to the project lies in the benefits to be derived from the development of an indigenous natural resource and the project's strong regional integration characteristics. This project is one of the winners of the Euromoney/Project Finance Magazine awards for African deals of the year.

- The **Nigeria SME Facility** global loan in favour of local commercial banks aims at financing long-term loans in EUR or USD for small and medium-scale private investment in productive and human capital sector projects in Nigeria. This operation ensures access to long-term funds for top-ranked commercial banks, enabling them to respond to the needs of mainly export-oriented private companies for mid- and long-term credit, and thereby contributing to the country's economic development through job creation, generation of tax revenue and foreign currency generation.

- **Prêt Global II (Gabon)**, a second global loan in favour of two local banks providing medium- and long- term financing to SMEs operating in various sectors. The expected impact of this project resembles that of other similar operations finalised in 2003, notably in Cameroon and Burkina Faso: the injection of long-term local currency resources, which are scarce on the local capital market and the diversification of both the financial sector's funding sources and the country's economy. In addition, the loan has some elements similar to a stand-by facility whereby beneficiary banks may use the loan in order to improve their statutory or regulatory prudential ratios if necessary.

- The **Samoa Venture Capital Fund** is a small new equity fund established in the Pacific region and sponsored by the IFC and AUSaid, the Australian Agency for International Development. The fund targets private sector companies in Samoa and should fill a critical niche in the Samoan financial sector, where local banks are usually extremely risk averse.

- The recently signed **SNIM VII** loan concerns the financing of the new

Mauritius Container Terminal II project, signed in 2004 (own resources).

The project supports the authorities' new approach to developing the sector in manner more in harmony with the local environment by targeting higher-income tourists and visitors. The flexible terms of the IF financing have been crucial in bridging a financing gap between scarce equity resources and the readily available senior debt of commercial banks.

In addition to the above, the Bank has so far signed some EUR 68 m from its own resources, mainly in the framework of financing packages that include both the Bank's own resources and IF resources, thereby indicating the complementarity between the two funding sources. The so far relatively low level of signatures under own resources mainly reflects the limited borrowing capacity of ACP countries. Possibilities of enhancing the use of own resources for private sector operations are currently being investigated.

Guelbs power station, which supplies the company's installations and the mining town. The project will help to bolster the long-term competitiveness of SNIM's mining activities and thus safeguard Mauritania's principal source of foreign exchange earnings, by maintaining and enhancing the reliability of the company's operations.

The structure and terms of the IF financing are close to those prevailing on the international markets and are well suited to SNIM's commercial activity. Co-financing with Agence Française de Développement (AFD) is contributing to the diversification of SNIM's funding sources.

In Burkina Faso, the co-financing with AFD, among others, of a 340 km electricity interconnection between Bobo-Dioulasso and Ouagadougou, to be implemented by **SONABEL**, the state enterprise which is due to be privatised in the short term. This project, which is an EU priority project supported by the West African Power Pool, will provide additional capacity to cope with the seasonal demand peaks and expected growth in demand by enabling the importation of hydro-electric energy from Ivory Coast, thereby reducing the reliance on less competitive locally produced thermal energy.

The IF is contributing to the development of the tourism sector in the Caribbean region as illustrated by the **Westin Macao Resort** project, which comprises the construction of a low-density, high-grade hotel and resort community in the Dominican Republic.

The **Novotel Denarau** project involves the construction of a luxury resort hotel on Fiji's Coral Coast and is expected to provide a significant boost to the local tourism sector, which is key to Fiji's economy. It is the first major hotel development in Fiji since the country's political situation returned to normal after the May 2000 coup. The financing package offered by the Bank comprises both own resources funds and a participating loan from IF resources (indirect equity).

The table below summarises the main features of the projects signed during the year:

Name	Region/Country	Sector	Nature of operation	Amount (in EUR m)
AFRICAN LION MINING FUND II	Regional - Africa	Industry, mining	Equity	7.00
BOAD IV	Regional - West Africa	Financial sector[1]	Guarantee and equity	29.60
DFCU LEASING GLOBAL LOAN	Uganda	Financial sector	Local currency loan	5.00
EDFI EUROPEAN FINANCING PARTNERS (EFP)	ACP States	Financial sector	Agency agreement	90.00
EUROPEAN FINANCING PARTNERS (EFP)	ACP States	Financial sector	Equity	0.01
FABULOUS FLOWERS	Botswana	Floriculture	Subordinated loan	2.00
MAGADI SODA PURE ASH PROJECT	Kenya	Industry, mining	Senior and subordinated loans	12.99
MOMA TITANIUM MINERALS	Mozambique	Industry, mining	Senior and subordinated loans	55.00
MOZ/RSA NATURAL GAS-UPSTREAM COMPONENT	Mozambique	Energy	Ordinary loan	10.00
NIGERIA GLOBAL LOAN	Nigeria	Financial sector	Ordinary loan	50.00
NOVOTEL DENARAU PROJECT (IF)	Fiji	Tourism	Indirect equity	5.00
PRET GLOBAL II (GABON)	Gabon	Financial sector	Local currency loan	10.00
SAMOA VENTURE CAPITAL FUND	Samoa	Financial sector	Equity	0.35
SHORECAP INTERNATIONAL LTD (SCI)	ACP States	Financial sector	Equity	2.50
SNIM VII	Mauritania	Energy	Senior loan	22.50
SONABEL III	Burkina Faso	Energy	Subordinated loan	15.25
WESTIN MACAO RESORT	Dominican Republic	Tourism	Subordinated loan	20.00
			TOTAL	**337.20**

[1] *Financial sector (i.e. intermediaries through global loans or equity funds which do not specifically target one sector)*

A list of contracts from the Bank's own resources signed in 2004 is given in the table below:

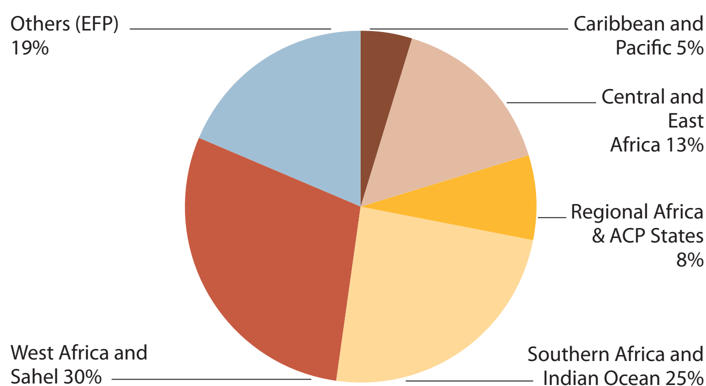
Name	Region/country	Sector	Nature of operation	Amount (in EUR m)
NOVOTEL DENARAU	Fiji	Tourism	Senior loan	6.00
MAGADI SODA PURE ASH	Kenya	Industry, mining	Senior loan	8.93
VINLEC V	St Vincent & Grenadines	Energy	Senior loan	8.30
BOAD PG IV A	West Africa	Financial sector	Global loan	25.00
MAURITIUS CONTAINER TERMINAL II	Mauritius	Transport infrastructure	Senior loan	14.00
			TOTAL	**62.23**

Portfolio Overview

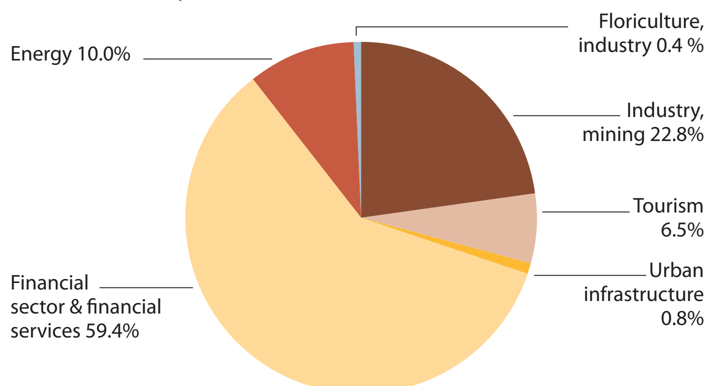
After 21 months of activity, the IF is steadily building up a diversified portfolio of investments in all the ACP regions. Although it is still premature to draw conclusions at this early stage, an analysis of the portfolio demonstrates a clear emphasis on the private sector, which accounted for close to 90% of the total portfolio at the end of 2004. This is fully in line with the spirit of the Cotonou Agreement. Also, good progress has been made in developing the wider range of financial instruments available, including equity and guarantees.

The **infrastructure sector**, essentially comprising energy and power, water, telecommunications and transportation, continues to represent a major focus for the IF, in line with the development community's recognition of this sector's key role in achieving the objectives of the UN Millennium Development Goals and encouraging private sector investment. However, so far, the IF's ability to finance infrastructure projects in a number of HIPC or other developing countries pursuing economic adjustment has been constrained by the conditions imposed for contracting public sector debt under the IMF and World Bank programmes. These provide in particular for the inclusion of a large grant element entailing a correspondingly high level of subsidisation. Consequently, the relevant Annex to the Cotonou Agreement will be amended in order to ensure that the IF will in the future be in a position to offer terms that are sufficiently concessional to meet the constraints resulting from the IMF-supported programmes. This measure should allow the IF to gain significant flexibility to operate in the public sector and to participate in the financing of a larger portion of much-needed key infrastructure investments.

IF cumulative signatures Breakdown by region



IF cumulative signatures Breakdown by sector



The **financial services sector** has so far benefited from nearly 60% of the IF lending. Within this category, global loans or investment specifically targeting the financial sector - the development of which is one of the key objectives of the Cotonou Agreement - account for 33.5% of the overall portfolio. The balance generally relates either to equity investments in funds not targeting a particular sector or to the agency agreement with the EDFIs.

With regard more specifically to individual regions, the breakdown generally reflects the structure of the economy of each region with, for instance, tourism predominating in the Caribbean and Pacific region and mining in Southern Africa.

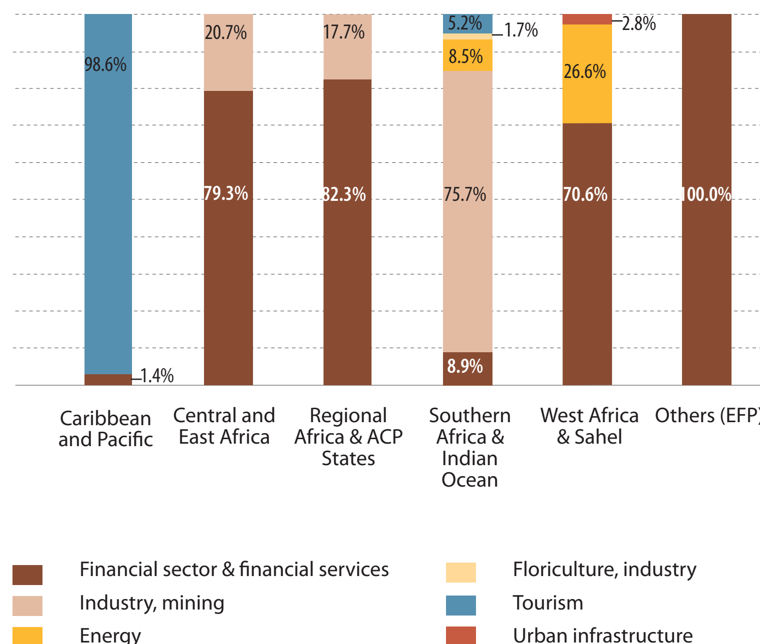
Regional operations covering the whole of the ACP or the Africa region account for 8% of the IF portfolio. The EFP Agency Agreement (a large operation at EUR 90m) cannot be classified more specifically until the funds have been fully allocated to individual projects. These operations also reflect a clear emphasis on reinforcing cooperation with the Bank's European peer institutions in support of the development of the ACP private sector.

Prospects for 2005, based on projects at an advanced stage of approval or in the pipeline, indicate that the share of infrastructure projects - notably energy, water, telecommunications and transportation - in the IF portfolio is likely to increase.

Interest rate subsidies

The Cotonou Agreement provides for an interest rate subsidies endowment of some EUR 187 m, which is available to increase the concessionality for both the Bank's own resources and IF loans under specific conditions[5]. The **Sonabel III** project in Burkina Faso is a good illustration of the use - and the need for adequate flexibility - in the financing terms of key infrastructure projects such as power supply. The purpose of this project is to provide a cost-efficient supply to meet growing power demand in the capital of Burkina Faso, which is beginning to suffer from load shedding. The subsidised IF financing will provide long-term resources on appropriate terms - i.e. relatively concessionary - for an investment in public infrastructure that is vital for a landlocked country such as Burkina Faso. While forming part of an investment programme implemented in connection with the privatisation of the sector, the project presents substantial economic, environmental and social benefits, including the limitation of requisite tariff adjustments - in particular the social tariff for the poor - and the reduction in the use of thermal energy in Burkina Faso through the import of hydroelectric energy from Côte d'Ivoire. As at 31 December 2004, some EUR 6.3 m of subsidies had been approved and it is expected that a significant portion of the interest rate subsidies endowment will be earmarked by the end of 2005.

IF cumulative signatures
Breakdown by region and sector



[5] *Annexe II, Article 2 (7): "Ordinary loans may be extended on concessional terms and conditions in the following cases :*

(a) for infrastructure projects in the Least Developed Countries or in post-conflict countries that are prerequisites for private sector development ....

(b) for projects which involve restructuring operations in the framework of privatisation or for projects with substantial and clearly demonstrable social or environmental benefits ... "

Partnership

The EIB cooperates with the Commission and the international financial institutions (IFIs) through regular consultation, project co-financing and joint participation in working groups, an activity which gained significant momentum during 2004.

After the launch at the end of 2003 of European Financing Partners (EFP), a special purpose vehicle (SPV) jointly owned by the EDFIs and the EIB (on behalf of the IF), for the purpose of co-investing in suitable private sector projects, a further significant step was the signature in April 2004 of an EUR 90 million agency agreement between the EDFIs and the Bank, which is managed through EFP. Practical implementation of the Framework Agreement on Financial Cooperation between the Bank and the EDFIs has progressed satisfactorily: a first disbursement took place before the year-end in favour of Guaranty Trust Bank, an FMO client and leading commercial bank in Nigeria, which will provide medium-term USD financing to Nigerian companies which do not have access to the domestic capital markets. A second disbursement was made just after the year-end in favour of the Digicel group of companies, which is the number one cellular phone operator in the English-speaking Caribbean. Preliminary results indicate positive prospects for an intensification of European development finance cooperation in supporting private sector development in the ACP countries during 2005.

A key feature of institutional cooperation lies in the promotion of a consistent approach between the Bank in general, and the IF in particular, and the various multilateral development banks (MDBs) and IFIs. This is particularly important in reinforcing cooperation on sectoral policies or specific issues such as procurement and the environment, the HIPC initiative and the fight against corruption and money laundering. A number of high-level meetings took place with the World Bank and the Commission, while contacts and exchanges of information at project level were reinforced, with a view to outlining the funding possibilities available under the IF to possible co-financing partners (MDBs, IFIs and EDFIs).

In May 2004, the EIB hosted a meeting of the West Africa Power Pool (WAPP), involving power utilities and interested donors (IBRD, ADB, AFD, USAID, BOAD and the European Commission) under the chairmanship of the ECOWAS Secretariat. WAPP, which was created in 1999 to set up a regional market for electricity throughout the ECOWAS region, comprising fourteen countries in West Africa, involves identifying and prioritising generation and transmission projects, creating a regional regulatory framework and an observatory for West Africa and harmonising environmental guidelines across the region. By hosting this donors' coordination meeting, the Bank reaffirmed its commitment to supporting the energy sector in the region, in which it has always been very active.

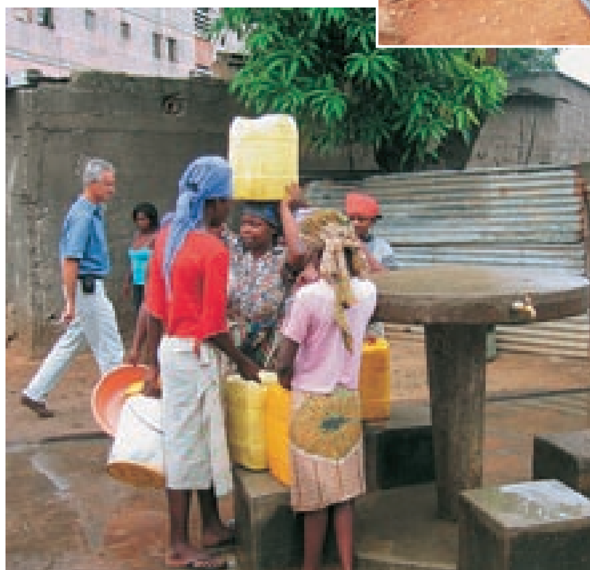
Dr Polte, EDFI Chairman, and Mr Gersfelt, EIB Vice-President

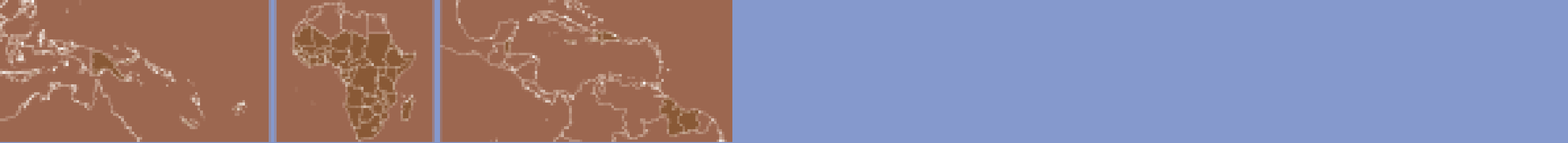
EU Water Initiative and the ACP-EU Water Facility

The EIB plays an active role in the EU Water Initiative. Launched at the Johannesburg Summit in 2002 and initially focused on Africa, the Initiative's broad goal is to improve cooperation, coordination, policy coherence and demand responsiveness in the water sector in ACP countries. To add a financial dimension, the European Commission has proposed an EU Water Facility as a dedicated instrument under the Cotonou Agreement, providing funds for technical assistance and to allow for additional investment. A first tranche of EUR 250 million was allocated in November 2004, with a possibility to increase it to EUR 500 million. The Bank has already identified a number of projects and plans to further increase the level of its activity in the water supply, wastewater and sanitation sector.

This initiative is a good example of cooperation with other IFIs: considerable donor coordination is taking place beyond project level, which is vital in strengthening the institutional framework surrounding IF-funded projects, making sure that the right pre-requisites for appropriate and productive PPPs are in place. Continued participation by the Bank's sector experts in international donor meetings - such as the World Bank's and African Development Bank's Water Weeks - is an integral part of such activity and strengthens other donors' perception of the Bank and the IF as a partner in the definition of common strategies. This greatly increases the number of opportunities and enhances the potential success of using IF funding in the water sector.

Maputo water supply, Mozambique





Costs and Revenue of the IF

The more sophisticated objectives of the IF, the greater range and complexity of the instruments to be deployed and the increased emphasis on support for the private sector and the development of the ACP financial sector all imply a greater input of staff and management resources to the IF compared with the previous risk capital operations under the Lomé Convention.

Accordingly, the EU Member States have agreed to remunerate the EIB for its management of the IF on a cost-recovery basis and, in accordance with industry practice, for an amount up to an agreed ceiling. As the EIB is still in the process of recruiting more staff and building up its organisation progressively to meet the expansion of its activities and its growing needs for specific expertise, for the moment the ceiling is some way from being reached.

The costs incurred by the Bank for managing the IF in 2004 are summarised below. They include the direct costs incurred by the operational directorates and, pro rata, the costs of the non-operational directorates and other overheads. On the revenue side, the principal source of revenue is the fees due from the Member States, supplemented by appraisal fees charged by the Facility for specific projects.

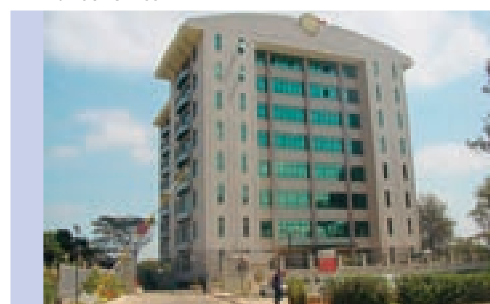
Costs and revenues for 2004[6] are summarised in the table below:

Investment Facility - Costs and Revenue
(in EUR '000)

		Year: 2004
Total expenses		**26 073**
Of which:	Operational directorates	17 291
	Non-operational directorates and overheads	8 872
Revenue		**26 073**
Of which:	Fees charged to the Member States	25 580
	Project appraisal fees	493

[6] *These figures are based on the estimate of costs for 2004; the actual figures are currently under review.*

Nairobi Office



Organisation and Staffing

The ACP-IF Department, which falls within the Directorate for Lending Operations outside Europe, is responsible for the management of all projects and other EIB activities in the ACP countries and OCTs. To this end, it draws on the services of the Bank's Project, Legal and Risk Management and Finance Directorates for their input into the analysis and monitoring of operations. It also avails itself of the services of the Bank's non-operational support directorates (Human Resources, Information Technology, etc.).

The ACP-IF Department comprises four geographical divisions responsible for operations and two horizontal divisions for Resources and Development and for Portfolio Management and Strategy.

- The Resources and Development Division supports the geographical divisions in introducing new financing instruments in capital market, corporate finance and project finance operations, including new operational policies and guidelines. It is intended to become a centre of expertise and repository of best practice.

- The Portfolio Management and Strategy Division is responsible for monitoring and reporting on the IF's performance objectives and financial management, as well as for business planning and policy, and financial and non-financial relationships with other donors.

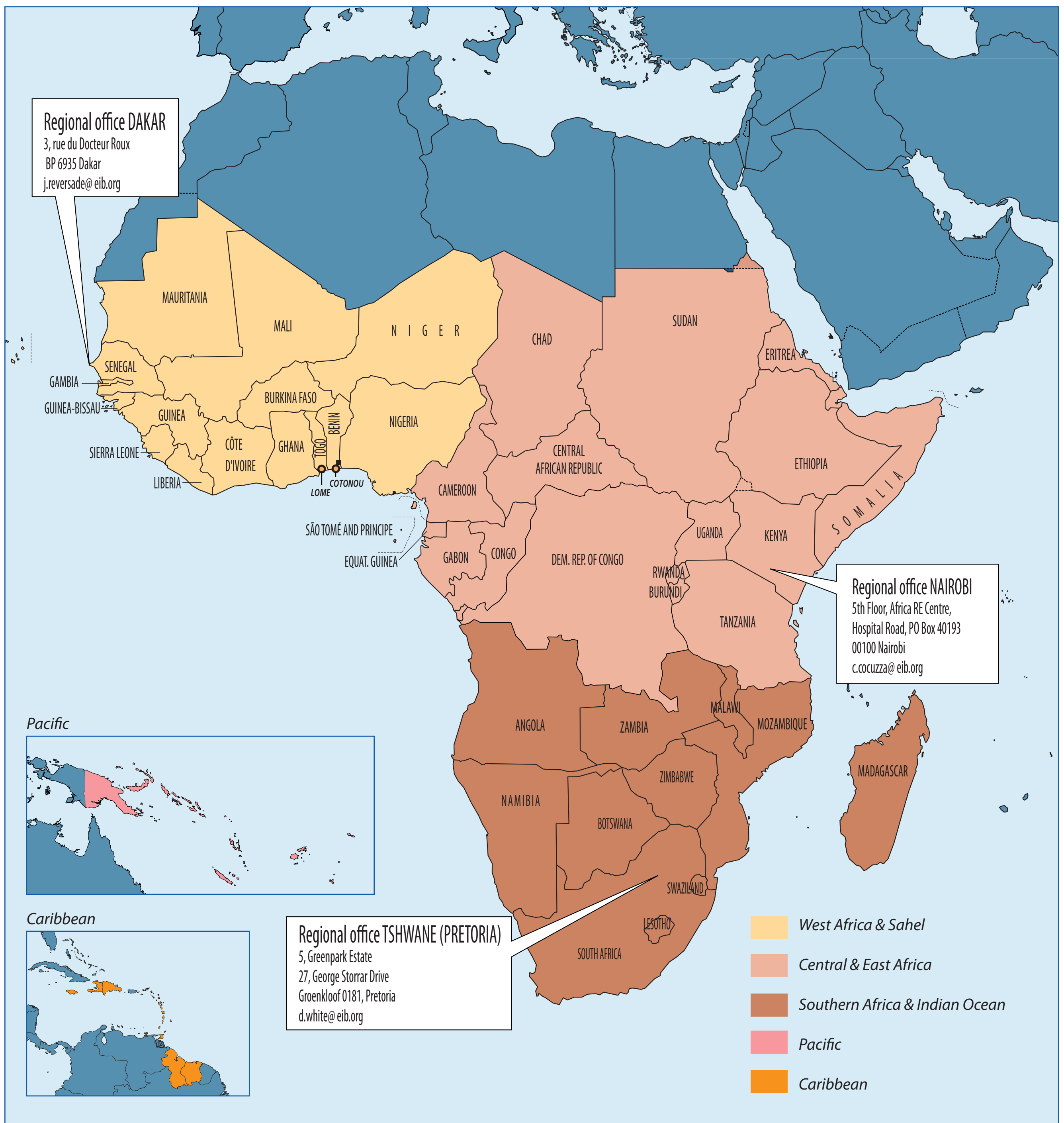
The opening of Bank/IF regional representations in Dakar, Nairobi and Tshwane (Pretoria), initially planned to take place during 2004, was delayed due to unforeseen institutional problems, which have now been solved. The regional representations' staff are already on site and are operational. Official inauguration of the new offices is due to take place during the first half of 2005. The possibility of opening regional offices for both the Caribbean and Pacific regions is currently being investigated.

Jack Reversade, Cristina Mejia Garcia in Dakar

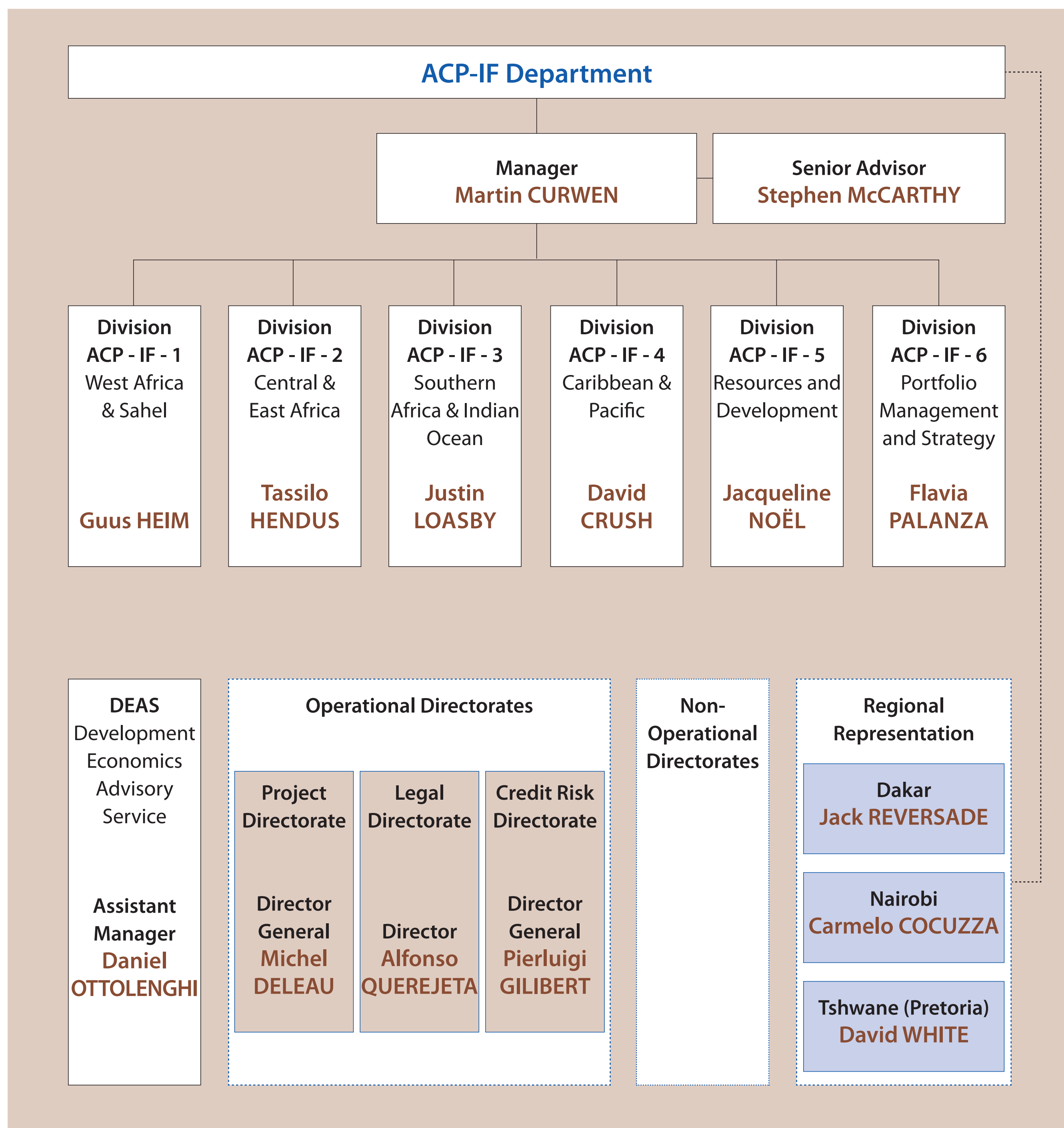
David White, Lena Eriksson in Pretoria

2004 saw the consolidation of the organisational structure of the ACP-IF Department and other operational directorates, after the restructuring and substantial recruitment of the previous year. A total of 55 staff are directly assigned to operations in the ACP countries, both in the ACP-IF Department and in the Project, Legal and Risk Management Directorates. A substantial amount of additional services is also made available by other non-operational directorates. New recruitments are expected to take place during 2005, both to reinforce the existing front office staff and to meet the Department's need to adequately monitor its portfolio of projects in the ACP States. Maintaining the quality of the portfolio through adequate and proactive monitoring is key to ensuring the IF's sustainability.

Annex 1 - Map of ACPs and OCTs



Annex 2 - Organigramme



Annex 3 - Financial Statements as at 31 December 2004

(in EUR '000)

BALANCE SHEET		
ASSETS	**Year ended 31.12.2004**	**Initial accounting period ended 31.12.2003**
Loans and advances to credit institutions		
Other loans and advances (Note D)	11 790	67 473
Loans (Note E)	7 804	-
Loans and advances to customers		
Loans (Note E)	78 664	-
Shares and other variable-yield securities (Note C)	11 787	3 693
Member States' contribution to Facility, called but not paid (Note G)	60 000	133 487
Other assets		
Currency swap contracts adjustment account	139	-
Prepayments and accrued income (Note F)	318	-
TOTAL ASSETS	**170 502**	**204 653**
LIABILITIES	**31.12.2004**	**31.12.2003**
Member States' contribution to Facility, called (Note G)	165 000	205 000
Reserves		
Loss brought forward	(347)	-
Accruals and deferred income (Note F)	1	-
Profit/(loss) for the financial year/period	5 848	(347)
TOTAL LIABILITIES	**170 502**	**204 653**
OFF-BALANCE-SHEET ITEMS	**31.12.2004**	**31.12.2003**
Commitments		
Undisbursed loans (Note E)		
- credit institutions	186 884	40 000
- customers	102 812	44 100
Undisbursed commitment in respect of equity investments		
- investments in venture capital enterprises	52 285	52 010
- investments in other enterprises	4 600	-
Guarantees in respect of loans granted by third parties		
Drawn	-	-
Undrawn	25 000	-
Nominal value of currency swap contracts payable	5 873	-
Nominal value of currency swap contracts receivable	6 012	-
PROFIT AND LOSS ACCOUNT	**31.12.2004**	**31.12.2003**
Interest and similar income (Note H)	1 780	-
Commission (Note I)	5 048	-
Result on financial operations (Note J)	(980)	(347)
Profit/(loss) for the financial year/period	**5 848**	**(347)**

The notes in brackets refer to the Notes to the Financial Statements.

Notes to the Financial Statements as at 31 December 2004

Note A - General

The Investment Facility (the "Facility") was established within the framework of the Cotonou Agreement (the "Agreement") on cooperation and development assistance negotiated between the African, Caribbean and Pacific Group of States ("the ACP States") and the European Union and its Member States on 23 June 2000.

The Facility is managed by the European Investment Bank (the "EIB" or the "Bank"). Under the terms of the Agreement up to EUR 2 200 million for the ACP and EUR 20 million for the OCTs (as agreed by the Council Decision of 27 November 2001 on the association of the Overseas Countries and Territories with the European Community) may be allocated to finance the Facility. Within the framework of the Agreement, the EIB also manages loans granted from its own resources. All other financial resources and instruments under the Agreement are administered by the European Commission.

These financial statements relate only to the operations of the Facility. Under the Council Decision of 8 April 2003, the Member States agreed to cover in full the expenses incurred by the Bank for the management of the Facility for the first 5 years of the 9th European Development Fund. Accordingly, these financial statements exclude such expenses.

Under the terms of the Facility and in accordance with the Financial Regulation applicable to the 9th European Development Fund, the funds received by the EIB on behalf of the Facility are recorded separately. Interest on these deposits, placed by the Facility with the EIB, is not accounted for by the Facility as it is payable directly to the European Commission.

Reflows, being repayment of principal or interest or commissions stemming from financial operations, and interest calculated on reflows are accounted for within the Facility.

Note B - Significant accounting policies

B.1. Accounting standards

These financial statements have been prepared in accordance with the general principles of Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 (as amended by Directive 2001/65/EC of 27 September 2001) on the annual accounts and consolidated accounts of banks and other financial institutions (the "Directive").

B.2. Foreign currency translation

The accounts of the Facility are expressed in euros.

For the presentation of the financial statements, assets, liabilities and off-balance-sheet items denominated in currencies other than the euro are translated into euros at the spot rates of exchange prevailing on the balance sheet date.

The profit and loss accounts are translated into euros monthly on the basis of the exchange rates prevailing at the end of each month. Exchange differences arising on translation are recorded as a currency gain or loss in the profit and loss account.

B.3. Financial assets

Financial assets are accounted for using the settlement date basis.

B.4. Shares and other variable-yield securities

B.4.1. Investments in venture capital enterprises

Investments in venture capital enterprises represent shares and other variable-yield securities acquired for the longer term in the normal course of the Facility's activities and are shown in the balance sheet at their original purchase cost.

Based on the reports received from fund managers up to the balance sheet date, the portfolio of Venture Capital Investments is valued on a line-by-line basis at the lower of cost or attributable net asset value ("NAV"), thus excluding any attributable unrealised gain that may be prevailing in this portfolio.

The attributable NAV is determined through applying either the Facility's percentage ownership in the underlying vehicle to the NAV reflected in the most recent report or, to the extent available, the value per share at the same date, submitted by the respective fund manager. The attributable NAV is adjusted for events having occurred between the date of the latest available NAV and the balance sheet date to the extent that such adjustment is considered to be material.

Unrealised losses due solely to administrative expenses of venture capital funds in existence for less than two years at the balance sheet date are not taken into consideration in determining the attributable NAV.

B.4.2. Investments in other enterprises

Investments in other enterprises represent shares and other variable-yield securities acquired for the longer term in the normal course of the Facility's activities and are shown in the balance sheet at their original purchase cost.

These investments are revalued on a line-by-line basis at the lower of cost or market, thus excluding any attributable unrealised gain that may be prevailing in this portfolio.

B.5. Provisions

As disbursements of loans to customers and investments occurred mainly within the last twelve months, no significant requirement for provisions for decline in value of these items was identified as at 31 December 2004.

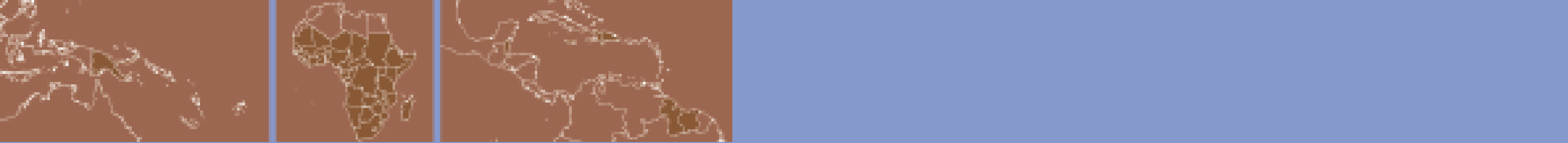
B.6. Taxation

The Protocol on the Privileges and Immunities of the European Union, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, stipulates that the assets, revenues and other property of the institutions of the Union are exempt from all direct taxes.

B.7. Swaps

In the normal course of its activity, the Facility may enter into swap contracts with a view to hedging specific lending operations, denominated in currencies other than the euro, in order to offset any gain or loss caused by foreign exchange rate fluctuations.

The net result on hedging operations is recognised in the profit and loss account.



Note C - Shares and other variable-yield securities (in EUR '000)

	Purchase price at the beginning of the period	Additions	Disposals	Foreign exchange adjustments	Purchase price at the end of the year	Cumulative value adjustments at the end of the year	Carrying amount at the end of the year
Investments in venture capital enterprises	3 693	4 495	-	(574)	7 614	-	7 614
Investments in other enterprises (*)	-	4 173	-	-	4 173	-	4 173
Shares and other variable-yield securities	**3 693**	**8668**	-	**(574)**	**11 787**	**-**	**11 787**

(*) This item contains 17 361 104 ordinary shares in Kenmare Resources Plc received as commission on a subordinated loan granted to Moma Titanium Minerals (see Note I). The initial value of these shares (EUR 4 166 665) is based on the quoted share price in EUR at the date of transfer of ownership.

Note D - Loans and advances to credit institutions - Other loans and advances (in EUR '000)

As at 31 December 2004, other loans and advances to credit institutions were as follows:

	Less than 3 months	
	2004	**2003**
Term deposits - Member States' contributions		
European Investment Bank (*)	9 336	67 473
Term deposits - Facility reflows		
European Investment Bank (*)	2 454	-
	11 790	**67 473**

(*) Under the terms of the Facility and in accordance with the Financial Regulation applicable to the 9th European Development Fund, the funds received by the EIB on behalf of the Facility are recorded separately. Interest on these deposits is not accounted for by the Facility but is payable by the EIB to the European Commission.
Reflows and interest calculated on reflows belong to the Facility.

Note E - Summary statement of loans (in EUR '000)

Aggregate loans granted (1)	to intermediary credit institutions	directly to final beneficiaries (2)	**31.12.2004**	**31.12.2003**
Disbursed portion	7 804	78 664	86 468	-
Undisbursed loans	186 884	102 812	289 696	84 100
Aggregate loans granted	**194 688**	**181 476**	**376 164**	**84 100**

(1) Aggregate loans granted comprise both the disbursed portion of loans and the portion still to be disbursed.
(2) Of which EUR 114 372 333 subordinated as follows:

- Disbursed	*66 890 317*
- Undisbursed	*47 482 016*
	114 372 333

Note F - Prepayments and accrued income - Accruals and deferred income (in EUR '000)

	31.12.2004	**31.12.2003**
Prepayments and accrued income		
Interest and commission receivable	318	-
	318	**-**
Accruals and deferred income		
Interest and commission payable (*)	1	-
	1	**-**

(*) Net interest payable on swap contract

Note G - Member States' contribution to Facility (in EUR)

The Member States' called contributions to the Facility amount to EUR 165 million of which EUR 105 million has been paid in.
In 2004, a prior contribution amounting to EUR 100 million, called but not paid in as at 31 December 2003, was cancelled retroactively at the request of the Member States participating in the 9th European Development Fund.
The statement of Member States' contributions to the Facility as at 31 December 2004 is as follows:

Member States	Total	Unpaid	Paid in
Austria	4 372 500	1 590 000	2 782 500
Belgium	6 468 000	2 352 000	4 116 000
Denmark	3 531 000	1 284 000	2 247 000
Finland	2 442 000	888 000	1 554 000
France	40 095 000	14 580 000	25 515 000
Germany	38 544 000	14 016 000	24 528 000
Greece	2 062 500	750 000	1 312 500
Ireland	1 023 000	372 000	651 000
Italy	20 691 000	7 524 000	13 167 000
Luxembourg	478 500	174 000	304 500
Netherlands	8 613 000	3 132 000	5 481 000
Portugal	1 600 500	582 000	1 018 500
Spain	9 636 000	3 504 000	6 132 000
Sweden	4 504 500	1 638 000	2 866 500
United Kingdom	20 938 500	7 614 000	13 324 500
TOTAL	**165 000 000**	**60 000 000**	**105 000 000**

Note H - Interest and similar income (in EUR)

	31.12.2004	31.12.2003
Interest and similar income		
Interest on deposits	6 406	-
Interest on loans	1 774 067	-
	1 780 473	**-**

Note I - Commission (in EUR)

The Facility has received commission amounting to EUR 5 047 610, including EUR 4 166 665 represented by 17 361 104 shares in Kenmare Resources Plc received as commission in kind (see Note C).

Note J - Result on financial operations (in EUR)

Some investments in venture capital operations and loans were disbursed and are denominated in currencies other than the euro; the exchange loss recorded results from the depreciation of those currencies against the euro between the time of disbursement and the financial year-end (see Note B2).
In 2004, the Facility entered into a swap contract to hedge a position held in USD. The net result on hedging operations represents the revaluation of swap positions as at 31.12.2004.

As at 31 December, the result on financial operations comprised:

	31.12.2004	31.12.2003
Net gain on hedging operations	139 063	-
Net loss arising from foreign exchange variations	(1 119 084)	(346 782)
Other financial operations	(68)	-
	(980 089)	**(346 782)**

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Report of the Auditor

The Chairman of the Audit Committee
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the accompanying financial statements of the Investment Facility for the year ended December 31, 2004. These financial statements are the responsibility of the management of the European Investment Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give, in accordance with the general principles of the Directive of the European Union on the annual accounts of banks and other financial institutions, a true and fair view of the financial position of the Investment Facility as at December 31, 2004 and of the results of its operations for the year then ended.

ERNST & YOUNG
Société Anonyme

Luxembourg, 3 March 2005

Kenneth A. Hay

The Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the financial statements for the past financial year.

Statement by the Audit Committee[1]

The Committee, instituted in pursuance of Article 14 of the Statute and Article 25 of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports and noted that their opinion on the financial statements is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the financial period ending on 31 December 2004 as drawn up by the Board of Directors at its meeting on 3 March 2005,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

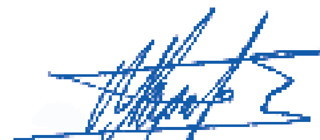
confirms that the activities of the Investment Facility are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the Investment Facility have been conducted and its books kept in a proper manner and that, to his end, it has verified that the Investment Facility's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the profit and loss account, and the notes to the financial statements give a true and fair view of the financial position of the Investment Facility as at 31 December 2004 in respect of its assets and liabilities, and of the results of its operations for the year then ended.

Luxembourg, 3 March 2005
The Audit Committee

M. COLAS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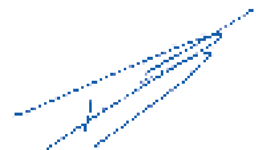
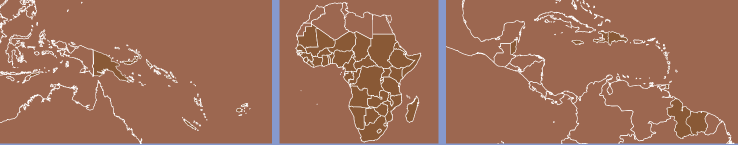

R. POVEDA ANADÓN

1) The Financial Regulation applicable to the 9th European Development Fund in Article 112 with regard to the operations managed by the European Investment Bank states that these operations shall be subject to the audit and discharge procedures laid down in the Statutes of the Bank for all of its operations. On this basis, the Audit Committee issues the above statement.



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Layout: EIB Graphics Workshop.
Photos: EIB Photographic Library.
Printed in Luxembourg by Imprimerie Centrale.

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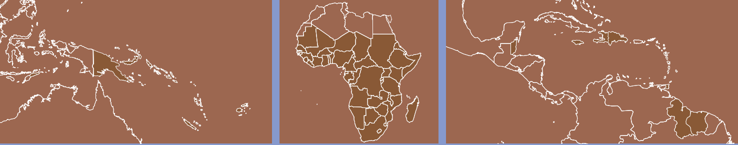

ISSN 1725-924X

ISBN 92-861-0296-8

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