

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(94) 543 final
Brussels, 02.12.1994

94/ 0276 (CNS)

Proposal for a

COUNCIL DECISION

granting a Community guarantee to the European Investment Bank against losses under
loans for projects in South Africa

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. Introduction.

Following the Council Decision of last December ⁽¹⁾ on a joint action concerning support for the transition towards a democratic and multiracial South Africa, the Council adopted on 19 April 1994 a package of immediate measures to be presented and discussed with the new South African government ⁽²⁾. The Union thus sends a strong signal to the political authorities and to the South African population as regards the Union's determination to support the emerging democracy and its willingness to contribute to the reconstruction and economic development of the country.

The package of immediate measures includes among its main features trade and economic cooperation and, in particular, it calls for a consultation with the European Investment Bank regarding the expansion of its activities to South Africa. The package also included an offer to conclude a Co-operation Agreement.

On 4 October 1994, the Council approved a Co-operation Agreement between the Community and the Republic of South Africa providing thus the legal base for the Union to develop general and specific co-operation programmes with the New South African government. The Agreement, signed on 10 October 1994, is a further step in the development of the Union's long-term relationship with South Africa.

The present Communication, in whose preparation the EIB has been fully associated, concerns loans by the Bank for capital investment projects in South Africa.

2. Objective and utility of EIB lending

South Africa benefits from good physical infrastructure, an advanced financial system and relatively low foreign debt. There is, however, still much need for infrastructure investment requiring external financing, in both urban and rural areas where large sections of the population lack basic facilities.

The EIB intervention aims to provide finance for specific infrastructure projects and for projects in the energy and industrial sectors (including small and medium scale enterprises) and to contribute in this manner to the economic rehabilitation of the new South Africa. When providing finance, the EIB also serves to ensure the overall quality of the projects concerned. Its terms and conditions demand that projects contribute to an increase in economic productivity in general and in the case of projects in the productive sector, debt service must be covered by operating revenues. This drive for quality is particularly important given the need for new investment. Furthermore, the Bank's staff have long experience and proven expertise in this area.

Where appropriate EIB lending can be made in conjunction with budgetary expenditure specified in the package of immediate measures. The EIB and the Commission will cooperate in all cases where this complementarity would be appropriate.

(1) Council Decision 93/678/CFSP of 6 December 1993

(2) Bull. UE 4-1994.

3. Volume of lending and guarantee.

It is proposed that the total value of the loans granted by the EIB in South Africa should not exceed ECU 300 million over an indicative period of two years.

The EIB is bound by its Statutes to take adequate guarantees. In particular, when the Community invites the Bank to intervene in third countries, loans are guaranteed by the general budget of the Community ⁽¹⁾. Given the nature of the economic and political changes in South Africa and the Bank's lack of previous experience in this country, it is sensible that a full coverage should be granted to the Bank's operations. Similar measures have been undertaken with respect to EIB loans in Central and Eastern European countries ⁽²⁾ and Latin American and Asian countries ⁽³⁾.

The EIB loans to South Africa are subject to the arrangements set out in the Regulation ⁽⁴⁾ establishing a guarantee Fund for the Community's external lending activities.

4. Conclusion.

The Commission proposes to the Council:

- to invite the EIB to extend its lending operations to investment projects in South Africa under its usual terms and conditions;
- to decide that, subject to the approval of the EIB Board of Governors, EIB loans for a maximum sum of ECU 300 million over an indicative period of two years should be made available to South Africa. These loans will be covered in full by the Community guarantee.
- to adopt the attached Decision.

(1) Except in the case of ACP countries where the guarantee is provided by the Member States.

(2) Council Decision 93/115/EEC of 23 February 1993

(3) Council Decision 93/696/EC of 23 December 1993

(4) Council Regulation...

CONDITIONS OF EIB LOANS

In general terms, the EIB operates in third countries as it does in the Community. The Bank issues bonds and makes loans, passing on to the borrower, following the customary rules, the conditions obtained by the Bank.

1. **Currencies:** *disbursements are made in one or several currencies, following the customer's requirements and the Bank's resources. In all cases, the credit is denominated in ECU.*

2. **Duration:** *this is a function of the type of projects and the nature of the borrowing. In general:*
 - *industrial projects: 8 to 10 years;*
 - *infrastructure projects: 12 to 20 years.*

3. **Interest rate:** *the rate of borrowing from the market incremented by a small margin to cover administrative expenses.*

This is regardless of the nationality of the customer, the project's location or the project's risk.

The interest rate is conditioned by the currency requested for disbursement and is normally fixed for the duration of the contract; other formulae could be considered.

4. **Payment:** *in the same currency as the loan; usually in 6 month instalments (following a grace period determined according to the project characteristics).*

5. **Call for tender:** *international competition procedures apply.*

6. **Guarantee:** *the guarantee of the State concerned is requested, although other first class guarantees could be envisaged.*

Proposal for a
COUNCIL DECISION

granting a Community guarantee to the European Investment Bank against losses under
loans for projects in South Africa

THE COUNCIL OF THE EUROPEAN UNION,

Having regard of the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission, ⁽¹⁾

Having regard to the opinion from the European Parliament, ⁽²⁾

Whereas the Council approved on 4 October 1994 a Co-operation Agreement between the Community and the Republic of South Africa, that aims to promote harmonious, balanced and sustainable social and economic development and that commits the Contracting Parties to step up co-operation in all areas within their respective spheres of competence;

Whereas South Africa is undertaking major political, social and economic reforms;

Whereas these economic reforms will make a decisive contribution to the rapid establishment of mutual beneficial economic and commercial links between South Africa and the Community;

Whereas the European Investment Bank is able to grant loans out of its own resources to help achieve this objective;

Whereas, in particular, there is a great need for capital investment in this country; whereas this investment requires external finance; whereas the European Investment Bank (hereinafter referred to as "the Bank") could make an important contribution;

Whereas the Council on 6 December 1993 decided on a joint action concerning support for the transition towards a democratic and multiracial South Africa;

Whereas the Council adopted on 19 April 1994 a package of immediate measures to be presented to the South African government emerging from the democratic and multiracial elections of 26-28 April 1994;

Whereas the Council is calling on the Bank to begin its operations in support of investment projects carried out in South Africa by offering it the guarantee provided for in this Decision;

Whereas this guarantee is subject to the conditions set out in the Regulation ⁽³⁾ establishing a guarantee Fund for the Community's external lending activities;

-
- (1) OJ No. C
 - (2) OJ No. C
 - (3) OJ No.

Whereas the Bank and the Commission will adopt the procedures for granting the guarantee;

Whereas, for the purposes of adoption of this Decision, the only powers provided for by the Treaty are those given under article 235,

HAS DECIDED AS FOLLOWS:

Article 1

The Community shall guarantee in full vis-à-vis the European Investment Bank any payments not received by it but due under loans granted, in accordance with its usual criteria, in respect of investment projects carried out in South Africa.

The guarantee shall be restricted to an overall loan ceiling of ECU 300 million over a period of two years beginning on the date this Decision takes effect. If, on expiry of this period, the loans granted by the Bank have not attained the overall amount referred to above, the two-year period shall be automatically extended by six months.

Article 2

The Commission shall inform the European Parliament and the Council every six months of the situation regarding loans signed. To that end, the Bank shall regularly transmit to the Commission the appropriate information.

Article 3

The Commission shall inform the European Parliament and the Council each year of the loans operations and shall at the same time submit an assessment of the operations of the scheme and of coordination between the financial institutions operating in that area.

Article 4

The Bank and the Commission shall fix the terms on which the guarantee is to be given.

Article 5

This Decision shall take effect on the day of its publication in the Official Journal of the European Communities.

Done at Brussels,

For the Council

The President

FINANCIAL STATEMENT

1. TITLE OF THE OPERATION

Guarantee of the European Community to loans of the European Investment Bank in South Africa.

2. BUDGET HEADING CONCERNED

Article B0-224: Guarantee of the European Community to the European Investment Bank for loans in South Africa.

3. LEGAL BASIS

To be provided by the proposed decision, on the basis of Article 235 of the Treaty.

4. DESCRIPTION OF THE OPERATION

The budget entry is intended to provide budgetary back-up for guarantees offered by the European Community to the European Investment Bank to cover loans for a maximum of ECU 300 million over a two-year period which the Bank has been asked to extend to finance projects in South Africa.

5. CLASSIFICATION OF EXPENDITURE

Compulsory.

6. NATURE OF EXPENDITURE

A guarantee to the European Investment Bank.

7. FINANCIAL IMPACT ON APPROPRIATIONS FOR OPERATIONS

Only in case of a call on the guarantee.

7.1 Method of calculation

A token entry is proposed, given that the amount and timing of any call on this budget heading cannot be calculated in advance and, furthermore, it is to be hoped that this entry will not be called on.

7.2 Cost distribution by elements of the operation:

Not applicable.

7.3 Operational expenditure relating to studies, expert meetings, etc.

Not applicable.

8. FINANCING OF EXPENDITURE FOR OPERATIONS

- As from the creation of the Guarantee Fund, any call on the guarantee will be covered by the Fund.

- If the amount of the call on the Community guarantee exceeds the amounts available in the Fund, the article will be endowed with funds via transfers, via re-utilisation of amounts repaid (under article 27(3) of the Financial Regulation) or via a supplementary and/or amending the budget.
- In order to meet its obligations, the Commission may undertake debt service provisionally by drawing on its liquid assets. In this case, Article 12 of Council Regulation (EEC, Euratom) No. 1552/89 of 29 May 1989 is applicable.

9. COST-EFFECTIVENESS ANALYSIS

9.1 i) Quantifiable objectives: See point 4 above.

ii) Population: South Africa.

9.2 Justification of operations:

To support the emerging democracy and to contribute to the reconstruction and economic development of the country.

9.3 Follow-up and evaluation of the action:

Not applicable.

10. FINANCIAL IMPACT ON STAFF COST AND OPERATIONS

Not applicable.

11. IMPACT ON THE RESERVE FOR GUARANTEES.

11.1 Estimated schedule of loans to be signed while the decision is in force (ECU million).

1994	1995	1996
---	125	175

11.2. Estimated use of the guarantee reserve to provision the guarantee Fund (ECU million)⁽¹⁾.

1994	1995	1996
---	17.5	24.5

⁽¹⁾ The Commission's proposal for a guarantee Fund determines a provisioning rate of 14% of the amount in principal for the operations decided on by the Council as from 1 January 1993. Payments into the Fund for the type of operation indicated in the present proposal are to be made on the basis of the annual amounts indicated in the estimated schedule of operations.

**11.3 Estimated use of the guarantee reserve (including the present proposal) ⁽¹⁾
(ECU million).**

	1993	1994	1995	1996	1997	1998	1999
Amount of reserve	313	318	323	329	335	341	347
Margin within reserve	313	82	95.5	87	300.5	311	324

(1) Situation at 30.11.94

ISSN 0254-1475

COM(94) 543 final

DOCUMENTS

EN

11

Catalogue number : CB-CO-94-570-EN-C

ISBN 92-77-82998-2

Office for Official Publications of the European Communities
L-2985 Luxembourg