

# COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 7 March 1991

COMMUNICATION FROM THE COMMISSION  
ON THE "EC-INTERNATIONAL INVESTMENT PARTNERS" FACILITY  
FOR LATIN AMERICA, ASIA AND THE MEDITERRANEAN

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Proposal for a

COUNCIL REGULATION (EEC)

on the "EC-International Investment Partners" financial facility  
for countries of Asia, Latin America and the Mediterranean region

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(presented by the Commission)

COMMUNICATION FROM THE COMMISSION  
ON THE "EC-INTERNATIONAL INVESTMENT PARTNERS" FACILITY  
FOR LATIN AMERICA, ASIA AND THE MEDITERRANEAN

- I. Report on the implementation of the "EC-International Investment Partners" financial facility (EC-IIP)
- II. Direct investment in the developing countries.
- III. Proposal for a Council Regulation (EEC) on the "EC-International Investment Partners" financial facility for countries of Asia, Latin America and the Mediterranean Region

PART ONE

REPORT

ON THE IMPLEMENTATION

OF

THE "EC-INTERNATIONAL INVESTMENT PARTNERS" FACILITY (EC-IIP)

REPORT ON THE IMPLEMENTATION OF  
THE "EC-INTERNATIONAL INVESTMENT PARTNERS" FACILITY (EC-IIP)

Following a communication from the Commission in 1986<sup>1</sup>, the Council called on the Commission in 1987 to devise new instruments for cooperation with certain developing countries in Latin America, Asia and the Mediterranean.

So after several months of groundwork EC-IIP became operational in September 1988 for an initial three-year trial period.

I.1. MAIN FEATURES OF THE EC-IIP FACILITY

I.1.1. Objectives

EC-IIP's objective is to promote investment by private economic operators from the Community in the form of joint ventures with local economic operators in eligible developing countries to the mutual benefit of both parties.

In line with the Council's wishes this is a new approach to cooperation since EC-IIP aims to:

- foster the development of the partner countries through the creation of productive jobs, the transfer of risk capital, and the transfer of technological and management know-how (the investments that facilitate the above should also take account of the market viability of the product);
- stimulate the role of the private sector in the development of the partner countries so as to enhance their economic efficiency;
- spur private and public economic operators in the Community into helping those countries to develop, especially against the backcloth of the budgetary constraints facing the Community and Member States.

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1 COM (603) final.

### I.1.2. EC-IIP operating criteria

In seeking to achieve the general objectives set out above with maximum operating efficiency in the context of Community management of the instrument, EC-IIP was designed to:

- meet the needs of economic operators that the Member States and / or the eligible developing countries were not catering for adequately;
- cover financing needs through the various phases of the process of investment in a developing country;
- complement rather than duplicate existing mechanisms;
- offer flexible technical procedures and operating methods to meet the operators' needs as closely as possible;
- guarantee speedy decision-making and provision of funds;
- ensure the economic operators that the dossiers forwarded to the Commission are handled confidentially;
- ensure decentralised management of the facility via existing bodies in order to seek out potential users efficiently throughout the areas covered and confine administration to Brussels.

While small and medium-sized businesses are EC-IIP's main target, the facility should not exclude larger firms (except for large international companies), with each project being appraised on its merits. EC-IIP could also promote cooperation between enterprises such as agricultural and credit cooperatives.

### I.1.3. Resume of the arrangements and procedures

#### I.1.3.1. *Types of financial support*

The operations eligible and the financing arrangements are summarised in the Table in Annex 1.

EC-IIP offers four types of financing facility to cover various phases of the investment process:

1. Identification of projects and partners.
2. Feasibility studies and other operations prior to the decision to invest.
3. Capital requirements of the joint venture.
4. Training and assistance for the management of an existing joint venture.

Only facility 1 consists of outright grants, the monies being reserved for operations carried out by non-profit-making organisations such as chambers of commerce, professional associations and development bodies.

The other facilities (2 to 4) involve equity loans and equity holdings.

I.1.3.2. *Procedures: decentralisation and responsibilities of the financial institutions.*

Economic operators in the Member States and / or eligible developing countries *must* send their financing application to a financial institution that has signed a framework agreement with the European Community. The system is thus decentralised. This is necessary in order to enable the financial institutions already acquainted with the business world to play an active role in investment promotion and better to assume the responsibilities bestowed on them by the Commission. Since under facilities 3 and 4, the Community may never be exposed to greater risk than the financial institution, it is clearly in the latter's interest to manage the Community's financial contribution as if it were its own money. By decentralising in this way, the financial institutions in the EC-IIP network are afforded a measure of responsibility, thus avoiding administrative procedures that are cumbersome and costly for the firms and for the Commission.

The financial institutions thus have a key role to play involving:

- promotion of the EC-IIP facility
- identification of potential investors
- evaluation of financing applications
- preparation of applications submitted to the Commission
- co-financing:       \* optional for facilities 1 and 2  
                          \* obligatory for facilities 3 and 4
- supervision of the Community's interests
- administration of the projects financed
- follow-up of the projects carried out.

I.1.3.3. *The Commission's internal decision-making procedure*

The final decision on whether to finance a project is taken by the Commission on the basis of the dossier forwarded to it by the financial institution. The approach is multidisciplinary and takes due account of the speed and confidentiality needed for the facility to work well.

The criteria are:

- compliance with the eligibility criteria;
- contribution to the development of the partner countries in terms of job creation, transfer of technology, training, improved balance of payments, healthier environment, etc;
- financial viability and economic merits of the project in the mutual interest of both sides;
- compatibility with Community policies relating to the sector and country concerned;
- compliance with our financial rules and with Community legislation.

The Commission undertakes to take a decision in principle within 20 working days of a complete and correct dossier being submitted. Where all the parties are in agreement on the terms and conditions of the financing, a specific financing contract is drawn up and the monies are released in accordance with the timetable agreed.

#### I.1.4. Implementing measures

The aggregate budget appropriations for the trial period of three years amounted to ECU 30 million for the three regions. (See Annex 2 for details.)

### I.2. APPRAISAL OF THE TRIAL PERIOD

The performance of the EC-IIP facility over this trial period is illustrated below by a number of key figures and by the main conclusions reached by the Commission after an initial appraisal of the facility.

#### I.2.1. Key figures on the application of the EC-IIP facility (at 31 October 1990)

- 37 framework agreements were signed with the financial institutions making up the network, allowing for decentralisation of the management of the facility. A number of contacts were established with other interested institutions, paving the way for an expansion of the network once decisions on the new features of the facility have been taken.
- 171 applications for financing relating to one-off projects were lodged by financial institutions for an amount of ECU 17.5 million; 110 of those applications had been approved for an amount of ECU 11.1 million at 30 October 1990;

- 96% of the total appropriations available over the three-year period (1988, 1989 and 1990) will have been committed by the end of 1990.
- the number of financing applications is increasing rapidly in terms of projects and amounts requested.

These results are most satisfactory given that the resources available at the outset to design the facility, administer it, promote it and to establish contacts with the economic operators and banks in the Community and in the three regions were thin on the ground. Moreover, the financial institutions in the network had to be alerted to and familiarised with a new product and operations which some of them, the commercial banks, do not usually deal with.

Lack of staff at the Commission was further compounded by the dearth of budgetary resources, particularly at the start of the trial period. A number of financial institutions had to be persuaded to commit themselves to a programme with overall resources quite inadequate given the geographical area to cover and a ceiling of ECU 500 000 per project. The financial institutions were reluctant to make the necessary efforts with the prospect of just a small number of operations at the outset.

These factors have therefore to be borne in mind in any assessment of what has been achieved.

#### I.2.2. Key achievements of the EC-IIP facility

The main conclusions the Commission has come to after almost three years of experience with the facility are:

##### I.2.2.1. *Appropriate response to the needs of the market:*

The EC-IIP has clearly gone down well with the financial institutions and with economic operators both in the Community and in the partner countries, precisely because it plugs a real gap in the needs of the market. Its main strengths are its flexibility and the fact that via a single instrument operators have access to a combination of financial aids that can help them from the initial phase of an investment project right through to the creation and even expansion of a joint venture, with all the necessary confidentiality in the procedures.

From the technical point of view, the programme as a whole has been well designed thanks to an approach tailored to the needs of its target market.



A number of technical improvements are recommended, but by and large there is no reason to modify significantly the features of the facilities offered, except in the case of facility 3 (financing of capital requirements). That arrangement should not only be maintained but also enhanced by raising the project ceiling from ECU 500 000 to 1 million as that better matches the profile of the investments planned and the needs of the economic operators.

The main reason for the ECU 500 000 limit was the low level of appropriations originally available.

The reaction of the political authorities in the eligible developing countries has also been most favourable. Witness the universal desire to see a local financial institution joining the EC-IIP network. So the beneficiary countries view EC-IIP as a very useful instrument that complements other types of cooperation with the European Community.

The general lesson to be drawn is that the eligibility criteria should be kept as broad as possible, in particular as regards sectors and the size of the project. This will serve to optimise the number of joint ventures set up in the target countries.

In the light of the initial results, attention should be devoted not only to assistance in launching joint ventures but also to operations involving the transfer of technology in the strict sense of the word (studies on licensing, technical support, and training for existing firms).

At any rate, the features of EC-IIP are such that in practice it is medium-sized firms that are the main beneficiaries of Community support.

#### *I.2.2.2. Complementarity*

In some Member States a number of instruments with comparable aims coexist, whereas there are none at all in others.

Above all, it has been ascertained that none of the existing mechanisms offers the kind of flexibility and as complete a range of facilities as those offered by EC-IIP across the whole geographical region concerned to both Community economic operators and to those from eligible developing countries. So rather than competing with existing instruments EC-IIP plays a complementary role.

However, it is recommended eventually to make it possible to bring under the same umbrella various similar Community instruments covering different geographical areas in order to rationalise the administration and to offer greater consistency to economic operators and financial institutions alike.

#### I.2.2.3. *Quality of the administration*

In common with any other experimental instrument, EC-IIP has experienced some operational difficulties which are largely attributable to an infrastructure that cannot keep pace with the rapid growth in the volume of financing applications to be examined. Strengthening the management team is therefore a must.

A series of technical adjustments need to be made. Their chief aim would be greater decentralisation of the administration to the financial institutions and simplification of the contractual administrative procedures. Rapid implementation of those changes, coupled with extra staff for the team responsible for the administration, and computerisation of the system to keep track of the operations would make it possible to develop the facility to the satisfaction of the financial institutions and the economic operators in keeping with the rules governing sound financial management.

#### I.2.2.4. *Quality of the network of financial institutions*

The role of the financial institutions is regarded as an essential one and needs to be bolstered in order to make the system more efficient. This supposes that precise performance objectives are assigned to them, that a systematic *a posteriori* check is carried out in order to measure that performance and that the rules of sound management and contractual obligations are observed.

The number of financial institutions must remain manageable without there being a need to set an overall ceiling or a quota for each country. (Similarly, rather than remaining static the network should be left open for new candidates and should shed financial institutions deemed to be less efficient).

The presence of four types of bank in the EC-IIP network, each with its own specific services, is warranted as this is undeniably one of the system's key strengths. The development banks in the Member States all have development uppermost in their minds. The multilateral banks are able to influence the internal climate of the beneficiary states for the most part by providing them with technical assistance. The commercial banks in the network have the advantage of having myriad branches, thus enabling them to inform and mobilise in particular medium-sized firms that are traditionally difficult to track down because they are so dispersed. They enable the latter kind of firm to obtain easier access to international investment operations. The regional investment banks in the beneficiary countries are particularly well placed to know the needs of local businesses and to follow up their dossiers.

**FACILITIES AVAILABLE**

	1.	2.	3.	4.
<b>TYPE OF OPERATION</b>	Identification of potential projects and partners	Operations prior to launching a joint venture	Financing of Capital Requirements	Training and Management Expertise
<b>ELIGIBILITY</b>	Only for Financial Institutions chambers of commerce, professional associations and public agencies, and not for individual investment projects firms	For firms, either individually or jointly, local or European, wishing to undertake a joint venture investment project	For joint ventures established by partners from EC and the eligible countries. The European sponsor must have or take an equity holding of at least 10% of the joint venture's capital	For joint ventures established by partners from EC from the countries eligible for the scheme
<b>TYPE OF FINANCE</b>	Grant	Interest-free advance	Equity holding or equity loan	Equity loan
<b>AMOUNT AVAILABLE</b>	Up to 50% of cost	Up to 50% of cost	20% of capital of joint venture	Up to 50% of cost
<b>FINANCIAL LIMITS</b>	Ceiling of ECU 100,000	Ceiling of ECU 250,000 Upper limit for this facility together with facilities 3 & 4 is ECU 500,000 per investment project	Ceiling of ECU 500,000 Upper limit for this facility together with facilities 2 & 4 is ECU 500,000 per investment project	Ceiling of ECU 250,000 Upper limit for this facility together with facilities 2 & 3 is ECU 500,000 per investment project

ANNEX 2

BUDGET OF THE INITIAL TRIAL PERIOD

<u>Total</u>	<u>Asia</u> (9305)	<u>Latin America</u> (9315)	<u>Mediterranean</u> (9671)	
<u>1988</u>				
Commitments	4.25	2.75	pm	7
Payments	1.3	0.7	pm	2
<u>1989</u>				
Commitments	4.5	3.5	2	10
Payments	2.8	2.2	1	6
<u>1990</u>				
Commitments	5.5	4.5	3	13
Payments	3.1	3.3	1	7.4
<hr/>				
Total				
Commitments	14.25	10.75	5	30
Payments	7.2	6.2	2	15.4

PART TWO

DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES

1. ROLE OF INTERNATIONAL DIRECT INVESTMENT  
IN THE DEVELOPMENT PROCESS

Where international direct investment dovetails with local production it is a very effective vehicle for the transfer of capital, technology, know-how and managerial expertise and for opening access to overseas markets. It is also one of the best ways of alleviating the debt burden of the most indebted countries and of augmenting the financial flows of those suffering from a shortage of official aid. Owing to the growing interdependence of the developing countries' economies with those of the industrialised countries, it is also enables them to share in technological innovations under way and to avoid becoming marginalised.

More and more developing countries are acknowledging the role that international direct investment can play in their development and are increasingly seeking to attract private foreign investment by improving their economic and administrative climate.

The flow of direct investments is constantly rising (1), but competition between the industrialised countries, the countries of Eastern Europe and developing countries to attract those investments is becoming keener.

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- (1) At the end of the eighties the flow of direct investments from the OECD countries to the developing countries amounted to \$ 22 billion (1989 figure). Official development aid totalled \$ 51 billion. The trend over the last few years for which figures are available is towards a relative increase in the share of direct investments, which in 1987 and 1988 amounted to 22% and 20% of the flow of resources from OECD to developing countries as against 8% in 1985.

Japan heads the list of countries making greatest use of direct investment, with 35% of the total invested by OECD countries in developing countries. The USA is also a major investor with 18% of the total. Member States of the Community belonging to the Development Assistance Committee account for 25% of OECD investment.

An increase in the flow of foreign investments is possible only if certain conditions are met by the recipient country, for instance suitable macroeconomic climate, security for investments, accessibility of economic sectors to foreign capital. Overseas investment will be all the more beneficial for development if accompanied by measures aimed at making markets more competitive and if it dovetails with the recipient country's industrial fabric and social structures. Policies to train the workforce and encourage sub-contracting by local firms are very effective in this regard.

For their part, the investing countries and the Community in particular should also devise strategies to promote foreign investment both to increase their trade and to contribute to the development of the host country.

The joint venture is a particularly interesting example of the various kinds of international direct investment conducive to development as it directly involves a local economic operator in the evaluation and assumption of the risks and at the different levels of decision-making, production and marketing.

On the other hand, the joint venture is subject to the risks inherent in the negotiation and sharing of authority, in the participation of local partners in the decisions, and in the transfer of know-how and techniques. Once such difficulties have been overcome it is without doubt the joint venture that offers the best prospects in terms of impact on the economic sector concerned.

## 2. ROLE OF THE MULTILATERAL INSTITUTIONS AND OF CERTAIN PARTICULARLY ACTIVE INDUSTRIALISED COUNTRIES

There are many international players on the investment promotion stage:

### 2.1. The multilateral institutions

The World Bank plays a role via the International Finance Corporation, which has taken equity holdings in 404 companies in 77 countries. An advisory service (FIAS) for foreign investments has been set up. In addition, a multilateral investment guarantee agency (MIGA) began operating in June 1988 under the auspices of the World Bank: its role is to issue guarantees against non-commercial risks and to provide various consultancy and technical services to help developing countries which are members of MIGA to attract foreign investment. The structural adjustment loans of the World Bank also contribute to improving the climate for international direct investment.

The regional banks are also active, either directly or through specialised branches: the Inter-American Development Bank and its branch the IIC and the Asiatic Development Bank have targeted the small and medium-sized business sector in particular.

## 2.2. The United States and Japan

The United States seeks to promote overseas investment by negotiating bilateral investment treaties that guarantee security of transfers and the elimination of all restrictions to capital movements for American citizens. Two bodies are particularly active: the Overseas Private Investment Corporation (OPIC) and USAID. The OPIC encourages private investment by guaranteeing investments and financing development. Projects that are harmful to the environment and states which flout workers' rights are not eligible. USAID has specialised in support for political and economic reforms liable to create a climate conducive to investment. The Export Import Bank is also involved in the promotion of investments in the developing countries. There is also a growing desire among those investment support institutions to help improve financial markets.

Japan resorts heavily to direct investment as part of its policy towards developing countries. An extensive system of risk guarantees and favourable fiscal measures has been put in place. Three bodies share the task of stimulating and protecting direct investments. Eximbank makes direct investments, particularly where firms invest jointly in the developing countries without adding to the latter's debt. The Overseas Economic Cooperation Fund provides capital in the form of long-term loans for projects carried out by Japanese companies when those loans foster economic growth in the developing countries. The Japanese Agency for International Cooperation specialises in projects relating to social development, forestry, the extractive industries and infrastructure.

## 2.3. The Member States

Member States tend by and large to work through development banks in order to foster an active investment promotion policy (e.g. FMO in the Netherlands; SBI in Belgium; DEG in Germany; the CDC in the United Kingdom; IFU in Denmark; CCCE and PROPARCO in France).



However, as actual operations vary from one country to the next there should be a Community-wide approach founded on the principle of subsidiarity, with the emphasis on the creation of joint ventures.

### 3. POSSIBLE ACTION BY THE AUTHORITIES IN THE INDUSTRIALISED COUNTRIES TO PROMOTE INVESTMENT IN JOINT VENTURES

The creation of joint ventures in a developing country is no easy task and cannot succeed unless decision-makers have at their fingertips facts and information which can sometimes only be had at considerable extra expense, particularly where small and medium-sized businesses are concerned.

Furthermore, the advantages to a firm of internationalising its operations are not always obvious owing to a lack of relevant or reliable facts and figures on available opportunities.

A joint venture must first involve a convergence of interests between an economic operator in one of the LAA or Mediterranean countries and an opposite number in a Community country. So the public authorities cannot take the place of the entrepreneurs in the decision-making process. But they *can* play a decisive role in at least three areas: information, financial incentives, and support for training.

#### 3.1. Information .

Information should be disseminated in at least two ways:

##### In the investing countries:

The perception that entrepreneurs in the industrialised countries have of the investment potential of most developing countries can be improved by conducting detailed information campaigns to help promote investments and stimulate interest among European entrepreneurs;

##### In the host country:

An information structure should be set up to help local economic operators to pinpoint viable projects on the ground and to identify interested partners in the industrialised countries.

### 3.2. Financial incentives

Risk capital is a familiar concept in the industrialised countries that needs to be geared to the requirements of the developing countries and actively deployed in the creation of joint ventures. Minority stakes by public authorities in the industrialised countries in joint ventures with considerable growth potential could provide the impetus required to launch an activity with good development prospects. Such stakes act as a catalyst for other financial support and can give a feeling of security to entrepreneurs and bankers alike.

So the financial incentives provided by the public authorities are no substitute for the ordinary flow of funds to firms. Their role is to stimulate the latter by reducing the overall risk inherent in an economic climate that is particularly difficult for small and medium-sized firms.

### 3.3. Training

Finally, investment in personnel training focusing on technical and managerial tasks involved in the creation or revitalisation of joint ventures is another field where public authorities must play an active part.

PART THREE

Proposal for a  
COUNCIL REGULATION (EEC)

ON

THE "EC-INTERNATIONAL INVESTMENT PARTNERS" FINANCIAL FACILITY  
FOR COUNTRIES OF ASIA, LATIN AMERICA AND THE MEDITERRANEAN REGION

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## EXPLANATORY MEMORANDUM

### 1. PROPOSED APPROACH

In its communications on the Community's approach in the nineties to cooperation with the Mediterranean countries (COM (89) 1961 final and SEC (90) 812 final) and with the LAA (Latin American and Asian) countries (COM (90) 176 final), the Commission highlights the need to structure its cooperation policy more effectively around two complementary focal points, to wit development aid and mutually beneficial economic cooperation.

The Commission seeks to build on experience so that economic cooperation that fosters *inter alia* direct contact between economic operators is better structured.

There should be three facets to economic cooperation, interacting as closely as possible. Such cooperation should:

- boost the scientific and technological potential of the partner countries by affording easier access to technology and by improving the exchange of information with them;
- make the economic climate of those countries more amenable to investment and development by helping them with their institutional and regulatory framework;
- sharpen the competitiveness of their firms by enhancing training, especially technical, by facilitating technological exchanges, by improving access to markets and by encouraging European investment in those countries.

Investment promotion takes pride of place in economic cooperation as the Community must be in a position to meet increasing demand from LAA and Mediterranean countries for investment.

As regards promotion of direct investment through the creation or consolidation of joint ventures, the Community can play its part by backing know-how, technology and investment in all those countries.

This entails defining appropriate methods applicable first and foremost to small businesses (SMEs). So the greatest possible number of SMEs in all the Community's regions have to be reached and spurred into action, for it is they who possess the kind of technology and know-how that businesses in third countries lack. But they more than other firms have the greatest need of official assistance in order to do business internationally.

However, the spotlight should not be turned on SMEs, leaving other categories of firm in the shade. What counts in investment promotion is the impact it has on development. The scope for technological assistance from larger firms should not be overlooked, especially when the knock-on effects attributable to local sub-contracting come into the reckoning.

Encouragement should also be given to joint-ventures involving cooperatives, for example in the realm of business credit, agri-industries or tourism in areas off the beaten track.

In addition, in running an efficient investment promotion scheme that is in tune with firms' requirements one has to combat any trend towards centralised management. Its administrative procedures should be flexible and expeditious with a minimum of red tape. One should turn to organisations who by dint of their day-to-day dealings with the business world are best placed to pinpoint needs, thus ensuring that the right kind of operation is chosen. This means enlisting the services of professional associations and chambers of commerce, and above all of financial institutions such as development banks, multilateral banks and commercial banks which have both the expertise and extensive networks of contacts with firms.

EC-IIP is the ideal instrument for this purpose. It seeks to exploit those networks to establish contacts between European firms and local enterprises in the LAA and Mediterranean countries in order to encourage the formation of joint ventures. Achievements thus far are sufficiently promising to justify going on with the facility.

## 2. EXTENSION OF THE TRIAL PERIOD FOR EC INTERNATIONAL INVESTMENT PARTNERS (EC-IIP)

The decision to implement the EC-IIP facility was made in 1988 for an initial three-year trial period up to the end of 1991. A detailed appraisal of the facility has, however, already been carried out.

To date, the facility has shown encouraging results, so the Commission is proposing that the trial period be extended for a further five years starting on 1 January 1992.

The purpose of this second trial period is twofold: to test the new operating arrangements, which are aimed at making the EC-IIP instrument more effective, and to carefully assess the contribution it makes to development over an observation period that covers the usual duration of the investment process.

If it is to come up to the expectations of economic operators, the facility must in this second phase continue to be administered with flexibility, speed and confidentiality. Those factors have been instrumental, just as much as the amount of assistance available, in attracting the interest of potential economic operators.

However, it is desirable that the key features of EC-IIP be approved by the Council and by Parliament and that, in the interests of openness, the Commission's administration of the scheme be the subject of periodic reports presented to the Council and to Parliament.

Consequently, the following changes will mark the proposed second trial period:

1. precise definition of the general guidelines to be observed by the Commission with respect to eligibility criteria and selection of projects;
2. specific monitoring arrangements involving an annual progress report, and an ex-post evaluation report at the half-way stage and at the end of the period, both of which will be sent to the Council and Parliament.
3. a number of technical changes designed to enhance the facility's operational efficiency (see Annex 1);
4. increased budgetary resources to keep pace with the facility's anticipated growth. The overall budget for the three geographical areas is estimated at 300 million ECU for a five-year period starting in 1992.

In view of the above; and even though the facility is still experimental in this second phase, and since the Commission is proposing the continuation of a new policy, it would seem useful and necessary to base the instrument henceforth on a Community regulation.

### 3. CONCLUSIONS

The purpose of this communication is therefore to propose the continuation and extension of the EC-IIP facility for a period of five years by adopting a regulation laying down its objectives and operating criteria.

**FACILITIES AVAILABLE**

	1.	2.	3.	4.
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<b>ELIGIBILITY</b>	Only for Financial Institutions chambers of commerce, professional associations and public agencies, and not for individual investment projects firms	For firms, either individually or jointly, local or European, wishing to undertake a joint venture investment project	For joint ventures established by partners from EC and the eligible countries. The European sponsor must : - have or take an equity holding of at least 10% of the joint venture's capital or - have a long term licensing agreement with the local company	For joint ventures established by partners from EC from the countries eligible for the scheme or local companies having a long term licensing agreement with an EC partner
<b>TYPE OF FINANCE</b>	Grant	Interest-free advance	Equity holding or equity loan	Interest Free loan
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Proposal for a  
COUNCIL REGULATION (EEC)

on the "EC-International Investment Partners" financial facility  
for countries of Asia, Latin America and the Mediterranean region

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

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

Having regard to the proposal from the Commission;

Having regard to the opinion of the European Parliament,

Whereas the Community is fostering financial, technical and  
economic cooperation with the countries of Asia and Latin America  
and with the Mediterranean region;

Whereas the Council has adopted guidelines on new forms of  
cooperation to benefit the Mediterranean region, on the one hand,  
and Asia and Latin America, on the other;

Whereas in order to bolster such cooperation, it is necessary  
*inter alia* to encourage mutually-beneficial investments;

Whereas the Council has reached a consensus on the importance of  
the rôle of the private sector in the development process;

Whereas certain benefits can be derived from cooperation between  
Community firms and enterprises in the developing countries given  
that it is an excellent vehicle for the transfer of know-how and  
a catalyst for the provision of further aid;



Whereas in the context of international cooperation with the developing countries new forms of investment promotion have recently taken their place alongside the tried and tested ones, above all the financing of joint ventures which entails a host of mutually beneficial advantages, not least the knock-on effect that the creation of joint ventures has on the developing countries' industrial sector;

Whereas a three-year pilot scheme was launched in 1988 to promote, via a financial scheme known as the EC-International Investment Partners (EC-IIP), the creation of joint ventures between the Community and the countries of Latin America, Asia and the Mediterranean;

Whereas the results attained thus far bear witness to the considerable potential of this financial instrument in achieving the aforementioned objective;

Whereas the continuation and extension of EC-IIP for a further five-year trial period from 1 January 1992 is therefore necessary to meet the new needs of the countries of Latin America, Asia and the Mediterranean;

Whereas the objectives and operating criteria of that facility need to be defined;

Whereas the Treaty makes no provision for the necessary specific powers, other than those stipulated in Article 235,

HAS ADOPTED THIS REGULATION:

#### ARTICLE 1

For a five-year trial period starting on 1 January 1992, and as part of its economic cooperation with the countries of Latin America, Asia and the Mediterranean, the Community shall operate special cooperation schemes aimed at promoting investment by economic operators in the Community, particularly in the shape of joint ventures with local operators in the countries eligible.

ARTICLE 2

The EC-International Investment Partners scheme, hereinafter referred to as EC-IIP, shall offer four kinds of financing facility covering the various phases of the investment process:

1. *grants* for the identification of projects and partners, not exceeding 50% of the cost of the operation up to a ceiling of ECU 100 000;
2. *interest-free advances* for feasibility studies and other operations prior to any decision to invest, not exceeding 50% of the cost up to a ceiling of ECU 250 000;
3. *capital requirements* of a joint venture or local company a licensing agreement, through participation in the provision of equity, not exceeding 20% of the joint venture's capital up to a ceiling of ECU 1 million;
4. *interest-free advances*, not exceeding 50% of the cost up to a ceiling of ECU 250 000, for training, technical assistance or management expertise of an existing joint venture, or joint venture about to be set up, or a local company with licensing agreements.

The aggregate amount made available under facilities 2, 3 and 4 may not exceed ECU 1 million per project.

ARTICLE 3

1. With regard to facility 1 set out in Article 2, financing applications may be submitted either direct to the Commission by the institution, association or body carrying out the identification of partners or projects, or via a financial intermediary.

On the other hand, in the case of facilities 2, 3 and 4 set out in Article 2, Community funds shall be provided exclusively through the financial institutions defined in Article 4 below; this shall apply to institutions within the Community and to those from an eligible non-Community country that have signed a framework agreement with the Community.

2. With regard to facility 3 set out in Article 2, the financial institutions must provide an amount at least equal to that provided by the Community.

#### ARTICLE 4

The financial institutions shall be selected by the Commission from among development banks, commercial banks, merchant banks and investment promotion bodies.

#### ARTICLE 5

Four types of criteria shall be applied by the Commission in selecting the projects:

1. the anticipated soundness of the investment and the quality of the promoters;
2. the contribution to development in terms of:
  - creation of added value
  - creation of local jobs
  - promotion of local entrepreneurs
  - transfer of technology
  - transfer of know-how
  - impact on the balance of payments
  - favourable impact on the environment
  - manufacture and supply to the local market of products that have been difficult to obtain or are of a lesser quality.
3. compatibility with the sectoral and geographical aspects of Community policy.
4. compliance with the eligibility criteria applying to each of the facilities.

#### ARTICLE 6

Countries eligible shall be those that have concluded a cooperation or association agreement with the Community.

#### ARTICLE 7

The financial incentives for the EC-IIP facility in the context of cooperation arrangements shall take the form of outright grants, interest-free advances, equity holdings or equity loans.

ARTICLE 8

The Commission shall send to the European Parliament and to the Council an annual progress report and an appraisal report at the halfway stage and at the end of the five-year period.

ARTICLE 9

This Regulation shall enter into force on the third day following that of its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council  
The President

FICHE FINANCIERE

RENOUVELLEMENT DE L'INSTRUMENT EC IIP  
(Promotion de l'investissement communautaire)

1. Lignes budgétaires concernées

B7-3005 B7-3015 B7-4085

2. Base légale

Instrument qui a été établi sur base expérimentale, dans le cadre des dispositions appropriées des accords de coopération économique et commerciale à consolider par le règlement proposé.

3. Classification

DNO

4. Description

4.1. Objectif

Stimuler la coopération économique entre la Communauté et les pays tiers en facilitant les investissements directs par les firmes communautaires, principalement des PME, par la création d'entreprises conjointes avec des firmes des pays tiers (Amérique Latine, Asie, Méditerranée). Par ce biais, stimuler le transfert de savoir-faire, la production et l'emploi et le redressement de la balance des paiements.

L'instrument concerne en principe tous les pays ALA/MED.

4.2. Personnes concernées

Les opérateurs économiques des pays partenaires et de la Communauté, principalement PME.

5. Nature de la dépense et mode de calcul

5.1. Nature

- dons à des associations professionnelles, chambres de commerce et agences publiques pour financer des études générales d'identification de projets potentiels ;
- avances sans intérêt pour des opérations de préparation de projets concrets et pour la formation ;
- prêts et participations en capital pour financer les investissements.

## 5.2. Calcul

L'instrument s'appuie sur un réseau d'institutions financières. Celles-ci, outre la responsabilité de présentation des projets à la Commission, doivent co-financer (ou aider au montage de co-financement) des projets. Le réseau d'institutions financières devrait être composé de 60 à 70 membres, au moment de la mise en oeuvre du règlement EC-IIP. Ainsi, compte tenu des plafonds définis par actions (1 Mio ECU), un crédit annuel de 60 Mio ECU pourrait être absorbé pour la promotion des investissements communautaires, réparti à égalité entre les différentes régions concernées (Amérique Latine, Asie, Méditerranée). En effet, on peut constater que le rythme de présentation des demandes s'accélère très significativement.

## 6. Suivi coût/efficacité

Des modalités de suivi coût/efficacité seront mises en place, afin de s'assurer de l'adéquation des résultats de l'instrument par rapport aux objectifs définis.

En outre, il convient de remarquer que cet instrument donnera lieu à des remboursements imputés au budget communautaire, ce qui accroît le rapport coût/efficacité.

## 7. Incidence financière de l'action sur les crédits d'intervention

### 7.1. Echéance des crédits d'engagement et de paiements

A. Pour rappel, la promotion des investissements s'insère dans le cadre de la politique globale de coopération avec les pays ALA et Méditerranée, pour lesquels les prévisions financières indicatives sont les suivantes :

(1) PVD/ALA (DNO) (doc SEC com (90) 176)

(en Mio ECU) 1991 1992 1993(1) 1994(1) 1995(1)

### Chapitre 7-30 (ex 93)

Crédits engagement	448	580	600	620	652
Crédits de paiements	319	350	430	520	600

(1) Sous réserve des limites qui résulteraient d'une reconduction de l'accord interinstitutionnel sur la discipline budgétaire et des décisions budgétaires annuelles.

(II) Méditerranée (doc SEC(90) 812)

(en Mio ECU)

Chapitre 7-40 (ex 96)

	<u>1991</u>	<u>1992</u>	<u>1993</u> <sup>(1)</sup>	<u>1994</u> <sup>(1)</sup>	<u>1995</u> <sup>(1)</sup>	<u>1996</u> <sup>(1)</sup>
DNO <sup>(2)</sup> (3)						
CE :	22	90	93	96	99	102
CP :	13	80	90	95	100	105

B. L'échéancier prévisible des crédits d'engagement et paiements pour la promotion des investissements est le suivant, réparti de manière égale entre les différents postes concernés (postes B7-30005, B7-3015, B7-4085)

<u>En Mio ECU</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Engagements	18,5	60	60	60	60	60
Paiements	12,4	38	55	60	60	60

7.2. Part du financement communautaire (en %) dans le coût total de l'action

- partiellement : 50% : les dons et les avances sans intérêt pour financer les études et la formation
- partiellement : 20% : les prêts et les participations en capital pour financer les investissements

N.B. : A noter que cette action fera l'objet de remboursements au budget communautaire.

(1) Sous réserve des limites qui résulteraient d'une reconduction de l'accord interinstitutionnel sur la discipline budgétaire et des décisions budgétaires annuelles.

(2) Pour les lignes budgétaires relevant d'autres chapitres couvrant les domaines tels que celui de l'environnement (7-5041 ex 946), de la science (6-5611 ex 7361 et 6-8200 ex 7394), de l'énergie (4-1040 ex 706 et 4-1041 ex 707) et de la démographie (7-5050 ex 948), la Commission fera des propositions appropriées dans le cadre des exercices budgétaires annuels en fonction des nécessités futures et des ressources effectivement disponibles.

(3) A l'exclusion des lignes budgétaires 7-4081 (ex 945) et 7-402 (ex 952).

IMPACT ASSESSMENT FORM :

THE IMPACT OF THE PROPOSAL ON BUSINESS

Title of proposal : Renewal of the financial instrument  
"EC INTERNATIONAL INVESTMENT PARTNERS"

Document reference number :

The proposal

1. Why is Community legislation necessary in this area and what are its main aims ?

The proposed regulation supplies a formal legal basis for an instrument which was undertaken on an experimental basis. The instrument is very successful because it offers a complement at community level of Member States policies. The same instrument could not be supplied at Member State level with the same efficiency. Arguments of scale and coherence strongly advocate a community solution.

The impact on business

2. Who will be affected by the proposal ?

- which sectors of business : all
- which sizes of business (small, medium, large) : mainly SME
- are there particular geographical areas of the Community where these businesses are found : no

3. What will business have to do to comply with the proposal; how does this differ from what it does in the Member States now and what costs and benefits will this imply ?

The measure is not substituting actions which are presently undertaken by Member States but it complements those actions. Through its concept and procedures, the measure is particularly "user friendly" for SMEs.

4. What economic effects is the proposal likely to have ? For example:

- on employment : neutral or positive
- on investment and the creation of new businesses : neutral or positive
- on the competitive position of businesses : positive

5. What specific effects are there likely to be on SMEs ?

Improved capacity to become active in international operations



6. Does the proposal contain measures to ease compliance for business (eg phased implementation time, reduced requirements for SMEs etc) ?

Not applicable : the measure only has positive effects on SMEs.

Consultation

7. List the organisations which have been consulted about the proposal and outline their main views - particularly any concerns which have not been met.

The Financial Institutions of the various Member States that are operational in the scheme have voiced strong approval of the instrument.