European Investment Bank Information

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From Yaoundé to Lomé . . .

The EIB and economic development in Africa, the Caribbean and the Pacific

Contents

	pages
Introduction	1-3
Background to the Community's development assistance	3-4
General description of the EIB's role in development aid	4-5
Review of operations under Yaoundé 1 and 2	5-6
Lomé. . . increased funding for industry, mining and energy	6-7
Investments financed by the EIB under Lomé 1	8-16
The EIB's project appraisal approach	16-18
Outline of Lomé 2 and EIB's role	18-20
Lists:	
Investment projects financed under Lomé 1	11-16
Tables	
Breakdown of lending under the Yaoundé Conventions	
— by country	5
— by sector	6
Breakdown of lending under Lomé 1	
— by country	9
— by sector	10

With the second Lomé Convention which came into force on 1 January 1981, the framework is set for European Investment Bank financing operations over the next five years in the 60 African, Caribbean and Pacific (ACP) countries which have signed the Convention.

This will call for a significant expansion in the EIB's work to assist developing countries, with the Bank responsible for different forms of investment financing which may total up to some 1.4 billion units of account (u.a.) out of the 5.7 billion u.a. in aid foreseen for the ACP. Identification of possible investment projects to support — mainly in the industrial, agro-industrial, mining and energy fields — is well-advanced; programming missions of officials from both the Commission of the European Communities and the EIB have been sent to almost all of the countries to discuss investment priorities with the Governments and national financing institutions and some of the first loans have been signed already.

This expansion follows on directly from the Bank's operations under the first Lomé Convention, which expired on 31 December 1980, and represents — with the financing operations carried out in a number of African countries under the earlier Yaoundé Conventions — the latest stage in a flow of financing assistance spanning the period 1963 to 1985.

The 25th issue of EIB Information is given over to a detailed review of the operations carried out under the first Lomé Convention. The Bank completed the full amount of lending envisaged in the Convention — some 500 million u.a. in loans and risk capital, plus sums reserved for interest subsidies — which went to investment projects in 40 countries representing, when all fully operational, 3 billion u.a. in new capital formation and the direct creation of nearly 30 000 jobs.

The review also traces lending under the Yaoundé Conventions so as to give a global picture of how the European Investment Bank's assistance to developing countries in Africa, the Caribbean and the Pacific has evolved over the years.

The Conventions — key facts

The Lomé Conventions — ACP countries

The first Lomé Convention was signed by 46 countries and they were joined during the Convention's lifetime by a further 13. With Zimbabwe's signature, the number of countries covered by the second Lomé Convention presently stands at 60 (43 in Africa, 10 in the Caribbean and 7 in the Pacific):

West Africa: Benin, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, Upper Volta

Central Africa: Burundi, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Rwanda, Sao Tomé and Principe, Zaire

East Africa: The Comoros, Ethiopia, Djibouti, Kenya, Madagascar, Mauritius, Seychelles, Somalia, Sudan, Tanzania, Uganda

Southern Africa: Botswana, Lesotho, Malawi, Swaziland, Zambia, Zimbabwe

Caribbean: Bahamas, Barbados, Dominica, Grenada, Guyana, Jamaica, St Lucia, St Vincent and the Grenadines, Surinam, Trinidad and Tobago

Pacific: Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Western Samoa

Lomé 1: signed in Lomé, Togo, 28 February 1975, came into force 1 April 1976, expired 31 December 1980. Provided for Community finance totalling 3 559.5 million u.a. (including 112.7 million under the Council of Minister's decision to extend aid to Overseas Countries, Territories and Departments — OCTD linked to certain Member States).

Lomé 2: signed 31 October 1979, came into force 1 January 1981, expires 28 February 1985. Provides for Community finance totalling up to 5 716 million u.a. (including 109 million u.a. for the OCT).

Lomé Conventions: Breakdown according to forms of development finance [1] (in million u.a.)

	Managed by the EIB		Managed by the Commission				
		Financed from budgetary resources					
	Loans from EIB own resources	Risk capital operations	Grant aid for interest subsidies on EIB loans	Other grant aid	Loans on special conditions	Stabilisation of export earnings (STABEX)	Special finance facility for minerals (SYSMIN)
Lomé 1	400	101	100	2 085	474	400	
Lomé 2 [2]	700+200[3]	287	175	2 804	531	559	280

(1) Situation when going to press (end-March 1981) and not including adjustments still to be made at that date to Lomé 2 to take account of the accession of a new ACP country, Zimbabwe.
The sums include the financing provisions, under the relevant decisions of the Council of the European Communities, for Overseas Countries and Territories (OCT).

(2) This line does not include the cost of Community delegations in ACP countries, financed from budgetary resources.

(3) Provision under declaration annexed to the Convention foreseeing the possibility for the EIB to lend up to 200 million u.a. from its own resources for mining and energy investments of joint interest to the ACP and the Community (see page 19).

The earlier Yaoundé Conventions

These covered a smaller group of countries: 18 under the first Convention (together known as the Associated African States and Madagascar - AASM), 19 under the second (the Associated African States, Madagascar and Mauritius - AASMM); all went on to sign the two Lomé Conventions.

Yaoundé 1: signed in Yaoundé, Cameroon, 20 July 1963, came into force 1 June 1964, expired 31 May 1969. Provided for Community finance totalling up to 800 million u.a. (including 70 million for the OCTD). This sum comprised 680 million in grants and 50 million in loans on special conditions, both from budgetary funds, plus up to 70 million u.a. in loans from the EIB's own resources.

Yaoundé 2: signed 29 July 1969, came into force 1 January 1971, expired 31 January 1975. Provided for total aid package of up to 1 000 million u.a. (of which 82 million for the OCTD). This was made up of 810 million in grants and 90 million in special loans, both from budgetary funds, and up to 100 million in loans from the EIB's own resources.

N.B.

This review mentions OCTD (Overseas Countries, Territories and Departments) under the Yaoundé Conventions and the first Lomé Convention, and OCT (Overseas Countries and Territories) under the second Lomé Convention. The difference is explained by the fact that since March 1980 the French Overseas Departments have been assimilated to the Metropole for the purposes of EIB lending.

Under the first Lomé Convention the European Investment Bank signed some 125 finance contracts, over half of them for investments in countries where it had never worked before.

The funds went to a wide range of activities, from large industrial and energy schemes, requiring a high level of financial support, to small-scale industrial and tourism development assisted through global loans to national development banks. For example, in Kenya 10 000 smallholders will be sending their tea crops to 10 new processing factories, whose exports should have an appreciable effect on the country's balance of trade. In Fiji, an 80 MW hydroelectric power station will cover virtually all of the electricity demand on the largest and most heavily populated island, Viti Levu, hitherto met by oil-fired thermal power stations. In Botswana, a factory will produce vaccine to protect cattle against foot-and-mouth disease. In Senegal, solar energy equipment is to be manufactured, part for household use, part for powering irrigation pumps in isolated rural areas. A rice mill in Mali will help further the country's efforts to develop rice farming and thereby move closer to self-sufficiency in food. In some of the Caribbean islands, small-scale industrial and tourism ventures are being set up with EIB support.

But apart from requiring a wide geographical and sectoral extension of the EIB's operations, the first Lomé Convention acted as a testbed for various new financing techniques, allowing a flexible and innovative approach to development problems differing widely from country to country and project to project. It also set the stage for much increased cooperation with other international development banks, aid organisations in Member Countries and sources of finance in the Arab world.

These aspects will be covered in detail in the following pages, but the starting point must be first to situate the EIB within the overall spectrum of Community development assistance and then define its roles as they began under the Yaoundé Conventions and have grown under the Lomé Conventions.

Background to Community development assistance

The European Community has sought from the beginning to strengthen the economies of countries in the Third World. Robert Schuman in his declaration of 9 May 1950 — which laid the foundation of the European Community — referred to how European unity could also give a new impetus to development of the African continent, one of Europe's essential tasks.

The steady growth in the Community's development aid reflects a natural sense of solidarity with many countries which have long historical and cultural links with Europe.

Economic factors remain the bedrock of the cooperation, with an effort to promote, to the satisfaction of both sides, interests which are complementary and thus strengthen a mutually beneficial interdependence.

On the one hand, the European Community is the world's biggest market for developing countries' goods. In 1979 the EEC's imports from the Third World were worth 90 billion u.a. European industries represent considerable potential for investment in developing countries and for technical cooperation.

At the same time, the Community economy is based to a great extent on processing raw materials and then selling the finished products. Roughly 75% of its raw materials are imports compared with under 25% for the United States and under 10% for the USSR; the principal sources of supply are developing countries.

These same countries have become important markets for European products: 36% of the Community's exports went to Third World countries in 1979, against 13% to the USA or 8% to the COMECON countries.

The EEC and its Member States are today the largest source of development assistance for the Third World with aid commitments embracing countries with economies which range from being semi-subsistent to others reaching roughly the same level as less developed regions within the Community.

Unit of Account

Below are the values in national currencies of the unit of account used by the Bank, as at 31 December 1980:

DM	2.56556	Bfrs	41.3351
£	0.549110	Lfrs	41.3351
Ffrs	5.93916	Dkr	7.88723
Lit	1217.30	Dr	61.2587
Fl	2.79081	IR£	0.690185
		US-$	1.30963

Statistics summarising Bank activities in terms of units of account have been based on several different conversion rates applied since 1958. This, coupled with the effects of price trends, would suggest prudence in interpreting the significance of figures which relate to operations extending over many years.

The composition and hence value of the unit of account used by the EIB are the same as those of the ECU.

Below are listed the rounded values of the unit of account in currencies of ACP countries in which the Bank had carried out operations up to end -1980:

Barbados (2.62 Barbados $), Benin (297 CFA francs), Botswana (0.97 Pula), Burundi (117.9 Burundi francs), Cameroon (297 CFA francs), Cape Verde (55.8 Cape Verde escudos), Chad (297 CFA francs), Comoros (297 CFA francs), Congo (297 CFA francs), Djibouti (233 Djibouti francs), Fiji (1.04 Fiji $), Gabon (297 CFA francs), Gambia (2.2 Dalasis), Ghana (3.6 Cedis), Guinea (25.4 Sylis), Guyana (3.34 Guyana $), Ivory Coast (297 CFA francs), Jamaica (2.33 Jamaica $), Kenya (9.93 Shillings), Liberia (1.31 Liberian $), Madagascar (297 Malagasy francs), Malawi (1.08 Malawi kwacha), Mali (594 Mali francs), Mauritania (60.27 Ouguiyas), Mauritius (10.28 Mauritian rupees), Niger (297 CFA francs), Nigera (0.71 Naira), Papua New Guinea (0.85 Kina), Rwanda (122 Rwanda francs), Senegal (297 CFA francs), Seychelles (8.6 Seychelles rupees), Somalia (8.24 Somali shillings), Sudan (0.65 Sudanese pounds), Surinam (2.34 Surinam guilders), Swaziland (0.98 Emalangeni), Tanzania (10.72 Tanzania shillings), Togo (297 CFA francs), Trinidad and Tobago (3.14 Trinidad & Tobago $), Upper Volta (297 CFA francs), Zaïre (3.92 Zaïres), Zambia (1.05 Zambian kwachas).

French Guiana, Guadeloupe, Martinique and Réunion (French franc applies — see above); French Polynesia and New Caledonia (108 CFP francs), Netherland Antilles (2.34 Antilles guilders).

This has called for diverse forms of assistance . . . food aid, preferential trading arrangements, technical and industrial cooperation, payments designed to help countries which are dependent upon exports of a few commodities to ride out the ups and downs of market prices, financial aid to help export promotion and **investment finance,** which is the theme of this article.

The Community as a group has established priorities to aid

— the African, Caribbean and Pacific countries and
— countries in the Mediterranean region [1].

Their links with Europe are particularly strong and it is within these countries and also in a small group of Overseas Countries and Territories closely connected with certain Member States, that the bulk of Community development assistance is provided and where the EIB operates.

General description of the EIB's role in development aid

The possibility for the EIB to operate outside the Community was laid down in Article 18 of the Bank's Statute, an integral part of the EEC Treaty. This stipulates that although EIB financing should normally assist investment projects carried out in the European territories of Community Member States, the Board of Governors (one Minister from each Member Country), acting unanimously on a proposal from the Board of Directors, may also authorise the Bank to lend outside the Community.

A few such authorisations have been given for financing certain specific projects outside the Community, but of direct interest to it (e.g. loans for development of oil and gas deposits in the Norwegian sector of the North Sea, a hydroelectric power station in Austria, half the output of which will go to German consumers, construction in Tunisia of part of the Algeria-Italy gasline); much more important, the clause opened the way, as Community aid policy evolved, for the Bank's experience as a project financing body within the Member Countries to be put to use also to the benefit of developing countries.

In effect it meant that as the Bank borrows its resources on the capital markets, funds could be mobilised for development aid **additional** to financial assistance provided by the Member States or the Community from budgetary resources.

Certain basic principles govern the EIB's activities outside the Community:

■ the Bank lends within the framework of agreements negotiated between the Community and the countries concerned, the terms of which (as far as they concern the EIB) must be agreed by the Bank's own Board of Governors. Each of these agreements specifies a time-span for Bank lending (usually about 5 years) and sets a **ceiling** for the total amount — i.e. a target, not a legal obligation, to be reached only if the Bank can find sufficient, good quality investment projects; certain sectoral priorities are usually laid down for the Bank

■ the **agreement** of the authorities in the **countries concerned** is necessary before the EIB pursues financing proposals; each country discusses its priorities with the Bank

■ every project must undergo an examination by the Bank's own staff of its likely **economic impact** (e.g. the benefits to the country concerned in terms of value added, balance of payments, revenues generated, jobs created etc.) with the appraisal also looking closely at financial, technical and managerial capacities of the promoter

■ within the overall spectrum of Community aid, and in cooperation with the Commission of the European Communities, the EIB disposes of **different forms of financing** — soft, softer and softest — and it is necessary to determine how these are used, and in what mix, according to the countries and projects

■ support may be given for investment carried out by **public, semi-public or private sector promoters**

■ the EIB's normal practice is to finance only **part of the fixed asset costs** involved, i.e. the funds it makes available should form part of an overall financing plan, usually including the promoter's own funds and, in most cases, finance from other banks or development agencies

■ finance is used for equipment or services chosen, broadly speaking, on the basis of **international competition** and may cover both foreign currency and local expenditure

■ **adequate security** must be assured so as to protect the EIB's standing on the capital markets where it borrows its funds.

Another general point to operations outside the Community — both in the ACP and the Mediterranean countries — is the division of responsibilities between the Commission and the European Investment Bank.

This has evolved in the light of experience over the years and aims at structuring development aid to enable a versatile approach with a range of different financing facilities handled by the two institutions. The Commission's primary concern is grant aid, the EIB's main task lies in the provision of reimbursable assistance, although there is a limited crossover of cooperation in certain fields.

EIB financing comes under two broad headings:

— **ordinary operations:** these are loans from the Bank's own resources (i.e. essentially the sums raised as part of normal borrowing operations on the capital markets); and

— **special operations:** various types of financing drawn from budgetary funds which the Bank manages under mandate of the Community or the Member States.

(1) The EIB's role in the Mediterranean countries has been covered in earlier issues of EIB-Information (see Nos. 21, May 1980; 18, July 1979; 12, February 1978; 9, May 1977)

Loans under the first category — ordinary operations — are provided on the same conditions as the Bank's loans within the Community, that is to say on a non-profit-making basis, with the interest rates following closely movements on the markets where the Bank obtains its funds. However, in the ACP, lending rates are brought down by interest subsidies paid from Member States' budgetary resources (through the European Development Fund) ;the borrowers therefore receive loans on more favourable conditions than the Bank itself could afford to give, bearing in mind that it can obtain funds on financial markets only by offering a competitive rate of interest to investors, and that it has to cover its own operating costs (admittedly quite small, as the Bank's staff totals only about 500) and contribute to the margin of reserves required by its Statute.

The duration of the loan depends on the nature of the project financed and always, of course, on the Bank's own borrowing possibilities. There is a grace period on capital repayments always covering the construction and start-up phase of a project.

Finance from budgetary resources — the special operations — means funds usually on very soft conditions; as the Bank's own resources are not involved, the lending does not have to reflect the costs of money on the financial markets. In the ACP this aid is provided as risk capital assistance, different forms of financing aimed for the most part at launching new industrial ventures (under the earlier Yaoundé Conventions special operations were essentially in the form of very long-term loans with extended grace periods on repayment of principal and at nominal interest rates).

When providing funds from budgetary resources, under Community mandate, the operations are accounted for separately from the Bank's other activities, off balance-sheet, in what is known as the "Special Section", formed by decision of the Board of Governors in 1963 when the first such lending took place in Turkey.

It is interesting to examine how the combination of these different forms of financing has changed over the years, from the first Yaoundé Convention which came into effect in 1964 to the present Lomé Convention.

Review of operations under Yaoundé 1 and 2

When the Community was created, the Treaty of Rome provided for the association of dependencies of some Member States "in order to increase trade and to promote jointly economic and social development". Within a few years many of these territories had become nations in their own right and had to decide whether they wished to continue as "associates" of the Community.

Almost all chose to do so and in July 1963 a Convention was signed at Yaoundé, Cameroon, associating 17 African States[1] and Madagascar to the EEC (the Associated African States and Madagascar - AASM) and for the first time the Community decided to help finance productive investment in these countries, including the private sector.

Under this Convention, European Development Fund (EDF) grant aid managed by the Commission was set at 680 million u.a. The Bank was called upon to lend from its own resources (up to 70 million u.a.) and to share responsibility with the Commission in granting loans on special conditions from EDF resources (50 million u.a.).

The loans from the Bank's own funds went almost entirely to industrial or mining development aimed either at import substitution or developing export capacity (e.g. various agro-industrial investments in the Ivory Coast, fertiliser production in Senegal). Special loans went approximately half to industrial investment of various kinds, half to infrastructure schemes.

The experience of these operations led to two important innovations being introduced in the second Yaoundé Convention, which came into effect in 1971.

[1] Benin, Burundi, Cameroon, Central African Republic, Chad, Congo, Gabon, Ivory Coast, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta, Zaire.

Table 1: Finance provided by the EIB under the first and second Yaoundé Conventions[(1)]
geographical breakdown

	Loans from EIB own resources		Special operations mounted from EDF resources[(2)]		Total	
	m u.a.	%	m u.a.	%	m u.a.	%
AASMM	**139.1**	**95.2**	**127.8**	**90.0**	**266.9**	**92.6**
Benin			3.3	2.3	3.3	1.2
Cameroon	17.3	11.8	23.9	16.8	41.2	14.3
Chad			1.2	0.8	1.2	0.4
Congo	9.0	6.2	6.7	4.7	15.7	5.4
Gabon	4.4	3.0	10.3	7.3	14.7	5.1
Ivory Coast	51.2	35.1	35.6	25.1	86.8	30.1
Madagascar			1.9	1.3	1.9	0.7
Mauritania	11.0	7.5	2.7	1.9	13.7	4.8
Mauritius	1.8	1.2			1.8	0.6
Senegal	3.9	2.7	6.6	4.7	10.5	3.6
Togo	5.9	4.0			5.9	2.0
Upper Volta	0.4	0.3	5.0	3.5	5.4	1.9
Zaire	34.2	23.4	30.6	21.6	64.8	22.5
OCTD	**7.0**	**4.8**	**14.2**	**10.0**	**21.2**	**7.4**
French Guiana			0.4	0.3	0.4	
Guadeloupe			0.7	0.5	0.7	0.2
Martinique			0.6	0.4	0.6	0.2
Netherlands Antilles			4.4	3.1	4.4	1.5
New Caledonia	7.0	4.8	3.4	2.4	10.4	3.6
Reunion			2.8	2.0	2.8	1.0
Surinam			1.9	1.3	1.9	0.7
Grand total	**146.1**	**100.0**	**142.0**	**100.0**	**288.1**	**100.0**

(1) Including operations mounted in accordance with the Decisions of the Council of the European Communities on aid to the Overseas Countries, Territories and Departments

(2) Loans on special conditions and contributions to the formation of risk capital

The first was the use of subsidies to reduce the interest rates on certain EIB loans. The second was the introduction of risk capital operations.

The Convention — signed by the original AASM, later joined by *Mauritius* — provided for the Bank to lend up to 100 million u.a. from its own resources but allowed for interest subsidies, paid from the European Development Fund grant allocation (810 million u.a.), to be applied to loans in the manufacturing and tourism industries (the subsidies were 2 or 3%, according to certain criteria laid down in the Convention).

This enabled the EIB to strengthen its action in favour of industrial development, helping African companies cut their borrowing costs and operate with better chances of success thanks to a lighter debt burden.

In the amount set aside from the EDF for loans on special conditions (90 million u.a.), provision was made to use part of the funds to provide risk capital (e.g. bolstering the capacity of enterprises to pursue their development plans by taking a share in their equity).

Loans from the EIB's own resources again went mainly to import substitution or export-oriented industries (e.g. copper and cobalt mining in Zaire, cement production in Cameroon and Togo, cotton mill in the Ivory Coast), but also with a certain amount going to tourism development (hotels in Senegal and Gabon) and development of electricity production. A few risk capital operations were carried out in support of different industrial investments in Senegal, Cameroon and the Ivory Coast, while loans on special conditions went mainly to infrastructure works of various kinds and large agricultural schemes.

A breakdown of lending under the Yaoundé Conventions, both by country and by sector, is given in tables 1 and 2.

Thus two main trends under these Conventions were

a) an increasing concern on the part of the Community to aid industrial investment in the African countries, and

b) a growing involvement of the EIB both in lending from its own resources (with possible application of interest subsidies) and in carrying out risk capital operations.

This pattern became even clearer with the first Lomé Convention, which came into force in April 1976.

Table 2: Finance provided by the EIB under the first and second Yaoundé Conventions(1)
sectoral breakdown

	number	m u.a.	%
Industry	**39**	**141.6**	**49.1**
Mining and quarrying	4	52.6	18.3
Agro-industry	15	47.4	16.5
Textiles and leather	11	20.8	7.2
Metal production and semi-processing	3	8.2	2.8
Construction materials	3	8.2	2.8
Chemicals	2	3.0	1.0
Other	1	1.4	0.5
Infrastructure	**30**	**115.3**	**40.1**
Agricultural development	2	5.3	1.8
Water	2	6.8	2.4
Transport	25	102.4	35.6
(Railways)	(7)	(43.7)	(15.2)
(Roads, bridges and tunnels)	(8)	(38.7)	(13.5)
(Shipping and inland waterways)	(9)	(15.6)	(5.4)
(Airlines)	(1)	(4.4)	(1.5)
Telecommunications	1	0.8	0.3
Energy	**4**	**18.3**	**6.4**
Power stations	3	9.3	3.3
Transmission lines	1	9.0	3.1
Agriculture	**2**	**9.3**	**3.2**
Hotels and tourism	**2**	**2.6**	**0.9**
Other services	**1**	**1.0**	**0.3**
Grand total	**78**	**288.1(2)**	**100.0**

(1) Including operations mounted in accordance with the Decisions of the Council of the European Communities on aid to the Overseas Countries, Territories and Departments.

(2) Loans from EIB own resources (146.1 m u.a.) and special operations mounted from EDF resources (142.0 m u.a.)

Lomé . . . increased funding for industry, mining and energy

The Lomé Convention was hailed as a new chapter in relations with developing countries. It engaged the Community of Nine (now including Denmark, Ireland and the United Kingdom, linked to many developing countries through the Commonwealth) to cooperating in the development of virtually all of black Africa, plus a number of countries in the Caribbean and Pacific. A total of 46 countries signed the Convention in 1975 and they were joined by 13 others during the lifetime of the Convention.

Although very diverse in many ways, these countries share common experiences and difficulties in their economic development.

Their per capita GDP averaged 260 u.a. in 1978 and a large number of the ACP are listed among the world's least developed countries.

In many cases the population is small and sparsely distributed which *makes development — particularly* infrastructure, such as roads, water supplies and telecommunications — difficult and costly.

Changes in the terms of trade over the last decade have been strongly to their disadvantage. Basically they export raw materials, for many of which world market prices have fallen or stagnated in real terms; at the same time they have been hit severely by the oil price increases (only a handful of the ACP are oil producers) and by the inflation in the cost of imported capital goods.

In most countries, agriculture will continue to be the largest sector of economic activity, and increases in agricultural production and productivity will play a major part in successful economic development. At the same time, the expansion of the industrial sector is an essential element in the development process.

Experience has shown that a policy of industrialisation at all costs is no solution: much depends on the circumstances in which a particular country finds itself; its geographical situation, its raw materials endowment, the availability of skills, and many other factors determine the appropriate size and pattern of industrialisation. But, recognising that the potential for industrialisation in different countries will be different, industrial development is an essential element in promoting import saving and the diversification of exports. In particular, the smaller, locally based, manufacturing enterprises have a significant role to play; they contribute to the expansion of the domestic market, and can offer important new employment opportunities in countries where unemployment and under-employment are extremely serious problems. In most ACP countries industry presently accounts for well under 20% of Gross National Product (GNP).

The first Lomé Convention never claimed to be a complete answer to all development problems. But it did contain some important and interesting innovations.

In the first place, the amount of aid was set at 3.6 billion u.a. over five years, i.e. twice the amount for the two Yaoundé Conventions — but obviously for a much larger number of beneficiary countries — to be used in less than half the timespan.

The division of responsibilities between the Commission and the EIB was developed so as to take account of the innovations.

The Commission-managed EDF grant aid and loans on special conditions — about 75% of the total — were intended chiefly to help finance agriculture, infrastructure and social development.

The EIB's role was clearly defined as the primary source of finance for **industry, mining and tourism,** although it could also help finance investment in energy and other branches of revenue-generating economic infrastructure (e.g. port works, railway modernisation).

The amount of loans from the Bank's own resources (400 million u.a.) was four times that under the second Yaoundé Convention and the lending possibilities were to be substantially widened by an expanded provision for interest subsidies. Whereas under Yaoundé 2 each subsidy was granted on a case-by-case decision of the Commission, independently of the Bank granting its loan for a project, they became an integral part of the Bank's lending operations under Lomé 1. The amount set aside for interest subsidies out of the EDF grant allocation (100 million u.a.) was entrusted to the Bank's management so that, in effect, a borrower could negotiate a loan with subsidy all as one package and indeed the subsidies were to be considered as standard practice (there were only a few sectoral exceptions, e.g. loans for oil development).

The subsidies were set nominally at 3% but with the proviso that borrowers should never pay a net interest rate of less than 5% or more than 8%. With the substantial rise of interest rates worldwide, particularly in the second half of the Convention's lifespan, the 8% ceiling has been of increasing benefit to the ACP borrowers.

In addition the Bank was given full responsibility for handling risk capital assistance (101 million u.a. from EDF resources).

Operations under this heading represent a particularly useful form of aid in the ACP countries where industrial investment is almost invariably faced with special problems.

In some cases, for example, investment schemes could be abandoned because the company concerned has too limited a capital base . . . it cannot contract the loans it needs because it does not have the borrowing capacity.

Here risk capital resources can be used by the EIB to provide quasi-capital assistance to a Government or to a national development institution to enable it to take a stake in a new enterprise without burdening public finance by subtracting resources from an already stretched budget.

In other cases, the EIB takes a direct participation, on the Community's behalf. Here, it should be emphasised, the objective is to keep the holding only for as long as needed for the venture's sound launching and then afterwards to transfer it, normally to nationals or institutions of the ACP country concerned. The right may be reserved to take up a seat on the Board of Directors or to be represented in some other way, but the Bank's principle is that of maintaining a close observer relationship, not to participate in the day-to-day running of a company. The EIB is not there as a conventional shareholder motivated by the dividend, but simply to strengthen the capital structure of the company during its first years and give it a better chance of success.

Often a country's general economic situation (limited debt capacity, balance of trade problems etc) mean that, in its own interest, loan obligations should be kept as low as possible and in these circumstances risk capital can be used as

— subordinated loans which are repayable only after certain other priority debts have been reimbursed

— conditional loans, which are repayable only after fulfilment of certain conditions indicating that the project has overcome its teething troubles and has achieved a predetermined level of profitability.

A similar approach can be taken in countries in a less difficult position, but where there are specific risk factors linked to a given project: e.g. markets difficult to estimate; no network of existing enterprises to provide trained labour or management calibre personnel; stocks of spare parts or intermediate products used in a manufacturing process which may inevitably be subject to difficulties. The range of risk capital assistance is very wide and the Bank uses the possibilities with the maximum flexibility. But one principle underlines all the risk capital operations: from a technical, economic and financial point of view the project should be potentially viable in the medium or long term.

Finally, assistance may be given for financing specific preinvestment studies or as aid to enterprises (technical assistance) during the start-up period of a project; this is described in more detail on pages 8-9.

Analysis of investments financed by EIB under Lomé 1

The funds envisaged for EIB financing operations in the ACP countries under Lomé 1 were fully committed by end-1980.

Table 3 and figure 1 give the breakdown by project location and enable an interesting comparison between the different forms of financing and the level of economic development of the countries concerned, as defined by Article 48 of the Convention which lists those countries considered as the least developed.

75% of loans from the Bank's own resources went to investment projects in countries not included in Article 48. This reflects

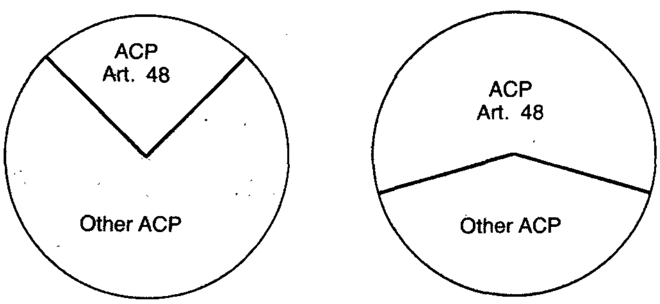
— the capacity of different countries to service loans repayable in the major international currencies at rates of interest between 5 and 8%;

— the division of responsibilities between the EIB and the Commission of the European Communities, whereby the latter concentrates its activities on lower income countries.

Figure 1: the first Lomé Convention

Geographical breakdown according to Article 48 of the Convention

Loans from EIB resources | Risk capital operations



On the other hand, the risk capital operations, which the Bank could obviously carry out on much softer conditions, went 60% to investment in countries listed in Article 48.

This emphasises the importance of the risk capital facility in enabling the Bank to extend its financing and thus support industrial development in countries where otherwise it would be difficult to operate.

Moreover, in many cases, projects have been supported with a "mix" of loans on own resources and risk capital contributions, permitting a fine tuning of aid to the characteristics of a given investment.

The sectoral breakdown of financing is given in Table 4 (page 10) and in the loans lists on pages 11-16, but before examining these, three general points about the Bank's operations require some comment

— help for small-scale investment as well as larger projects

— assistance in preparing investment projects by using some of the risk capital for feasibility studies

— cooperation in co-financing with other development agencies to help the ACP.

Smaller-scale ventures

Industrial development cannot be achieved through large, capital-intensive projects alone. It also requires the creation of smaller-scale enterprises to cater for local markets and special needs, to provide repair services, to widen the scope for training skilled manpower and to offer increasing numbers of better educated people the chance to develop entrepreneurial skills. Indeed, in a number of the ACP countries, smaller-scale ventures are the only realistically possible approach to industrial development, at least in the immediate future.

There are obvious practical difficulties as to how a Bank operating from Europe can deal directly with the needs of small ventures in distant countries, so the EIB has channelled finance to them through development banks in ACP countries who know their potential clients and who are well equipped to assess each small investment.

The EIB has made finance available to development banks in a number of ways. In most cases it has lent funds from its own resources in the form of global loans (basically lines of credit) which the institution then splits up into a number of sub-loans for smaller-scale investments. The conditions laid down for the use of this finance (e.g. the size, nature and location of ventures to be assisted) are generally fixed in negotiating each operation, and all the ventures to be financed are chosen in agreement with the EIB.

Other forms of support have been to use risk capital to take participations in the equity of development banks, so strengthening their capital base, or to subscribe to bonds issued by a bank. Furthermore the EIB sometimes provides risk capital enabling development banks to take participations in ventures they finance.

Roughly a quarter of the EIB's total financing for industrial and tourism development in the ACP countries under Lomé 1 was carried out through such operations, which have the additional benefit that they help the development of the financial/banking sectors of the countries concerned. In dealing with the EIB, and learning how to work according to its financing criteria, the staff of these banks also have a wider opportunity to develop their professional capacities; indeed it is the operational efficiency and management quality of the development banks which represent their best guarantee of success, not simply the total volume of funds made available to them.

Preinvestment studies

To help promote industrial and other development in the ACP on a wider basis, the EIB branched out under Lomé 1 into a new activity, using risk capital funds to finance preinvestment studies: 21 operations in 20 countries were carried out.

This type of financing — particularly well received by the ACP — encourages the thorough investigation of ideas prior to their implementation, minimising the danger of misallocating resources to investment not sufficiently well examined. The financial obligations of the borrower are waived if the study finally recommends abandoning the project investigated as not being feasible, and hence the risk is transferred from the borrower to the Community.

The financing of a study does not commit the Bank to lend for the project itself, if it eventually gets off the ground. But normally one of the aims of the study is to define the investment in such a way that the EIB, or other financing institutions, may decide on the basis of the conclusions whether or not to provide support. For example, a study financed in Cape Verde to determine the feasibility of building a ship repair yard led to EIB financing for the capital expenditure on the facilities recommended by the study.

The facility has also been used to help ACP development banks examine a number of potentially sound projects in specific sectors which — if the studies are positive — could then be financed using funds provided by the EIB.

Thanks to these studies the EIB does not step in only when projects are well defined and getting close to implementation but is able to come in at the project preparation stage and help the promoters to design their investment to the best advantage for them and their country.

Cooperation with other aid agencies

The EIB has always, since the first Yaoundé Convention, stressed the importance of strong links with Member States' bilateral aid organisations and other international lenders; in the last few years, it has also begun to build up cooperation with the various bilateral or multilateral financial institutions in the Arab oil-producing countries.

This has helped in the identification of possible projects for financing and in easing the complicated business of constructing financing plans for a number of the larger projects.

Under Lomé 1, Member States' aid agencies helped to finance 31 projects with the EIB with loans for a total amount of over 300 million u.a.; the World Bank and its affiliate the International Finance Corporation helped to finance 17 projects for a total of some 320 million u.a. Arab funds — in particular the Saudi Fund and Kuwait Fund — came into 9 projects for over 280 million u.a. (the fact that the EIB, or World Bank, has appraised a project and found it economically sound can be an important factor in the decision of Arab funds to participate in the financing) (1).

(1) figures do not take account of loans to, or participations in, ACP development banks which the EIB has also supported.

Table 3: Finance provided by the EIB under the first Lomé Convention
geographical breakdown according to Article 48 of the Convention

	Loans from EIB resources		Risk capital operations				Together	
	m u.a.	%	m u.a.	%	number	of which global loan credits	m u.a.	%
Least developed ACP States (Art. 48)	**97.7**	**25.0**	**57.49**	**59.2**	**64**	**18**	**155.19**	**31.8**
Botswana	6.5	1.7	1.75	1.8	4		8.25	1.7
Burundi			0.50	0.5	2	1	0.50	0.1
Cape Verde			3.58	3.7	2		3.58	0.7
Chad			7.50	7.7	1		7.50	1.5
Comoros			0.01		1		0.01	
Djibouti			1.00	1.0	1		1.00	0.2
Gambia			2.39	2.5	2		2.39	0.5
Guinea	4.4	1.1	0.15	0.2	2		4.55	0.9
Malawi	14.5	3.7	1.15	1.2	12	7	15.65	3.2
Mali			6.15	6.3	2		6.15	1.3
Mauritania	25.0	6.4			1		25.00	5.1
Niger	6.0	1.5	0.90	0.9	3		6.90	1.4
Rwanda			3.00	3.1	1		3.00	0.6
Seychelles			0.58	0.6	1		0.58	0.2
Somalia			0.25	0.3	1		0.25	0.1
Sudan			6.50	6.7	1		6.50	1.3
Swaziland	12.0	3.1	1.15	1.2	4		13.15	2.7
Tanzania	5.0	1.3	7.75	8.0	14	10	12.75	2.6
Togo	16.3	4.2	5.25	5.4	5		21.55	4.4
Upper Volta	8.0	2.0	7.93	8.1	4		15.93	3.3
Other ACP States	**292.3**	**75.0**	**39.79**	**40.8**	**155**	**78**	**332.09**	**68.2**
Cameroon	32.7	8.4	4.60	4.7	8		37.30	7.6
Congo			3.15	3.2	1		3.15	0.7
Ghana	16.0	4.1	2.25	2.3	4		18.25	3.8
Ivory Coast	47.3	12.1	2.92	3.0	14		50.22	10.3
Kenya	52.4	13.4	1.17	1.2	26	16	53.57	11.0
Liberia	7.4	1.9	0.29	0.3	9	6	7.69	1.6
Madagascar			2.30	2.4	2		2.30	0.5
Mauritius	12.5	3.2	0.04		18	14	12.54	2.6
Nigeria	50.0	12.8			11	9	50.00	10.3
Senegal	12.0	3.1	8.07	8.3	6		20.07	4.1
Zaire			5.26	5.4	5		5.26	1.1
Zambia	10.5	2.7	3.43	3.5	13	8	13.93	2.9
West Africa (regional)			0.14	0.1	1		0.14	
Barbados	7.5	1.9			8	6	7.50	1.5
Guyana			3.20	3.3	2	1	3.20	0.7
Jamaica			0.07	0.1	1		0.07	
Trinidad and Tobago	10.0	2.6			18	16	10.00	2.0
Caribbean (regional)	3.0	0.8	1.00	1.0	4	2	4.00	0.8
Fiji	24.0	6.2			2		24.00	4.9
Papua New Guinea	7.0	1.8	1.90	2.0	2		8.90	1.8
Total ACP	**390.0**	**100.0**	**97.28**	**100.0**	**219**	**96**	**487.28**	**100.0**
OCT								
French Polynesia			0.85		4	3	0.85	
New Caledonia	7.0				1		7.00	
Grand Total	**397.0**		**98.13**		**224**	**99**	**495.13**	

Sectoral breakdown of lending under Lomé 1

Nearly 70% of total EIB financing operations in the ACP under Lomé 1 — some 335 million u.a. — went to industrial, agro-industrial and mining investment and 28% — 139 million u.a. — to energy schemes, of which the major part, principally hydroelectric, will help cut dependence upon oil imports; the remainder — 21 million u.a. — went to tourism development and the financing of studies.

Industry

Agro-industry

This was the largest single industrial sector for EIB financing, with 39 operations (including 17 credits from global loans) in 18 countries for a total of 104.8 million u.a., roughly two thirds from the Bank's own resources.

Approximately half the funds went to investment aimed primarily at meeting domestic consumption (e.g. rice, palm oil), thus reducing food deficits which weigh on the balance of payments; the other projects were export-oriented (e.g. tea, rubber, groundnuts) with, in some cases, a major foreign currency-earning potential.

In the selection and appraisal of these projects particular attention was paid to the need to ensure that the scale and timing of factory construction were in line with the programme for plantation production.

Mining

Eleven financing operations (including six credits from global loans) worth 43.2 million u.a., over three quarters from the Bank's own resources, were carried out in six countries. More than half the total went to open-cast mining of the Guelb iron ore deposits in Mauritania (80% of the ore for sale to iron and steel concerns in Community Member States), the object of a major international financing plan involving, in particular, several Arab sources of finance.

Tin and tungsten ore production in Rwanda, a pilot chrome ore dephosphorizing plant in Madagascar and the reopening of a gold mine in Upper Volta were the other major investments. The last-mentioned shows how changes on world-markets can stimulate new activity: the goldmine had been worked until 1966 when the price no longer made it worthwhile, whereas the market now seems likely to remain favourable for the foreseeable future. Even on a cautious assumption of the future gold price, the annual exports should form a significant share of the country's total export earnings and reduce substantially its trade deficit. A total of 500 jobs are involved.

Also in the mining sector the Bank financed studies on exploiting bituminous deposits in Madagascar with a view to extracting petroleum products and assessing the quantity and quality of iron ore reserves in Senegal. One of the themes of the second Lomé Convention (see page 19) is the need to stimulate mining investment and here the EIB has a particular role to play.

Construction materials

Fourteen financing operations (including five credits from global loans) worth in total 38.1 million u.a., more than 70% from the Bank's own resources, went to investments in 11 countries.

The vast majority — all the individual loans — went to modernisation, extension and construction of cement plants and development of limestone deposits for cement production. The ACP countries are liable to find their industrialisation, infrastructure development and rapid urbanisation exposing them to substantial foreign exchange outgoings and, because internationally traded cement is a relatively tight market, to occasional irregularity in supplies.

All the projects assisted by the EIB are import substitution investments aimed at guaranteeing a steady, local supply of cement which, given the very high transport costs of cement imports and the potential impact of

Table 4: Financing provided by the EIB under the first Lomé Convention(1)
Breakdown by sector

	Number: Total	Number: of which credits from global loans	Million u.a.: Total	Million u.a.: of which credits from global loans	% of total
Industry	**146**	**90**	**284.9**	**37.8**	**57.5**
Agro-industry	39	17	104.8	9.5	21.2
Mining	11	6	43.2	2.5	8.7
Construction materials	14	5	38.1	2.6	7.7
Chemicals	11	3	33.9	1.9	6.8
Metal production and semi-processing	9	5	22.5	2.5	4.6
Textiles	20	15	20.9	4.5	4.2
Other	42	39	21.5	14.3	4.3
Hotels and tourism		**8**	**16.6**	**2.1**	**3.4**
Global loans (part still being allocated) **and other finance for development banks**	**27**		**49.8(2)**		**10.0**
Energy	**17**	**1**	**139.1**	**0.2**	**28.1**
Hydroelectric power stations	8	1	74.2	0.2	15.0
Thermal power station	4		11.9		2.4
Power lines	5		53.0		10.7
Preinvestment studies	**21**		**4.8**		**1.0**
Grand total	**224**	**99**	**495.2**	**40.1**	**100.0**

(1) and under the Council of the European Communities' decision concerning Overseas Countries and Territories

(2) Difference between the sum of global loans and other finance granted (89.9 million u.a.) and the amount of credits (40.1 million u.a.) provided as at 31 December 1980.

high construction costs on the general rate of inflation, is important for the management of a country's development programme.

Particular mention should be made of CIMAO — Ciments de l'Afrique de l'Ouest, a project mounted by the Togo, Ghana and Ivory Coast governments and designed to cover 70% of the three countries' total cement requirements by developing limestone deposits in Togo, with Ghana offsetting part of its purchases of clinker by supplying hydroelectric power for the production. This large-scale regional project shows what is possible with closer collaboration between neighbouring countries and pooling resources and national markets.

Chemicals

Eleven financing operations (including three credits from global loans) for a total of 33.9 million u.a., roughly two thirds from the Bank's own resources, were carried out in four countries.

Here again, import substitution or building up an export capacity were among the main aims, with in some cases a useful transfer of technology taking place.

In Botswana, for example, a country heavily dependent upon beef exports, funds were provided for a factory to produce vaccine against foot-and-mouth disease. Production will also be available for use in neighbouring countries, including Zimbabwe, where the same virus is found. The plant is being set up with the technical assistance of the Institut Mérieux (France).

In Kenya a new plant will process maize cobs to extract chemicals (furfural, used in the manufacture of lubricating oils, and furfuryl alcohol, used in precision casting). Mechanized maize harvesting in the Western world has greatly reduced the availability of cobs and the project is receiving financing, management and marketing support from British interests. This is an interesting example of how technology can be profitably used to exploit a previously wasted agricultural material and so raise farmers' incomes.

Lomé 1: Finance provided by the EIB

	Million u.a.	Rate of interest(1)	Term (years)
INDUSTRY			
Agro-industry			
Cameroon			
Palm oil mill at Dibombari Conditional loan to Société Camerounaise de Palmeraies — SOCAPALM	2.30*	2	20
Chad			
Banda sugar complex Conditional loan to State towards financing its majority equity participation in Société Nationale Sucrière du Tchad — SONASUT	7.50*	2	20
Gambia			
Modernisation of groundnut-processing facilities Conditional loan to State for Gambia Produce Marketing Board — GPMB	2.30*	2	20
Ivory Coast			
Coconut and palm oil mill at Abidjan Loan to PALMINDUSTRIE	7.50	6.5	13
New latex-processing capacities at Bongo, Ousrou and Rapides Grah Loan to Société Africaine de Plantations d'Hévéas — SAPH	4.60	5.95	12
Construction of flour mill, silos and transshipment facilities at San Pedro harbour Loan to Moulin du Sud-Ouest — MSO	3.00	8	12
Dessicated coconut factory at Jacqueville Loan to Société Ivoirienne de Coco Râpé-SICOR	1.44	5.15	13
Equity participation in SICOR	0.23*		
Kenya			
Development of sugar cane plantations and construction of sugar mill Loan to South Nyanza Sugar Company Ltd.	12.00	5.75	15
Construction of 10 smallholder tea factories Loan to Kenya Tea Development Authority — KTDA	7.50	8	12
Malawi			
Planting of 6 000 ha sugar cane estate and construction of sugar mill Loan to Dwangwa Sugar Corporation Limited	6.50	5.875	12
State equity participation in Dwangwa Sugar Corporation Limited	0.96*		
Mali			
Construction of rice mill at Dioro *Conditional loan to State*	3.65*	2	20
Papua New Guinea			
Palm oil mill near Popondetta and storage facilities at Oro Bay Loan to Higaturu Processing Pty Ltd.	7.00	5.65	15
Conditional loan to State for financing its participation in capital increase of Higaturu Processing Pty Ltd.	1.90*	2	20
Senegal			
Modernisation and expansion of groundnut and cottonseed processing capacities at Ziguinchor Loan to Société Nationale de Commercialisation des Oléagineux — SONACOS	3.00	8	10
Swaziland			
Planting of sugar cane estate and construction of sugar mill Loan to Royal Swaziland Sugar Corporation Ltd. — RSSC	10.00	5.05	12
Togo			
Palm oil mill at Agou and oil storage facilities at Lomé harbour Loan to Société Nationale pour le Développement de la Palmeraie et des Huileries — SONAPH	2.33	5.85	15
Conditional loan to State towards financing its stake in SONAPH capital increase	3.15*	2	20
Upper Volta			
Expansion of sugar complex at Banfora Subordinated loan to Société Sucrière Voltaïque — SOSUHV	3.00*	2	13
Conditional loan to State for subscription of SOSUHV shares	1.43*	2	20
Zaire			
Palm oil mill at Gosuma Conditional loan to State towards financing its stake in Palmeraies du Zaïre	4.00*	2	20

(1) In the case of loans from the EIB's resources the rate indicated is after deduction of the interest subsidy paid from the resources of the European Development Fund.

NB. Risk capital operations are marked by an asterisk against the amount.

An advanced chemical plant in Senegal will process phosphate rock, and also a sludge by-product of phosphate mining, hitherto regarded as useless, to manufacture phosphoric acid and solid fertilizers (the Ivory Coast and Nigeria are partners in the scheme — some of the phosphoric acid will be exported to other West African countries where it will be transformed into fertilizers — and there are also Indian interests).

Metal production and processing

Nine financing operations (including five credits from global loans) for a total of 22.5 million u.a., roughly 90% from the Bank's own resources, were carried out in six countries.

Two of the largest loans went to expanding and modernising an aluminium plant in Cameroon. This deserves a particular mention as the project makes economic use of national hydroelectric resources for the smelting, giving a good competitive edge in exporting the finished product, and promotes a significant flow of trade with another ACP country (alumina from Guinea to Cameroon).

The other major investments were modernisation of a plant in Guinea transforming bauxite into alumina and improvements to cobalt production facilities in Zambia (the latter aimed at producing high grades of industrial cobalt, with good market prospects, as part of a diversification effort at a time when the country's main export, copper, is commanding low prices).

Textiles

Twenty financing operations (including 15 credits from global loans) for a total of 20.9 million u.a., over two thirds in risk capital, were carried out in 10 countries.

The investments which the EIB helped to finance aim basically at satisfying local demand. In some cases, they also allow for small surpluses which can be absorbed by intra-ACP trade.

Particular care was taken in studying market size and production costs to avoid excess capacity or the encouragement of inefficient

	Million u.a.	Rate of interest(1)	Term (years)
Mining			
Madagascar			
Chrome ore dephosphorisation pilot plant at Andriamena			
Conditional loan to State	1.19*	6.6	12
Mauritania			
Opening up of iron ore deposits and construction of ore enrichment plant in Guelb El Rhein region near Zouerate			
Loan to Société Nationale Industrielle et Minière — SNIM	25.00	7.4	15
Rwanda			
Expansion of production capacity at tin (cassiterite) and tungsten (wolfram) mines, and construction of tin smelter			
Subordinated loan to Société des Mines du Rwanda —SOMIRWA	3.00*	2 end 1981 6 thereafter	15
Upper Volta			
Re-opening of Poura gold-mine, south-west of Ouagadougou			
Loan to Société de recherche et d'exploitation minière — SOREMI	8.00	8	14
Conditional loan to State towards financing its equity participation in SOREMI	3.50*	2	15
Construction materials			
Cameroon			
Expansion of two cement works, at Bonabéri (Douala) and Figuil (North Cameroon)			
Loan to Cimenteries du Cameroun — CIMENCAM	2.00	5	10
Increasing production capacities of Bonabéri clinker crushing plant and Figuil cement works			
Loan to CIMENCAM	6.60	7.3	10
Ghana			
Extraction facilities at limestone quarry and construction of Tabligbo clinker plant (Togo)			
Subordinated loan to State towards financing its holding of preference shares in Ciments de l'Afrique de l'Ouest — CIMAO	2.00*	2	20
Ivory Coast			
Extraction facilities at limestone quarry and construction of Tabligbo clinker plant (Togo)			
Subordinated loan to State towards financing its holding of preference shares in Ciments de l'Afrique de l'Ouest — CIMAO	2.00*	2	20
Kenya			
Expansion of cement works on Athi River near Nairobi			
Loan to East African Portland Cement Company Ltd. — EAPC	3.00	5.25	8
Togo			
Extraction facilities at limestone quarry and construction of clinker plant at Tabligbo, near Lomé			
Loan to Ciments de l'Afrique de l'Ouest — CIMAO	14.00	6	14.5
Subordinated loan to State towards financing its holding of preference shares in CIMAO	2.00*	2	20
Zaire			
Expansion of Shaba cement works			
Subordinated loan to Société des Ciments et Matériaux du Shaba, through intermediary of Société Financière de Développement — SOFIDE	1.09*	5.5	15
Zambia			
Modernisation of cement works near Lusaka			
Conditional loan granted to Industrial Development Corporation Ltd. — INDECO for increasing its stake in Chilanga Cement Company Ltd.	2.80*	2	20
Chemicals			
Botswana			
Laboratory at Gaborone for producing vaccine to protect cattle against foot-and-mouth disease			
Loan to Botswana Vaccine Institute (Pty) Limited	2.50	8	10
Conditional loan to the State towards financing its stake in capital increase of Bovine Vaccine Institute (Pty) Limited	1.50*	2	20
Ivory Coast			
Expansion and rationalisation of fertiliser factory in Abidjan industrial zone			
Loan to Société Ivoirienne d'Engrais — SIVENG	5.17	7.15	10
Equity participation in SIVENG on behalf of EEC	0.51*		

(1) In the case of loans from the EIB's resources the rate indicated is after deduction of the interest subsidy paid from the resources of the European Development Fund.

NB. Risk capital operations are marked by an asterisk against the amount.

domestic production requiring permanent protection by stiff customs duties.

In employment terms these projects were often of substantial importance, not only in direct creation of jobs in the mills but also because, in most cases, they were linked to cotton-growing schemes.

For example, in the Sudan a cooperative owned by close to 100 000 small cotton farmers is building a mill. The Sudan has traditionally exported most of its cotton in its raw state and imported most of its cloth requirements. The new mill (apart from creating close on 1 000 jobs) will mean a substantial increase in value added in the cotton industry, will raise the farmers' incomes and will make a strong contribution to improving the country's balance of payments.

Other industries

Forty-two financing operations (including 39 credits from global loans) for a total of 21.5 million u.a., almost two thirds from own resources, were carried out in 13 countries. Among the investments supported were a ship repair yard in Cape Verde and forestry development in Guyana — both offering substantial employment creation (over 400 jobs in the Guyana project) and good foreign exchange-earning potential — and a factory in Senegal which is building solar panels for individual and communal hot water systems as well as to power pumps in remote rural areas. This was the first time that the EIB had helped to finance solar energy development and the results could prove interesting to several other African countries.

Hotels and tourism

Thirteen financing operations (including 8 credits from global loans) worth in total 16.6 million u.a., almost two thirds from the Bank's own resources, were carried out in 11 countries.

This sector is important not only because of foreign exchange earning, but also because adequate accommodation in the main business centres is part of the necessary infrastructure to spur on economic growth.

	Million u.a.	Rate of interest[1]	Term (years)
Kenya			
Factory producing furfural, acetic acid and formic acid Loan to Kenya Furfural Company Ltd. — KFC	5.88	5.15	11
Equity participation in KFC on behalf of the EEC	1.07*		
Senegal			
Phosphoric acid and fertiliser production complex at Taïba and Dakar Loan to Industries chimiques du Sénégal — ICS	9.00	8	15
Conditional loan to State towards financing its equity participation in ICS	6.40*	2	20
Metal production and semi-processing			
Cameroon			
Expansion and modernisation of aluminium production plant at Edéa Loan to Compagnie Camerounaise de l'Aluminium — ALUCAM	5.30	6.35	12
Conditional loan to State towards its stake in ALUCAM's capital increase	2.30*	2	20
Guinea			
Modernisation of installations at Fria-Kimbo alumina works Loan to FRIGUIA company	4.40	8	10
Zambia			
Construction of cobalt vacuum refining plant at Chambishi Loan to Roan Consolidated Mines Ltd. — RCM	8.00	8	10
Textiles			
Cameroon			
Terry towelling mill at Douala Loan to Société textile du Cameroun pour le Linge de Maison — SOLICAM	2.55	6.3	10
Niger			
Modernisation of textile mill at Niamey Loan to Société Nouvelle Nigérienne du Textile — SONITEXTIL	1.50	5.2	10
Conditional loan to State towards financing its equity participation in SONITEXTIL	0.90*	2	20
Sudan			
Textile mill at Wad Medani Conditional loan to Gezira Managil Textile Company Ltd. — GEMATEX	6.50*	5.5	11
Tanzania			
Canvas mill near Morogoro Conditional loan for financing National Development Corporation's equity participation in Morogoro Canvas Mill company	4.90*	2	20
Other industries			
Cape Verde			
Construction of fishing boat repair yard at Porto Grande-Mindelo Conditional loan to State towards own funds component required for financing project	3.50*	2	25
Guyana			
Forestry development Conditional loan to State for financing part of its equity participation in Demerara Woods Limited	3.20*	2	20
Senegal			
Construction of plant to produce solar collectors and insulated tanks at Thies Conditional loan to State for financing its stake in capital increase of Société Industrielle des Applications de l'Energie Solaire — SINAES	0.50*	2	20
HOTELS & TOURISM			
Cameroon			
Hotel at Douala Loan to Société Hôtelière du Littoral — SOHLI	2.67	6.125	13
Congo			
Hotel at Brazzaville Conditional loan to State towards its equity participation in Société de l'Hôtel Maya-Maya	3.15*	2	20
Ivory Coast			
Hotel at Abidjan Loan to Société Immobilière de la Lagune	1.65	6.5	13

(1) In the case of loans from the EIB's resources the rate indicated is after deduction of the interest subsidy paid from the resources of the European Development Fund.

NB. Risk capital operations are marked by an asterisk against the amount.

The larger investments supported by the Bank were hotel construction in Cameroon, Congo, Ivory Coast and Niger, mainly to cater for visiting businessmen, and construction of two holiday hotels and development of tourism circuits in Mali.

Being labour-intensive, with substantial service requirements, hotel development can also make a useful contribution to creating work in urban areas of high unemployment.

Development banks

The means of channelling finance to small and medium-scale ventures through development banks has been outlined already on page 8.

During the first Lomé Convention 17 global loans from own resources, worth 82.5 million u.a., were made to ACP development banks, and risk capital support — including participations in share capital — was provided for a total of 7.4 million u.a. This assistance was given to 19 banks in all and corresponds to close on one fifth of all lending under Lomé 1, or a quarter of the lending for industrial and tourism development.

The global loan credits listed in the sectoral breakdown on page 10, almost 100 in total, are those which had been **signed by end-1980;** it should be borne in mind that approximately half of the funds made available by the EIB to the development banks in global loans was at that date still in the process of being committed to specific investments.

Energy

17 financing operations worth 139.1 million u.a., virtually all from the EIB's own resources, went towards energy investment in 13 countries.

Most of the ACP are highly dependent upon oil for their energy supplies (70 to 100% of commercial energy consumption in the majority of cases) and their needs are met mainly, and often entirely, through imports.

	Million u.a.	Rate of interest(1)	Term (years)
Mali			
Construction of hotel at Mopti and another at Timbuktu and acquisition of transport and communications equipement for setting up tour circuits			
Conditional loan to State for Financing its participation in project	2.50*	2	20
Niger			
Hotel at Niamey			
Loan to Société Propriétaire et Exploitante de l'Hôtel de Gaweye	4.51	7.4	15
DEVELOPMENT BANKS			
Global loans for financing small and medium scale ventures			
Barbados			
Barbados Development Bank — BDB	2.50	7.4	12
Burundi			
Banque Nationale de Développement Economique — BNDE (for financing feasibility studies)	0.50*	2	10
Caribbean			
Caribbean Development Bank — CDB (for financing investment in the CARICOM countries)	3.00	6.8	12
Caribbean Investment Corporation — CIC (for financing in Caribbean OCT)	1.00*	2	25
Ivory Coast			
Compagnie Financière de Côte d'Ivoire — COFINCI	3.50	8	12
Crédit de Côte d'Ivoire — CCI	3.50	8	12
Kenya			
Development Finance Company of Kenya Limited — DFCK	5.00	6.3	11
DFCK	2.00	6	13.5
Industrial Development Bank Ltd. — IDB	5.00	5	11
Liberia			
Liberian Bank for Development and Investment — LBDI	2.50	6.35	10
Malawi			
Investment and Development Bank of Malawi — INDEBANK	5.00	8	12
INDEBANK	3.00	5.06	12
Mauritius			
Development Bank of Mauritius — DBM	3.00	5.75	15
Nigeria			
Nigerian Industrial Development Bank Limited — NIDB	25.00	5.75	12
Swaziland			
National Industrial Development Corporation of Swaziland — NIDCS	2.00	8	12
NIDCS (Conditional loan for financing studies, equity participations and subordinated loans)	1.00*	2	11
Tanzania			
Tanganyika Development Finance Company Limited — TDFL	5.00	5.75	11
(Subscription of TDFL convertible bonds)	2.50*	5.875	11
Trinidad and Tobago			
Trinidad and Tobago Development Finance Company Limited — TTDFC	5.00	5.05	12
TTDFC	5.00	7.4	12
Zambia			
Development Bank of Zambia — DBZ	2.50	5.45	12
French Polynesia			
Société de Crédit et de Développement de l'Océanie — SOCREDO (for financing studies, equity participations and subordinated loans)	0.85*	2	14
Other forms of finance for development banks			
Liberia			
Equity participation, on behalf of EEC, in Liberian Bank for Development and Investment — LBDI	0.29*		
Seychelles			
Equity participation, on behalf of EEC, in Development Bank of Seychelles — DBS	0.58*		
Zaire			
Increase in capital of Société Financière de Développement — SOFIDE (by subscription of shares)	0.10*		
Equity participation in SOFIDE on behalf of EEC	0.04*		
Zambia			
Equity participation, on behalf of EEC, in Development Bank of Zambia — DBZ	0.55*		

(1) In the case of loans from the EIB's resources the rate indicated is after deduction of the interest subsidy paid from the resources of the European Development Fund.

NB. Risk capital operations are marked by an asterisk against the amount.

For many countries the rise in oil prices has had a major impact on their development as foreign currency earnings which otherwise could be ploughed into productive investment are being siphoned off to pay the oil bills.

It is against this background that, during Lomé 1, the EIB tried to help a number of countries with development of local energy resources (a thermal power station in Botswana, burning locally-mined coal, and hydroelectric power stations in Cameroon, Fiji, Ghana, Kenya, Mauritius and New Caledonia). It has also provided finance for the interconnection of the Ghana and Ivory Coast power networks, enabling Ghana, with its huge hydroelectric potential based on the Volta river, and the Ivory Coast, equipped with several hydroelectric plants and a major thermal station, to make the best economic use of their combined resources (this could become, in due course, the base for a much wider system of interconnections taking in Togo, Benin, Liberia and Upper Volta, of regional importance for West Africa).

Funds have been provided for electricity distribution network extensions in Nigeria and Barbados and, in a few cases where no other viable energy source was available, for construction of oil-fired equipment (Djibouti, Liberia and Mauritius).

The development prospects and growing urban populations lead to a potential growth in demand for energy in most ACP countries. With the impact of the rise in oil prices on their balances of payments, this poses a very serious problem for the future, and will be one of the EIB's major preoccupations under Lomé 2.

Preinvestment studies

Risk capital was used to finance 21 preinvestment studies (total 4.8 million u.a.) covering activities ranging from possible development of oil deposits in Tanzania and ethanol production from sugar cane in Mauritius, to processing of manioc in the Ivory Coast, hotel development in Kenya and the possible creation of a development bank in the Comoros.

	Million u.a.	Rate of interest(1)	Term (years)
ENERGY			
Hydroelectric power stations			
Cameroon			
Dam and hydroelectric power station at song Loulou on the Sanaga river Loan to Société Nationale d'Electricité du Cameroun — SONEL	13.50	6.125	15
Fiji			
Dam and hydroelectric power station on Viti Levu Island Loan to Fiji Electricity Authority — FEA	12.50	5.15	15
Second phase of Viti Levu hydroelectric scheme Loan to FEA	11.50	8	15
Ghana			
Dam and hydroelectric power station at Kpong on Volta River downstream of Akosombo Loan to Volta River Authority — VRA	10.00	6.5	15
Kenya			
Upper Tana reservoir scheme: dam and hydroelectric power station on Tana river Loan to State	12.00	5.4	15
Mauritius			
Construction of dam and hydroelectric power station on east coast Loan to Central Electricity Board — CEB	7.50	8	19
New Caledonia			
Hydroelectric power station on Néaoua river Loan to Société Néo-Calédonienne d'Energie — ENERCAL, through intermediary of Caisse Centrale de Coopération Economique — CCCE	7.00	8	18
Thermal power stations			
Botswana			
Uprating installed capacity of coal-fired power station Loan to Botswana Power Corporation — BPC	4.00	8	15
Djibouti			
Construction of Tadjourah power station plus erection of transmission lines Conditional loan to Société Electricité de Djibouti	1.00*	2	20
Liberia			
Uprating power station on outskirts of Monrovia Loan to Liberia Electricity Corporation — LEC	4.90	5.55	15
Mauritius			
Uprating power station at Fort Victoria Loan to Central Electricity Board — CEB	2.00	6	13.5
Power lines			
Barbados			
Reinforcing distribution network Loan to Barbados Light and Power Company Ltd. — BLPC	5.00	8	15
Ghana			
Ghana and Ivory Coast grid interconnection Loan to Volta River Authority — VRA	6.00	6.15	15
Ivory Coast			
Reinforcing electricity transmission facilities Loan to Société Energie Electrique de Côte d'Ivoire — EECI	11.00	5.4	15
Ivory Coast and Ghana grid interconnection project Loan to — EECI	6.00	6.15	15
Nigeria			
Extension of electricity transmission and distribution facilities in the Lagos area Loan to National Electricity Power Authority — NEPA	25.00	8	18
PREINVESTMENT STUDIES			
Botswana			
Construction of coal-fired power station	0.25*	3	10
Cape Verde			
Fishing boat repair yard	0.08*	2	7
Comoros			
Establishment of development bank	0.01*	2	7
Gambia			
Groundnut marketing	0.09*	2	10
Ghana			
Akwatia diamond mine	0.25*	2	6
Guinea			
Development of iron and steel construction work and metallurgical industries	0.15*	2	7

(1) In the case of loans from the EIB's resources the rate indicated is after deduction of the interest subsidy paid from the resources of the European Development Fund.

NB. Risk capital operations are marked by an asterisk against the amount.

	Million u.a.	Rate of interest (1)	Term (years)
Ivory Coast			
Industrial processing of cassava	0.18*	2	6
Jamaica			
Folklore and amusement park on north coast	0.07*	2	7
Kenya			
Hotel development in coastal areas	0.10*	2	7
Madagascar			
Exploiting bituminous sandstone deposit at Bemolanga	1.11*	2	14
Malawi			
Increasing local cement production	0.19*	2	7
Mauritius			
Factory for producing ethanol from molasses	0.04*	2	7
Senegal			
Proving iron ore deposits at Falémé	0.97*	2	15
Exploiting by-products of phosphate mined at Taïba	0.20*	2	7
Somalia			
Establishment of development bank	0.25*	2	9
Swaziland			
Three feasibility studies on industrial projects	0.15*	2	7
Tanzania			
Proving crude oil deposits at Songo-Songo	0.35*	2	10
Togo			
Technical assistance during start-up phase at palm oil mill and associated storage plant	0.10*	2	9
Zaire			
Extension of Gosuma oil palm estate and construction of oil mill	0.03*	2	7
Zambia			
Expansion and rationalisaton of cement works near Lusaka	0.08*	2	6
West Africa			
Finance, through intermediary of Banque Ouest Africaine de Développement — BOAD, for four feasibility studies for ventures to be implemented in West Africa	0.14*	2	7

(1) In the case of loans from the EIB's resources the rate indicated is after deduction of the interest subsidy paid from the resources of the European Development Fund.

NB. Risk capital operations are marked by an asterisk against the amount.

The EIB's project appraisal approach

Even though the EIB's role in Community development aid expanded considerably under Lomé 1, and will continue to grow under Lomé 2, it is evident that the funds it has available — bearing in mind that its prime task is development inside the European Community — can meet only a fraction of the total financing needs for investment in the ACP.

This means that the Bank must concentrate on supporting investment offering the best possible chances of success and greatest impact on the development of the countries concerned. This in turn underlines the importance of thorough appraisals of the economic, financial and technical viability of the projects.

Moreover, lending for sound and properly conceived investment projects is the best safeguard of the Bank's own high credit-standing and its ability to raise funds, the foundation for its operations. The following section sets out the EIB's project appraisal approach.

The countries' economic priorities

In working out their development plans, the ACP countries need to define certain objectives. Those which concern the EIB are primarily how to replace imports by national production, build up export-oriented industries, exploit more adequately natural resources, reduce unemployment or underemployment, improve Government revenues, restructure energy consumption to reduce dependence upon oil . . . The investment projects which the countries want to carry through must be assessed against these objectives.

There are a number of opportunities for the Bank to single out the priorities, through various working contacts and then during the official programming missions, made up of representatives of both the Commission of the European Communities and the EIB, sent to the ACP countries to draw up indicative aid programmes.

Such programmes do not engage the Bank or the national authorities. It may be that, upon further examination, some of the investment ideas put forward are found to be less worthwhile than they seemed initially (intervening changes in world markets for certain products could, for example, radically alter the viability of a project). On the other hand, new projects may come up during the life of the Convention — this was very often the case in Lomé 1 — which had not been suggested during the programming mission.

Hence, although there is a basic framework built around the development objectives of each country, the sifting to produce a series of what appear to be priority projects, worth detailed examination, demands a flexible approach, which needs to take account of the different types of financing open from both the Commission and the EIB. The experience of Lomé 1 suggests that this adaptability is to the advantage of the ACP countries concerned.

Forms of finance

When the EIB is asked to finance a project, the Bank has to make a general assessment of the economic and financial situation of the country and the nature of the project in order to decide what kind of support would be most appropriate.

Quite clearly a loan from the Bank's own resources, even with interest rate subsidy, represents a certain charge and can be granted only where the net effect will not jeopardize the country's public finances and external debt payments, taking account of its other obligations. It may be that right from the beginning risk capital finance of one form or another, on much softer conditions, appears the best solution, or indeed a mix of the two forms of finance.

This assessment of what form of finance to provide takes into account the economic and financial policies of the country concerned, the economic viability of investments already in operation or underway, the project's likely contribution to the balance of payments and Government revenues, the country's overall economic growth prospects.

The market

The appraisal must cover the market for the product or service concerned (one country, a group of countries or the world) so as to assess whether the investment is in line with realistically attainable sales objectives, both as to output and product price.

Market trends — consumption, trade, including intra-ACP trade, price, quality improvements — are studied over recent years so as to assess likely future developments. This enables the project to be tested against a range of possible market environments in which it could well have to work.

Where import substitution is involved the Bank tries to measure the likely performance against reference prices, based on international production and trade, so as to make sure that the venture is potentially competitive (a policy of import substitution at any price is a handicap, not a help, to development if it means a charge to the consumer, a possible burden on public finance and the tying up of scarce capital which could be more advantageously employed in other fields).

Economic viability

The assessment of the economic arguments in favour of a project — including its potential contribution to the use of a country's human, natural and financial resources — is just as, if not more, important than the more limited evaluation of its financial rate of return.

This means that the economic rate of return has to be calculated to get as near as possible to the "true" economic costs and advantages of a project, which may differ appreciably from those appearing in a purely financial view of a project (labour costs, taxes and customs duties, Government subsidies, or unrealistic exchange rates can present figures which distort the real economic costs and benefits of an investment).

Using a range of estimates of possible rates of economic return, comparisons can be made with the economic viability of existing investments of a similar nature or with the likely results from using the same amount of investment capital in another activity in the same country or region.

Employment

Almost all the ACP suffer from chronic unemployment and underemployment. It is tempting, therefore, for countries undertaking large scale industrial investments to opt for a relatively low technology input but a large labour force.

But in fact there is often not much room for manoeuvre. Successful industry, whether exporting or replacing imports, cannot ignore competitors' productivity and selling prices, so finally the choice of technologies is limited and the direct employment creation may well turn out to be less than originally hoped for.

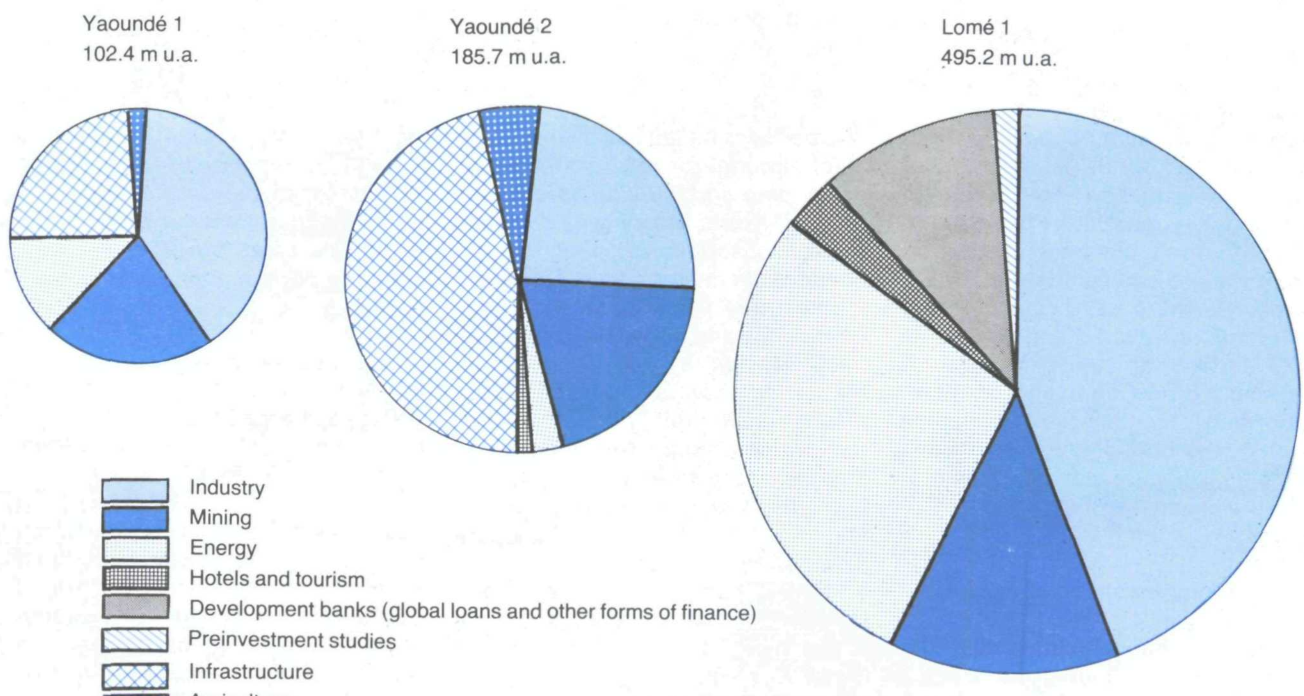
So while the EIB certainly gives due weight in its appraisal to the investment cost per job, the indirect effects on employment may be just as important, if not more so. A number of basic industries provide relatively few jobs in themselves but act as a powerful stimulus to other activities — e.g. construction, public works of various kinds, services — which are not under the same constraints of international competition.

Another factor of importance is the training element, i.e. the extent to which a new industrial plant will help to improve a country's industrial potential by forming management personnel and skilled labour.

Value added

The contribution to value added is one of the most important elements to be considered in the appraisal and, here again, the induced effects are often as important as the directly quantifiable figures. Some projects can show a capital input/value added ratio which, looked at in isolation, is not very encouraging. But when the "downstream" effects are considered, the picture changes. Fertiliser plants, for example, generally require a high capital investment and offer relatively low returns in value added but they have a significant role in developing efficient agriculture, where the ratio is completely the opposite: low capital investment, high value added. Basically the same argument applies to cement plants with their effects in promoting the construction industry. An even clearer case would be a hydro-electric plant, with minimal value added but powering economic activities downstream.

Figure 2: Sectoral comparisons of lending under the Yaoundé Conventions and the first Lomé Convention



Balance of payments

The combined balance of payments deficit of the ACP countries in 1978 was approximately 5.2 billion u.a. Clearly a project's possible effect in saving or earning foreign exchange is a key factor.

The Bank's appraisal aims at weighing up all of the aspects to get to the **net** advantages: the contribution to the balance of payments after reimbursement of loans for financing the project or necessary infrastructure associated with the scheme, after paying for imports of equipment, intermediary products, services from foreign companies, etc.

Sometimes an initially interesting investment idea turns out quite differently upon closer scrutiny. For instance, processing a local raw material, instead of selling it in its crude state, could in fact lead to a reduction in foreign exchange earnings because of the high cost of intermediary products which have to be imported to enable the processing. The cost of imported energy for countries with little resources of their own can, for example, exclude some processing activities.

Public finance

The same global approach — balancing the positive and negative factors to arrive at a net benefit — is used in evaluating the effects on public finance.

A Government might, for example, draw substantial revenue from sales taxes on the products from a new industrial plant, but set against this, particularly in the case of large mining or heavy industrial projects, must be State expenditure on necessary infrastructure support. Particular care has to be taken that the national budget is not burdened with huge infrastructure costs out of proportion to the benefits derived from the project itself (an important aspect is the cost of financing the infrastructure works and where the EIB lends for an industrial project it normally draws upon the cooperation with other sources of finance — e.g. the EDF or the World Bank — to try to ensure that the infrastructure element is funded on soft terms).

Incremental income/distribution

Apart from the above factors the appraisal also includes an assessment of the impact of a project on local salaries, savings and profits. Certain projects may have only a limited effect on employment and salaries, but can nonetheless prove interesting if they are likely to generate surpluses which can be invested in productive activities in the country.

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The above remarks show that there cannot be any precise formula for deciding upon the potential of a project to assist a country's development.

The EIB's appraisals, basically similar to those of other major development agencies, aim at establishing broad criteria which can only be applied flexibly, on a case by case basis.

Experience under Lomé 1 — and also under the two previous Yaoundé Conventions, as the appraisal procedures have not changed very much — has shown that the questions raised and examined during a project appraisal provide a solid foundation for financing decisions. Where particular problems have arisen, calling for investigation in greater depth, the use of risk capital to finance studies has become a very useful tool. The regular exchange of information between the EIB, the World Bank and other potential co-financing instititions, both bilateral and multilateral, is also very important.

The appraisal procedures are designed not only to safeguard the Bank's own position, by allocating funds soundly; most significant, they help to ensure that the projects are to the maximum benefit of the countries concerned and that they promote a good utilisation of scarce resources which, for developing countries with limited professional skills available for their own appraisal work, is seldom an easy thing to judge.

Outline of Lomé 2 and EIB's role

The second Lomé Convention was signed on 31 October 1979 and became effective on 1 January this year. Signing for the Community was Mr. Michael O'Kennedy T.D., the Irish Foreign Affairs Minister and President of the Council of the European Communities at the time.

He underlined that the new Convention was an effort to achieve an equitable balance between the ideal and the possible. To put Lomé 2 in the right context it may be useful to repeat a few of the remarks which he made to the assembled delegates of the Community Member Countries and the ACP States.

"Lomé 1 was hailed as an innovatory step, a model for relations between developing and industrialised countries. I would not have disputed these descriptions — indeed I echoed them at the time. However, in the three years since then, our confidence and buoyancy have been badly dented by the steadily deteriorating economic climate which affects us all. I think, therefore, that the words 'model' or 'innovatory step' spring less readily to our lips than they did when we signed our first Convention. A more sombre mood prevails and we would only disillusion ourselves if we were not to take stock of our present situation and prospects in the light of the larger forces whose whims and movements affect us all most profoundly. Indeed, I am profoundly aware that it is upon the more fragile economies of the developing countries that the effects of these larger forces are most gravely felt. This is a source of great concern to us, your partners.

The economic foundations of the industrialised world have shifted, resulting in a greatly narrowed margin for manoeuvre in all countries' economic policies and programmes. The Community's development cooperation policies as a whole, which we are trying with great care to build up and expand so that they can be of meaningful assistance to developing countries in their efforts towards growth and well-being, can be frustrated — could even be swept aside

— by the international recession whose breath we feel about us. The Community and its Governments are faced with the spectre of increasing unemployment, spiralling costs, grave balance of payments difficulties, growth curbs, curbs on investment, curbs on consumption. As already said, the problems you face are more acute.

It was in this climate that we began last year to look at the Lomé Convention and to consider what should replace it on its expiry. This model, this experiment — how did we evaluate it? We did not reject it as an interesting laboratory success which withered when tested against the harsh weather of reality. During the first years of its operation new States asked to join the ACP group in order to partake in its programmes and benefit from its provisions. When we all prepared for negotiation of its successor, we were all agreed that its frameworks should be at least the basis of its successor. And witness the vigour of these negotiations whereby each salient and cranny of Lomé 1 were reexamined, retested in the light of our experience and our overall aspirations.

Lomé 1 and Lomé 2 are but moments in time. No one would claim that either, or both together, could be held to answer all the development problems of the ACP States. They could not do so. We make no such claim. But I hold that they are two solid steps along the road of our cooperation. Together we assessed the prevailing international factors, and those within the Community and ACP States, and taking them into account we negotiated hard and long to arrive at the Convention we sign today.

Both the provisions of the first Convention, and the consolidations and new elements we have agreed on, reflect the best solutions that many sharp minds on both sides could agree on."

The development finance "package" offered under Lomé 2 (see diagram page 2) totals over 5.7 billion u.a., roughly 2 billion more than under the previous Convention, i.e. a rise of close to 60%.

Within this overall increase, the share of financing for which the EIB is responsible (loans from its own resources, grant aid for interest subsidies and risk capital) has grown at a faster rate:

— loans from the Bank's own resources increase 75% from 400 million u.a. to 700 million u.a.

— the amount set aside for interest subsidies on these loans has therefore also increased by 75%, to 175 million u.a.

— risk capital operations almost triple to 287 million u.a.

In addition, a declaration annexed to the Convention foresees the possibility for the Bank to lend further sums from its own resources (up to 200 million u.a.) for mining and energy investments in ACP countries which are of interest both to the country in which the investment takes place and to the Community. These would be loans without interest subsidies, to be authorised case-by-case by the Bank's Board of Governors.

The Bank's financing under the new Convention is thus likely to follow along the broad lines established under Lomé 1.

The resources managed by the Bank will remain concentrated on the same sectoral priorities, with industry to the fore, although there is now an added emphasis on mining and energy projects. It should be mentioned that parallel to the Bank's own financing of mining investment, the Commission will use a new facility (SYSMIN) to help rehabilitate and maintain existing mining potential, as well as furnishing various kinds of technical assistance and conducting basic studies. In this context, a possible role for the Bank could be to use risk capital to support research and investment preparatory to the launching of projects aimed at developing fresh potential and then to help finance the works and equipment.

Another field which experience has shown to be worthwhile is the assistance to ACP development banks. This has become an effective means of channelling funds down to a range of small, local ventures, so important in the development of the ACP, which would not be an economic, practical proposition for the EIB to deal with directly. Under Lomé 2 the EIB will strive to take this further.

The experience of the last few years has also shown how essential it is for the Bank to be involved at early stages of project preparation and hence the reinforced ability to finance studies under Lomé 2 is of special significance.

As far as the geographical breakdown of operations is concerned, the "mix" of different forms of financing will give the Bank wide possibilities, with the much increased risk capital provision helping to extend operations in many of the poorest countries. At the same time it will enable the Bank to support further growth in those countries with a more developed industrial sector.

Summary

The EIB is the **European** Investment Bank and must pursue and develop its tasks within the Community. Nonetheless, as this article has shown, it has steadily increased its aid commitments in the African, Caribbean and Pacific countries over the past 18 years, an expansion which has been facilitated by the fact that the EEC covers the Bank's operations outside the Community with global guarantees.

As the fastest expansion has taken place in the last five years — i.e. not during a period of plenty, but at a time when the Community itself has been faced with severe economic problems — this indicates the degree of priority which the Member States attach to seeing the European Investment Bank extend its help to these countries.

The EIB's operations inevitably appear somewhat complex, but the basic aim is quite simple: to advance the economies of the countries concerned and to raise the living standards of their peoples. And in this the EIB's approach is similar to that of the World Bank or other international lending agencies.

It is difficult to assess precisely the impact of the EIB's interventions. In the first place because they form part of a much wider package of

EIB — structure, tasks, resources

Created in 1958 under the Treaty of Rome which established the European Economic Community — the Bank's Statute forms part of the Treaty.

Members are the 10 Member Countries of the European Community: since 1958 — Belgium, Germany, France, Italy, Luxembourg and the Netherlands; since 1973 — Denmark, Ireland and the United Kingdom. Greece, which had been associated to the Community, became the Bank's 10th Member upon accession to the EEC on 1 January 1981.

Tasks are laid down in Article 130 of the Treaty: the Bank makes or guarantees loans for investment projects, principally in **industry, energy** and **infrastructure,** which further:

— balanced regional development of the Community (i.e. promoting the economic advancement of regions which for various reasons have lagged behind in their development or which face problems of industrial decline)

— a common interest of several Member Countries or the Community as a whole (in particular investment helping to reduce the EEC's dependence upon oil imports)

— industrial modernisation and conversion.

Began lending outside the Community in 1963. Apart from the Lomé Convention countries, helps to finance development in Portugal, Turkey, Yugoslavia, the Maghreb countries (Algeria, Morocco and Tunisia), the Mashreq countries (Egypt, Jordan, the Lebanon and Syria), Malta, Cyprus and Israel.

Resources: the Bank's capital, subscribed by the Member States, is currently 7.2 billion u.a., of which only a small proportion — 925 million u.a. — is set to be paid in. The bulk of resources comes from borrowings, principally public or private bond issues on national capital markets inside and outside the Community and on the international market (borrowings in 1980 almost 2.5 billion u.a.).

Lending in 1980 totalled almost 3.5 billion u.a., of which 550 million outside the Community. During the period 1958-1980, the Bank made available 15 billion u.a. for investment in the Community and 2.4 billion outside the Community (about 65% of the latter in loans from the EIB's own resources, usually with interest subsidies paid by the Community, the remainder in finance from budgetary funds).

Administration

Board of Governors

One Minister from each Member State (usually the Finance Minister): lays down general guidelines on credit policy, approves the balance sheet and annual report, decides on capital increases, appoints Directors, Members of the Management Committee and Audit Committee. Only the Board of Governors can authorise lending outside the Community.

Board of Directors

19 Members (18 high-level officials from finance, economy and industry ministries and credit institutions nominated by Member Countries and 1 nominated by the Commission) and 11 Alternates (10 nominated by Member Countries, 1 by the Commission): assures that the Bank is managed according to the provisions of Treaty of Rome, the Bank's Statute, and directives laid down by the Governors; has sole responsibility for deciding on loans and guarantees, raising loans and fixing interest rates.

Management Committee

The full time "motor" of the Bank: composed of the Bank's President, and, at present, four Vice-Presidents, the Committee controls all current operations, recommends decisions to the Directors and is then responsible for carrying them out. The President presides as Chairman at meetings of the Board of Directors, the Vice-Presidents as Vice-Chairmen.

Audit Committee

Three members chosen on the grounds of their competence (in practice officials responsible for public accounts in Member Countries) verify that the operations carried out by the Bank have been conducted in a proper manner.

Organisation

The staff is composed of nationals of the 10 Community Member Countries and divided into six Directorates — General Administration, headed by the Secretary-General; Operations in the Community; Operations outside the Community; Finance and Treasury; Research; Legal — and a Technical Advisory Service.

Community aid. Secondly Bank loans cover only part of the cost of any given project and in many cases other aid agencies provide funds for the same project.

What one can estimate, however, is that under Lomé 1 and the earlier Yaoundé Conventions the Bank contributed to new fixed investment worth in the order of 5.1 billion u.a. at prices when the loans were granted. These projects represent the direct creation of close to 70 000 permanent jobs.

This review finishes with no forecasts, only that the EIB, as part of the overall Community effort, will tackle its work under the second Lomé Convention with renewed vigour and a consciousness that, in the difficult economic climate which seems to be set for the immediate future, few tasks can be considered more important than reinforcing cooperation between Europe and the ACP.

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