Financing ACP projects: the EIB and the Cotonou Investment Facility

Between 2003 and 2008 the European Investment Bank (EIB) will provide nearly €4 billion in refundable aid to projects in the African, Caribbean and Pacific (ACP) countries. Part of this will be made available through the new Investment Facility, provided for under the Cotonou Agreement. The Facility was officially launched on 2 June by Presidents Mwai Kibaki (Kenya) and Abdoulaye Wade (Senegal) and EIB President Philippe Maystadt.

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The EIB will pay special attention to promoting private or commercially run projects in the public sector and will make money available in two forms. €2.2 billion will be provided under the new, revolving Investment Facility (IF) funded by EU Member States. €1.7 billion will be lent from the EIB's own resources.

The Cotonou Agreement's financial provisions European Development Fund

European Commission	European Investment Bank	
	EIB's own resources	Investment Facility
Grant aid	Loans for investment projects	Loans/equity/guarantees for investment projects.
€11,300 million	€1,700 million	€2,200 million

	EIB's own resources	Investment Facility
Senior debt:	**Pricing:** EIB reference rate **Security:** 1st class or prime-quality security (with possibility of political risk carve-out). **Currency:** EUR, USD, GBP and ZAR	**Pricing:** EIB reference rate+ mark-up. Security: guarantee (international or local) or project security Currency: EUR (possibility of other local currencies)
Junior/ subordinated debt:	–	**Pricing:** EIB reference rate + mark-up. **Security:** project guarantee or other covenants **Currency:** EUR (possibility of other local currencies).
Quasi equity: participating or conditional loans:	–	**Pricing:** variable remuneration as a function of performance **Security:** usually unsecured or junior status with covenants **Currency:** EUR (possibility of other local currencies).
Equity participation:	–	**Pricing:** dividends/ capital gains **Security:** none **Currency:** local currency

A history of investment

The EIB has been supporting capital investment in the ACP countries for almost 40 years. The bank was established to finance capital investment in pursuit of the EU's policy objectives. While most of its lending is within the EU Member States, it also finances projects outside Europe to support the EU's development cooperation and aid policies. In the ACP states it has operated under mandates attached to conventions and agreements negotiated by the ACP states and the EU.

One of the EIB's oldest overseas mandates was given in 1963 to finance projects in 18 associated African states and Madagascar (EAMA) as part of the first Yaoundé Convention. Since then the EIB has operated as a development finance institution on the basis of the successive Yaoundé and Lomé Conventions. Between 1963 and the beginning of this year, when the Lomé IV Convention was superseded by the Cotonou Agreement, the EIB channelled over €9 billion into investment in the ACP countries.

Cotonou

Under the Cotonou Agreement, negotiated by the 77 ACP and 15 EU states, the EIB will continue to provide repayable development finance alongside grant aid from the European Commission. The Cotonou Agreement states that the central objective of cooperation between the EU and the ACP countries is "poverty reduction and ultimately its eradication; sustainable development; and progressive integration of the ACP countries in the world economy".

The Agreement aims to foster entrepreneurship since the private sector is seen as the motor of development and growth. Its purpose is to contribute to sound corporate governance and to market conditions that will lead to long-term sustainable economic development and the alleviation of poverty.

Revolving facility

In line with these aims, the IF is a risk-taking financial instrument designed to support the development of the private sector. It will take project-related risks and expects a commensurate return, because it has been established as a revolving facility and is intended to become self-sustaining. The IF will support the growth of local enterprises, and

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EIB President Philippe Maystadt

Senegalese President Abdoulaye Wade

finance foreign direct investment and commercially viable public enterprises.

A particular effort will be made to improve the access of ACP's small and medium-sized enterprises (SMEs) to risk-sharing instruments and to "term finance". Support for SMEs will be channelled through the local financial sector. The objective is to help strengthen the sector and increase its capacity to mobilise domestic savings. In this way it should transform the domestic ACP capital markets into long-term, effective channels for financing and developing small businesses.

Flexible terms

Various forms of "senior" and "junior" debt and risk-sharing financing instruments are available through the IF. These allow flexibility in setting terms and conditions, which can be adapted to the nature of a project. This can be done, for example, by varying the EIB's remuneration depending on the performance of a project. The EIB's own resources offer long-term, senior debt on very favourable financing conditions for larger operations in the financial sector and for those with lower risk.

The EIB bases its lending conditions for the Investment Facility, and for lending from its own funds, on its "AAA" credit rating. It can pass on these advantages as it operates on a non-profit basis. The difference is that with the Investment Facility the bank accepts more risk and sets the pricing for lending accordingly. When lending from its own resources the bank takes a low level of risk, which it mitigates by guarantee and security arrangements.

The Investment Facility will be managed as a "Special Business Unit" within the EIB group. This new structure is designed to reinforce the EIB's role as the European development finance institution (EDFI) for refundable aid. In doing so it will operate alongside and in cooperation with the Member States' EDFIs with which it has bilateral agreements covering support, services, expertise and networks. In this way the EIB and the EDFIs will be able to profit from comparative advantages and ensure efficient use of resources and the maximum impact from joint European assistance.

ACP responsibilities

This risk-sharing Investment Facility replaces the former risk-capital funds of the Member States of the EU, which were also managed by the EIB. Another innovation is that the IF will be revolving: money coming back into it will be redeployed in ACP projects. So it needs to be self-sustaining through repayments and remuneration.

At the IF launch, EIB President Philippe Maystadt underlined the significance of Cotonou in that it sees poverty reduction as dependent on economic growth, and economic growth, in turn, dependent on better governance and greater integration into the world market economy. "The private sector is identified as the real motor of growth, which by releasing talent and enterprise, and creating jobs, can also spread prosperity and generate the means to deploy more resources on social reform". ■

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Left to right: the Minister of Finance of Kenya, David Mwiraria, President of Senegal, Abdoulaye Wade and EIB President Philippe Maystadt

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